

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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 November 2, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Ollie's Bargain Outlet Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

001-37501

(Commission File Number)

80-0848819

(IRS Employer Identification No.)

6295 Allentown Boulevard
Suite 1

Harrisburg, Pennsylvania
(Address of principal executive offices)

17112

(Zip Code)

(717) 657-2300

(Registrant's telephone number, including area code)

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

Title of Each Class	Trading Symbol	Name of each exchange on which registered
Common Stock, \$0.001 par value	OLLI	The NASDAQ Stock Market LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer 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 of the registrant's common stock, \$0.001 par value, outstanding as of December 9, 2019 was 63,662,086.

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ITEM 1 – CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**OLLIE’S BARGAIN OUTLET HOLDINGS, INC. AND SUBSIDIARIES**

Condensed Consolidated Statements of Income

(In thousands, except per share amounts)

(Unaudited)

	Thirteen weeks ended		Thirty-nine weeks ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Net sales	\$ 327,049	\$ 283,606	\$ 985,768	\$ 847,443
Cost of sales	193,767	168,184	595,719	506,521
Gross profit	133,282	115,422	390,049	340,922
Selling, general and administrative expenses	90,481	78,440	261,163	223,794
Depreciation and amortization expenses	3,766	2,914	10,687	8,531
Pre-opening expenses	3,302	4,779	10,931	8,460
Operating income	35,733	29,289	107,268	100,137
Interest (income) expense, net	(142)	372	(659)	1,188
Loss on extinguishment of debt	–	–	–	100
Income before income taxes	35,875	28,917	107,927	98,849
Income tax expense	8,919	4,100	17,084	13,730
Net income	<u>\$ 26,956</u>	<u>\$ 24,817</u>	<u>\$ 90,843</u>	<u>\$ 85,119</u>
Earnings per common share:				
Basic	\$ 0.43	\$ 0.40	\$ 1.44	\$ 1.36
Diluted	\$ 0.41	\$ 0.38	\$ 1.38	\$ 1.29
Weighted average common shares outstanding:				
Basic	63,173	62,747	63,292	62,452
Diluted	65,672	66,095	66,049	65,861

See accompanying notes to the condensed consolidated financial statements.

OLLIE'S BARGAIN OUTLET HOLDINGS, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets
(In thousands, except per share amounts)
(Unaudited)

	November 2, 2019	November 3, 2018	February 2, 2019
Assets			
Current assets:			
Cash and cash equivalents	\$ 10,101	\$ 736	\$ 51,941
Inventories	385,296	332,325	296,407
Accounts receivable	977	2,401	570
Prepaid expenses and other assets	5,094	9,063	9,579
Total current assets	401,468	344,525	358,497
Property and equipment, net of accumulated depreciation of \$72,800, \$56,659 and \$60,433, respectively	120,343	107,766	119,052
Operating lease right-of-use assets	330,740	-	-
Goodwill	444,850	444,850	444,850
Trade name and other intangible assets, net of accumulated amortization of \$0, \$2,076 and \$2,160, respectively	230,559	232,388	232,304
Other assets	2,514	1,923	4,300
Total assets	\$ 1,530,474	\$ 1,131,452	\$ 1,159,003
Liabilities and Stockholders' Equity			
Current liabilities:			
Current portion of long-term debt	\$ 257	\$ 10,186	\$ 238
Accounts payable	77,818	101,281	77,431
Income taxes payable	1,171	-	7,393
Current portion of operating lease liabilities	50,599	-	-
Accrued expenses and other	57,756	58,047	65,934
Total current liabilities	187,601	169,514	150,996
Revolving credit facility	-	-	-
Long-term debt	496	9,042	441
Deferred income taxes	55,844	56,551	55,616
Long-term operating lease liabilities	279,587	-	-
Other long-term liabilities	7	7,535	9,298
Total liabilities	523,535	242,642	216,351
Stockholders' equity:			
Preferred stock - 50,000 shares authorized at \$0.001 par value; no shares issued	-	-	-
Common stock - 500,000 shares authorized at \$0.001 par value; 63,605, 62,821 and 63,015 shares issued, respectively	64	63	63
Additional paid-in capital	613,691	596,286	600,234
Retained earnings	433,284	292,547	342,441
Treasury - common stock, at cost; 698, 9 and 9 shares, respectively	(40,100)	(86)	(86)
Total stockholders' equity	1,006,939	888,810	942,652
Total liabilities and stockholders' equity	\$ 1,530,474	\$ 1,131,452	\$ 1,159,003

See accompanying notes to the condensed consolidated financial statements.

OLLIE'S BARGAIN OUTLET HOLDINGS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders' Equity

(In thousands)

(Unaudited)

Thirteen weeks ended November 2, 2019 and November 3, 2018

	Common stock		Treasury stock		Additional paid-in capital	Retained earnings	Total stockholders' equity
	Shares	Amount	Shares	Amount			
Balance as of August 3, 2019	63,592	\$ 64	(9)	\$ (86)	\$ 611,163	\$ 406,328	\$ 1,017,469
Stock-based compensation expense	–	–	–	–	2,230	–	2,230
Proceeds from stock options exercised	13	–	–	–	298	–	298
Shares repurchased	–	–	(689)	(40,014)	–	–	(40,014)
Net income	–	–	–	–	–	26,956	26,956
Balance as of November 2, 2019	<u>63,605</u>	<u>\$ 64</u>	<u>(698)</u>	<u>\$ (40,100)</u>	<u>\$ 613,691</u>	<u>\$ 433,284</u>	<u>\$ 1,006,939</u>
Balance as of August 4, 2018	62,611	\$ 63	(9)	\$ (86)	\$ 592,446	\$ 267,730	\$ 860,153
Stock-based compensation expense	–	–	–	–	1,882	–	1,882
Proceeds from stock options exercised	210	–	–	–	1,958	–	1,958
Net income	–	–	–	–	–	24,817	24,817
Balance as of November 3, 2018	<u>62,821</u>	<u>\$ 63</u>	<u>(9)</u>	<u>\$ (86)</u>	<u>\$ 596,286</u>	<u>\$ 292,547</u>	<u>\$ 888,810</u>

Thirty-nine weeks ended November 2, 2019 and November 3, 2018

	Common stock		Treasury stock		Additional paid-in capital	Retained earnings	Total stockholders' equity
	Shares	Amount	Shares	Amount			
Balance as of February 2, 2019	63,015	\$ 63	(9)	\$ (86)	\$ 600,234	\$ 342,441	\$ 942,652
Stock-based compensation expense	–	–	–	–	6,855	–	6,855
Proceeds from stock options exercised	549	1	–	–	7,869	–	7,870
Vesting of restricted stock	57	–	–	–	–	–	–
Common shares withheld for taxes	(16)	–	–	–	(1,267)	–	(1,267)
Shares repurchased	–	–	(689)	(40,014)	–	–	(40,014)
Net income	–	–	–	–	–	90,843	90,843
Balance as of November 2, 2019	<u>63,605</u>	<u>\$ 64</u>	<u>(698)</u>	<u>\$ (40,100)</u>	<u>\$ 613,691</u>	<u>\$ 433,284</u>	<u>\$ 1,006,939</u>
Balance as of February 3, 2018	62,007	\$ 62	(9)	\$ (86)	\$ 583,467	\$ 213,019	\$ 796,462
Cumulative effect of adopting ASU 2014-09	–	–	–	–	–	(5,591)	(5,591)
Stock-based compensation expense	–	–	–	–	5,392	–	5,392
Proceeds from stock options exercised	774	1	–	–	8,129	–	8,130
Vesting of restricted stock	52	–	–	–	–	–	–
Common shares withheld for taxes	(12)	–	–	–	(702)	–	(702)
Net income	–	–	–	–	–	85,119	85,119
Balance as of November 3, 2018	<u>62,821</u>	<u>\$ 63</u>	<u>(9)</u>	<u>\$ (86)</u>	<u>\$ 596,286</u>	<u>\$ 292,547</u>	<u>\$ 888,810</u>

See accompanying notes to the condensed consolidated financial statements.

OLLIE'S BARGAIN OUTLET HOLDINGS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Thirty-nine weeks ended	
	November 2, 2019	November 3, 2018
Cash flows from operating activities:		
Net income	\$ 90,843	\$ 85,119
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	12,890	10,207
Amortization of debt issuance costs	232	368
Amortization of original issue discount	–	4
Loss on extinguishment of debt	–	100
(Gain) loss on sale of assets	(56)	212
Amortization of intangibles	–	251
Deferred income tax provision (benefit)	431	(600)
Deferred rent expense	–	235
Stock-based compensation expense	6,855	5,392
Changes in operating assets and liabilities:		
Inventories	(88,889)	(77,140)
Accounts receivable	(407)	(1,130)
Prepaid expenses and other assets	(315)	(1,166)
Accounts payable	932	27,636
Income taxes payable	(6,222)	(6,035)
Accrued expenses and other liabilities	(2,022)	3,457
Net cash provided by operating activities	<u>14,272</u>	<u>46,910</u>
Cash flows from investing activities:		
Purchases of property and equipment	(64,543)	(62,720)
Proceeds from sale of property and equipment	42,742	70
Net cash used in investing activities	<u>(21,801)</u>	<u>(62,650)</u>
Cash flows from financing activities:		
Borrowings on revolving credit facility	1,051,779	895,291
Repayments on revolving credit facility	(1,051,779)	(895,291)
Repayments on term loan and finance leases	(348)	(30,186)
Payment of debt issuance costs	(552)	–
Proceeds from stock option exercises	7,870	8,130
Common shares withheld for taxes	(1,267)	(702)
Payment for shares repurchased	(40,014)	–
Net cash used in financing activities	<u>(34,311)</u>	<u>(22,758)</u>
Net decrease in cash and cash equivalents	<u>(41,840)</u>	<u>(38,498)</u>
Cash and cash equivalents at the beginning of the period	51,941	39,234
Cash and cash equivalents at the end of the period	<u>\$ 10,101</u>	<u>\$ 736</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 269	\$ 837
Income taxes	\$ 22,874	\$ 21,467
Non-cash investing activities:		
Accrued purchases of property and equipment	\$ 668	\$ 2,311

See accompanying notes to the condensed consolidated financial statements.

OLLIE'S BARGAIN OUTLET HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

November 2, 2019 and November 3, 2018

(Unaudited)

(1) Organization and Summary of Significant Accounting Policies**(a) Description of Business**

Ollie's Bargain Outlet Holdings, Inc. and subsidiaries (collectively referenced to as the "Company" or "Ollie's") principally buys overproduced, overstocked, and closeout merchandise from manufacturers, wholesalers and other retailers. In addition, the Company augments its name-brand closeout deals with directly sourced private label products featuring names exclusive to Ollie's in order to provide consistently value-priced goods in select key merchandise categories.

Since its first store opened in 1982, the Company has grown to 345 retail locations in 25 states as of November 2, 2019. Ollie's Bargain Outlet retail locations are located in Alabama, Arkansas, Connecticut, Delaware, Florida, Georgia, Indiana, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Mississippi, New Jersey, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Virginia and West Virginia.

(b) Fiscal Year

Ollie's follows a 52/53-week fiscal year, which ends on the Saturday nearer to January 31 of the following calendar year. References to the thirteen weeks ended November 2, 2019 and November 3, 2018 refer to the thirteen weeks from August 4, 2019 to November 2, 2019 and from August 5, 2018 to November 3, 2018, respectively. References to year-to-date periods ending November 2, 2019 and November 3, 2018 refer to the thirty-nine weeks from February 3, 2019 to November 2, 2019 and February 4, 2018 to November 3, 2018, respectively. References to "2018" refer to the fiscal year ended February 2, 2019, which consisted of a 52-week period. References to "2019" refer to the fiscal year ending February 1, 2020, which consists of a 52-week period.

(c) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. The condensed consolidated financial statements reflect all normal recurring adjustments which management believes are necessary to present fairly the Company's results of operations, financial condition, and cash flows for all periods presented. The condensed consolidated balance sheets as of November 2, 2019 and November 3, 2018, the condensed consolidated statements of income and stockholders' equity for the thirteen and thirty-nine weeks ended November 2, 2019 and November 3, 2018, respectively, and the condensed consolidated statements of cash flows for the thirty-nine weeks ended November 2, 2019 and November 3, 2018 have been prepared by the Company and are unaudited. The Company's business is seasonal in nature and results of operations for the interim periods presented are not necessarily indicative of operating results for 2019 or any other period. All intercompany accounts, transactions, and balances have been eliminated in consolidation.

The Company's balance sheet as of February 2, 2019, presented herein, has been derived from the audited balance sheet included in the Company's Annual Report on Form 10-K filed with the SEC on March 29, 2019 ("Annual Report"), but does not include all disclosures required by GAAP. These financial statements should be read in conjunction with the financial statements for 2018 and footnotes thereto included in the Annual Report.

For purposes of the disclosure requirements for segments of a business enterprise, it has been determined that the Company is comprised of one operating segment.

(d) Use of Estimates

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

OLLIE'S BARGAIN OUTLET HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

November 2, 2019 and November 3, 2018

(Unaudited)

(e) Fair Value Disclosures

Fair value is defined as the price which the Company would receive to sell an asset or pay to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. In determining fair value, GAAP establishes a three-level hierarchy used in measuring fair value, as follows:

- Level 1 inputs are quoted prices available for identical assets and liabilities in active markets.
- Level 2 inputs are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets and liabilities in active markets or other inputs which are observable or can be corroborated by observable market data.
- Level 3 inputs are less observable and reflect the Company's assumptions.

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, and its credit facilities. The carrying amount of cash and cash equivalents, accounts receivable and accounts payable approximates fair value because of their short maturities. The carrying amount of the Company's credit facilities approximates its fair value because the interest rates are adjusted regularly based on current market conditions.

(f) Recently Adopted Accounting PronouncementsLeases

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases*. ASU 2016-02 requires that lease arrangements longer than 12 months result in an entity recognizing a right-of-use asset and lease liability. The updated guidance was effective for interim and annual periods beginning after December 15, 2018.

The Company adopted ASU 2016-02 as of February 3, 2019 using the modified retrospective transition method, including the option to not restate comparative periods. As a part of the adoption process, the Company elected the practical expedients that do not require it to reassess existing contracts to determine if they contain leases under the new definition of a lease, or to reassess historical lease classification or initial direct costs. The Company also adopted the practical expedient to not separate lease and non-lease components for new leases after adoption of the new standard. In addition, the Company applied a policy election to exclude leases with an initial term of 12 months or less from balance sheet recognition. The Company did not adopt the hindsight practical expedient and, therefore, will continue to utilize lease terms determined under previous lease guidance.

Adoption of the standard had a material impact on the condensed consolidated balance sheet and related disclosures and resulted in recognition of right-of-use assets of \$268.2 million and lease liabilities for operating leases of \$269.1 million as of February 3, 2019, while eliminating pre-existing balances for other assets of \$6.9 million, deferred rent and tenant improvement allowances of \$9.5 million and intangible assets related to favorable leases of \$1.7 million which were reclassified to the operating lease right-of-use asset. The standard did not have a material impact on the Company's condensed consolidated statements of income, stockholders' equity or cash flows. Refer to Note 4 for further details.

OLLIE'S BARGAIN OUTLET HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

November 2, 2019 and November 3, 2018

(Unaudited)

(2) Net Sales

Ollie's recognizes retail sales in its stores when merchandise is sold and the customer takes possession of merchandise. Also included in net sales is revenue allocated to certain redeemed discounts earned via the Ollie's Army loyalty program and gift card breakage. Net sales are presented net of returns and sales tax. The Company provides an allowance for estimated retail merchandise returns based on prior experience.

Revenue Recognition

Revenue is deferred for the Ollie's Army loyalty program where members accumulate points that can be redeemed for discounts on future purchases. The Company has determined it has an additional performance obligation to Ollie's Army members at the time of the initial transaction. The Company allocates the transaction price to the initial transaction and the discount awards based upon its relative standalone selling price, which considers historical redemption patterns for the award. Revenue is recognized as those discount awards are redeemed. Discount awards issued upon the achievement of specified point levels are subject to expiration. The maximum redemption period is 45 days. At the end of each fiscal period, unredeemed discount awards and accumulated points to earn a future discount award are reflected as a liability. Discount awards are combined in one homogeneous pool and are not separately identifiable. Therefore, the revenue recognized consists of discount awards redeemed that were included in the deferred revenue balance at the beginning of the period as well as discount awards issued during the current period. The following table is a reconciliation of the liability related to this program (in thousands):

	Thirty-nine weeks ended	
	November 2, 2019	November 3, 2018
Beginning balance	\$ 9,055	\$ 8,321
Revenue deferred	11,743	8,821
Revenue recognized	(10,939)	(8,207)
Ending balance	<u>\$ 9,859</u>	<u>\$ 8,935</u>

Gift card breakage for gift card liabilities not subject to escheatment is recognized as revenue in proportion to the redemption of gift cards. The rate applied to redemptions is based upon a historical breakage rate. Gift cards are combined in one homogenous pool and are not separately identifiable. Therefore, the revenue recognized consists of gift cards that were included in the liability at the beginning of the period as well as gift cards that were issued during the period. The following table is a reconciliation of the gift card liability (in thousands):

	Thirty-nine weeks ended	
	November 2, 2019	November 3, 2018
Beginning balance	\$ 1,448	\$ 1,223
Gift card issuances	3,286	2,858
Gift card redemption and breakage	(3,288)	(2,880)
Ending balance	<u>\$ 1,446</u>	<u>\$ 1,201</u>

OLLIE'S BARGAIN OUTLET HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

November 2, 2019 and November 3, 2018

(Unaudited)

(3) Earnings per Common Share

Basic earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding after giving effect to the potential dilution, if applicable, from the assumed exercise of stock options into shares of common stock as if those stock options were exercised and the assumed lapse of restrictions on restricted stock units.

The following table summarizes those effects for the diluted earnings per common share calculation (in thousands, except per share amounts):

	Thirteen weeks ended		Thirty-nine weeks ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Net income	\$ 26,956	\$ 24,817	\$ 90,843	\$ 85,119
Weighted average number of common shares outstanding – Basic	63,173	62,747	63,292	62,452
Dilutive impact of stock options and restricted stock units	2,499	3,348	2,757	3,409
Weighted average number of common shares outstanding – Diluted	65,672	66,095	66,049	65,861
Earnings per common share – Basic	\$ 0.43	\$ 0.40	\$ 1.44	\$ 1.36
Earnings per common share – Diluted	\$ 0.41	\$ 0.38	\$ 1.38	\$ 1.29

The effect of the weighted average assumed exercise of stock options outstanding totaling 521,738 and 3,248 for the thirteen weeks ended November 2, 2019 and November 3, 2018, respectively, and 316,250 and 131,424 for the thirty-nine weeks ended November 2, 2019 and November 3, 2018, respectively, were excluded from the calculation of diluted weighted average common shares outstanding because the effect would have been antidilutive.

The effect of weighted average non-vested restricted stock units outstanding totaling 53,522 and 0 for the thirteen weeks ended November 2, 2019 and November 3, 2018, respectively, and 27,623 and 8,893 for the thirty-nine weeks ended November 2, 2019 and November 3, 2018, respectively, were excluded from the calculation of diluted weighted average common shares outstanding because the effect would have been antidilutive.

(4) Commitments and Contingencies**Commitments**

On February 3, 2019, the first day of Ollie's fiscal year 2019, the Company adopted ASU 2016-02, *Leases*, which requires that lessees recognize right-of-use assets and lease liabilities for all leases on the balance sheet. Ollie's generally leases its stores, offices and distribution facilities under operating leases that expire at various dates through 2034. These leases generally provide for fixed annual rentals; however, several provide for minimum annual rentals plus contingent rentals based on a percentage of annual sales. A majority of the Company's leases also require a payment for all or a portion of insurance, real estate taxes, water and sewer costs and repairs, the cost of which is charged to the related expense category rather than being accounted for as rent expense. Most of the leases contain options to renew for three to five successive five-year periods. The Company is generally not reasonably certain to exercise renewal options, therefore the options are not considered in determining the lease term, and associated potential option payments are excluded from the lease payments. Ollie's lease agreements generally do not contain any material residual value guarantees or material restrictive covenants.

Lease costs are classified in selling, general and administrative expenses on the condensed consolidated statements of income. Lease costs for operating leases for the thirteen weeks ended November 2, 2019 and November 3, 2018 were \$17.4 million and \$12.4 million, respectively. Lease costs for operating leases for the thirty-nine weeks ended November 2, 2019 and November 3, 2018 were \$49.0 million and \$36.5 million, respectively.

OLLIE'S BARGAIN OUTLET HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

November 2, 2019 and November 3, 2018

(Unaudited)

The following table summarizes the maturity of the Company's operating lease liabilities as of November 2, 2019 (in thousands):

2019	\$ 17,647
2020	63,546
2021	63,296
2022	57,114
2023	53,051
Thereafter	132,963
Total undiscounted lease payments ⁽¹⁾	387,617
Less: Imputed interest	(57,431)
Total lease obligations	330,186
Less: Current obligations under leases	(50,599)
Long-term lease obligations	<u>\$ 279,587</u>

(1) Lease obligations exclude \$37.4 million of minimum lease payments for leases signed, but not commenced.

The following table summarizes other information related to the Company's operating leases as of and for the thirty-nine weeks ended November 2, 2019 (dollars in thousands):

Cash paid for operating leases	\$ 48,931
Non-cash right-of-use assets obtained in exchange for lease obligations	69,041
Weighted-average remaining lease term	7.2 years
Weighted-average discount rate	4.5%

The Company adopted the new lease standard in the first quarter of 2019 as discussed in Note 1, and as required, the following disclosure is provided for periods prior to adoption. As of February 2, 2019, the following is a schedule by year of future minimum rental payments required under non-cancelable operating leases, including renewal periods that were reasonably assured and that had initial or remaining lease terms in excess of one year, excluding any payments related to insurance, taxes, or maintenance (in thousands):

2019	\$ 60,804
2020	56,106
2021	49,226
2022	42,724
2023	34,876
Thereafter	65,218
Total minimum lease payments	<u>\$ 308,954</u>

OLLIE'S BARGAIN OUTLET HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

November 2, 2019 and November 3, 2018

(Unaudited)

Related Party Leases

The Company has entered into five non-cancelable operating leases with related parties for office and store locations. Ollie's made \$1.1 million and \$1.0 million in rent payments to such related parties during the thirty-nine weeks ended November 2, 2019 and November 3, 2018, respectively.

Contingencies

From time to time the Company may be involved in claims and legal actions that arise in the ordinary course of its business. The Company cannot predict the outcome of any litigation or suit to which it is a party. However, the Company does not believe that an unfavorable decision of any of the current claims or legal actions against it, individually or in the aggregate, will have a material adverse effect on its financial position, results of operations, liquidity or capital resources.

Sale-Leaseback

On May 31, 2019, OBO Ventures, Inc. ("OBO"), a wholly owned subsidiary of the Company, entered into a sale-leaseback transaction with an unaffiliated third-party involving 12 former Toys "R" Us store locations which were acquired by OBO on August 29, 2018. OBO received approximately \$42.0 million for the 12 locations, which resulted in no net gain or loss. Each of the 12 leased locations has 15-year lease terms with options for renewal.

(5) Accrued Expenses and Other

Accrued expenses and other consists of the following (in thousands):

	November 2, 2019	November 3, 2018	February 2, 2019
Deferred revenue	\$ 11,305	\$ 8,935	\$ 10,503
Compensation and benefits	10,129	11,245	16,438
Freight	6,055	5,216	4,496
Sales and use taxes	6,017	5,322	3,464
Real estate related	4,554	3,965	3,748
Insurance	4,261	5,967	6,159
Advertising	3,993	3,884	5,678
Other	11,442	13,513	15,448
	<u>\$ 57,756</u>	<u>\$ 58,047</u>	<u>\$ 65,934</u>

OLLIE'S BARGAIN OUTLET HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

November 2, 2019 and November 3, 2018

(Unaudited)

(6) Debt Obligations and Financing Arrangements

Long-term debt consists of the following (in thousands):

	November 2, 2019	November 3, 2018	February 2, 2019
Term loan, net	\$ —	\$ 18,689	\$ —
Finance leases	753	539	679
Total debt	753	19,228	679
Less: current portion	(257)	(10,186)	(238)
Long-term debt	\$ 496	\$ 9,042	\$ 441

The Company's prior credit facilities consisted of a \$200.0 million term loan, which was fully paid as of February 2, 2019, and a \$100.0 million revolving credit facility, which included a \$25.0 million sub-facility for letters of credit and a \$25.0 million sub-facility for swingline loans. Loans under the prior credit facilities would have matured January 29, 2021, however, the Company made voluntary prepayments under the prior term loan facility totaling \$48.8 million during 2018, paying the balance in full.

On May 22, 2019, the Company completed a transaction in which it refinanced its credit facility (the "Credit Facility"). The Credit Facility provides for a five-year \$100.0 million revolving credit facility, which includes a \$45.0 million sub-facility for letters of credit and a \$25.0 million sub-facility for swingline loans (the "Revolving Credit Facility"). The loans under the Revolving Credit Facility mature on May 22, 2024. In addition, the Company may, at any time add term loan facilities or additional revolving commitments up to \$150.0 million pursuant to terms and conditions set out in the Credit Facility.

The interest rates for the Credit Facility are calculated as follows: for Base Rate Loans, the higher of the Prime Rate, the Federal Funds Effective Rate plus 0.50% or the Eurodollar Rate plus 1.0%, plus the Applicable Margin, or, for Eurodollar Loans, the Eurodollar Rate plus the Applicable Margin. The Applicable Margin will vary from 0.00% to 0.50% for a Base Rate Loan and 1.00% to 1.50% for a Eurodollar Loan, based on availability under the Credit Facility. The Eurodollar Rate is subject to a 0% floor.

Under the terms of the Revolving Credit Facility, as of November 2, 2019, the Company could borrow up to 90.0% of the most recent appraised value (valued at cost, discounted for the current net orderly liquidation value) of its eligible inventory, as defined, up to \$100.0 million.

As of November 2, 2019, the Company had no outstanding borrowings under the Revolving Credit Facility, with \$96.2 million of borrowing availability, outstanding letters of credit commitments of \$3.6 million and \$0.2 million of rent reserves. The Revolving Credit Facility also contains a variable unused line fee ranging from 0.125% to 0.250% per annum.

The Credit Facility is collateralized by the Company's assets and equity and contains a financial covenant, as well as certain business covenants, including restrictions on dividend payments, which the Company must comply with during the term of the agreement. The financial covenant is a consolidated fixed charge coverage ratio test of at least 1.0 to 1.0 applicable during a covenant period, based on reference to availability. The Company was in compliance with all terms of the Credit Facility during the thirty-nine weeks ended November 2, 2019.

The provisions of the Credit Facility restrict all of the net assets of the Company's consolidated subsidiaries, which constitutes all of the net assets on the Company's consolidated balance sheet as of November 2, 2019, from being used to pay any dividends or make other restricted payments to the Company without prior written consent from the financial institutions that are a party to the Credit Facility, subject to material exceptions including proforma compliance with the applicable conditions described in the Credit Facility.

OLLIE'S BARGAIN OUTLET HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

November 2, 2019 and November 3, 2018

(Unaudited)

(7) Income Taxes

The provision for income taxes is based on the current estimate of the annual effective tax rate and is adjusted as necessary for discrete events occurring in a particular period. The effective tax rates for the thirteen and thirty-nine weeks ended November 2, 2019 were 24.9% and 15.8%, respectively. The effective tax rates for the thirteen and thirty-nine weeks ended November 3, 2018 were 14.2% and 13.9%, respectively. The effective tax rates during the thirteen and thirty-nine weeks ended November 2, 2019 were affected by excess tax benefits related to stock-based compensation of \$0.2 million and \$10.0 million respectively. The thirteen and thirty-nine weeks ended November 3, 2018 included a similar discrete tax benefit of \$3.9 million and \$11.7 million, respectively.

(8) Equity Incentive Plans

During 2012, Ollie's established an equity incentive plan (the "2012 Plan") under which stock options were granted to executive officers and key employees as deemed appropriate under the provisions of the 2012 Plan, with an exercise price at the fair value of the underlying stock on the date of grant. The vesting period for options granted under the 2012 Plan was five years (20% ratably per year). Options granted under the 2012 Plan are subject to employment for vesting, expire 10 years from the date of grant and are not transferable other than upon death. As of July 15, 2015, the date of the pricing of the Company's initial public offering, no additional equity grants will be made under the 2012 Plan.

In connection with its initial public offering, the Company adopted the 2015 equity incentive plan (the "2015 Plan"), pursuant to which the Company's Board of Directors may grant stock options, restricted shares or other awards to employees, directors and consultants. The 2015 Plan allows for the issuance of up to 5,250,000 shares. Awards will be made pursuant to agreements and may be subject to vesting and other restrictions as determined by the Board of Directors or the Compensation Committee of the Board. The Company uses authorized and unissued shares to satisfy share award exercises. As of November 2, 2019, there were 3,140,468 shares available for grant under the 2015 Plan.

Stock Options

The exercise price for stock options is determined at the fair value of the underlying stock on the date of grant. The vesting period for awards granted under the 2015 Plan is generally set at four years (25% ratably per year). Awards are subject to employment for vesting, expire 10 years from the date of grant, and are not transferable other than upon death.

A summary of the Company's stock option activity and related information follows for the thirty-nine weeks ended November 2, 2019 (in thousands, except share and per share amounts):

	Number of options	Weighted average exercise price	Weighted average remaining contractual term (years)
Outstanding at February 2, 2019	3,746,422	\$ 15.29	
Granted	292,621	79.93	
Forfeited	(26,589)	61.50	
Exercised	(548,445)	14.35	
Outstanding at November 2, 2019	<u>3,464,009</u>	20.55	<u>4.9</u>
Exercisable at November 2, 2019	<u>2,546,422</u>	10.82	<u>3.9</u>

OLLIE'S BARGAIN OUTLET HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

November 2, 2019 and November 3, 2018

(Unaudited)

The Company uses the Black-Scholes option pricing model to value its stock option awards. The assumptions used in calculating the fair value of stock-based awards represent management's best estimates and involve inherent uncertainties and the application of management's judgment. As a result, if factors change and management uses different assumptions, stock-based compensation expense could be materially different for future awards.

The expected life of stock options was estimated using the "simplified method," as the Company does not have sufficient historical information to develop reasonable expectations about future exercise patterns and post-vesting employment termination behavior for its stock option grants. The simplified method is based on the average of the vesting tranches and the contractual life of each grant. For stock price volatility, the Company uses its historical information since its initial public offering as well as comparable public companies as a basis for its expected volatility to calculate the fair value of option grants. The risk-free interest rate is based on U.S. Treasury notes with a term approximating the expected life of the option.

The weighted average grant date fair value per option for options granted during the thirty-nine weeks ended November 2, 2019 and November 3, 2018 was \$24.92 and \$18.77, respectively. The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model that used the weighted average assumptions in the following table:

	Thirty-nine weeks ended	
	November 2, 2019	November 3, 2018
Risk-free interest rate	2.41%	2.70%
Expected dividend yield	-	-
Expected term (years)	6.25 years	6.25 years
Expected volatility	25.88%	25.85%

Restricted Stock Units

Restricted stock units ("RSUs") are issued at a value not less than the fair market value of the common stock on the date of the grant. RSUs outstanding vest ratably over four years or cliff vest in one or four years. Awards are subject to employment for vesting and are not transferable other than upon death.

A summary of the Company's RSU activity and related information for the thirty-nine weeks ended November 2, 2019 is as follows:

	Number of shares	Weighted average grant date fair value
Non-vested balance at February 2, 2019	220,200	\$ 35.75
Granted	59,125	80.19
Forfeited	(799)	75.90
Vested	(57,140)	33.70
Non-vested balance at November 2, 2019	<u>221,386</u>	<u>48.00</u>

OLLIE'S BARGAIN OUTLET HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

November 2, 2019 and November 3, 2018

(Unaudited)

Stock-Based Compensation Expense

The compensation cost for stock options and RSUs which has been recorded within selling, general and administrative expenses was \$2.2 million and \$1.9 million for the thirteen weeks ended November 2, 2019 and November 3, 2018, respectively and \$6.9 million and \$5.4 million for the thirty-nine weeks ended November 2, 2019 and November 3, 2018, respectively.

As of November 2, 2019, there was \$17.7 million of total unrecognized compensation cost related to non-vested stock-based compensation arrangements. That cost is expected to be recognized over a weighted average period of 2.7 years. Compensation costs related to awards are recognized using the straight-line method.

(9) Common StockCommon Stock

The Company's capital structure consists of a single class of common stock with one vote per share. The Company has authorized 500,000,000 shares at \$0.001 par value per share. Additionally, the Company has authorized 50,000,000 shares of preferred stock at \$0.001 par value per share; to date, however, no preferred shares have been issued. Treasury stock, which consists of the Company's common stock, is accounted for using the cost method.

Share Repurchase Program

On March 26, 2019, the Board of Directors of the Company authorized the repurchase of up to \$100.0 million of shares of the Company's common stock. The program is authorized to be executed through March 2021. Shares to be repurchased may be purchased from time to time in open market conditions.

During the thirteen and thirty-nine weeks ended November 2, 2019, the Company repurchased 689,457 shares of its common stock for \$40.0 million, inclusive of transaction costs, pursuant to its share repurchase program. These expenditures were funded by cash generated from operations. As of November 2, 2019, the Company had \$60.0 million remaining under its share repurchase authorization. There can be no assurances that any additional repurchases will be completed, or as to the timing or amount of any repurchases. The share repurchase program may be discontinued at any time.

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

The following discussion and analysis of the financial condition and results of our operations should be read together with the financial statements and related notes of Ollie's Bargain Outlet Holdings, Inc. included in Item 1 of this Quarterly Report on Form 10-Q and with our audited financial statements and the related notes included in our Annual Report on Form 10-K for the year ended February 2, 2019 filed with the Securities and Exchange Commission, or SEC, on March 29, 2019 (the "Annual Report"). As used in this Quarterly Report on Form 10-Q, except where the context otherwise requires or where otherwise indicated, the terms "Ollie's," the "Company," "we," "our" and "us" refer to Ollie's Bargain Outlet Holdings, Inc.

We operate on a fiscal calendar widely used by the retail industry that results in a fiscal year consisting of a 52- or 53-week period ending on the Saturday nearer to January 31 of the following year. References to "2019" refer to the 52-week period from February 3, 2019 to February 1, 2020. References to "2018" refer to the 52-week period from February 4, 2018 to February 2, 2019. The fiscal quarters or "third quarter" ended November 2, 2019 and November 3, 2018 refer to the 13 weeks from August 4, 2019 to November 2, 2019 and from August 5, 2018 to November 3, 2018, respectively. Year-to-date periods ended November 2, 2019 and November 3, 2018 refer to the thirty-nine weeks from February 3, 2019 to November 2, 2019 and February 4, 2018 to November 3, 2018, respectively. Historical results are not necessarily indicative of the results to be expected for any future period and results for any interim period may not necessarily be indicative of the results that may be expected for a full year.

Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as "could," "may," "might," "will," "likely," "anticipates," "intends," "plans," "seeks," "believes," "estimates," "expects," "continues," "projects" and similar references to future periods, prospects, financial performance and industry outlook. Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, by their nature, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. As a result, our actual results may differ materially from those contemplated by the forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include regional, national or global political, economic, business, competitive, market and regulatory conditions, including but not limited to legislation, national trade policy, and the following: our failure to adequately procure and manage our inventory or anticipate consumer demand; changes in consumer confidence and spending; risks associated with intense competition; our failure to open new profitable stores, or successfully enter new markets, on a timely basis or at all; our failure to hire and retain key personnel and other qualified personnel; our inability to obtain favorable lease terms for our properties; the failure to timely acquire, develop, and open, the loss of, or disruption or interruption in the operations of, our centralized distribution centers; fluctuations in comparable store sales and results of operations, including on a quarterly basis; risks associated with our lack of operations in the growing online retail marketplace; risks associated with litigation, the expense of defense, and potential for adverse outcomes; our inability to successfully develop or implement our marketing, advertising and promotional efforts; the seasonal nature of our business; risks associated with the timely and effective deployment, protection, and defense of computer networks and other electronic systems, including e-mail; the risks associated with doing business with international manufacturers and suppliers including, but not limited to, potential increases in tariffs on imported goods; changes in government regulations, procedures and requirements; and our ability to service indebtedness and to comply with our financial covenants together with each of the other factors set forth under "Item 1A - Risk Factors" contained herein and in our filings with the SEC, including our Annual Report. Any forward-looking statement made by us in this Quarterly Report on Form 10-Q speaks only as of the date on which such statement is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law. You are advised, however, to consult any further disclosures we make on related subjects in our public announcements and SEC filings.

Overview

Ollie's is a highly differentiated and fast-growing, extreme value retailer of brand name merchandise at drastically reduced prices. Known for our assortment of products offered as "Good Stuff Cheap," we offer customers a broad selection of brand name products, including housewares, food, books and stationery, bed and bath, flooring, toys and hardware. Our differentiated go-to market strategy is characterized by a unique, fun and engaging treasure hunt shopping experience, compelling customer value proposition and witty, humorous in-store signage and advertising campaigns.

Our Growth Strategy

Since 1982, when we were founded, we have grown organically by backfilling in existing marketplaces and leveraging our brand awareness, marketing and infrastructure to expand into new markets in contiguous states. We have grown to 345 stores located in 25 states as of November 2, 2019.

Our stores are currently supported by two distribution centers, one in York, PA and one in Commerce, GA, which we believe can support between 350 to 400 stores. In 2018, we acquired a 58-acre parcel of land in Lancaster, TX to construct our third distribution center, which will be approximately 615,000 square feet and will support 150 to 200 additional stores. We have invested in our associates, infrastructure, distribution network and information systems to allow us to continue to rapidly grow our store footprint, including:

- growing our merchant buying team to increase our access to brand name/closeout merchandise;
- adding members to our senior management team;
- expanding the capacity of our distribution centers to their current 1.6 million square feet plus an additional 615,000 square feet once the new distribution center is fully operational; and
- investing in information technology, accounting, and warehouse management systems.

Our business model has produced consistent and predictable store growth over the past several years, during both strong and weaker economic cycles. We plan to continue to enhance our competitive positioning and drive growth in sales and profitability by executing on the following strategies:

- growing our store base;
- increasing our offerings of great bargains; and
- leveraging and expanding Ollie's Army, our customer loyalty program.

We have a proven portable, flexible, and highly profitable store model that has produced consistent financial results and returns. Our new store model targets a store size between 25,000 to 35,000 square feet and an average initial cash investment of approximately \$1.0 million, which includes store fixtures and equipment, store-level and distribution center inventory (net of payables) and pre-opening expenses. We target first-year new store sales of approximately \$3.9 million.

While we are focused on driving comparable store sales and managing our expenses, our revenue and profitability growth will primarily come from opening new stores. The core elements of our business model are procuring great deals, offering extreme values to our customers and creating consistent, predictable store growth and margins. In addition, our new stores generally open strong, immediately contributing to the growth in net sales and profitability of our business. We plan to achieve continued net sales growth, including comparable stores sales, by adding additional stores to our store base and by continuing to provide quality merchandise at a value for our customers as we scale and gain more access to purchase directly from major manufacturers. We also plan to leverage and expand our Ollie's Army database and marketing strategies. In addition, we plan to continue to manage our selling, general and administrative expenses ("SG&A") by continuing to make process improvements and by maintaining our standard policy of reviewing our operating costs.

Our ability to grow and our results of operations may be impacted by additional factors and uncertainties, such as consumer spending habits, which are subject to macroeconomic conditions and changes in discretionary income. Our customers' discretionary income is primarily impacted by gas prices, wages and consumer trends and preferences, which fluctuate depending on the environment. The potential consolidation of our competitors or other changes in our competitive landscape could also impact our results of operations or our ability to grow, even though we compete with a broad range of retailers.

Our key competitive advantage is our direct buying relationships with many major manufacturers, wholesalers, distributors, brokers and retailers for our brand name and closeout products and unbranded goods. We also augment our product mix with private label brands. As we continue to grow, we believe our increased scale will provide us with even greater access to brand name and closeout products as major manufacturers seek a single buyer to acquire an entire deal.

How We Assess the Performance of Our Business and Key Line Items

We consider a variety of financial and operating measures in assessing the performance of our business. The key measures we use are number of new stores, net sales, comparable store sales, gross profit and gross margin, SG&A, pre-opening expenses, operating income, EBITDA and Adjusted EBITDA.

Number of New Stores

The number of new stores reflects the number of stores opened during a particular reporting period. Before we open new stores, we incur pre-opening expenses described below under "Pre-Opening Expenses" and we make an initial investment in inventory. We also make initial capital investments in fixtures and equipment, which we amortize over time.

We opened 42 stores during the thirty-nine weeks ended November 2, 2019. We expect new store growth to be the primary driver of our sales growth. Our initial lease terms are approximately seven years with options to renew for three to five successive five-year periods. Our portable and predictable real estate model focuses on backfilling existing markets and entering new markets in contiguous states. Our new stores often open with higher first-year sales levels as a result of greater advertising and promotional spend in connection with grand opening events but decline and normalize shortly thereafter to our new store model levels.

Net Sales

Ollie's recognizes retail sales in its stores when merchandise is sold and the customer takes possession of merchandise. Also included in net sales is revenue allocated to certain redeemed discounts earned via the Ollie's Army loyalty program and gift card breakage. Net sales are presented net of returns and sales tax. Net sales consist of sales from comparable stores and non-comparable stores, described below under "Comparable Store Sales." Growth of our net sales is primarily driven by expansion of our store base in existing and new markets. As we continue to grow, we believe we will have greater access to brand name and closeout merchandise and an increased deal selection, resulting in more potential offerings for our customers. Net sales are impacted by product mix, merchandise mix and availability, as well as promotional activities and the spending habits of our customers. Our broad selection of offerings across diverse product categories supports growth in net sales by attracting new customers, which results in higher spending levels and frequency of shopping visits from our customers, including Ollie's Army members.

The spending habits of our customers are subject to macroeconomic conditions and changes in discretionary income. Our customers' discretionary income is primarily impacted by gas prices, wages, and consumer trends and preferences, which fluctuate depending on the environment. However, because we offer a broad selection of merchandise at extreme values, we believe we are less impacted than other retailers by economic cycles. These cycles correspond with declines in general consumer spending habits and we benefit from periods of increased consumer spending.

Comparable Store Sales

Comparable store sales measure performance of a store during the current reporting period against the performance of the same store in the corresponding period of the previous year. Comparable store sales consist of net sales from our stores beginning on the first day of the sixteenth full fiscal month following the store's opening, which is when we believe comparability is achieved. Comparable store sales are impacted by the same factors that impact net sales.

We define comparable stores to be stores that:

- have been remodeled while remaining open;
- are closed for five or fewer days in any fiscal month;
- are closed temporarily and relocated within their respective trade areas; and
- have expanded, but are not significantly different in size, within their current locations.

Non-comparable store sales consist of new store sales and sales for stores not open for a full 15 months. Stores which are closed temporarily, but for more than five days in any fiscal month, are included in non-comparable store sales beginning in the fiscal month in which the temporary closure begins until the first full month of operation once the store re-opens, at which time they are included in comparable store sales.

Opening new stores is the primary component of our growth strategy and as we continue to execute on our growth strategy, we expect a significant portion of our sales growth will be attributable to non-comparable store sales. Accordingly, comparable store sales are only one measure we use to assess the success of our growth strategy.

Gross Profit and Gross Margin

Gross profit is equal to our net sales less our cost of sales. Cost of sales includes merchandise costs, inventory markdowns, shrinkage and transportation, distribution and warehousing costs, including depreciation. Gross margin is gross profit as a percentage of our net sales. Gross margin is a measure used by management to indicate whether we are selling merchandise at an appropriate gross profit.

In addition, our gross profit and our gross margin are impacted by product mix, as some products generally provide higher gross margins, merchandise mix, availability and merchandise costs, all of which can vary.

Our gross profit is variable in nature and generally follows changes in net sales. We regularly analyze the components of gross profit, as well as gross margin. Specifically, our product margin and merchandise mix are reviewed by our merchant team and senior management, ensuring strict adherence to internal margin goals. Our disciplined buying approach has produced consistent gross margins on an annual basis, and we believe helps to mitigate adverse impacts on gross profit and results of operation.

The components of our cost of sales may not be comparable to the components of cost of sales or similar measures of our competitors and other retailers. As a result, our gross profit and gross margin may not be comparable to similar data made available by our competitors and other retailers.

Selling, General and Administrative Expenses

SG&A are comprised of payroll and benefits for store, field support and support center associates. SG&A also include marketing and advertising, occupancy, utilities, supplies, credit card processing fees, insurance and professional services. The components of our SG&A remain relatively consistent per store and for each new store opening. The components of our SG&A may not be comparable to the components of similar measures of other retailers. Consolidated SG&A generally increase as we grow our store base and as our net sales increase. A significant portion of our expenses is primarily fixed in nature, and we expect to continue to maintain strict discipline while carefully monitoring SG&A as a percentage of net sales. We expect that our SG&A will continue to increase in future periods with future growth.

Pre-Opening Expenses

Pre-opening expenses consist of expenses of opening new stores and distribution centers. For new stores, pre-opening expenses include grand opening advertising costs, payroll expenses, travel expenses, employee training costs, rent expenses and store setup costs, as well as store closing costs. Pre-opening expenses for new stores are expensed as they are incurred, which is typically within 30 to 45 days of opening a new store. For distribution centers, pre-opening expenses primarily include inventory transportation costs, employee travel expenses and occupancy costs.

Operating Income

Operating income is gross profit less SG&A, depreciation and amortization and pre-opening expenses. Operating income excludes interest (income) expense, net, and income tax expense. We use operating income as an indicator of the productivity of our business and our ability to manage expenses.

EBITDA and Adjusted EBITDA

EBITDA and Adjusted EBITDA are key metrics used by management and our Board to assess our financial performance. EBITDA and Adjusted EBITDA are also frequently used by analysts, investors and other interested parties to evaluate companies in our industry. We use Adjusted EBITDA to supplement GAAP measures of performance to evaluate the effectiveness of our business strategies, to make budgeting decisions, to evaluate our performance in connection with compensation decisions and to compare our performance against that of other peer companies using similar measures. Management believes it is useful to investors and analysts to evaluate these non-GAAP measures on the same basis as management uses to evaluate the Company's operating results. We believe that excluding items from net income that may not be indicative of, or are unrelated to, our core operating results, and that may vary in frequency or magnitude, enhances the comparability of our results and provides a better baseline for analyzing trends in our business.

We define EBITDA as net income before net interest (income) expense, loss on extinguishment of debt, depreciation and amortization expenses and income taxes. Adjusted EBITDA represents EBITDA as further adjusted for non-cash stock-based compensation expense, gain from insurance settlement and non-cash purchase accounting items. EBITDA and Adjusted EBITDA are non-GAAP measures and may not be comparable to similar measures reported by other companies. EBITDA and Adjusted EBITDA have limitations as analytical tools, and you should not consider them in isolation or as a substitute for analysis of our results as reported under GAAP. In the future we may incur expenses or charges such as those added back to calculate Adjusted EBITDA. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by these items. For further discussion of EBITDA and Adjusted EBITDA and for reconciliations of EBITDA and Adjusted EBITDA to net income, the most directly comparable GAAP measure, see "Results of Operations."

Factors Affecting the Comparability of our Results of Operations

Our results over the past two years have been affected by the following events, which must be understood in order to assess the comparability of our period-to-period financial performance and condition.

Historical Results

Historical results are not necessarily indicative of the results to be expected for any future period.

Financing Transactions

Our prior credit facilities consisted of a \$200.0 million term loan facility, which was fully paid as of February 2, 2019, and a \$100.0 million revolving credit facility, which included a \$25.0 million sub-facility for letters of credit and a \$25.0 million sub-facility for swingline loans. We made voluntary prepayments under the prior term loan facility totaling \$48.8 million during 2018, paying the balance in full.

On May 22, 2019, we completed a transaction in which we refinanced our \$100.0 million revolving credit facility (the “Revolving Credit Facility”) to extend the maturity to May 22, 2024. For further information, see Note 6 under “Notes to Unaudited Condensed Consolidated Financial Statements.”

Store Openings

We opened 13 new stores in the thirteen weeks ended November 2, 2019. We opened 17 new stores, including one relocated store, and closed two stores in the thirteen weeks ended November 3, 2018. In connection with these store openings, relocations and closings, we incurred pre-opening expenses of \$3.3 million and \$4.8 million for the thirteen weeks ended November 2, 2019 and November 3, 2018, respectively. We opened 42 new stores in the thirty-nine weeks ended November 2, 2019. We opened 31 new stores, including one relocated store, and closed two stores in the thirty-nine weeks ended November 3, 2018. In connection with these store openings, relocations and closings, we incurred pre-opening expenses of \$10.9 million and \$8.5 million for the thirty-nine weeks ended November 2, 2019 and November 3, 2018, respectively.

Seasonality

Our business is seasonal in nature and demand is generally the highest in our fourth fiscal quarter due to the holiday sales season. To prepare for the holiday sales season, we must order and keep in stock more merchandise than we carry during other times of the year and generally engage in additional marketing efforts. We expect inventory levels, along with accounts payable and accrued expenses, to reach their highest levels in our third and fourth fiscal quarters in anticipation of increased net sales during the holiday sales season. As a result of this seasonality, and generally because of variation in consumer spending habits, we experience fluctuations in net sales and working capital requirements during the year. Because we offer a broad selection of merchandise at extreme values, we believe we are less impacted than other retailers by economic cycles which correspond with declines in general consumer spending habits and we believe we still benefit from periods of increased consumer spending.

Results of Operations

The following tables summarize key components of our results of operations for the periods indicated, both in dollars and as a percentage of our net sales.

We derived the condensed consolidated statements of income for the thirteen and thirty-nine weeks ended November 2, 2019 and November 3, 2018 from our unaudited condensed consolidated financial statements and related notes. Our historical results are not necessarily indicative of the results that may be expected in the future.

	Thirteen weeks ended		Thirty-nine weeks ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
	(dollars in thousands)			
Condensed consolidated statements of income data:				
Net sales	\$ 327,049	\$ 283,606	\$ 985,768	\$ 847,443
Cost of sales	193,767	168,184	595,719	506,521
Gross profit	133,282	115,422	390,049	340,922
Selling, general and administrative expenses	90,481	78,440	261,163	223,794
Depreciation and amortization expenses	3,766	2,914	10,687	8,531
Pre-opening expenses	3,302	4,779	10,931	8,460
Operating income	35,733	29,289	107,268	100,137
Interest (income) expense, net	(142)	372	(659)	1,188
Loss on extinguishment of debt	–	–	–	100
Income before income taxes	35,875	28,917	107,927	98,849
Income tax expense	8,919	4,100	17,084	13,730
Net income	\$ 26,956	\$ 24,817	\$ 90,843	\$ 85,119
Percentage of net sales ⁽¹⁾:				
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	59.2	59.3	60.4	59.8
Gross profit	40.8	40.7	39.6	40.2
Selling, general and administrative expenses	27.7	27.7	26.5	26.4
Depreciation and amortization expenses	1.2	1.0	1.1	1.0
Pre-opening expenses	1.0	1.7	1.1	1.0
Operating income	10.9	10.3	10.9	11.8
Interest (income) expense, net	(0.1)	0.1	(0.1)	0.1
Loss on extinguishment of debt	–	–	–	–
Income before income taxes	11.0	10.2	10.9	11.7
Income tax expense	2.7	1.4	1.7	1.6
Net income	8.2%	8.8%	9.2%	10.0%
Select operating data:				
New store openings	13	17	42	31
Number of closed stores	–	(2)	–	(2)
Number of stores open at end of period	345	297	345	297
Average net sales per store ⁽²⁾	\$ 964	\$ 984	\$ 3,014	\$ 3,027
Comparable stores sales change	(1.4)%	4.6%	(0.8)%	3.6%

(1) Components may not add to totals due to rounding.

(2) Average net sales per store represents the weighted average of total net sales divided by the number of stores open, in each case at the end of each week in each fiscal period.

The following table provides a reconciliation of our net income to Adjusted EBITDA for the periods presented:

	<u>Thirteen weeks ended</u>		<u>Thirty-nine weeks ended</u>	
	<u>November 2, 2019</u>	<u>November 3, 2018</u>	<u>November 2, 2019</u>	<u>November 3, 2018</u>
	(dollars in thousands)			
Net income	\$ 26,956	\$ 24,817	\$ 90,843	\$ 85,119
Interest (income) expense, net	(142)	372	(659)	1,188
Loss on extinguishment of debt	–	–	–	100
Depreciation and amortization expenses ⁽¹⁾	4,592	3,568	13,128	10,458
Income tax expense	8,919	4,100	17,084	13,730
EBITDA	40,325	32,857	120,396	110,595
Gain from insurance settlement	–	–	(565)	–
Non-cash stock-based compensation expense	2,230	1,882	6,855	5,392
Non-cash purchase accounting items ⁽²⁾	–	–	–	(1)
Adjusted EBITDA	<u>\$ 42,555</u>	<u>\$ 34,739</u>	<u>\$ 126,686</u>	<u>\$ 115,986</u>

(1) Includes depreciation and amortization relating to our distribution centers, which is included within cost of sales on our condensed consolidated statements of income and amortization of acquisition-related favorable lease adjustments, which is included within SG&A on our condensed consolidated statements of income.

(2) Includes purchase accounting impact from unfavorable lease liabilities related to a prior acquisition.

Third Quarter 2019 Compared to Third Quarter 2018

Net Sales

Net sales increased to \$327.0 million in the thirteen weeks ended November 2, 2019 from \$283.6 million in the thirteen weeks ended November 3, 2018, an increase of \$43.4 million, or 15.3%. The increase was driven by strong new store performance, increasing non-comparable sales by \$47.1 million for the thirteen weeks ended November 2, 2019. The increase in non-comparable store sales was driven by sales from stores that have not been open for a full 15 months.

Comparable store sales decreased 1.4% for the thirteen weeks ended November 2, 2019 compared to a 4.6% increase for the thirteen weeks ended November 3, 2018. The decrease in comparable store sales is due to decreases in the electronics, housewares and toy departments offset by increases in our floor coverings, clothing and hardware departments.

Cost of Sales

Cost of sales increased to \$193.8 million in the thirteen weeks ended November 2, 2019 from \$168.2 million in the thirteen weeks ended November 3, 2018, an increase of \$25.6 million, or 15.2%. The increase in cost of sales was primarily the result of increased net sales and increased supply chain costs.

Gross Profit and Gross Margin

Gross profit increased to \$133.3 million in the thirteen weeks ended November 2, 2019 from \$115.4 million in the thirteen weeks ended November 3, 2018, an increase of \$17.9 million, or 15.5%. Gross margin increased to 40.8% in the thirteen weeks ended November 2, 2019 from 40.7% in the thirteen weeks ended November 3, 2018, an increase of 10 basis points. The increase in gross margin was driven by an increase in merchandise margin, partially offset by higher supply chain costs as a percentage of net sales.

Selling, General and Administrative Expenses

SG&A increased to \$90.5 million in the thirteen weeks ended November 2, 2019 from \$78.4 million in the thirteen weeks ended November 3, 2018, an increase of \$12.0 million, or 15.4%. As a percentage of net sales, SG&A remained the same at 27.7% in the thirteen weeks ended November 2, 2019 and November 3, 2018. The dollar increase in SG&A was primarily driven by increased selling expenses related to new store growth and increased sales volume. These increased selling expenses consisted primarily of store payroll and benefits, store occupancy costs and other store-related expenses.

Pre-Opening Expenses

Pre-opening expenses decreased to \$3.3 million in the thirteen weeks ended November 2, 2019 from \$4.8 million in the thirteen weeks ended November 3, 2018, a decrease of \$1.5 million. The decrease in pre-opening expenses during the thirteen weeks ended November 2, 2019 was due to the timing and number of new store openings.

Interest (Income) Expense, Net

Net interest income was \$0.1 million in the thirteen weeks ended November 2, 2019 compared to net interest expense of \$0.4 million in the thirteen weeks ended November 3, 2018. The prior term loan facility was paid in full during 2018, decreasing our average outstanding debt balance during the thirteen weeks ended November 2, 2019, which decreased our interest expense. In addition, we invest cash on hand into highly liquid investments, which generated increased interest income in the thirteen weeks ended November 2, 2019.

Income Tax Expense

Income tax expense for the thirteen weeks ended November 2, 2019 was \$8.9 million compared to \$4.1 million for the thirteen weeks ended November 3, 2018, an increase of \$4.8 million. The effective tax rates for the thirteen weeks ended November 2, 2019 and November 3, 2018 were 24.9% and 14.2%, respectively. The increased effective tax rate in the thirteen weeks ended November 2, 2019 was primarily the result of a decrease in excess tax benefits related to stock-based compensation. These discrete tax benefits totaled \$0.2 million and \$3.9 million for the thirteen weeks ended November 2, 2019 and November 3, 2018, respectively.

Net Income

As a result of the foregoing, net income increased to \$27.0 million in the thirteen weeks ended November 2, 2019 from \$24.8 million in the thirteen weeks ended November 3, 2018, an increase of \$2.1 million or 8.6%.

Adjusted EBITDA

Adjusted EBITDA increased to \$42.6 million in the thirteen weeks ended November 2, 2019 from \$34.7 million in the thirteen weeks ended November 3, 2018, an increase of \$7.8 million, or 22.5%.

Thirty-Nine Weeks 2019 Compared to Thirty-Nine Weeks 2018

Net Sales

Net sales increased to \$985.8 million in the thirty-nine weeks ended November 2, 2019 from \$847.4 million in the thirty-nine weeks ended November 3, 2018, an increase of \$138.3 million, or 16.3%. The increase was driven by strong new store performance, increasing non-comparable store sales by \$144.5 million for the thirty-nine weeks ended November 2, 2019. The increase in non-comparable store sales was driven by sales from stores that have not been open for a full 15 months.

Comparable store sales decreased 0.8% for the thirty-nine weeks ended November 2, 2019 compared to a 3.6% increase for the thirty-nine weeks ended November 3, 2018. The decrease in comparable store sales is due to decreases in our food, book and automotive departments offset by increases in our floor coverings, clothing and hardware departments.

Cost of Sales

Cost of sales increased to \$595.7 million in the thirty-nine weeks ended November 2, 2019 from \$506.5 million in the thirty-nine weeks ended November 3, 2018, an increase of \$89.2 million, or 17.6%. The increase in cost of sales was primarily the result of increased net sales.

Gross Profit and Gross Margin

Gross profit increased to \$390.0 million in the thirty-nine weeks ended November 2, 2019 from \$340.9 million in the thirty-nine weeks ended November 3, 2018, an increase of \$49.1 million, or 14.4%. Gross margin decreased to 39.6% in the thirty-nine weeks ended November 2, 2019 from 40.2% in the thirty-nine weeks ended November 3, 2018, a decrease of 60 basis points. Gross margin decreased due to an increase in supply chain costs as a percentage of net sales and a decrease in merchandise margin.

Selling, General and Administrative Expenses

SG&A increased to \$261.2 million in the thirty-nine weeks ended November 2, 2019 from \$223.8 million in the thirty-nine weeks ended November 3, 2018, an increase of \$37.4 million, or 16.7%. As a percentage of net sales, SG&A increased 10 basis points to 26.5% in the thirty-nine weeks ended November 2, 2019 from 26.4% in the thirty-nine weeks ended November 3, 2018. The dollar increase in SG&A was primarily driven by increased selling expenses related to new store growth and increased sales volume. These increased expenses consisted primarily of store payroll and benefits, store occupancy costs and other store-related expenses.

Pre-Opening Expenses

Pre-opening expenses increased to \$10.9 million in the thirty-nine weeks ended November 2, 2019 from \$8.5 million in the thirty-nine weeks ended November 3, 2018, an increase of \$2.5 million. The increase in pre-opening expenses during the thirty-nine weeks ended November 2, 2019 was due to the timing and increased number of new store openings.

Interest (Income) Expense, Net

Net interest income was \$0.7 million in the thirty-nine weeks ended November 2, 2019 compared to net interest expense of \$1.2 million in the thirty-nine weeks ended November 3, 2018. The prior term loan facility was paid in full during 2018, decreasing our average outstanding debt balance during the thirty-nine weeks ended November 2, 2019, which decreased our interest expense. In addition, we invest cash on hand into highly liquid investments, which generated increased interest income in the thirty-nine weeks ended November 2, 2019.

Income Tax Expense

Income tax expense in the thirty-nine weeks ended November 2, 2019 was \$17.1 million compared to \$13.7 million in the thirty-nine weeks ended November 3, 2018, an increase of \$3.4 million, or 24.4%. The effective tax rates for the thirty-nine weeks ended November 2, 2019 and November 3, 2018 were 15.8% and 13.9%, respectively. The increased effective tax rate in the thirty-nine weeks ended November 2, 2019 was primarily the result of a decrease in excess tax benefits related to stock-based compensation. These discrete tax benefits totaled \$10.0 million and \$11.7 million for the thirty-nine weeks ended November 2, 2019 and November 3, 2018, respectively.

Net Income

As a result of the foregoing, net income increased to \$90.8 million in the thirty-nine weeks ended November 2, 2019 from \$85.1 million in the thirty-nine weeks ended November 3, 2018, an increase of \$5.7 million or 6.7%.

Adjusted EBITDA

Adjusted EBITDA increased to \$126.7 million in the thirty-nine weeks ended November 2, 2019 from \$116.0 million in the thirty-nine weeks ended November 3, 2018, an increase of \$10.7 million, or 9.2%.

Liquidity and Capital Resources

Overview

Our primary sources of liquidity are net cash provided by operating activities and borrowings under our Revolving Credit Facility. Our primary cash needs are for capital expenditures and working capital. As of November 2, 2019, we had \$96.2 million of available borrowings under our Revolving Credit Facility and \$10.1 million of cash and cash equivalents on hand. On May 22, 2019, we refinanced our Revolving Credit Facility to extend the maturity to May 22, 2024. For further information, see Note 6 under "Notes to Unaudited Condensed Consolidated Financial Statements."

Our capital expenditures are primarily related to new store openings, store resets, which consist of improvements to stores as they are needed, expenditures related to our distribution centers, and infrastructure-related investments, including investments related to upgrading and maintaining our information technology systems. We spent \$24.2 million and \$52.5 million for capital expenditures during the thirteen weeks ended November 2, 2019 and November 3, 2018, respectively. For the thirty-nine weeks ended November 2, 2019, we spent \$64.5 million for capital expenditures compared to \$62.7 million for the thirty-nine weeks ended November 3, 2018. The thirteen and thirty-nine weeks ended November 3, 2018 included expenditures of approximately \$42 million related to the purchase of 12 former Toys R Us store sites. We expect to fund capital expenditures from net cash provided by operating activities. We opened 42 stores during the thirty-nine weeks ended November 2, 2019. We are investing in our distribution centers, including the construction of our third facility in Lancaster, TX. In addition, we are investing in general corporate capital expenditures, including information technology, in 2019.

Historically, we have funded our capital expenditures and working capital requirements during the fiscal year with cash on hand and borrowings under our Revolving Credit Facility. When we have used our Revolving Credit Facility, the amount of indebtedness outstanding under it has tended to be the highest in the beginning of our fourth fiscal quarter.

Our primary working capital requirements are for the purchase of inventory, payroll, rent, other store operating costs, distribution costs and general and administrative costs. Our working capital requirements fluctuate during the year, rising in our third fiscal quarter as we increase quantities of inventory in anticipation of our peak holiday sales season in our fourth fiscal quarter. Fluctuations in working capital are also driven by the timing of new store openings.

Based on our new store growth plans, we believe our cash position, net cash provided by operating activities and availability under our Revolving Credit Facility will be adequate to finance our planned capital expenditures, working capital requirements, debt service, and other financing activities over the next 12 months. If cash provided by operating activities and borrowings under our Revolving Credit Facility are not sufficient or available to meet our capital requirements, we will then be required to obtain additional equity or debt financing in the future. There can be no assurance equity or debt financing will be available to us when needed or, if available, the terms will be satisfactory to us and not dilutive to our then-current stockholders.

Share Repurchase Program

On March 26, 2019, the Board of Directors of the Company authorized the repurchase of up to \$100.0 million of shares of the Company's common stock. The shares to be repurchased may be purchased from time to time in open market conditions (including blocks or in privately negotiated transactions). The timing of repurchases and the actual amount purchased will depend on a variety of factors, including the market price of the Company's shares, general market, economic, and business conditions, and other corporate considerations. Repurchases may be made pursuant to plans intended to comply with Rule 10b5-1 under the Securities Exchange Act of 1934, which could allow the Company to purchase its shares during periods when it otherwise might be prevented from doing so under insider trading laws or because of self-imposed trading blackout periods. Repurchases are expected to be funded from cash on hand or through the utilization of the Company's Revolving Credit Facility. The repurchase authorization does not require the purchase of a specific number of shares, has a two-year term, and is subject to suspension or termination by the Company's Board of Directors at any time.

During the thirteen and thirty-nine weeks ending November 2, 2019, the Company repurchased 689,457 shares of its common stock for \$40.0 million, inclusive of transaction costs, pursuant to its share repurchase program. These expenditures were funded by cash generated from operations. As of November 2, 2019, the Company had \$60.0 million remaining under its share repurchase authorization. There can be no assurances that any additional repurchases will be completed, or as to the timing or amount of any repurchases.

Summary of Cash Flows

A summary of our cash flows from operating, investing and financing activities is presented in the following table:

	Thirty-nine weeks ended	
	November 2, 2019	November 3, 2018
	(in thousands)	
Net cash provided by operating activities	\$ 14,272	\$ 46,910
Net cash used in investing activities	(21,801)	(62,650)
Net cash used in financing activities	(34,311)	(22,758)
Net decrease in cash and cash equivalents	<u>\$ (41,840)</u>	<u>\$ (38,498)</u>

Cash Provided by Operating Activities

Net cash provided by operating activities was \$14.3 million for the thirty-nine weeks ended November 2, 2019 compared to \$46.9 million for the thirty-nine weeks ended November 3, 2018. The decrease in net cash provided by operating activities for the thirty-nine weeks ended November 2, 2019 was primarily the result of increased working capital requirements due to the increased new store openings.

Cash Used in Investing Activities

Net cash used in investing activities for the thirty-nine weeks ended November 2, 2019 was \$21.8 million compared to net cash used in investing activities of \$62.7 million for the thirty-nine weeks ended November 3, 2018. The net change in investing activities is primarily related to the purchase of 12 former Toys R Us store sites in August 2018 and the proceeds from the sale-leaseback transaction for the same properties of approximately \$42.0 million in May 2019 as described in Note 4 of the accompanying unaudited condensed consolidated financial statements.

Cash Used in Financing Activities

Net cash used in financing activities was \$34.3 million in the thirty-nine weeks ended November 2, 2019 compared to net cash used in financing activities of \$22.8 million in the thirty-nine weeks ended November 3, 2018. The net change in financing activities is primarily due to cash used to repurchase shares in 2019, compared to the pay-off of the prior term loan in 2018.

Contractual Obligations

We enter into long-term contractual obligations and commitments in the normal course of business, primarily operating leases. Except as set forth in Note 4 of the accompanying unaudited condensed consolidated financial statements, there have been no material changes to our contractual obligations as disclosed in our Annual Report, other than those which occur in the ordinary course of business.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. There have been no significant changes in our critical accounting policies and estimates.

Recently Issued Accounting Pronouncements

Recently issued accounting pronouncements are discussed in Note 1(f) to the condensed consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We are subject to interest rate risk in connection with borrowings under our Revolving Credit Facility, which bears interest at variable rates. As of November 2, 2019, we had no outstanding variable rate debt.

As of November 2, 2019, there were no other material changes in the market risks described in the “Quantitative and Qualitative Disclosure of Market Risks” section of our Annual Report.

Impact of Inflation

Our results of operations and financial condition are presented based on historical cost. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, we believe the effects of inflation, if any, on our historical results of operations and financial condition have been immaterial. We cannot be assured that our results of operations and financial condition will not be materially impacted by inflation in the future.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management has evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures, as defined in Rule 13(a)-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this Quarterly Report on Form 10-Q pursuant to Rule 13a-15(b) of the Exchange Act. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q are effective at a reasonable assurance level in ensuring that information required to be disclosed in our Exchange Act reports is: (1) recorded, processed, summarized and reported in a timely manner, and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures will prevent or detect all errors and all fraud. While our disclosure controls and procedures are designed to provide reasonable assurance of their effectiveness, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting during the thirteen weeks ended November 2, 2019 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On September 17, 2019, a purported shareholder class action lawsuit captioned Robert Stirling et al. v. Ollie’s Bargain Outlet Holdings, Inc. et al., Civ. No. 1:19-cv-08647-JPO was filed in the United States District Court for the Southern District of New York against the Company, Mark Butler (then serving as the Company’s Chief Executive Officer and Chairman of the Board of Directors), Jay Stasz (the Company’s Chief Financial Officer), and John Swygert (then serving as the Company’s Chief Operational Officer). The complaint alleges that, in public statements between June 6, 2019, and August 28, 2019, the defendants made materially false and misleading statements and/or failed to disclose material information about the Company’s earnings, projections, supply chain, and inventory. The plaintiffs seek unspecified monetary damages and other relief. We believe the case to be without merit.

From time to time we may be involved in claims and legal actions that arise in the ordinary course of our business. We cannot predict the outcome of any litigation or suit to which we are a party. However, we do not believe that an unfavorable decision of any of the current claims or legal actions against us, individually or in the aggregate, will have a material adverse effect on our financial position, results of operations, liquidity or capital resources.

ITEM 1A. RISK FACTORS

See Item 1A in our Annual Report for a detailed description of risk factors affecting the Company. There have been no significant changes from the risk factors previously disclosed in that filing.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Information on Share Repurchases

Information regarding shares of common stock the Company repurchased during the thirteen weeks ended November 2, 2019 is as follows:

Period	Total number of shares repurchased ⁽¹⁾	Average price paid per share ⁽²⁾	Total number of shares purchased as part of publicly announced plans or programs ⁽³⁾	Approximate dollar value of shares that may yet be purchased under the plans or programs ⁽³⁾
August 4, 2019 through August 31, 2019	–	\$ –	–	\$ 100,000,000
September 1, 2019 through October 5, 2019	689,457	\$ 58.04	689,457	\$ 59,986,335
October 6, 2019 through November 2, 2019	–	\$ –	–	\$ 59,986,335
Total	<u>689,457</u>		<u>689,457</u>	

⁽¹⁾ Consists of shares repurchased under the publicly announced share repurchase program.

⁽²⁾ Includes commissions for the shares repurchased under the share repurchase program.

⁽³⁾ On March 26, 2019, the Board of Directors of the Company authorized the repurchase of up to \$100.0 million of shares of the Company’s common stock through March 2021. As of November 2, 2019, the Company had \$60.0 million remaining under its share repurchase program. For further discussion on the share repurchase program, see “Part I, Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources, Share Repurchase Program.”

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

<u>Exhibit No.</u>	<u>Description of Exhibits</u>
*31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document).
**101.SCH	Inline XBRL Taxonomy Extension Schema Document.
**101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
**101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
**101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
**101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).

* Filed herewith.

** Submitted electronically with this Report.

SIGNATURES

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

OLLIE'S BARGAIN OUTLET HOLDINGS, INC.

Date: December 12, 2019

/s/ Jay Stasz

Jay Stasz
Senior Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)

CERTIFICATIONS

I, John Swygert, certify that:

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

Date: December 12, 2019

/s/ John Swygert

John Swygert
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATIONS

I, Jay Stasz, certify that:

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

Date: December 12, 2019

/s/ Jay Stasz

Jay Stasz

Senior Vice President and 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 Ollie's Bargain Outlet Holdings, Inc. (the "Company") on Form 10-Q for the quarter ended November 2, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John Swygert, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, adopted pursuant to §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, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 12, 2019

/s/ John Swygert

John Swygert
President and Chief 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 Ollie's Bargain Outlet Holdings, Inc. (the "Company") on Form 10-Q for the quarter ended November 2, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jay Stasz, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, adopted pursuant to §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, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 12, 2019

/s/ Jay Stasz

Jay Stasz

Chief Financial Officer
