

**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 25, 2021

OR

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

For the transition period from _____ to _____

Commission File Number 001-35588

Franchise Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

27-3561876
(IRS employer identification no.)

109 Innovation Court, Suite J

Delaware, Ohio 43015

(Address of principal executive offices)

(740) 363-2222

(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 \$.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 October 29, 2021 was 40,295,469 shares.

FRANCHISE GROUP, INC. AND SUBSIDIARIES
Form 10-Q for the Quarterly Period Ended September 25, 2021

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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 25, 2021	December 26, 2020
Assets	(Unaudited)	(Audited)
Current assets:		
Cash and cash equivalents	\$ 159,972	\$ 148,780
Current receivables, net	95,686	67,335
Inventories, net	533,552	302,307
Current assets held for sale	—	43,023
Other current assets	18,643	13,997
Total current assets	807,853	575,442
Property, equipment, and software, net	202,968	135,872
Non-current receivables, net	12,000	12,800
Goodwill	787,441	448,258
Intangible assets, net	308,905	109,892
Operating lease right-of-use assets	656,561	502,104
Non-current assets held for sale	—	55,116
Other non-current assets	55,856	8,428
Total assets	\$ 2,831,584	\$ 1,847,912
Liabilities and Stockholders' Equity		
Current liabilities:		
Current installments of long-term obligations	\$ 1,420	\$ 104,053
Current operating lease liabilities	158,577	127,032
Accounts payable and accrued expenses	360,274	252,389
Current liabilities held for sale	—	40,576
Other current liabilities	34,095	25,174
Total current liabilities	554,366	549,224
Long-term obligations, excluding current installments	1,072,909	466,944
Non-current operating lease liabilities	513,461	402,276
Non-current liabilities held for sale	—	8,779
Other non-current liabilities	51,366	35,522
Total liabilities	2,192,102	1,462,745
Stockholders' equity:		
Common stock, \$0.01 par value per share, 180,000,000 and 180,000,000 shares authorized, 40,237,297 and 40,092,260 shares issued and outstanding at September 25, 2021 and December 26, 2020, respectively	402	401
Preferred stock, \$0.01 par value per share, 20,000,000 and 20,000,000 shares authorized, 4,541,125 and 1,250,000 shares issued and outstanding at September 25, 2021 and December 26, 2020, respectively	45	13
Additional paid-in capital	471,405	382,383
Accumulated other comprehensive loss, net of taxes	—	(1,399)
Retained earnings	167,630	3,769
Total equity attributable to Franchise Group, Inc.	639,482	385,167
Non-controlling interest	—	—
Total equity	639,482	385,167
Total liabilities and equity	\$ 2,831,584	\$ 1,847,912

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		Nine Months Ended	
	September 25, 2021	September 26, 2020	September 25, 2021	September 26, 2020
Revenues:				
Product	\$ 782,608	\$ 500,462	\$ 2,172,193	\$ 1,440,677
Service and other	37,891	19,826	114,659	46,516
Rental	8,327	17,404	26,077	51,000
Total revenues	828,826	537,692	2,312,929	1,538,193
Operating expenses:				
Cost of revenue:				
Product	485,682	296,920	1,347,673	862,320
Service and other	8,737	678	10,076	2,135
Rental	2,930	5,877	8,869	17,327
Total cost of revenue	497,349	303,475	1,366,618	881,782
Selling, general, and administrative expenses	276,714	209,537	780,416	619,799
Total operating expenses	774,063	513,012	2,147,034	1,501,581
Income from operations	54,763	24,680	165,895	36,612
Other expense:				
Other	(13,090)	(1,246)	(49,816)	(5,295)
Interest expense, net	(21,194)	(26,269)	(91,494)	(78,658)
Income (loss) from continuing operations before income taxes	20,479	(2,835)	24,585	(47,341)
Income tax expense (benefit)	(15,519)	1,891	(15,600)	(50,217)
Income (loss) from continuing operations	35,998	(4,726)	40,185	2,876
Income (loss) from discontinued operations, net of tax	128,072	(3,871)	176,434	28,483
Net income (loss)	164,070	(8,597)	216,619	31,359
Less: Net (income) attributable to non-controlling interest	—	—	—	(2,090)
Net income (loss) attributable to Franchise Group, Inc.	\$ 164,070	\$ (8,597)	\$ 216,619	\$ 29,269
Amounts attributable to Franchise Group, Inc.:				
Net income (loss) from continuing operations	\$ 35,998	\$ (4,726)	\$ 40,185	\$ (11,005)
Net income (loss) from discontinued operations	128,072	(3,871)	176,434	40,274
Net income attributable to Franchise Group, Inc.	\$ 164,070	\$ (8,597)	\$ 216,619	\$ 29,269
Basic earnings (loss) per share:				
Continuing operations	\$ 0.84	\$ (0.12)	\$ 0.84	\$ (0.34)
Discontinued operations	3.18	(0.10)	4.39	1.23
Total basic earnings per share	\$ 4.02	\$ (0.22)	\$ 5.23	\$ 0.89
Diluted earnings (loss) per share:				
Continuing operations	\$ 0.83	\$ (0.12)	\$ 0.83	\$ (0.34)
Discontinued operations	3.13	(0.10)	4.31	1.23
Total diluted earnings per share	\$ 3.96	\$ (0.22)	\$ 5.14	\$ 0.89
Weighted-average shares outstanding:				
Basic	40,229,232	39,692,384	40,171,458	32,679,576
Diluted	40,973,736	39,692,384	40,931,423	32,679,576

See accompanying notes to condensed consolidated financial statements.

FRANCHISE GROUP, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(In thousands)	Three Months Ended		Nine Months Ended	
	September 25, 2021	September 26, 2020	September 25, 2021	September 26, 2020
Net income (loss)	\$ 164,070	\$ (8,597)	\$ 216,619	\$ 31,359
Other comprehensive income (loss)				
Unrealized (gain) loss on interest rate swap agreement, net of taxes of \$—, \$2, \$13, and \$(29), respectively	—	(39)	45	(119)
Foreign currency translation adjustment	—	303	381	(188)
Forward contracts related to foreign currency exchange rates	—	1	—	7
Reclassification of unrealized loss on interest rate swap agreement and foreign currency translation adjustments realized upon disposal of business	973	—	973	—
Other comprehensive income (loss)	973	265	1,399	(300)
Comprehensive income (loss)	165,043	(8,332)	218,018	31,059
Less: comprehensive (income) attributable to non-controlling interest	—	—	—	(1,915)
Comprehensive income (loss) attributable to Franchise Group, Inc.	\$ 165,043	\$ (8,332)	\$ 218,018	\$ 29,144

See accompanying notes to condensed consolidated financial statements.

FRANCHISE GROUP, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

Three Months Ended September 25, 2021								
(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
Balance at June 26, 2021	40,208	\$ 402	4,541	\$ 45	\$ 467,351	\$ (973)	\$ 21,170	\$ 487,995
Net income	—	—	—	—	—	—	164,070	164,070
Total other comprehensive income	—	—	—	—	—	973	—	973
Exercise of stock options	—	—	—	—	—	—	—	—
Stock-based compensation expense, net	29	—	—	—	4,054	—	—	4,054
Issuance of Series A Preferred Stock	—	—	—	—	—	—	—	—
Common dividend declared (\$0.375 per share)	—	—	—	—	—	—	(15,482)	(15,482)
Preferred dividend declared (\$0.469 per share)	—	—	—	—	—	—	(2,128)	(2,128)
Balance at September 25, 2021	40,237	\$ 402	4,541	\$ 45	\$ 471,405	\$ —	\$ 167,630	\$ 639,482

Nine Months Ended September 25, 2021								
(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
Balance at December 26, 2020	40,092	\$ 401	1,250	\$ 13	\$ 382,383	\$ (1,399)	\$ 3,769	\$ 385,167
Net income	—	—	—	—	—	—	216,619	216,619
Total other comprehensive income	—	—	—	—	—	1,399	—	1,399
Exercise of stock options	36	—	—	—	385	—	—	385
Stock-based compensation expense, net	109	1	—	—	9,127	—	—	9,128
Issuance of Series A Preferred Stock	—	—	3,291	32	79,510	—	—	79,542
Common dividend declared (\$0.375 per share)	—	—	—	—	—	—	(46,372)	(46,372)
Preferred dividend declared (\$0.469 per share)	—	—	—	—	—	—	(6,386)	(6,386)
Balance at September 25, 2021	40,237	\$ 402	4,541	\$ 45	\$ 471,405	\$ —	\$ 167,630	\$ 639,482

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 Cash Flows (Unaudited)

(In thousands)	Nine Months Ended	
	September 25, 2021	September 26, 2020
Operating Activities		
Net income	\$ 216,619	\$ 31,359
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	2,010	3,412
Depreciation, amortization and impairment charges	50,127	51,254
Amortization of deferred financing costs	35,590	28,703
Loss (gain) on disposal of other	(374)	75
Stock-based compensation expense - equity awards	9,561	6,294
(Gain) on bargain purchases and sales of Company-owned offices	(3,368)	(1,761)
Deferred tax (income) expense	(17)	7,851
Prepayment penalty for early debt extinguishment	36,726	—
Gain on divestiture of Liberty Tax	(173,699)	—
Change in		
Accounts, notes, and interest receivable	5,748	(2,223)
Income taxes receivable	(13,473)	(23,721)
Other assets	26,026	3,971
Accounts payable and accrued expenses	21,959	38,884
Inventory	(108,947)	79,967
Deferred revenue	10,952	5,649
Net cash provided by operating activities	115,440	229,714
Investing Activities		
Issuance of operating loans to franchisees	(17,749)	(30,368)
Payments received on operating loans to franchisees	23,103	50,064
Purchases of Company-owned offices and acquired customer lists	(1,086)	(4,830)
Proceeds from sale of Company-owned offices	3,189	1,118
Acquisition of business, net of cash and restricted cash acquired	(462,821)	(353,423)
Divestiture of business, net of cash and restricted cash sold	179,471	—
Purchases of property, equipment, and software	(36,871)	(26,702)
Proceeds from sale of property, equipment, and software	195	1,474
Net cash (used in) in investing activities	(312,569)	(362,667)
Financing Activities		
Proceeds from the exercise of stock options	386	520
Dividends paid	(50,016)	(19,167)
Non-controlling interest distribution	—	(4,716)
Repayment of other long-term obligations	(957,382)	(455,811)
Borrowings under revolving credit facility	6,724	174,665
Repayments under revolving credit facility	(84,874)	(218,260)
Issuance of common stock	—	198,003
Issuance of preferred stock	79,542	28,366
Payment for debt issue costs and original issuance discounts	(51,288)	(16,673)
Prepayment penalty for early debt extinguishment	(36,726)	—
Issuance of debt	1,300,000	586,000
Cash paid for taxes on exercises/vesting of stock-based compensation	(433)	(85)
Net cash provided by financing activities	205,933	272,842
Effect of exchange rate changes on cash, net	34	(142)
Net increase in cash equivalents and restricted cash	8,838	139,747
Cash, cash equivalents and restricted cash at beginning of period	151,502	45,146
Cash, cash equivalents and restricted cash at end of period	\$ 160,340	\$ 184,893
Supplemental Cash Flow Disclosure		
Cash paid for taxes, net of refunds	\$ 39,618	\$ 944
Cash paid for interest	\$ 79,074	\$ 41,226
Accrued capital expenditures	\$ 3,496	\$ 3,633
Non-cash proceeds from divestiture of Liberty Tax	\$ 59,680	\$ —
Deferred financing costs from issuance of common stock	\$ —	\$ 31,013
Capital expenditures funded by finance lease liabilities	\$ 1,211	\$ —
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 25, 2021	September 26, 2020
Cash and cash equivalents	\$ 159,972	\$ 173,415
Restricted cash included in other non-current assets	368	4,961
Cash and cash equivalents for discontinued operations	—	6,517
Total cash, cash equivalents and restricted cash shown in the condensed consolidated statements of cash flows	<u>\$ 160,340</u>	<u>\$ 184,893</u>

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.

FRANCHISE GROUP, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

September 25, 2021 and September 26, 2020

(1) Basis of Presentation

Unless otherwise stated, references to the "Company," "we," "us," and "our" in this Quarterly Report on Form 10-Q (the "Quarterly Report") refer to Franchise Group, Inc. and its direct and indirect subsidiaries on a consolidated basis. 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 and pursuant to the requirements of Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. The unaudited condensed consolidated financial statements should be read in conjunction with Exhibit 99.1 of Form 8-K filed on June 25, 2021, to reflect certain retrospective revisions for discontinued operations and changes in reportable segments in the consolidated financial statements of the Company in its Annual Report on Form 10-K for the year ended December 26, 2020 that was previously filed with the Securities and Exchange Commission ("SEC") on March 10, 2021 (the "Form 10-K").

In the opinion of management, all adjustments (including those of a normal recurring nature) necessary for a fair presentation of such condensed consolidated financial statements in accordance with GAAP have been recorded. The December 26, 2020 balance sheet information was derived from the audited financial statements as of that date.

Discontinued Operations

As previously disclosed, on February 21, 2021 the Company entered into a purchase agreement (the "Purchase Agreement") to sell its Liberty Tax business to NextPoint Acquisition Corp ("NextPoint"), a special purpose acquisition corporation incorporated under the laws of the Province of British Columbia (the "Transaction"). On July 2, 2021 the Company completed the Transaction and received total consideration of approximately \$241.0 million consisting of approximately \$181.2 million in cash and approximately \$59.7 million in proportionate voting shares of NextPoint recorded as an investment in equity securities in "Other non-current assets" on the Condensed Consolidated Balance Sheet. The transaction resulted in a gain on the sale of \$173.7 million recorded in "Income (loss) from discontinued operations, net of tax" on the Condensed Consolidated Statement of Operations. As part of the divestiture, the Company incurred transaction costs of approximately \$5.7 million which were paid using shares of NextPoint. As a result of the Transaction, the financial position and results of operations of the Liberty Tax business are presented as discontinued operations and, as such, have been excluded from continuing operations and segment results for all periods presented. The accompanying Notes to the Condensed Consolidated Financial Statements and all prior year balances have been reclassified to conform to this presentation. Please refer to "Note 3. Divestitures" for additional information regarding discontinued operations.

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 January 1, 2023. 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 January 1, 2023. 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 expects no material impact as a result of reference rate reform and the new guidance on its consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes", which amends and simplifies the requirements for income taxes. The ASU is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years, with early adoption permitted. The adoption did not result in a material impact to the Company's financial results or disclosures.

(2) Acquisitions

The assets acquired and liabilities assumed in the acquisitions below are recorded at fair value in accordance with ASC 805 - "Business Combinations." 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 recorded goodwill is deductible for tax purposes.

Pet Supplies Plus Acquisition

On March 10, 2021, the Company completed its acquisition of Pet Supplies Plus (the "Pet Supplies Plus Acquisition"). The preliminary fair value of the consideration transferred at the acquisition date was \$451.1 million. As of September 25, 2021, \$5.5 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 Pet Supplies Plus Acquisition as of March 10, 2021. 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. In the nine months ended September 25, 2021, the preliminary estimates of the fair value of identifiable assets acquired and liabilities assumed were adjusted, which resulted in an increase in goodwill of \$0.6 million. The increase was primarily due to a \$0.5 million increase of franchise fees receivable and \$0.1 million of prepaid expenses. The Company expects to complete the purchase price allocation as soon as reasonably possible but not to exceed one year from the date of completion of the Pet Supplies Plus Acquisition.

(In thousands)	Preliminary March 10, 2021	
Cash and cash equivalents	\$	2,131
Other current assets		39,844
Inventories, net		118,600
Property, equipment and software, net		75,616
Goodwill		335,690
Operating lease right-of-use assets		151,243
Other intangible assets, net		205,800
Other non-current assets		6,393
Total assets		935,317
Current operating lease liabilities		25,405
Accounts payable and accrued expenses		82,071
Other current liabilities		1,705
Current installments of long-term obligations		3,507
Long-term obligations, excluding current installments		247,458
Non-current operating lease liabilities		114,292
Other long-term liabilities		9,761
Total liabilities		484,199
Consideration transferred	\$	451,118

Other intangible assets, net consists of the Pet Supplies Plus trade name as an indefinite-lived intangible asset with a fair value of \$104.4 million. The trade name is not subject to amortization but will be evaluated annually for impairment. Also included are franchise agreements of \$67.1 million and customer relationships of \$34.3 million.

Operating lease right-of-use assets and lease liabilities consist of leases for retail store locations, warehouses and office equipment. Operating lease right-of-use assets incorporates a favorable adjustment of \$12.4 million, net for favorable and unfavorable Pet Supplies Plus real estate leases (as compared to prevailing market rates) which will be amortized over the remaining lease terms.

Property, equipment and software, net consists of fixtures and equipment of \$37.0 million, leasehold improvements of \$33.5 million, construction in progress of \$3.5 million and financing leases of \$1.7 million.

Other non-current assets includes \$0.4 million of restricted cash.

Furniture Factory Outlet Acquisition

On December 27, 2020, the Company completed the acquisition of Furniture Factory Outlet ("FFO Home"), a regional retailer of furniture and mattresses, for an all cash purchase price of \$13.8 million. The Company acquired 31 operating locations which were rebranded as American Freight stores and included in its American Freight segment. As of September 25, 2021, \$0.4 million of acquisition fees had been incurred that are recorded in selling, general and administrative expenses.

(In thousands)	Preliminary December 27, 2020
Cash and cash equivalents	\$ 6
Other current assets	96
Inventories, net	6,450
Property, equipment and software, net	2,934
Goodwill	3,293
Operating lease right-of-use assets	26,571
Total assets	39,350
Current operating lease liabilities	2,587
Other current liabilities	299
Non-current operating lease liabilities	22,624
Total liabilities	25,510
Consideration transferred	\$ 13,840

Operating lease right-of-use assets and lease liabilities consist of leases for retail store locations. Operating lease right-of-use assets incorporates a favorable adjustment of \$1.4 million, net for favorable and unfavorable FFO Home leases (as compared to prevailing market rates) which will be amortized over the remaining lease terms.

The property, equipment and software, net consists of leasehold improvements of \$2.5 million and fixtures and equipment of \$0.4 million.

American Freight Acquisition

On February 14, 2020, the Company completed its acquisition of American Freight (the "American Freight Acquisition") for an aggregate purchase price of \$357.3 million. The Company accounted for the transaction as a business combination using the acquisition method of accounting.

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 Pet Supplies Plus and American Freight acquisitions as if they had occurred on December 28, 2019.

(In thousands)	Pro forma (Unaudited)					
	Three Months Ended			Nine Months Ended		
	September 25, 2021	September 26, 2020	September 25, 2021	September 26, 2020	September 25, 2021	September 26, 2020
Revenue	\$ 828,826	\$ 750,094	\$ 2,506,519	\$ 2,187,416	\$ 2,506,519	\$ 2,187,416
Net income	\$ 35,999	\$ 6,167	\$ 92,974	\$ (38,583)	\$ 92,974	\$ (38,583)
Basic net income per share	\$ 0.84	\$ 0.15	\$ 2.16	\$ (1.19)	\$ 2.16	\$ (1.19)
Diluted net income per share	\$ 0.83	\$ 0.15	\$ 2.12	\$ (1.19)	\$ 2.12	\$ (1.19)

The unaudited consolidated pro forma financial information was prepared in accordance with GAAP and is not necessarily indicative of the results of operations that would have occurred if the Pet Supplies Plus and American Freight acquisitions 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) Discontinued Operations and Assets Disposition

On February 21, 2021, the Company and NextPoint entered into the Purchase Agreement to sell its Liberty Tax business to NextPoint. In connection with the Purchase Agreement, the parties entered into a transition services agreement pursuant to

which both parties agreed to provide certain transition services to each other for a period not to exceed twelve months. On July 2, 2021, the Company completed the transaction and received total consideration of approximately \$241.0 million, consisting of approximately \$181.2 million in cash and approximately \$59.7 million in proportionate voting shares of NextPoint recorded as an investment in equity securities in "Other non-current assets" on the Condensed Consolidated Balance Sheet. The transaction resulted in a gain on the sale of \$173.7 million recorded in "Income (loss) from discontinued operations, net of tax" on the Condensed Consolidated Statement of Operations. As part of the divestiture, the Company incurred transaction costs of approximately \$5.7 million which were paid using shares of NextPoint. As a result of the Transaction, the financial position and results of operations of the Liberty Tax business are presented as discontinued operations and, as such, have been excluded from continuing operations and segment results for all periods presented.

The following is a summary of the major categories of assets and liabilities for the Liberty Tax business. The balances for all periods prior to the sale are included in assets and liabilities held for sale in the Condensed Consolidated Balance Sheet.

(In thousands)	Assets	September 25, 2021	December 26, 2020
Current assets:			
Cash and cash equivalents		\$ —	\$ 2,722
Current receivables, net		—	33,525
Other current assets		—	6,776
Total current assets		—	43,023
Property, equipment, and software, net		—	7,634
Non-current receivables, net		—	3,889
Goodwill		—	8,719
Intangible assets, net		—	24,804
Operating lease right-of-use assets		—	8,771
Other non-current assets		—	1,299
Total assets held for sale		\$ —	\$ 98,139
Liabilities and Stockholders' Equity			
Current liabilities:			
Current installments of long-term obligations		\$ —	\$ 1,335
Current operating lease liabilities		—	4,658
Accounts payable and accrued expenses		—	20,200
Other current liabilities		—	14,383
Total current liabilities		—	40,576
Long-term obligations, excluding current installments		—	1,711
Non-current operating lease liabilities		—	4,738
Other non-current liabilities		—	2,330
Total liabilities held for sale		\$ —	\$ 49,355

The following is a Condensed Consolidated Statement of Operations for the Liberty Tax business. The amounts for all periods are included in "Income (loss) from discontinued operations, net of tax" in the Company's Condensed Consolidated Statements of Operations.

(In thousands)	Three Months Ended		Nine Months Ended	
	September 25, 2021	September 26, 2020	September 25, 2021	September 26, 2020
Revenue	\$ 493	\$ 13,300	\$ 107,486	\$ 117,992
Selling, general, and administrative expenses	6,886	18,657	64,672	77,871
Income from operations	(6,393)	(5,357)	42,814	40,121
Other expense:				
Gain on sale of discontinued operation	173,699	—	173,699	—
Other	(3)	16	165	1
Interest expense, net	(3)	6	(4)	(4,983)
Income before income taxes	167,300	(5,335)	216,674	35,139
Income tax expense	39,228	(1,464)	40,240	6,656
Net Income	128,072	(3,871)	176,434	28,483
Less: Net (income) attributable to non-controlling interest	—	—	—	11,791
Net income attributable to discontinued operations	\$ 128,072	\$ (3,871)	\$ 176,434	\$ 40,274

The following is the operating and investing activities for the Liberty Tax business. These amounts are included in the Company's Condensed Consolidated Statement of Cash Flows.

(In thousands)	Nine Months Ended	
	September 25, 2021	September 26, 2020
Cash flows provided by operating activities from discontinued operations	\$ 39,334	\$ 46,709
Cash flows provided by investing activities from discontinued operations	\$ 173,633	\$ 13,066

(4) Goodwill and Intangible Assets

The Company performs impairment tests for goodwill as of the end of July of each fiscal year and between annual impairment tests if an event occurs or circumstances change that would more likely than not reduce the fair values of the Company's reporting units below their carrying values. There are no accumulated goodwill impairment losses recorded.

Changes in the carrying amount of goodwill for the nine months ended September 25, 2021 are as follows:

	Vitamin Shoppe	American Freight	Pet Supplies Plus	Buddy's	Total
Balance as of December 26, 2020	1,277	367,882	—	79,099	448,258
Acquisitions	—	3,493	335,690	—	339,183
Balance as of September 25, 2021	\$ 1,277	\$ 371,375	\$ 335,690	\$ 79,099	\$ 787,441

Components of intangible assets as of September 25, 2021 and December 26, 2020 were as follows:

(In thousands)	September 25, 2021		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Indefinite lived tradenames	197,700	—	197,700
Franchise agreements	77,600	(4,791)	72,809
Customer contracts	42,414	(4,302)	38,112
Reacquired rights	566	(282)	284
Total intangible assets	\$ 318,280	\$ (9,375)	\$ 308,905

(In thousands)	December 26, 2020		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Indefinite lived tradenames	\$ 93,300	\$ —	\$ 93,300
Customer contracts	8,781	(2,159)	6,622
Franchise agreements	10,500	(1,546)	8,954
Reacquired rights	1,478	(462)	1,016
Total intangible assets	\$ 114,059	\$ (4,167)	\$ 109,892

(5) Revenue

For details regarding the principal activities from which the Company generates its revenue, see "Note 1. Description of Business and Summary of Significant Account Policies Presentation" in the Company's Form 10-K. 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 25, 2021:

(In thousands)	September 25, 2021							
	Vitamin Shoppe		American Freight		Pet Supplies Plus		Buddy's	
	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	\$ 300,721	\$ 897,934	\$ 207,660	\$ 686,194	\$ 162,931	\$ 351,147	\$ 784	\$ 3,200
Wholesale sales	—	—	617	617	109,895	233,080	—	—
Total product revenue	300,721	897,934	208,277	686,811	272,826	584,227	784	3,200
Franchise fees	—	—	—	—	269	511	19	—
Royalties and advertising fees	92	174	427	838	5,937	12,664	3,591	10,700
Financial products	—	—	10,808	31,338	—	—	—	—
Interest income	—	—	287	872	71	156	—	—
Agreement, club and damage waiver fees	—	—	—	—	—	—	1,618	5,100
Warranty revenue	—	—	416	19,914	—	—	—	—
Other revenues	—	—	3,376	11,141	7,540	16,154	3,440	4,900
Total service revenue	92	174	15,314	64,103	13,817	29,485	8,668	20,800
Rental revenue, net	—	—	—	—	—	—	8,327	26,000
Total rental revenue	—	—	—	—	—	—	8,327	26,000
Total revenue	\$ 300,813	\$ 898,108	\$ 223,591	\$ 750,914	\$ 286,643	\$ 613,712	\$ 17,779	\$ 50,100

† Reflects the results from the March 10, 2021 acquisition date.

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

(In thousands)	September 26, 2020							
	Vitamin Shoppe		American Freight		Pet Supplies Plus		Buddy's	
	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	\$ 4,772
Total product revenue	266,965	780,588	231,959	655,311	—	—	1,538	4,772
Franchise fees	—	—	—	—	—	—	8	2
Royalties and advertising fees	—	—	—	—	—	—	2,517	7,342
Financial products	—	—	6,775	8,066	—	—	—	—
Interest income	—	—	315	987	—	—	—	—
Agreement, club and damage waiver fees	—	—	—	—	—	—	3,436	10,112
Warranty revenue	—	—	4,775	13,754	—	—	—	—
Other revenues	—	—	1,388	4,268	—	—	612	1,952
Total service revenue	—	—	13,253	27,075	—	—	6,573	19,416
Rental revenue, net	—	—	—	—	—	—	17,404	51,000
Total rental revenue	—	—	—	—	—	—	17,404	51,000
Total revenue	\$ 266,965	\$ 780,588	\$ 245,212	\$ 682,386	\$ —	\$ —	\$ 25,515	\$ 75,212

Contract Balances

The following table provides information about receivables and contract liabilities (deferred revenue) from contracts with customers as of September 25, 2021 and December 26, 2020:

(In thousands)	September 25, 2021		December 26, 2020	
Accounts Receivable	\$	68,837	\$	38,444
Notes receivable	\$	13,600	\$	28,240
Deferred revenue	\$	35,472	\$	24,097
Deferred franchise fee revenue	\$	12,682	\$	1,519

Deferred revenue consists of (1) amounts received for which customers have not yet taken possession of the merchandise, (2) gift card or store credits outstanding, and (3) loyalty reward program credits which are generally recognized within one year following the revenue deferral. Deferred franchise fee revenue is recognized over the term of the agreement, which is generally between five and ten years.

(6) Long-Term Obligations

Long-term obligations at September 25, 2021 and December 26, 2020 were as follows:

(In thousands)	September 25, 2021		December 26, 2020	
Revolving credit facilities	\$	—	\$	78,310
Term loan, net of debt issuance costs		1,070,167		491,836
Finance lease liabilities		4,162		851
Total long-term obligations		1,074,329		570,997
Less current installments		1,420		104,053
Total long-term obligations, excluding current installments, net	\$	1,072,909	\$	466,944

First Lien Credit Agreement and Term Loan

On March 10, 2021 (the "Closing Date"), the Company entered into a First Lien Credit Agreement (the "First Lien Credit Agreement") with various lenders that provides for a \$1,000.0 million senior secured term loan (the "First Lien Term Loan").

The Company's obligations under the First Lien Credit Agreement are guaranteed by the Company and each of the Company's other direct and indirect subsidiaries (other than certain excluded subsidiaries) pursuant to a First Lien Guarantee Agreement (the "First Lien Guarantee Agreement") and are required to be guaranteed by each of the Company's direct and indirect subsidiaries (other than certain excluded subsidiaries) that may be formed or acquired after the Closing Date. The obligations of the Company under the First Lien Credit Agreement are secured on a first priority basis by substantially all of the assets and are secured on a second priority basis by credit card receivables, accounts receivable, deposit accounts, securities accounts, commodity accounts, inventory and goods (other than equipment) of the Company, and in each case are required to be secured by such assets of the Company (other than certain excluded subsidiaries) that may be formed or acquired after the Closing Date.

The proceeds of the First Lien Term Loan, together with the proceeds of the Second Lien Term Loan (as defined below) and certain cash on hand of the Company, were used to consummate the Pet Supplies Plus Acquisition and to pay fees and expenses for certain related transactions, including the entry into the ABL Agreement (as defined below). A portion of the First Lien Term Loan and Second Lien Term Loan were also used to repay existing lenders.

The First Lien Term Loan will mature on March 10, 2026 and will bear interest at a variable rate with a floor of 5.50%. Interest is payable on either the last day of the interest period or the last business day of the calendar quarter. The Company is required to repay the First Lien Term Loan in equal quarterly installments of \$2.5 million on the last day of each calendar quarter, commencing on June 30, 2021 subject to certain early payment requirements based on certain events. On July 2, 2021, the Company repaid \$182.1 million of principal of the First Lien Term Loan using cash proceeds from the sale of the Liberty Tax business. The payment also satisfied the requirements for the quarterly principal payments so no additional principal payments are due until the First Term Loan maturity date. The remaining \$1.4 million of current installments of long-term obligations are related to finance leases.

The First Lien Credit Agreement, the First Lien Collateral Agreement and the First Lien Guarantee Agreement collectively include customary affirmative, negative, and financial covenants binding on the Company, including delivery of financial statements and other reports. The negative covenants limit the ability of the Company to, among other things, incur debt, incur liens, make investments, sell assets, pay dividends and enter into transactions with affiliates. The financial covenants set forth in the First Lien 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 commencing with the first full fiscal quarter ending after the Closing Date. In addition, the First Lien Credit Agreement includes customary events of default, the occurrence of which may require the Company to pay an additional 2.00% interest on the First Lien Term Loan and/or may result in, among other consequences, acceleration of the payment obligations with respect to the First Lien Term Loan, calling on the guarantees, or exercise of remedies with respect to the collateral.

Second Lien Credit Agreement and Second Lien Term Loan

On the Closing Date, the Company entered into a Second Lien Credit Agreement (the "Second Lien Credit Agreement") with various lenders (the "Second Lien Lenders", and together with the First Lien Lenders, the "Term Loan Lenders") which provides for a \$300.0 million senior secured term loan (the "Second Lien Term Loan", and together with the First Lien Term Loan, the "Term Loans"), made by the Second Lien Lenders to the Company.

The Company's obligations under the Second Lien Credit Agreement are guaranteed by the Loan Parties pursuant to a Second Lien Guarantee Agreement (the "Second Lien Guarantee Agreement") and are required to be guaranteed by each of the Company's direct and indirect subsidiaries (other than certain excluded subsidiaries) that may be formed or acquired after the Closing Date. The obligations of the Company under the Second Lien Credit Agreement are secured on a second priority basis by the Term Priority Collateral and are secured on a third priority basis by the ABL Priority Collateral pursuant to a Second Lien Collateral Agreement (the "Second Lien Collateral Agreement") and are required to be secured by such assets of each of the Company's direct and indirect subsidiaries (other than certain excluded subsidiaries) that may be formed or acquired after the Closing Date.

The Second Lien Term Loan will mature on September 10, 2026 and bears interest at a variable rate with an 8.50% floor. Interest is payable on either the last day of the interest period or the last business day of the calendar quarter.

The Second Lien Term Loan is not subject to scheduled amortization. Solely to the extent the First Lien Term Loan and related obligations have been repaid in full, the Company is required to prepay the Second Lien Term Loan with 50% of consolidated excess cash flow on an annual basis, subject to certain exceptions and to leverage-based step-downs to 25% and 0%, and with 100% of the net cash proceeds of certain other customary events, including certain asset sales (but excluding sales of ABL Priority Collateral), including customary reinvestment rights and leverage-based step-downs to 25% and 0%, in each case, subject to certain exceptions.

Third Amended and Restated Loan and Security Agreement (ABL)

On the Closing Date, the Company entered into a Third Amended and Restated Loan and Security Agreement (the "ABL Agreement") with various lenders. The ABL Agreement provides for a senior secured revolving loan facility (the "ABL Revolver") with aggregate commitments available to Company of the lesser of (i) \$150.0 million and (ii) a specified borrowing base based on a percentage of the Company's eligible credit card receivables, accounts (subject to certain limitations) and inventory (subject to certain limitations), less certain reserves (the "Aggregate Borrowing Cap"). Furthermore, the ABL Agreement includes separate borrowing caps equal to (A) the lesser of (1) \$100.0 million and (2) a specified borrowing base based on a percentage of certain of the Company's subsidiaries eligible credit card receivables, accounts (subject to certain limitations) and inventory (subject to certain limitations), less certain reserves.

As of September 25, 2021, the ABL Revolver was undrawn. The ABL Agreement amended and restated the existing Second Amended and Restated Loan and Security Agreement, dated as of December 16, 2019. The Company's obligations under the ABL Agreement are guaranteed pursuant to a Second Amended and Restated Guaranty Agreement, dated as of the Closing Date. The obligations of the Company under the ABL Agreement are secured by substantially all of the assets of the Company pursuant to the ABL Agreement and a Third Amended and Restated Pledge Agreement (the "ABL Pledge").

The ABL Revolver will mature on March 10, 2025, and borrowings under the ABL Revolver will bear interest at a variable rate with a 1.75% floor. Interest is payable on either the last day of the interest period or the last business day of the calendar quarter.

Subject to an intercreditor agreement, the Company is required to repay the excess amount of borrowings under the ABL Revolver if: (i) the aggregate outstanding principal amount of all borrowings by the Company under the ABL Revolver at any time exceeds the Aggregate Borrowing Cap, or (ii) the aggregate outstanding principal amount of all borrowings of certain of the Company's subsidiaries exceeds their borrowing caps.

The ABL Agreement and ABL Pledge include customary affirmative and negative covenants binding on the Company, including delivery of financial statements, borrowing base certificates and other reports. The negative covenants limit the ability of the Company, among other things, to incur debt, incur liens, make investments, sell assets, pay dividends and enter into transactions with affiliates. In addition, the 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 ABL Revolver.

The following debt agreements have been repaid since reported in the Form 10-K. Refer to the Form 10-K for further information regarding these debt agreements.

Franchise Group New Holdco Credit Agreement and Term Loan

On March 10, 2021, the outstanding amount of \$527.4 million, including accrued interest, under the Franchise Group New Holdco Credit Agreement and Term Loan was paid in full in connection with the issuance of the First Lien Term Loan and the Second Lien Term Loan. The early repayment resulted in additional interest expense of \$20.1 million for the write-off of deferred financing costs and \$36.7 million for a prepayment penalty. The prepayment penalty is recorded in the Other expense line of the Consolidated Statement of Operations for the nine months ended September 25, 2021.

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

On March 10, 2021, the Franchise Group New Holdco New ABL Credit Agreement and Term Loan was replaced by the ABL Agreement and the outstanding amount of \$37.0 million, including accrued interest, under the Franchise Group New Holdco New ABL Credit Agreement and Term Loan was paid in full by the Company in connection with the issuance of the First Lien Term Loan and the Second Lien Term Loan. The early repayment resulted in additional interest expense of \$8.1 million for the write-off of deferred financing costs.

On March 10, 2021, the outstanding amount of \$43.0 million, including accrued interest, under the Vitamin Shoppe ABL Revolver was paid in full with the proceeds from the First Lien Term Loan and the Second Lien Term Loan which resulted in a write-off of \$1.2 million of deferred financing costs.

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 25, 2021, 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 next twelve months.

(7) Income Taxes

Overview

For the three months ended September 25, 2021 and September 26, 2020, the Company had an effective tax rate from continuing operations of (75.8)% and (66.7)%, respectively. The change in the effective tax rate compared to the prior year is due to the reversal of a valuation allowance related to net operating loss carryforwards in the current year. The impact of the CARES Act was included in the prior year effective tax rate. For the nine months ended September 25, 2021 and September 26, 2020, the Company had an effective tax rate from continuing operations of (63.5)% and 106.1%, respectively. The impact of the enactment of the CARES Act was included nine months ended September 26, 2020 which is the primary driver of the difference in the effective tax rate. The Company is also expecting to utilize its net operating loss carryforwards and is expecting to realize its deferred tax assets which previously had a full valuation allowance.

CARES Act

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 \$52.3 million during 2020 associated with the income tax components contained in the Act.

Tax Receivable Agreement

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.

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 TRA during the quarter ended September 25, 2021. Pursuant to the Company's election under Section 754 of the Internal Revenue Code (the "Code"), the Company has obtained an increase in its share of the tax basis in the net assets of New Holdco when the New Holdco units were 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. This increase in tax basis will 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.

(8) Stockholders' Equity

Stockholders' Equity Activity

On January 11, 2021, the Company entered into an Underwriting Agreement with B. Riley Securities, Inc., as representative of the several underwriters named therein (the "Underwriters"), to issue and sell an aggregate of 2,976,191 shares (the "Firm 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 \$25.20 per share. The Company also granted the Underwriters an option (the "Option") to purchase up to 446,428 additional

shares of Series A Preferred Stock during the 30 days following the date of the Underwriting Agreement. On January 14, 2021, the Underwriters partially exercised the Option for 314,934 shares (together with the Firm Shares, the "Shares"). The offering closed on January 14, 2021, and the net proceeds to the Company were approximately \$79.5 million, after deducting underwriting discounts, an advisory fee and offering expenses totaling approximately \$3.2 million.

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss, which were from the Company's Liberty Tax business, as of September 25, 2021 and December 26, 2020 were as follows:

(In thousands)	September 25, 2021	December 26, 2020
Foreign currency adjustment	\$ —	\$ (1,254)
Interest rate swap agreements, net of tax	—	(145)
Total accumulated other comprehensive loss	\$ —	\$ (1,399)

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"). Changes in the Company's ownership interest in New Holdco while it retained a controlling interest in New Holdco were accounted for as equity transactions. 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.

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 Preferred Stock, if dilutive.

The following table sets forth the calculations of basic and diluted net income (loss) per share:

(In thousands, except for share and per share amounts)	Three Months Ended		Nine Months Ended	
	September 25, 2021	September 26, 2020	September 25, 2021	September 26, 2020
Net income (loss) from continuing operations attributable to Franchise Group	\$ 35,998	\$ (4,726)	\$ 40,185	\$ (11,005)
Less: Preferred dividend declared	(2,128)	(169)	(6,384)	(169)
Adjusted net income (loss) from continuing operations available to Common Stockholders	33,870	(4,895)	33,801	(11,174)
Net income from discontinued operations attributable to Franchise Group	128,072	(3,871)	176,434	40,274
Adjusted net income (loss) available to Common Stockholders	\$ 161,942	\$ (8,766)	\$ 210,235	\$ 29,100
Weighted-average common stock outstanding	40,229,232	39,692,384	40,171,458	32,679,576
Net dilutive effect of stock options and restricted stock	744,504	—	759,965	—
Weighted-average diluted shares outstanding	40,973,736	39,692,384	40,931,423	32,679,576
Basic net income (loss) per share:				
Continuing operations	\$ 0.84	\$ (0.12)	\$ 0.84	\$ (0.34)
Discontinued operations	3.18	(0.10)	4.39	1.23
Basic net income per share	\$ 4.02	\$ (0.22)	\$ 5.23	\$ 0.89
Diluted net income (loss) per share:				
Continuing operations	\$ 0.83	\$ (0.12)	\$ 0.83	\$ (0.34)
Discontinued operations	3.13	(0.10)	4.31	1.23
Diluted net income per share	\$ 3.96	\$ (0.22)	\$ 5.14	\$ 0.89

(9) Stock-Based Compensation Plans

For a discussion of our stock-based compensation plans, refer to "Note 11. - Stock-Based Compensation Plans" of the Form 10-K for the year ended December 26, 2020.

Stock Options

Stock option activity during the nine months ended September 25, 2021 was as follows:

	Number of options	Weighted average exercise price
Outstanding as of December 26, 2020	391,409	\$ 10.19
Exercised	(36,188)	10.66
Expired or forfeited	—	—
Outstanding as of September 25, 2021	355,221	\$ 10.15

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 25, 2021 was \$9.0 million. Stock options vest from the date of grant to three years after the date of grant and expire from four to five years after the vesting date.

Nonvested stock options activity during the nine months ended September 25, 2021 was as follows:

	Nonvested options	Weighted average exercise price
Outstanding as of December 26, 2020	63,334	\$ 8.83
Vested	(63,334)	8.83
Expired or forfeited	—	—
Outstanding as of September 25, 2021	<u>—</u>	<u>\$ —</u>

At September 25, 2021, there were no unrecognized compensation costs related to nonvested stock options.

The following table summarizes information about stock options outstanding and exercisable at September 25, 2021:

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number	Weighted average exercise price	Weighted average remaining contractual life (in years)	Number	Weighted average exercise price
\$0.00 - \$10.89	204,500	\$ 8.80	3.8	204,500	\$ 8.80
\$10.90 - \$12.01	150,721	11.98	2.5	150,721	11.98
	<u>355,221</u>	<u>\$ 10.15</u>		<u>355,221</u>	<u>\$ 10.15</u>

Restricted Stock Units

The Company has awarded service-based restricted stock units ("RSUs") and performance restricted stock units ("PRSUs") to its non-employee directors, officers and certain employees. The Company recognizes expense based on the estimated fair value of the RSUs or PRSUs granted over the vesting period on a straight-line basis. The fair value of RSUs and PRSUs is determined using the Company's closing stock price on the date of the grant. At September 25, 2021, unrecognized compensation costs related to RSUs and PRSUs were \$5.8 million and \$24.9 million, respectively. These costs are expected to be recognized through fiscal 2024.

The following table summarizes the status of RSUs as of and changes during the nine months ended September 25, 2021:

	Number of restricted stock units	Weighted average fair value a grant date
Balance as of December 26, 2020	296,147	\$ 20.
Granted	120,952	35.
Vested	(101,503)	22.
Canceled	(2,342)	12.
Balance as of September 25, 2021	<u>313,254</u>	<u>\$ 25.</u>

The following table summarizes the status of PRSUs as of and changes during the nine months ended September 25, 2021:

	Number of restricted stock units	Weighted average fair value at grant date
Balance as of December 26, 2020	618,737	\$ 17.00
Granted	913,875	21.72
Vested	(19,500)	14.40
Canceled	—	—
Balance as of September 25, 2021	<u>1,513,112</u>	<u>\$ 19.81</u>

Stock Compensation Expense

The Company recorded \$9.6 million and \$6.3 million during the nine months ended September 25, 2021 and September 26, 2020, respectively.

(10) Fair Value of Financial Instruments

As required, financial assets and liabilities are classified in the fair value hierarchy in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (e.g., when there is evidence of impairment). The Company recorded impairment charges of \$1.1 million and \$0 during the nine months ended September 25, 2021 and September 26, 2020.

Fair Value of Financial Instruments

The carrying value of Cash and cash equivalents, restricted cash, accounts receivable and accounts payable as reported in the accompanying unaudited condensed consolidated balance sheets approximate fair value due to their short-term maturities. The carrying amount of Long-term debt approximates fair value because the interest rate paid has a variable component. The fair value for equity securities for which the Company does not have the ability to exercise significant influence is based on quoted prices in active markets, which was \$40.9 million as of September 25, 2021.

(11) Related Party Transactions

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

Messrs. Kahn and Laurence

Vintage Capital Management, LLC and its affiliates ("Vintage") held approximately 31% of the aggregate voting power of the Company through their ownership of common stock as of September 25, 2021. Brian Kahn and Andrew Laurence are principals of Vintage. Mr. Kahn is a member of the Board of Directors, President and Chief Executive Officer of the Company. Mr. Laurence is an Executive Vice President of the Company, served as a member of the Company's Board of Directors until the Company's annual meeting of stockholders in May 2021 and served as the Company's Chairman of the Board until March 31, 2020.

Buddy's Franchises. Mr. Kahn's brother-in-law owns seven Buddy's franchises. 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)

Bryant Riley, through controlled entities or affiliates held approximately 4% of the aggregate ownership of the Company's common stock as of September 25, 2021. Prior to the quarter ended September 25, 2021, Mr. Riley held greater than 5% of the aggregate ownership of the Company's common stock. Mr. Riley was also a member of the Company's Board of Directors from September 2018 through March 2020.

January 2021 Underwritten Offering of Preferred Stock. On January 11, 2021, the Company reopened its original issuance of its Series A Preferred Stock, which closed on September 18, 2020 as noted above. The Company completed the reopened underwritten offering on January 15, 2021 in which B. Riley Securities, an affiliate of Mr. 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 \$3.0 million and B. Riley Securities was entitled to a structuring fee of \$0.3 million.

Debt Commitment Letter and Fee Letter. On January 23, 2021, in connection with the Pet Supplies Plus Acquisition and the refinancing of the Company's existing indebtedness, the Company entered into a debt commitment letter with, among others, BRF Finance Co., LLC ("BRF"), an affiliate of Mr. Riley, pursuant to which BRF committed to provide (i) \$100.0 million of a then-contemplated first lien term loan credit facility and (ii) \$300.0 million of a then-contemplated senior unsecured term loan credit facility (the "Senior Unsecured Facility"). On January 23, 2021, the Company entered into a fee letter with BRF pursuant to which (a) BRF committed to provide \$100.0 million of an alternative then-contemplated first lien term loan credit facility (the "Alternative First Lien Facility") and (b) BRF (or its affiliates) received, on March 10, 2021, (i) a \$9.0 million arrangement fee as consideration for BRF's commitments and agreements with respect to the Senior Unsecured Facility and (ii) a \$1.0 million take-out fee as consideration for BRF's commitments and agreements with respect to the Alternative First Lien Facility.

M. Brent Turner

Mr. Turner was the President and Chief Executive Officer of the Company's Liberty Tax business which was sold to NextPoint on July 2, 2021 in connection with the Transaction. The Company previously entered into certain agreements with Revolution Financial, Inc., an entity partially owned by Mr. Turner, which were terminated upon completion of the sale of the Liberty Tax business. During the nine months ended September 25, 2021, the Company earned less than \$0.2 million in royalties related to such agreements which was recorded in "Income (loss) from discontinued operations, net of tax" in the accompanying Condensed Consolidated Statements of Operations.

Tax Receivable Agreement

In connection with the acquisition of Buddy's, 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 25, 2021 were \$16.8 million which is recorded in "Other non-current liabilities" in the accompanying condensed consolidated balance sheets. No payments were made to Buddy's Members pursuant to the Tax Receivable Agreement during the nine months ended September 25, 2021.

(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.

The Company is party to claims and lawsuits that are considered to be ordinary, routine litigation incidental to the business, including claims and lawsuits concerning 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.

Guarantees

The Company remains secondarily liable under various real estate leases that were assigned to franchisees who acquired Pet Supplies Plus stores from the Company. In the event of the failure of an acquirer to pay lease payments, the Company could be obligated to pay the remaining lease payments which extend through 2033 and aggregated \$8.7 million as of September 25, 2021. If the Company is required to make payments under these guarantees, the Company could seek to recover those amounts from the franchisees or in some cases their affiliates. The Company believes that payment under these guarantees is remote as of September 25, 2021.

(13) Segments

The Company's operations are conducted in four reportable business segments: Vitamin Shoppe, American Freight, Pet Supplies Plus 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 American Freight are included in the Company's results of operations beginning on February 14, 2020 and the results of operations of Pet

Supplies Plus are included in the Company's results of operations beginning on March 11, 2021. As a result of the Company's sale of its Liberty Tax business, as discussed in "Note 3. Divestitures," the Company's Liberty Tax business is not reported in segment information since this business is reported as a discontinued operation. Current and prior year amounts have been revised to reflect this change.

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 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 Pet Supplies Plus segment is a franchisor and retailer in the pet industry. Pet Supplies Plus has a diversified revenue model comprised of corporate store revenue, royalties and wholesale distribution to franchisees. The Pet Supplies Plus segment consists of the Company's operations under the "Pet Supplies Plus" brand and is headquartered in Livonia, Michigan.

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.

Total revenues by segment were as follows:

(In thousands)	Three Months Ended		Nine Months Ended	
	September 25, 2021	September 26, 2020	September 25, 2021	September 26, 2020
Total revenue:				
Vitamin Shoppe	\$ 300,813	\$ 266,965	\$ 898,108	\$ 780,588
American Freight	223,591	245,212	750,914	682,386
Pet Supplies Plus	286,643	—	613,712	—
Buddy's	17,779	25,515	50,195	75,219
Consolidated total revenue	\$ 828,826	\$ 537,692	\$ 2,312,929	\$ 1,538,193

Operating income (loss) by segment were as follows:

(In thousands)	Three Months Ended		Nine Months Ended	
	September 25, 2021	September 26, 2020	September 25, 2021	September 26, 2020
Income (loss) from operations:				
Vitamin Shoppe	\$ 27,792	\$ 2,849	\$ 90,830	\$ (3,214)
American Freight	9,574	19,940	56,659	33,949
Pet Supplies Plus	18,647	—	25,056	—
Buddy's	5,991	5,302	13,630	13,985
Total Segments	62,004	28,091	186,175	44,720
Corporate	(7,241)	(3,411)	(20,280)	(8,108)
Consolidated income (loss) from operations	\$ 54,763	\$ 24,680	\$ 165,895	\$ 36,612

Total assets by segment were as follows:

(In thousands)	September 25, 2021	December 26, 2020
Total assets:		
Vitamin Shoppe	\$ 604,501	\$ 607,148
American Freight	888,410	801,731
Pet Supplies Plus	942,019	—
Buddy's	148,533	137,698
Total Segments	2,583,463	1,546,577
Corporate	248,121	203,196
Consolidated total assets	<u>\$ 2,831,584</u>	<u>\$ 1,749,773</u>

(14) Subsequent Events

On September 27, 2021, the Company completed the acquisition of Sylvan Learning ("Sylvan"), a leading tutoring franchisor for Pre-K-12 students and families in the U.S., valued at approximately \$81 million pursuant to a Stock Purchase Agreement, dated as of September 27, 2021, by and among wholly-owned subsidiaries of the Company and Educate Investments, LLC (the "Sylvan Transaction"). The Sylvan Transaction was financed with cash on hand. The Company is in the process of completing the fair value determinations and resulting purchase price allocations.

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 available 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 our ability to effectively obtain lease concessions with landlords);
- the effect of steps we take in response to the COVID-19 pandemic, the severity and duration of the pandemic, new variants of COVID-19 that have emerged, and the speed and efficacy of vaccine and treatment developments, 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 impact of the COVID-19 pandemic and the related government mitigation efforts on our business and our financial results;
- 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;
- the possibility that any of the anticipated benefits of our acquisitions will not be realized or will not be realized within the expected time period, the businesses of the Company and our acquisitions may not be integrated successfully or such integration may be more difficult, time-consuming or costly than expected, or revenues following our acquisitions 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 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”);
- 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;
- 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;
- competitive conditions in the retail industry and the performance of our products within the prevailing retail industry;
- 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;
- 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;
- 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 stores;
- 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;
- our reliance on technology systems and electronic communications;
- 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 an owner and operator of franchised and franchisable businesses that continually looks to grow our portfolio of brands while utilizing our operating and capital allocation philosophies to generate strong cash flows for our stockholders. We have a diversified and growing portfolio of highly recognized brands that compete in the U.S.. Our asset-light business model is designed to generate consistent, recurring revenue and strong operating margins and requires limited maintenance capital expenditures. As a multi-brand operator, we continually look to diversify and grow our portfolio of brands either through acquisition or organic brand development. Our acquisition strategy typically targets businesses that are highly cash flow generative with compelling unit economics that can be scaled by adding franchise and company owned units, or that can be restructured to enhance performance and value to Franchise Group. We strive to create value for our stockholders by generating free cash flow and capital-efficient growth across economic cycles.

Our business lines include American Freight, The Vitamin Shoppe ("Vitamin Shoppe"), Pet Supplies Plus, and Buddy's Home Furnishings ("Buddy's"). See "Note 1. Organization and Significant Accounting Policies" in the notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended December 26, 2020.

On March 10, 2021, we completed the acquisition (the "Pet Supplies Plus Acquisition") of PSP Midco, LLC ("Pet Supplies Plus"). Our Pet Supplies Plus segment is a franchisor and operator of pet specialty stores. Pet Supplies Plus has a diversified revenue model comprised of Company-owned stores, franchise royalties and wholesale distribution to franchisees. Pet Supplies Plus provides a broad selection of products and services to customers.

Our revenue is primarily derived from merchandise sales, lease revenue, royalties and other required fees from our franchisees.

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 March 10, 2021, we completed the Pet Supplies Plus Acquisition. Additionally, we entered into a new \$1.3 billion credit facility which funded the Pet Supplies Plus Acquisition and refinanced certain outstanding indebtedness.

Divestiture

On February 21, 2021, we entered into a purchase agreement (the "Purchase Agreement") with NextPoint Acquisition Corp ("NextPoint") to sell our Liberty Tax business (the "Transaction"). On July 2, 2021 the Transaction was completed and we received total consideration of approximately \$241.0 million consisting of approximately \$181.2 million in cash and \$59.7 million of proportional voting shares of NextPoint. In connection with the Purchase Agreement, the parties also entered into a transition services agreement pursuant to which both parties will provide certain transition services to each other for a period not to exceed twelve months.

For purposes of this section and throughout this quarterly report, all references to "fiscal 2020" refer to the year ended December 26, 2020 and corresponding references to fiscal quarters are references to quarters within that fiscal 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, during 2020, our businesses were deemed essential and, therefore, the majority of our stores remained open during the pandemic. The highest number of temporary store closures we experienced due to the COVID-19 pandemic was approximately 240 stores during the second quarter of 2020. As of September 25, 2021 and October 31, 2021, none of our stores were closed due to the COVID-19 pandemic; however, we cannot predict whether our stores will remain open if the COVID-19 pandemic worsens and states and localities issue new restrictions.

We have seen disruptions in our supply chain due to the COVID-19 pandemic, primarily in our American Freight and Buddy's segments. Despite furniture and mattress supply constraints, we have been able to source enough product to open new stores and replenish existing stores. The supply chain disruption has also reduced the supply of new appliances, which in turn

directly impacts the availability of "as-is" merchandise. We expect the availability of furniture and mattresses to improve during this fiscal year and the recovery of as-is appliance availability to extend into next year.

While we have not experienced a significant negative impact on our sales and profitability due to the COVID-19 pandemic, if the pandemic worsens we could see negative impacts to our business and financial results. We could experience weakening demand for our products and services, difficulty operating our and franchisees' store locations and continued disruptions in our supply chain. As events are continuously changing, we are unable to accurately predict the impact that the COVID-19 pandemic will have on our results of operations; 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 25, 2021 and September 26, 2020.

(In thousands)	Three Months Ended				Nine Months Ended			
	September 25, 2021	September 26, 2020	Change		September 25, 2021	September 26, 2020	Change	
			\$	%			\$	%
Total revenues	\$ 828,826	\$ 537,692	\$ 291,134	54.1 %	\$ 2,312,929	\$ 1,538,193	\$ 774,736	50.4 %
Income from operations	54,763	24,680	30,083	121.9 %	165,895	36,612	129,283	353.1 %
Net income	\$ 35,998	\$ (4,726)	\$ 40,724	861.7 %	\$ 40,185	\$ 2,876	\$ 37,309	1,297.3 %

Revenues. The table below sets forth the components and changes in our revenues for the three and nine months ended September 25, 2021 and September 26, 2020.

(In thousands)	Three Months Ended				Nine Months Ended			
	September 25, 2021	September 26, 2020	Change		September 25, 2021	September 26, 2020	Change	
			\$	%			\$	%
Product	\$ 782,608	\$ 500,462	\$ 282,146	56.4 %	\$ 2,172,193	\$ 1,440,677	\$ 731,516	50.8 %
Service and other	37,891	19,826	18,065	91.1 %	114,659	46,516	68,143	146.5 %
Rental	8,327	17,404	(9,077)	(52.2)%	26,077	51,000	(24,923)	(48.9)%
Total revenue	<u>\$ 828,826</u>	<u>\$ 537,692</u>	<u>\$ 291,134</u>	<u>54.1 %</u>	<u>\$ 2,312,929</u>	<u>\$ 1,538,193</u>	<u>\$ 774,736</u>	<u>50.4 %</u>

For the three months ended September 25, 2021, total revenues increased \$291.1 million, or 54%, to \$828.8 million compared to \$537.7 million in the same period last year. This increase was primarily due to the Pet Supplies Plus Acquisition, which increased revenue by \$286.6 million and a \$33.8 million increase in revenue at our Vitamin Shoppe segment. These increases were offset by a \$21.6 million decrease in revenue at our American Freight segment and a \$7.7 million decrease in revenue at our Buddy's segment.

For the nine months ended September 25, 2021, total revenues increased \$774.7 million, or 50.4%, of \$2.3 billion compared to \$1.5 billion in the same period last year. This increase was primarily due to the Pet Supplies Plus Acquisition, which increased revenue by \$613.7 million, a \$68.5 million increase in revenue at our American Freight segment including a \$55.8 million increase due to the annualization of the segment, and a \$117.5 million increase in revenue at our Vitamin Shoppe segment. These increases were offset by a \$25.0 million decrease in revenue at our Buddy's segment.

Operating expenses. The following table details the amounts and changes in our operating expenses for the three and nine months ended September 25, 2021 and September 26, 2020.

(In thousands)	Three Months Ended				Nine Months Ended			
	September 25, 2021	September 26, 2020	Change		September 25, 2021	September 26, 2020	Change	
			\$	%			\$	%
Cost of revenue:								
Product	\$ 485,682	296,920	\$ 188,762	63.6 %	\$ 1,347,673	\$ 862,320	\$ 485,353	56.3 %
Service and other	8,737	678	8,059	1,188.6 %	10,076	2,135	7,941	371.9 %
Rental	2,930	5,877	(2,947)	(50.1)%	8,869	17,327	(8,458)	(48.8)%
Total cost of revenue	497,349	303,475	193,874	63.9 %	1,366,618	881,782	484,836	55.0 %
Selling, general, and administrative expenses	276,714	209,537	67,177	32.1 %	780,416	619,799	160,617	25.9 %
Total operating expenses	\$ 774,063	\$ 513,012	\$ 261,051	50.9 %	\$ 2,147,034	\$ 1,501,581	\$ 645,453	43.0 %

For the three months ended September 25, 2021, total operating expenses were \$774.1 million compared to \$513.0 million in the same period last year, representing an increase of \$261.1 million, or 50.9%. This increase was primarily due to the Pet Supplies Plus Acquisition which increased operating expenses by \$268.0 million, an \$8.9 million increase at our Vitamin Shoppe segment, and a \$3.8 million increase in corporate expenses primarily due to fees related to the sale of our Liberty Tax business and higher payroll and stock compensation expense. These increases were partially offset by a \$11.3 million decrease at our American Freight segment and an \$8.4 million decrease at our Buddy's segment.

For the nine months ended September 25, 2021, total operating expenses were \$2.1 billion compared to \$1.5 billion in the same period last year, representing an increase of \$645.5 million, or 43.0%. This increase was primarily due to the Pet Supplies Plus Acquisition which increased operating expenses by \$588.7 million, a \$45.8 million increase at our American Freight segment, a \$23.5 million increase at our Vitamin Shoppe segment, and a \$12.2 million increase in corporate expenses primarily due to fees related to the sale of our Liberty Tax business and higher payroll and stock compensation expense. These increases were partially offset by a \$24.7 million decrease at our Buddy's segment.

Other. Other expense increased \$11.8 million for the three months ended September 25, 2021 compared to the same period last year primarily due to a \$13.1 million loss related to our investment in NextPoint. Other expenses increased \$44.5 million for the nine months ended September 25, 2021 compared to the same period last year primarily due to a prepayment penalty of \$36.7 million from the repayment of the Franchise Group New Holdco Term Loan and ABL Term Loan in the nine months ended September 25, 2021 and a \$13.1 million loss related to our investment in NextPoint.

Interest expense, net. Interest expense, net decreased \$5.1 million for the three months ended September 25, 2021 primarily due to a \$5.6 million decrease in deferred financing cost amortization and lower interest rates on the First and Second Lien Term loans compared to the Franchise New Holdco Term Loan. Interest expense, net increased \$12.8 million for the nine months ended September 25, 2021 primarily due to the write-off of \$29.3 million of deferred financing costs due to the termination of the Franchise Group New Holdco Term Loan and ABL Term Loan partially offset by the reduced amortization of deferred financing costs.

Income tax benefit. Our effective tax rate from continuing operations, including discrete income tax items, was (75.8)% and (66.7)% for the three months ended September 25, 2021 and September 26, 2020, respectively. The change in the effective tax rate compared to the prior year is due to the reversal of a valuation allowance related to net operating loss carryforwards in the current year. The impact of the CARES Act was included in the prior year effective tax rate. For the nine months ended September 25, 2021 and September 26, 2020, we had an effective tax rate from continuing operations of (63.5)% and 106.1%, respectively. The impact of the enactment of the CARES Act was included in the three and nine months ended September 26, 2020 which is the primary driver of the difference in the effective tax rate. We also expect to utilize a portion of our deferred tax assets, including net operating loss carryforwards, which previously had a full valuation allowance.

Segment Information

We, through our franchisees and Company-owned stores, operate a system of rent-to-own and point of sale retail locations. Our operations are conducted in four reporting business segments: Vitamin Shoppe, American Freight, Pet Supplies

Plus and Buddy's. 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, which includes cost of revenue, 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 Pet Supplies Plus Acquisition occurred during the nine months ended September 25, 2021; no comparable information is available, therefore, Pet Supplies Plus segment information is not provided in this discussion.

The following table summarizes the operating results of our Vitamin Shoppe segment:

(In thousands)	Three Months Ended				Nine Months Ended			
	September 25, 2021	September 26, 2020	Change		September 25, 2021	September 26, 2020	Change	
			\$	%			\$	%
Total revenues	\$ 300,813	\$ 266,965	\$ 33,848	12.7 %	\$ 898,108	\$ 780,588	\$ 117,520	15.1 %
Operating expenses	273,021	264,116	8,905	3.4 %	807,278	783,802	23,476	3.0 %
Segment income	\$ 27,792	\$ 2,849	\$ 24,943	875.5 %	\$ 90,830	\$ (3,214)	\$ 94,044	2,926.1 %

Total revenue for the three months ended September 25, 2021 for our Vitamin Shoppe segment increased \$33.8 million or 12.7% compared to the same period in the prior year. The increase in revenue was primarily due to a 13.5% increase in comparable store sales driven primarily by strong customer traffic in retail brick and mortar stores due to less COVID-19 restrictions in the current year, new product introductions and continued demand for health and wellness products.

Total revenue for the nine months ended September 25, 2021 for our Vitamin Shoppe segment increased \$117.5 million or 15.1% compared to the same periods in the prior year, respectively. The increase in revenue was primarily due to a 16.3% increase in comparable store sales driven primarily by strong customer traffic in retail brick and mortar stores due to less COVID-19 restrictions in the current year coupled with temporary store closures during the height of restrictions last year. New product introductions and continued demand for health and wellness products also contributed to the increased customer traffic and resulting revenue this year.

Operating expenses for our Vitamin Shoppe segment increased \$8.9 million or 3.4% for the three months ended September 25, 2021 as compared to the same period in the prior year. The increases in operating expenses were primarily due to an \$11.9 million increase in cost of revenue correlated to the revenue growth noted above, partially offset by \$6.6 million of inventory step-up amortization in the prior year period and an increase in payroll expenses due to reduced operating hours in the prior year period due to COVID-19 restrictions and higher commissions from the increase in revenue. These increases were partially offset by a decrease in occupancy costs due to a \$2.0 million right-of-use asset impairment in the prior year period and eight fewer leases compared to the prior year and a decrease in depreciation expense.

Operating expenses for our Vitamin Shoppe segment increased \$23.5 million or 3.0% for the nine months ended September 25, 2021 as compared to the same period last year. The increases in operating expenses were primarily due to a \$43.7 million increase cost of goods sold correlated to the revenue growth noted above, partially offset by a \$20.6 million inventory step-up amortization in the prior year period. Occupancy costs also decreased due to twelve fewer stores compared to the prior year, a \$2.0 million right-of-use asset impairment in the prior year period, \$2.1 million of acquisitions fees in the prior year period and reduced depreciation expense.

The following table summarizes the operating results of the American Freight segment:

(In thousands)	Three Months Ended				Nine Months Ended			
	September 25, 2021	September 26, 2020	Change		September 25, 2021	September 26, 2020	Change	
			\$	%			\$	%
Total revenues	\$ 223,591	\$ 245,212	\$ (21,621)	(8.8)%	\$ 750,914	\$ 682,386	\$ 68,528	10.0 %
Operating expenses	214,017	225,272	(11,255)	(5.0)%	694,255	648,437	45,818	7.1 %
Segment income	\$ 9,574	\$ 19,940	\$ (10,366)	(52.0)%	\$ 56,659	\$ 33,949	\$ 22,710	66.9 %

Total revenue for our American Freight segment decreased \$21.6 million or (8.8)% for the three months ended September 25, 2021 as compared to the same period last year. The decrease was attributable to a 13.4% decrease in comparable store sales driven by stores reopening in the prior year quarter from COVID-19 restrictions partially offset the opening of new stores and the acquisition of FFO Home.

Total revenue for our American Freight segment increased \$68.5 million or 10.0% for the nine months ended September 25, 2021 as compared to the same period last year. The increase in revenue due to the inclusion of the full first quarter results in the current year (American Freight was acquired on February 14, 2020), increased revenue from new store openings, our acquisition of FFO Home, and temporary store closures during the same period last year due to the COVID-19 pandemic.

Operating expenses for our American Freight segment decreased \$11.3 million or (5.0)% for the three months ended September 25, 2021 as compared to the same period last year. The decrease in operating expenses was primarily due to the decrease in cost of revenue correlated to the revenue decline noted above and decreases in compensation due to the decrease in revenue.

Operating expenses for our American Freight segment increased \$45.8 million or 7.1% for the nine months ended September 25, 2021 as compared to the same period last year. The increase in operating expenses was primarily due to the inclusion of the full first quarter in the current year (American Freight was acquired on February 14, 2020), higher occupancy costs from new and acquired stores and higher advertising costs due to a reduction in advertising spending in the prior year due to the COVID-19 pandemic.

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

(In thousands)	Three Months Ended				Nine Months Ended			
	September 25, 2021	September 26, 2020	Change		September 25, 2021	September 26, 2020	Change	
			\$	%			\$	%
Total revenues	\$ 17,779	\$ 25,515	\$ (7,736)	(30.3)%	\$ 50,195	\$ 75,219	\$ (25,024)	(33.3)%
Operating expenses	11,788	20,213	(8,425)	(41.7)%	36,565	61,234	(24,669)	(40.3)%
Segment income	\$ 5,991	\$ 5,302	\$ 689	13.0 %	\$ 13,630	\$ 13,985	\$ (355)	(2.5)%

Total revenue for our Buddy's segment decreased \$7.7 million or (30.3)% and \$25.0 million or (33.3)% for the three and nine months ended September 25, 2021, respectively as compared to the same periods last year. The decrease in revenue was primarily attributable to rental revenue due to the refranchising of 47 Company-owned stores on November 10, 2020. Rental revenue for comparable stores for the three months ended September 25, 2021 increased from \$7.4 million to \$7.6 million compared to the same period last year.

Operating expenses for our Buddy's segment decreased \$8.4 million or (41.7)% and \$24.7 million or (40.3)% for the three and nine months ended September 25, 2021, respectively, as compared to the same period last year. The decrease in operating expenses was primarily due to the refranchising of 47 Company-owned stores on November 10, 2020.

Adjusted EBITDA

To provide additional information regarding our financial results, we have disclosed in the Adjusted EBITDA table below and within this quarterly report. 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 income (loss), the most directly comparable GAAP financial measure.

We have included Adjusted EBITDA in this quarterly report because we seek to manage our business to achieve higher levels of Adjusted EBITDA and to improve the level of Adjusted EBITDA as a percentage of revenue. In addition, it is a key basis upon which we assess the performance of our operations and management. We also use Adjusted EBITDA for business planning and the evaluation of acquisition opportunities. In particular, the exclusion of certain expenses in calculating Adjusted EBITDA can provide a useful measure for period-to-period comparisons. We believe the presentation of Adjusted EBITDA enhances an overall understanding of the financial performance of and prospects for our business. 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.

(In thousands)	Reconciliation of Net Income to Adjusted EBITDA			
	Three Months Ended		Nine Months Ended	
	September 25, 2021	September 26, 2020	September 25, 2021	September 26, 2020
Net income from continuing operations	\$ 35,998	\$ (4,726)	\$ 40,185	\$ 2,876
Add back:				
Interest expense	21,194	26,269	91,494	78,658
Income tax benefit	(15,519)	1,891	(15,600)	(50,217)
Depreciation and amortization	17,834	14,686	46,407	44,035
Total Adjustments	23,509	42,846	122,301	72,476
EBITDA	59,507	38,120	162,486	75,352
Adjustments to EBITDA				
Executive severance and related costs	10	62	19	5,382
Stock based compensation	4,084	1,824	9,344	5,865
Long-term executive compensation expense	494	—	1,319	—
Gain on sale of Company-owned stores	(2,481)	—	(2,481)	—
Corporate compliance costs	6	940	785	(449)
Early debt repayment costs	—	1,246	36,726	5,295
Store closures / impairment	2,991	230	3,213	686
Acquisition costs (inclusive of inventory step up amortization)	2,196	7,175	15,845	51,468
Loss on investment in equity securities	13,175	—	13,175	—
Divestiture costs	135	—	2,794	—
Integration costs	726	1,832	8,542	6,113
Total Adjustments to EBITDA	21,336	13,309	89,281	74,360
Adjusted EBITDA	\$ 80,843	\$ 51,429	\$ 251,767	\$ 149,712

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 and the effects of changes in end markets.

As of September 25, 2021, we have current installments of long-term obligations of \$1.4 million from finance leases. We expect these obligations can be serviced from our cash and cash equivalents, which were \$160.0 million as of September 25, 2021.

During the nine months ended September 25, 2021, we executed three substantial transactions that will affect our liquidity and capital resources in future periods. For more details please see "Note 6. Long-Term Obligations" and "Note 8. Stockholders' Equity":

- On January 14, 2021, we completed an offering in which we sold 3.3 million shares of our Series A Preferred Stock and received net proceeds of approximately \$79.7 million, after deducting underwriting discounts and estimated offering expenses totaling \$3.2 million.
- On March 10, 2021, we entered into a \$1.3 billion credit facility, which was used to fund the Pet Supplies Plus Acquisition and repay the existing term loans and revolving credit balances.
- On July 2, 2021, we repaid \$182.1 million of principal on our First Lien Term Loan from the cash proceeds from the sale of our Liberty Tax business. The repayment satisfied the requirements for quarterly principal payments so no additional principal payments are due until the maturity of the First Lien Term Loan.

Sources and uses of cash

Operating activities. In the nine months ended September 25, 2021, cash from operating activities decreased \$114.3 million compared to the same period in the prior year primarily due to a \$188.9 million change in working capital to fund purchases of inventory and a \$16.9 million decrease in accounts payable and accrued expenses due to the timing of payments. These were partially offset by a \$10.2 million change increase in income taxes receivable, a \$22.1 million increase in other assets and a \$46.0 million increase in cash income from operations.

Investing activities. In the nine months ended September 25, 2021, cash used in investing activities increased \$50.1 million compared to the same period in the prior year. This increase was primarily due to an increase of \$179.4 million in cash received from divestitures and an \$12.6 million decrease in the issuance of operating loans to franchisees partially offset by of \$109.4 million in cash used for acquisitions and a \$26.9 million decrease in cash received from operating loans to franchisees.

Financing activities. In the nine months ended September 25, 2021, cash provided by financing activities decreased \$66.9 million compared to the same period in the prior year. This decrease was due to a \$501.6 million increase in repayments of long-term obligations, a \$198.0 million reduction in proceeds from the issuance of common stock, a \$167.9 million reduction in borrowing under revolving credit facilities, a \$36.7 million increase in cash paid for penalties for early debt repayment, a \$34.6 million increase in payments for debt issuance costs and a \$30.8 million increase in dividends paid. These decreases were partially offset by a \$714.0 million increase in proceeds from the issuance of debt, a \$133.4 million decrease in repayments of revolving credit facilities and a \$51.2 million increase in proceeds from the issuance of preferred stock.

Long-term debt borrowings

For a description of our long-term debt borrowing refer to "Note 6. Long-Term Obligations", to the Consolidated Financial Statements in Item 1. As of September 25, 2021, we have \$1.4 million of current debt outstanding related to finance leases.

Other factors affecting our liquidity

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 agreed to 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 25, 2021, we have TRA Payments due to the Buddy's Members of \$16.8 million.

Dividends. On August 3, 2021, our Board of Directors declared a quarterly dividend to common stockholders of \$0.375 per share and preferred stockholders of \$0.46875 per share. The cash dividends were paid on or about October 15, 2021 to holders of record of our common stock and preferred stock on the close of business on October 1, 2021. 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 or issuances of our preferred stock. 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 25, 2021, our primary cash needs are expected to 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 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 25, 2021, 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 2021.

Off Balance Sheet Arrangements

From time to time, we have been party to interest rate swap agreements. As of September 25, 2021, we have no interest rate swap agreements outstanding.

**ITEM 3
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to various types of market risk in the normal course of our business, including the impact of interest rate changes. We may enter into interest rate swaps to manage exposure to interest rate changes. We do not enter into derivative instruments for any purpose other than cash flow hedging and we do not hold derivative instruments for trading purposes.

Our exposure to interest rate risk relates to our long-term debt obligations, as they bear interest at LIBOR, reset periodically and have an interest rate margin. Assuming our revolving credit facility was fully drawn, a ten basis point change in the interest rates would change our annual interest expense by \$1.3 million.

**ITEM 4
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 25, 2021. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of September 25, 2021, the Company's disclosure controls and procedures were designed and functional effectively to provide reasonable assurance that information required to be disclosed in reports that the Company files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

On March 10, 2021, the Company acquired Pet Supplies Plus. The Company is in the process of implementing its internal control structure over the acquired business's operations and expects that process to be completed in the first quarter of fiscal year 2022.

There have been no changes in our internal control over financial reporting during the fiscal quarter ended September 25, 2021 that have materially affected, or our reasonably like to affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

For information regarding legal proceedings, please see "Note 13. 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 the Form 10-K and Part II, Item 1A in our Quarterly Report on Form 10-Q for the quarter ended March 27, 2021.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There were no sales of our equity securities 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 and other expenditures can increase or decrease the amount of the authorization. During the nine months ended September 25, 2021, we did not repurchase any shares of our common stock.

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 quarterly 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 RTQ, 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	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
2.4.1	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
2.5	Membership Interest Purchase Agreement, by and between NextPoint Acquisition Corp. and Franchise Group Intermediate L, LLC, dated as of February 21, 2021 (incorporated by reference to Exhibit 2.1 to Form 8-K, File No. 001-35588 filed February 22, 2021).		X
2.5.1	Amendment No. 1, dated as of April 13, 2021 to Membership Interest Purchase Agreement, by and between NextPoint Acquisition Corp. and Franchise Group Intermediate L, LLC, dated as of February 21, 2021.		X

2.5.2	<u>Amendment No. 2, dated as of June 30, 2021 to Membership Interest Purchase Agreement, by and between NextPoint Acquisition Corp. and Franchise Group Intermediate L, LLC, dated as of February 21, 2021.</u>	X
2.6	<u>Amended and Restated Equity Purchase Agreement, dated as of March 3, 2021, by and among Franchise Group Newco PSP, LLC, PSP Holdings, LLC, Sentinel Capital Partners VI-A, L.P., Sentinel PSP Blocker, Inc., PSP Midco, LLC, PSP Intermediate, LLC, Sentinel Capital Partners, L.L.C., solely for purposes of agreeing to the covenants set forth in Section 6.8 and Section 6.9 thereof, effective as of immediately prior to the Closing (as defined therein), a newly formed Delaware limited liability company to be named PSP Midco Holdings, LLC, and Franchise Group, Inc., solely for purposes of agreeing to the covenants set forth in Section 10.19 thereof (incorporated by reference to Exhibit 2.1 to Form 8-K, File No. 001-35588 filed March 8, 2021).</u>	X
3.1	<u>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).</u>	X
3.1.1	<u>Certificate of Designation of the Voting Non-Economic Preferred Stock of Liberty Tax, Inc. filed with the Secretary of State of the State of Delaware July 10, 2019 (incorporated by reference to Exhibit 3.1, File No. 001-35588 filed on July 11, 2019).</u>	X
3.1.2	<u>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).</u>	X
3.1.3	<u>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).</u>	X
3.1.4	<u>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).</u>	X
3.1.5	<u>Certificate of Increase of the Number of Shares of 7.50% Series A Cumulative Perpetual Preferred Stock of Franchise Group, Inc., filed with the Secretary of State of the State of Delaware on January 15, 2021 (incorporated by reference to Exhibit 3.1 to Form 8-K, File No. 001-35588 filed January 15, 2021).</u>	X
3.2	<u>Second Amended and Restated Bylaws of Liberty Tax, Inc. (incorporated by reference to Exhibit 3.2 to Form 8-K, File No. 001-35588 filed on July 15, 2014).</u>	X
31.1	<u>Certification of Chief Executive Officer</u>	X
31.2	<u>Certification of Chief Financial Officer</u>	X

32.1	Section 1350 Certification (Chief Executive Officer)	X
32.2	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 25, 2021, 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 25, 2021, formatted in Inline XBRL (included with Exhibit 101)	X

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 2, 2021

By:

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

November 2, 2021

By:

Eric F. Seeton
Chief Financial Officer
(Principal Financial and Accounting Officer)

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 2, 2021

By: /s/ Brian R. Kahn
Brian R. Kahn
Chief Executive Officer
(Principal Executive Officer)

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 2, 2021

By: /s/ Eric F. Seeton
Eric F. Seeton
Chief Financial Officer
(Principal Financial Officer)

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

In connection with the Quarterly Report of Franchise Group, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended September 25, 2021 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 2, 2021

By: /s/ Brian R. Kahn
Brian R. Kahn
Chief Executive Officer
(Principal Executive Officer)

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

In connection with the Quarterly Report of Franchise Group, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended September 25, 2021 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 2, 2021

By: /s/ Eric F. Seeton
Eric F. Seeton
Chief Financial Officer
(Principal Financial Officer)