

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 October 29, 2016

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)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes  No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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 8, 2016 was 60,610,487.

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

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

Assets	<u>October 29, 2016</u>	<u>October 31, 2015</u>	<u>January 30, 2016</u>
<b>Current assets:</b>			
Cash and cash equivalents	\$ 35,961	\$ 3,960	\$ 30,259
Inventories	240,767	212,581	190,608
Accounts receivable	283	418	183
Deferred income taxes	-	4,559	-
Prepaid expenses and other assets	5,363	6,771	2,756
Total current assets	<u>282,374</u>	<u>228,289</u>	<u>223,806</u>
Property and equipment, net of accumulated depreciation of \$35,600, \$25,924 and \$28,270, respectively	46,890	38,726	39,292
Goodwill	444,850	444,850	444,850
Trade name and other intangible assets, net of accumulated amortization of \$1,543, \$1,196 and \$1,259, respectively	233,070	233,291	233,354
Other assets	2,400	2,175	2,520
Total assets	<u>\$ 1,009,584</u>	<u>\$ 947,331</u>	<u>\$ 943,822</u>
<b>Liabilities and Stockholders' Equity</b>			
<b>Current liabilities:</b>			
Current portion of long-term debt	\$ 5,091	\$ 3,367	\$ 5,018
Accounts payable	58,011	50,995	52,075
Income taxes payable	-	-	4,102
Accrued expenses	43,211	31,321	35,573
Total current liabilities	<u>106,313</u>	<u>85,683</u>	<u>96,768</u>
Revolving credit facility	-	18,054	-
Long-term debt	190,105	206,070	193,433
Deferred income taxes	85,982	91,673	87,171
Other long-term liabilities	5,332	4,099	4,501
Total liabilities	<u>387,732</u>	<u>405,579</u>	<u>381,873</u>
<b>Stockholders' equity:</b>			
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; 60,529, 58,522, and 58,807 shares issued, respectively	61	59	59
Additional paid-in capital	560,872	532,182	536,315
Retained earnings	61,005	9,597	25,661
Treasury - common stock, at cost; 9 shares	(86)	(86)	(86)
Total stockholders' equity	<u>621,852</u>	<u>541,752</u>	<u>561,949</u>
Total liabilities and stockholders' equity	<u>\$ 1,009,584</u>	<u>\$ 947,331</u>	<u>\$ 943,822</u>

See accompanying notes to the condensed consolidated financial statements.

**OLLIE'S BARGAIN OUTLET HOLDINGS, INC. AND SUBSIDIARIES**

## Condensed Consolidated Statements of Income

(In thousands, except per share amounts)

(Unaudited)

	<b>Thirteen weeks ended</b>		<b>Thirty-nine weeks ended</b>	
	<b>October 29, 2016</b>	<b>October 31, 2015</b>	<b>October 29, 2016</b>	<b>October 31, 2015</b>
Net sales	\$ 201,985	\$ 174,565	\$ 606,960	\$ 518,968
Cost of sales	117,795	104,641	359,941	314,943
Gross profit	84,190	69,924	247,019	204,025
Selling, general and administrative expenses	60,522	51,796	173,068	147,242
Depreciation and amortization expenses	2,142	1,810	6,188	5,265
Pre-opening expenses	2,879	2,380	6,152	5,252
Operating income	18,647	13,938	61,611	46,266
Interest expense, net	1,405	3,289	4,540	12,286
Loss on extinguishment of debt	-	-	-	2,351
Income before income taxes	17,242	10,649	57,071	31,629
Income tax expense	6,781	3,887	21,727	11,854
Net income	<u>\$ 10,461</u>	<u>\$ 6,762</u>	<u>\$ 35,344</u>	<u>\$ 19,775</u>
Earnings per common share:				
Basic	\$ 0.17	\$ 0.12	\$ 0.59	\$ 0.38
Diluted	\$ 0.17	\$ 0.11	\$ 0.57	\$ 0.37
Weighted average common shares outstanding:				
Basic	60,301	58,478	60,005	52,259
Diluted	62,515	60,704	62,247	54,102

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, except per share amounts)

(Unaudited)

	Common stock – Class A		Common stock		Treasury stock		Additional paid-in capital	Retained earnings	Total stockholders' equity
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance as of January 31, 2015	48,203	\$ 48	-	\$ -	(3)	\$ (29)	\$ 393,078	\$ 23,738	\$ 416,835
Stock-based compensation expense	-	-	-	-	-	-	3,667	-	3,667
Proceeds from stock options exercised	5	-	50	1	-	-	356	-	357
Excess tax benefit related to exercises of stock options	-	-	-	-	-	-	217	-	217
Coverion of Class A and Class B common stock to a single class of common stock	(48,208)	(48)	48,208	48	-	-	-	-	-
Proceeds from issuance of common stock, net of expenses	-	-	10,264	10	-	-	149,796	-	149,806
Dividend paid (\$1.01 per share)	-	-	-	-	-	-	(14,932)	(33,916)	(48,848)
Purchase of treasury stock	-	-	-	-	(6)	(57)	-	-	(57)
Net income	-	-	-	-	-	-	-	19,775	19,775
Balance as of October 31, 2015	<u>-</u>	<u>\$ -</u>	<u>58,522</u>	<u>\$ 59</u>	<u>(9)</u>	<u>\$ (86)</u>	<u>\$ 532,182</u>	<u>\$ 9,597</u>	<u>\$ 541,752</u>
Balance as of January 30, 2016	-	\$ -	58,807	\$ 59	(9)	\$ (86)	\$ 536,315	\$ 25,661	\$ 561,949
Stock-based compensation expense	-	-	-	-	-	-	4,979	-	4,979
Proceeds from stock options exercised	-	-	1,722	2	-	-	11,744	-	11,746
Excess tax benefit related to exercises of stock options	-	-	-	-	-	-	7,834	-	7,834
Net income	-	-	-	-	-	-	-	35,344	35,344
Balance as of October 29, 2016	<u>-</u>	<u>\$ -</u>	<u>60,529</u>	<u>\$ 61</u>	<u>(9)</u>	<u>\$ (86)</u>	<u>\$ 560,872</u>	<u>\$ 61,005</u>	<u>\$ 621,852</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)

	<b>Thirty-nine weeks ended</b>	
	<b>October 29, 2016</b>	<b>October 31, 2015</b>
Cash flows from operating activities:		
Net income	\$ 35,344	\$ 19,775
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization of property and equipment	7,486	6,567
Amortization of debt issuance costs	562	1,041
Amortization of original issue discount	18	365
Loss on extinguishment of debt	-	2,351
Amortization of intangibles	284	334
Deferred income tax benefit	(1,189)	(1,976)
Deferred rent expense	1,129	1,540
Stock-based compensation expense	4,979	3,667
Excess tax benefit related to exercises of stock options	(7,834)	(217)
Changes in operating assets and liabilities:		
Inventories	(50,159)	(42,709)
Accounts receivable	(100)	(100)
Prepaid expenses and other assets	(2,799)	(4,401)
Accounts payable	5,214	93
Income taxes payable	3,732	(5,040)
Accrued expenses and other liabilities	7,494	3,327
Net cash provided by (used in) operating activities	<u>4,161</u>	<u>(15,383)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(14,233)	(10,917)
Proceeds from sale of property and equipment	15	23
Net cash used in investing activities	<u>(14,218)</u>	<u>(10,894)</u>
Cash flows from financing activities:		
Borrowings on revolving credit facility	641,199	614,126
Repayments on revolving credit facility	(641,199)	(596,072)
Repayments on term loan and capital leases	(3,821)	(110,092)
Proceeds from issuance of common stock, net of expenses	-	149,806
Proceeds from stock option exercises	11,746	357
Excess tax benefit related to exercises of stock options	7,834	217
Payment of debt issuance cost	-	(1,152)
Payment of dividend	-	(48,848)
Purchase of treasury stock	-	(57)
Net cash provided by financing activities	<u>15,759</u>	<u>8,285</u>
Net increase (decrease) in cash and cash equivalents	5,702	(17,992)
Cash and cash equivalents at the beginning of the period	30,259	21,952
Cash and cash equivalents at the end of the period	<u>\$ 35,961</u>	<u>\$ 3,960</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 3,976	\$ 10,800
Income taxes	\$ 21,039	\$ 18,882
Non-cash investing activities:		
Accrued purchases of property and equipment	\$ 969	\$ 841

See accompanying notes to the condensed consolidated financial statements.

**OLLIE'S BARGAIN OUTLET HOLDINGS, INC. AND SUBSIDIARIES**

## Notes to Condensed Consolidated Financial Statements

October 29, 2016 and October 31, 2015

(Unaudited)

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

Ollie's Bargain Outlet Holdings, Inc., operates through its operating subsidiary, Ollie's Bargain Outlet, Inc., a chain of retail stores which offer brand name products at deeply discounted and closeout prices across a broad selection of product categories. Ollie's Bargain Outlet Holdings, Inc., together with its subsidiaries, will be referenced herein as the Company or Ollie's. Ollie's principally buys overproduced, overstocked, and closeout merchandise from manufacturers, wholesalers, and other retailers. In addition, the Company augments brand name closeout deals with directly sourced private label products featuring names exclusive to Ollie's in order to provide consistent assortment of value-priced goods in select key merchandise categories.

Since the first store opened in 1982, the Company has grown to 232 Ollie's Bargain Outlet retail locations as of October 29, 2016. Ollie's Bargain Outlet retail locations are located in 19 states (Alabama, Connecticut, Delaware, Florida, Georgia, Indiana, Kentucky, Maryland, Michigan, Mississippi, New Jersey, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Virginia, and West Virginia) as of October 29, 2016.

**Initial Public Offering**

On July 15, 2015, the Company priced its initial public offering ("IPO") of 8,925,000 shares of its common stock. In addition, on July 17, 2015, the underwriters of the IPO exercised their option to purchase an additional 1,338,750 shares of common stock from the Company. As a result, 10,263,750 shares of common stock were issued and sold by the Company at a price of \$16.00 per share.

As a result of the IPO, the Company received net proceeds of \$153.1 million, after deducting the underwriting fees of \$11.1 million. The Company used the net proceeds from the IPO to pay off outstanding borrowings under its Revolving Credit Facility and a portion of the principal balance of its then outstanding Term Loan.

**Secondary Offerings**

On February 18, 2016, the Company completed a secondary offering of 7,873,063 shares of common stock, of which 1,152,500 shares were sold by certain directors, officers and employees upon the exercise of stock options in connection with the offering. In addition, on February 19, 2016, the underwriters exercised their option to purchase an additional 1,180,959 shares of the Company's common stock from certain selling stockholders. As a result 9,054,022 shares of common stock were sold by certain selling stockholders at a price of \$19.75 per share in this secondary offering. The Company did not sell any shares in or receive any proceeds from this secondary offering, except for \$7.5 million of proceeds from the exercise of stock options. The Company incurred expenses of \$0.6 million related to legal, accounting and other fees in connection with the secondary offering, which are included in selling, general and administrative expenses in the condensed consolidated statement of income for the thirty-nine weeks ended October 29, 2016.

On June 6, 2016, the Company completed a secondary offering of 12,152,800 shares of common stock. In addition, on June 10, 2016, the underwriters exercised their option to purchase an additional 1,822,920 shares of the Company's common stock from certain selling stockholders. As a result 13,975,720 shares of common stock were sold by certain selling stockholders at a price of \$25.00 per share in this secondary offering. The Company did not sell any shares in or receive any proceeds from this secondary offering. The Company incurred expenses of \$0.6 million related to legal, accounting and other fees in connection with this secondary offering, which are included in selling, general and administrative expenses in the condensed consolidated statement of income for the thirty-nine weeks ended October 29, 2016.

**OLLIE'S BARGAIN OUTLET HOLDINGS, INC. AND SUBSIDIARIES**

## Notes to Condensed Consolidated Financial Statements

October 29, 2016 and October 31, 2015

(Unaudited)

On September 6, 2016, the Company completed a secondary offering of 13,725,798 shares of common stock. The shares were sold by certain selling stockholders at a price of \$26.07 per share in this secondary offering. The Company did not sell any shares in or receive any proceeds from this secondary offering. The Company incurred expenses of \$0.6 million related to legal, accounting and other fees in connection with this secondary offering, which are included in selling, general and administrative expenses in the condensed consolidated statement of income for the thirteen and thirty-nine weeks ended October 29, 2016.

**(b) Fiscal Year**

Ollie's follows a 52/53-week fiscal year, which ends on the Saturday nearest to January 31st. References to the fiscal year ended January 30, 2016 refer to the period from February 1, 2015 to January 30, 2016. The fiscal quarters ended October 29, 2016 and October 31, 2015 refer to the thirteen weeks from July 31, 2016 to October 29, 2016 and from August 2, 2015 to October 31, 2015, respectively. The year-to-date periods ended October 29, 2016 and October 31, 2015 refer to the thirty-nine weeks from January 31, 2016 to October 29, 2016 and February 1, 2015 to October 31, 2015, respectively.

**(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 financial condition, results of operations, and cash flows for all periods presented. The condensed consolidated balance sheets as of October 29, 2016 and October 31, 2015, the condensed consolidated statements of income for the thirteen and thirty-nine weeks ended October 29, 2016 and October 31, 2015, respectively, and the condensed consolidated statements of stockholders' equity and cash flows for the thirty-nine weeks ended October 29, 2016 and October 31, 2015 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 the year ending January 28, 2017 or any other period. All intercompany accounts, transactions, and balances have been eliminated in consolidation.

The Company's balance sheet as of January 30, 2016, 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 April 11, 2016 ("Annual Report"), but does not include all disclosures required by GAAP. These financial statements should be read in conjunction with the financial statements for the fiscal year ended January 30, 2016 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

October 29, 2016 and October 31, 2015

(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, revolving credit facility and term loan facility. 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 revolving credit facility and term loan facility approximates its fair value because the interest rates are adjusted regularly based on current market conditions.

**(f) Recently Issued Accounting Pronouncements****Revenue**

In May 2014, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. On August 8, 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU No. 2014-09 by one year, and permits early adoption as long as the adoption date is not before the original public entity effective date. The standard is effective for public entities for annual and interim periods beginning after December 15, 2017. The Company is currently evaluating the effect of the standard on its consolidated financial statements and related disclosures.

**Debt Issuance Costs**

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. This standard amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability instead of a deferred charge. The new guidance is effective for annual reporting periods beginning after December 15, 2015, but early adoption is permitted. In August 2015, the FASB issued ASU 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements*, which was issued to address the presentation and subsequent measurement of debt issuance costs related to line-of-credit arrangements. The Company has applied the guidance in ASU 2015-03 effective on April 30, 2016 and retroactively to the prior periods presented in the condensed consolidated balance sheets. As a result, the Company reclassified the October 31, 2015 condensed consolidated balance sheets resulting in a reduction of other assets and long-term debt of \$3.0 million. The Company also reclassified the January 30, 2016 condensed consolidated balance sheets resulting in a reduction of other assets and long-term debt of \$1.5 million. The Company also adopted ASU 2015-15 and elected to present the debt issuance costs related to the revolving credit agreement in other long term assets.

**OLLIE'S BARGAIN OUTLET HOLDINGS, INC. AND SUBSIDIARIES**

## Notes to Condensed Consolidated Financial Statements

October 29, 2016 and October 31, 2015

(Unaudited)

Deferred Taxes

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*. This update requires an entity to classify deferred tax liabilities and assets as noncurrent within a classified balance sheet. ASU 2015-17 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2016. This update may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. Early application is permitted as of the beginning of the interim or annual reporting period. The Company elected to prospectively adopt the accounting standard as of January 30, 2016. Prior periods were not retroactively adjusted.

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires that lease arrangements longer than 12 months result in an entity recognizing an asset and liability. The updated guidance is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. The Company has not evaluated the impact of the standard on its consolidated financial statements and related disclosures.

Stock Compensation

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which is intended to simplify several aspects of the accounting for share-based payment award transactions. The guidance will be effective for the fiscal year beginning after December 15, 2016, including interim periods within that year. The Company is currently evaluating the effect of the standard on its consolidated financial statements and related disclosures. However, the update may add volatility to our income tax expense in future periods depending upon, among other things, the level of tax expense and the price of the Company's common stock at the date of vesting for share-based awards.

**(g) Reclassification**

Certain prior-year amounts have been reclassified to conform to current-year presentation.

**(2) 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 as well as assumed lapse of restrictions on restricted stock units.

## OLLIE'S BARGAIN OUTLET HOLDINGS, INC. AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

October 29, 2016 and October 31, 2015

(Unaudited)

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

	Thirteen weeks ended		Thirty-nine weeks ended	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Net income	\$ 10,461	\$ 6,762	\$ 35,344	\$ 19,775
Weighted average number of common shares outstanding – Basic	60,301	58,478	60,005	52,259
Dilutive impact of stock options and restricted stock units	2,214	2,226	2,242	1,843
Weighted average number of common shares outstanding - Diluted	62,515	60,704	62,247	54,102
Earnings per common share – Basic	\$ 0.17	\$ 0.12	\$ 0.59	\$ 0.38
Earnings per common share - Diluted	\$ 0.17	\$ 0.11	\$ 0.57	\$ 0.37

Weighted average stock option shares totaling 3,736 and 578,890 for the thirteen weeks ended October 29, 2016 and October 31, 2015, respectively, and 106,284 and 661,314 for the thirty-nine weeks ended October 29, 2016 and October 31, 2015, respectively were excluded from the calculation of diluted weighted average common shares outstanding because the effect would have been antidilutive.

**(3) Accrued Expenses**

Accrued expenses consists of the following (in thousands):

	October 29, 2016	October 31, 2015	January 30, 2016
Accrued compensation and benefits	\$ 12,622	\$ 9,350	\$ 10,775
Sales and use taxes	3,319	2,538	2,278
Accrued real estate related	3,191	2,271	2,659
Accrued insurance	3,318	3,091	2,605
Accrued advertising	3,946	2,811	3,519
Accrued freight	6,690	3,428	3,620
Other	10,125	7,832	10,117
	\$ 43,211	\$ 31,321	\$ 35,573

**OLLIE'S BARGAIN OUTLET HOLDINGS, INC. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

October 29, 2016 and October 31, 2015

(Unaudited)

**(4) Debt Obligations and Financing Arrangements**

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

	<u>October 29, 2016</u>	<u>October 31, 2015</u>	<u>January 30, 2016</u>
Term loan, net	\$ 194,903	\$ 209,367	\$ 198,385
Capital leases	293	70	66
<b>Total debt</b>	<b>195,196</b>	<b>209,437</b>	<b>198,451</b>
Less: current portion	(5,091)	(3,367)	(5,018)
<b>Long-term debt</b>	<b>\$ 190,105</b>	<b>\$ 206,070</b>	<b>\$ 193,433</b>

On January 29, 2016, the Company completed a transaction, in which it refinanced its existing Senior Secured Credit Facility with the proceeds of the New Credit Facilities (as defined below). The new credit facilities consist of a \$200.0 million term loan ("New Term Loan") and a \$100.0 million revolving credit facility ("New Revolving Credit Facility", and together with the New Term Loan, the "New Credit Facilities") which includes a \$25.0 million sub-facility for letters of credit and a \$25.0 million sub-facility for swingline loans.

The interest rates for the New Credit Facilities are not subject to a floor and are calculated as 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 0.75% to 1.25% for a Base Rate Loan and 1.75% to 2.25% for a Eurodollar Loan, based on reference to the total leverage ratio. The New Credit Facilities mature on January 29, 2021.

As of January 30, 2016, the New Term Loan is subject to amortization with principal payable in quarterly installments of \$1.25 million to be made on the last business day of each fiscal quarter prior to maturity commencing on April 29, 2016. The quarterly installment payments increase after fiscal year ended February 3, 2018 to \$2.5 million. The remaining initial aggregate advances under the New Term Loan are payable at maturity.

Under the terms of the New Revolving Credit Facility, as of October 29, 2016 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 October 29, 2016, Ollie's had \$196.3 million of outstanding borrowings under the New Term Loan and no outstanding borrowings under the New Revolving Credit Facility, with \$98.3 million of borrowing availability, letter of credit commitments of \$1.5 million and \$0.2 million of rent reserves. The interest rate on the outstanding borrowings under the New Term Loan was 1.75% plus the 30-day Eurodollar Rate, or 2.28%. The New Revolving Credit Facility also contains a variable unused line fee ranging from 0.250% to 0.375% per annum.

As of October 29, 2016, October 31, 2015, and January 30, 2016 the amounts outstanding under the term loan, are net of unamortized original issue discount of \$0.1 million, \$1.6 million and \$0.1 million, respectively, and deferred financing fees of \$1.3 million, \$3.0 million and \$1.5 million, respectively.

The New Credit Facilities are collateralized by the Company's assets and equity and contain financial covenants, as well as certain business covenants, including restrictions on dividend payments, which the Company must comply with during the term of the agreements. The Company was in compliance with all terms of the New Credit Facilities during the thirteen and thirty-nine weeks ended October 29, 2016.

**OLLIE'S BARGAIN OUTLET HOLDINGS, INC. AND SUBSIDIARIES**

## Notes to Condensed Consolidated Financial Statements

October 29, 2016 and October 31, 2015

(Unaudited)

The provisions of the New Credit Facilities 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 October 29, 2016, 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 New Credit Facilities, subject to certain exceptions.

**(5) 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 October 29, 2016 were 39.3% and 38.1%, respectively. The effective tax rates for the thirteen and thirty-nine weeks ended October 31, 2015 were 36.5% and 37.5%, respectively. The effective tax rate was lower in the prior fiscal periods primarily as a result of a discrete tax benefit related to the impact from the finalization of employment-based tax credits.

**(6) Commitments and Contingencies**

The Company commenced 31 new store leases during the thirty-nine weeks ended October 29, 2016. The fully executed leases have initial terms typically between five to seven years with options to renew for two or three successive five-year periods. The initial terms of these new store leases have future minimum lease payments totaling approximately \$34.9 million.

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 that we are party to. 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.

**(7) 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 equal to the fair value of the underlying stock on the date of grant. The vesting period for options granted under the 2012 Plan is 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 IPO, no additional equity grants will be made under the 2012 Plan.

In connection with the IPO, the Company adopted the 2015 equity incentive plan (the "2015 Plan") pursuant to which the Company's board of directors (the "Board") 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 are made pursuant to agreements and may be subject to vesting and other restrictions as determined by the Board or the compensation committee of the Board. The exercise price for stock options is determined equal to the fair value on 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. The Company uses authorized and unissued shares to satisfy share award exercises. As of October 29, 2016, there were 4,142,897 shares available for grant under the 2015 Plan.

**OLLIE'S BARGAIN OUTLET HOLDINGS, INC. AND SUBSIDIARIES**

Notes to Condensed Consolidated Financial Statements

October 29, 2016 and October 31, 2015

(Unaudited)

A summary of the Company's stock option activity and related information for the thirty-nine weeks ended October 29, 2016, is as follows:

	<b>Number of options</b>	<b>Weighted average exercise price</b>	<b>Weighted average remaining contractual term (years)</b>
Outstanding at January 30, 2016	6,991,825	\$ 8.04	
Granted	511,845	20.29	
Forfeited	(125,131)	8.24	
Exercised	(1,721,890)	6.82	
Outstanding at October 29, 2016	<u>5,656,649</u>	9.51	<u>7.0</u>
Exercisable at October 29, 2016	<u>3,053,272</u>	7.23	<u>6.3</u>

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 has no 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 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 October 29, 2016 and October 31, 2015 was \$6.45 and \$5.03, 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:

	<b>Thirty-nine weeks ended</b>	
	<b>October 29, 2016</b>	<b>October 31, 2015</b>
Risk-free interest rate	1.72%	1.99%
Expected dividend yield	—	—
Expected term (years)	6.25 years	6.4 years
Expected volatility	28.52%	31.67%

**OLLIE'S BARGAIN OUTLET HOLDINGS, INC. AND SUBSIDIARIES**

## Notes to Condensed Consolidated Financial Statements

October 29, 2016 and October 31, 2015

(Unaudited)

Restricted Stock Units ("RSUs")

A summary of the Company's restricted stock units ("RSUs") activity and related information for the thirty-nine weeks ended October 29, 2016, is as follows:

	<b>Number of shares</b>	<b>Weighted average grant date fair value</b>
Nonvested balance at January 30, 2016	—	\$ -
Granted	137,279	20.34
Forfeited	(740)	20.26
Nonvested balance at October 29, 2016	<u>136,539</u>	20.34

Stock Based Compensation Expense

The compensation cost for stock options and RSUs which have been recorded within selling, general and administrative expenses related to the Company's equity incentive plans was \$1.7 million and \$5.0 million for the thirteen and thirty-nine weeks ended October 29, 2016, respectively and \$1.4 million and \$3.7 million for the thirteen and thirty-nine weeks ended October 31, 2015, respectively.

As of October 29, 2016 there was \$14.3 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 3.4 years as of October 29, 2016. Compensation costs related to awards are recognized using the straight-line method.

**(8) Transactions with Related Parties**

The Company has entered into five non-cancelable operating leases with related parties for office and store locations. Ollie's has made \$0.9 million in rent payments to such related parties during each of the thirty-nine weeks ended October 29, 2016 and October 31, 2015.

During each of the thirty-nine weeks ended October 29, 2016 and October 31, 2015, the Company paid approximately \$0.1 million for the use of an airplane owned by a related party.

## 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 filed with the Securities and Exchange Commission, or SEC, on April 11, 2016. As used in this Quarterly Report on Form 10-Q, except where the context otherwise requires or where otherwise indicated, the terms "Company", "Ollie's", "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 given fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to January 31 of the following year. References to "fiscal year 2016" or "fiscal 2016" refer to the period from January 31, 2016 to January 28, 2017 and consists of a 52-week fiscal year. References to "fiscal year 2015" or "fiscal 2015" refer to the period from February 1, 2015 to January 30, 2016 and consists of a 52-week fiscal year. The fiscal quarters or "third quarter" ended October 29, 2016 and October 31, 2015 refer to the thirteen weeks from July 31, 2016 to October 29, 2016 and from August 2, 2015 to October 31, 2015, respectively. Year-to-date periods ended October 29, 2016 and October 31, 2015 refer to the thirty-nine weeks from January 31, 2016 to October 29, 2016 and February 1, 2015 to October 31, 2015, 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, or by the inclusion of forecasts or projections, the outlook for the Company's future business, prospects, financial performance, industry outlook and financial guidance. 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 and the following: our failure to adequately 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 ability to manage our inventory balances; our failure to hire and retain key personnel and other qualified personnel; our inability to obtain favorable lease terms for our properties; the loss of, or disruption 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; our inability to successfully implement our marketing, advertising and promotional efforts; the seasonal nature of our business; the risks associated with doing business with international manufacturers; changes in government regulations, procedures and requirements, the risk associated with the anticipated loss of our emerging growth company status; and our ability to service our indebtedness and to comply with our financial covenants together with the other factors set forth under "Item 1A - Risk Factors" contained herein and in our filings with the United States Securities and Exchange Commission ("SEC"), including our Annual Report on Form 10-K and our Quarterly Report on Form 10-Q for the quarterly period ended July 30, 2016. 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. Ollie's undertakes 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, floor coverings, 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, expanding into contiguous areas and backfilling in existing marketplaces. Through this approach, we have leveraged our brand awareness, marketing and infrastructure to expand into new markets in contiguous states. In 2003, Mark Butler, our co-founder, assumed his current role as President and Chief Executive Officer. Under Mr. Butler's leadership, we expanded from 28 stores located in three states at the end of fiscal year 2003 to 232 stores located in 19 states as of October 29, 2016.

Our stores are supported by two distribution centers, one in York, PA and one in Commerce, GA, which we believe can support between 375 to 400 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;
- opening two new distribution centers since 2011 with a total capacity of approximately 1.6 million square feet; 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 new stores sales of approximately \$3.7 million and an expected cash-on-cash return of approximately 55% in the first 12 months of operations and payback of approximately two years.

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 marketing strategies. In addition, we plan to continue to manage our selling, general and administrative expenses 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, 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, selling, general and administrative expenses, pre-opening expenses, operating income, EBITDA (as defined herein) and Adjusted EBITDA (as defined herein).

#### ***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 make initial investments in capital expenditures such as fixtures and equipment, which we amortize over time, inventory and we incur pre-opening expenses described below under "Pre-Opening Expenses."

We have opened 31 new stores in fiscal year 2016, of which we opened 29 new stores during the thirty-nine weeks ended October 29, 2016. We expect new store growth to be the primary driver of our sales growth. Our initial lease terms are typically between five to seven years with options to renew for two or three 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 sales levels as a result of greater advertising and promotional spend in connection with grand opening events, but decline shortly thereafter to our new store model levels.

#### ***Net Sales***

Net sales constitute gross sales 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 consists 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, transportation costs, inventory markdowns, shrink, and certain distribution, warehousing and storage 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 margin are impacted by product mix, as some products generally provide higher gross margins, by our merchandise mix and availability, and by our merchandise cost, 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 profit as a percentage of sales. Specifically, our product margin and merchandise mix is reviewed by our merchant team and senior management, ensuring strict adherence to internal margin goals. Our disciplined buying approach has produced consistent gross margins 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***

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. 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.

The components of our SG&A may not be comparable to the components of similar measures of other retailers. We expect that our SG&A will increase in future periods with future growth and in part due to additional legal, accounting, insurance, and other expenses as a result of being a public company, including compliance with the Sarbanes-Oxley Act of 2002 and related rules and regulations.

### ***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. 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 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 U.S. generally accepted accounting principles (“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 analyst 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 that may not be indicative of, or are unrelated to, our core operating results, and that may vary in frequency or magnitude, from operating income, net income and net income per diluted share, enhance 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 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, non-cash purchase accounting items, and transaction related expenses, which we do not consider representative of our ongoing operating performance. 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 and Payments to Stockholders**

On May 27, 2015 we amended the credit agreements governing our Senior Secured Credit Facilities to, among other things, increase the size of the Revolving Credit Facility from \$75.0 million to \$125.0 million and to permit a dividend to holders of our outstanding common stock. We also drew \$50.0 million of borrowings on the Revolving Credit Facility, the proceeds of which were used to pay an aggregate cash dividend of \$48.8 million to holders of our common stock.

On January 29, 2016, we completed a transaction, (“Refinancing”) in which we refinanced the Senior Secured Credit Facilities with the proceeds of the New Credit Facilities (as defined below). The new credit facilities consist of a \$200.0 million term loan (“New Term Loan”) and \$100.0 million revolving credit facility (“New Revolving Credit Facility,” and together with the New Term Loan, the “New Credit Facilities”) which includes a \$25.0 million sub-facility for letters of credit and a \$25.0 million sub-facility for swingline loans. We incurred various arrangement fees and legal fees totaling \$2.1 million in connection with the Refinancing, of which \$2.0 million was recorded as deferred financing fees and \$0.1 million was recognized as SG&A on the date of the Refinancing.

### ***Our IPO and Other Transactions***

On July 15, 2015, we priced our initial public offering (“IPO”) of 8,925,000 shares of our common stock. As a result of the IPO, we received net proceeds of \$153.1 million, after deducting the underwriting fees of \$11.1 million. We used the net proceeds from the IPO to pay off outstanding borrowings under the Revolving Credit Facility and a portion of the outstanding principal balance of the Term Loan Facility.

On February 18, 2016, the Company completed a secondary offering of 7,873,063 shares of common stock, of which 1,152,500 shares were sold by certain directors, officers and employees upon the exercise of stock options in connection with the offering. In addition, on February 19, 2016, the underwriters exercised their option to purchase an additional 1,180,959 shares of the Company’s common stock from certain selling stockholders. As a result 9,054,022 shares of common stock were sold by selling stockholders at a price of \$19.75 per share in this secondary offering. The Company did not sell any shares in or receive any proceeds from this secondary offering, except for \$7.5 million of proceeds from the exercise of stock options. The Company incurred expenses of \$0.6 million related to legal, accounting and other fees in connection with the secondary offering, which are included in selling, general and administrative expenses in the condensed consolidated statement of income for the thirty-nine weeks ended October 29, 2016.

On June 6, 2016, the Company completed a secondary offering of 12,152,800 shares of common stock. In addition, on June 10, 2016, the underwriters exercised their option to purchase an additional 1,822,920 shares of the Company’s common stock from certain selling stockholders. As a result 13,975,720 shares of common stock were sold by certain selling stockholders at a price of \$25.00 per share in this secondary offering. The Company did not sell any shares in or receive any proceeds from this secondary offering. The Company incurred expenses of \$0.6 million related to legal, accounting and other fees in connection with this secondary offering, which are included in selling, general and administrative expenses in the condensed consolidated statement of income for the thirty-nine weeks ended October 29, 2016.

On September 6, 2016, the Company completed a secondary offering of 13,725,798 shares of common stock. The shares were sold by certain selling stockholders at a price of \$26.07 per share. The Company did not sell any shares in or receive any proceeds from this secondary offering. The Company incurred expenses of \$0.6 million related to legal, accounting and other fees in connection with this secondary offering, which are included in selling, general and administrative expenses in the condensed consolidated statement of income for the thirteen and thirty-nine weeks ended October 29, 2016.

### ***Store Openings***

During the thirteen weeks ended October 29, 2016, we opened 16 new stores. During the thirteen weeks ended October 31, 2015, we opened 13 new stores. In connection with these store openings, we incurred pre-opening expenses of \$2.9 million and \$2.4 million for the thirteen weeks ended October 29, 2016 and October 31, 2015, respectively. During the thirty-nine weeks ended October 29, 2016, we opened 29 new stores. For the comparable period ended October 31, 2015, we opened 25 new stores and closed one store. For the thirty-nine weeks ended October 29, 2016 and October 31, 2015, we incurred pre-opening expenses of \$6.2 million and \$5.3 million in connection with these new store openings, respectively.

### ***Distribution Center***

In April 2014, we opened our second distribution center, located in Commerce, GA. As of May 1, 2016 through April 30, 2017, we are entitled to occupy 699,840 square feet of the facility and are under a lease obligation to incrementally add square footage up to 962,280 square feet through November 2017. We expect to make additional expenditures related to our utilization of this additional space in fiscal years 2016 through 2017.

### ***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 consolidated statements of income for the thirteen and thirty-nine weeks ended October 29, 2016 and October 31, 2015 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	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
( dollars in thousands)				
<b>Condensed consolidated statements of income data:</b>				
Net sales	\$ 201,985	\$ 174,565	\$ 606,960	\$ 518,968
Cost of sales	117,795	104,641	359,941	314,943
Gross profit	84,190	69,924	247,019	204,025
Selling, general and administrative expenses	60,522	51,796	173,068	147,242
Depreciation and amortization expenses	2,142	1,810	6,188	5,265
Pre-opening expenses	2,879	2,380	6,152	5,252
Operating income	18,647	13,938	61,611	46,266
Interest expense, net	1,405	3,289	4,540	12,286
Loss on extinguishment of debt	-	-	-	2,351
Income before income taxes	17,242	10,649	57,071	31,629
Income tax expense	6,781	3,887	21,727	11,854
Net income	\$ 10,461	\$ 6,762	\$ 35,344	\$ 19,775
<b>Percentage of net sales (1):</b>				
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	58.3	59.9	59.3	60.7
Gross profit	41.7	40.1	40.7	39.3
Selling, general and administrative expenses	30.0	29.7	28.5	28.4
Depreciation and amortization expenses	1.1	1.0	1.0	1.0
Pre-opening expenses	1.4	1.4	1.0	1.0
Operating income	9.2	8.0	10.2	8.9
Interest expense, net	0.7	1.9	0.7	2.4
Loss on extinguishment of debt	—	—	—	0.5
Income before income taxes	8.5	6.1	9.4	6.1
Income tax expense	3.4	2.2	3.6	2.3
Net income	5.2%	3.9%	5.8%	3.8%
<b>Select operating data:</b>				
New store openings	16	13	29	25
Store closings	—	—	—	(1)
Number of stores open at end of period	232	200	232	200
Average net sales per store (2)	\$ 903	\$ 904	\$ 2,839	\$ 2,802
Comparable stores sales change	1.8%	3.2%	3.7%	6.5%

(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>October 29, 2016</u>	<u>October 31, 2015</u>	<u>October 29, 2016</u>	<u>October 31, 2015</u>
	( dollars in thousands)			
Net Income	\$ 10,461	\$ 6,762	\$ 35,344	\$ 19,775
Interest expense, net	1,405	3,289	4,540	12,286
Loss on extinguishment of debt	-	-	-	2,351
Depreciation and amortization expenses (1)	2,669	2,358	7,770	6,901
Income tax expense	6,781	3,887	21,727	11,854
EBITDA	21,316	16,296	69,381	53,167
Non-cash stock based compensation expense	1,707	1,372	4,979	3,667
Non-cash purchase accounting items (2)	(22)	(65)	(112)	(232)
Transaction related expenses (3)	586	-	1,736	322
Adjusted EBITDA	<u>\$ 23,587</u>	<u>\$ 17,603</u>	<u>\$ 75,984</u>	<u>\$ 56,924</u>

- (1) Includes depreciation and amortization relating to our distribution centers, which is included within cost of sales on our consolidated statements of income.
- (2) In September 2012 we were acquired by affiliates of CCMP Capital Advisors, LLP, along with certain members of management (the "CCMP Acquisition"). Includes purchase accounting impact from unfavorable lease liabilities related to the CCMP Acquisition.
- (3) Represents professional services and expenses primarily related to the secondary offerings on February 18, 2016, June 6, 2016 and September 6, 2016.

### Third Quarter 2016 Compared to Third Quarter 2015

#### Net Sales

Net sales increased to \$202.0 million in the thirteen weeks ended October 29, 2016 from \$174.6 million in the thirteen weeks ended October 31, 2015, an increase of \$27.4 million, or 15.7%. The increase was the result of a comparable store sales increase of \$2.9 million, or 1.8% and a non-comparable store sales increase of \$24.5 million. The increase in non-comparable store sales was driven by sales from the 16 new stores opened during the thirteen weeks ended October 29, 2016 compared to 13 new stores opened for the thirteen weeks ended October 31, 2015.

Comparable store sales increased 1.8% for the thirteen weeks ended October 29, 2016 compared to a 3.2% increase for the thirteen weeks ended October 31, 2015. The increase in comparable store sales for the thirteen weeks ended October 29, 2016 was driven by strong sales in our health & beauty aids, electronic accessories, seasonal and pets departments.

#### Cost of Sales

Cost of sales increased to \$117.8 million in the thirteen weeks ended October 29, 2016 from \$104.6 million in the thirteen weeks ended October 31, 2015, an increase of \$13.2 million, or 12.6%. The increase in cost of sales was primarily the result of increases in net sales volume.

#### Gross Profit and Gross Margin

Gross profit increased to \$84.2 million in the thirteen weeks ended October 29, 2016 from \$69.9 million in the thirteen weeks ended October 31, 2015, an increase of \$14.3 million, or 20.4%. Gross margin increased to 41.7% in the thirteen weeks ended October 29, 2016 from 40.1% for the thirteen weeks ended October 31, 2015, an increase of 160 basis points. The increase in gross margin was due to lower distribution and transportation expenses as a percentage of net sales, primarily due to lower fuel costs and import container rates.

### ***Selling, General and Administrative Expenses***

Selling, general and administrative expenses increased to \$60.5 million in the thirteen weeks ended October 29, 2016 from \$51.8 million in the thirteen weeks ended October 31, 2015, an increase of \$8.7 million, or 16.8%.

Included in SG&A expenses for the thirteen weeks ended October 29, 2016, was \$0.6 million of transaction related expenses primarily from the Company's secondary stock offering on September 6, 2016. Excluding the \$0.6 million of transaction related expenses, SG&A expenses increased 15.7% to \$59.9 million and as a percent of net sales remained consistent year over year at 29.7%. Other than the transaction related expenses, the increase in SG&A expenses was primarily driven by increased selling expenses related to new store growth and increased sales volume. The increased selling expenses consisted primarily of store payroll and benefits, store occupancy costs and other store related expenses. We also incurred additional expenses related to general and administrative infrastructure to support continued growth in the business and public company expenses.

### ***Pre-Opening Expenses***

Pre-opening expenses increased to \$2.9 million in the thirteen weeks ended October 29, 2016 from \$2.4 million in the thirteen weeks ended October 31, 2015, an increase of \$0.5 million. The increase in pre-opening expenses during the thirteen weeks ended October 29, 2016 was due to the timing and number of new store openings during the thirteen weeks ended October 29, 2016 when compared to the same period in the prior year.

### ***Interest Expense, Net***

Net interest expense decreased to \$1.4 million in the thirteen weeks ended October 29, 2016 from \$3.3 million in the thirteen weeks ended October 31, 2015, a decrease of \$1.9 million, or 57.3%. Proceeds from the IPO were used to reduce borrowings on the Term Loan Facility and Revolving Credit Facility, which primarily caused the decrease in interest expense for the thirteen weeks ended October 29, 2016 compared to the thirteen weeks ended October 31, 2015. Also, the effective interest rate on our term loan and revolving credit facility decreased as a result of the Refinancing that occurred on January 29, 2016.

### ***Income Tax Expense***

Income tax expense for the thirteen weeks ended October 29, 2016 was \$6.8 million compared to \$3.9 million for the thirteen weeks ended October 31, 2015, an increase of \$2.9 million, or 74.5%. This increase in income tax expense was primarily the result of a \$6.6 million increase in pre-tax income and an increase in our effective tax rate. The effective tax rate was lower in the prior fiscal periods primarily as a result of a discrete tax benefit related to the impact from the finalization of employment-based tax credits.

### ***Net Income***

As a result of the foregoing, net income increased to \$10.5 million in the thirteen weeks ended October 29, 2016 from \$6.8 million in the thirteen weeks ended October 31, 2015, an increase of \$3.7 million or 54.7%.

### ***Adjusted EBITDA***

Adjusted EBITDA increased to \$23.6 million for the thirteen weeks ended October 29, 2016 from \$17.6 million for the thirteen weeks ended October 31, 2015, an increase of \$6.0 million, or 34.0%. The increase in Adjusted EBITDA for the thirteen weeks ended October 29, 2016 is primarily due to an increase in net sales which was driven by a 1.8% increase in comparable store sales and an increase in store count over the thirteen weeks ended October 31, 2015. Our gross margin increased by 160 basis points to improve our Adjusted EBITDA performance compared to the same period last year.

### **Thirty-Nine Weeks 2016 Compared to Thirty-Nine Weeks 2015**

#### ***Net Sales***

Net sales increased to \$607.0 million in the thirty-nine weeks ended October 29, 2016 from \$519.0 million in the thirty-nine weeks ended October 31, 2015, an increase of \$88.0 million, or 17.0%. The increase was the result of a comparable store sales increase of \$18.2 million, or 3.7% and a non-comparable store sales increase of \$69.8 million. The increase in non-comparable store sales was driven by sales from the 32 new stores opened since the end of the prior year third quarter ended October 31, 2015.



Comparable store sales increased 3.7% for the thirty-nine weeks ended October 29, 2016 compared to a 6.5% increase for the thirty-nine weeks ended October 31, 2015. The increase in comparable store sales for the thirty-nine weeks ended October 29, 2016 was driven by strong sales in our health & beauty aids, electronic accessories, food & candy, bed & bath, and seasonal departments.

### ***Cost of Sales***

Cost of sales increased to \$359.9 million in the thirty-nine weeks ended October 29, 2016 from \$314.9 million in the thirty-nine weeks ended October 31, 2015, an increase of \$45.0 million, or 14.3%. The increase in cost of sales was primarily the result of increases in net sales volume.

### ***Gross Profit and Gross Margin***

Gross profit increased to \$247.0 million in the thirty-nine weeks ended October 29, 2016 from \$204.0 million in the thirty-nine weeks ended October 31, 2015, an increase of \$43.0 million, or 21.1%. Gross margin increased to 40.7% in the thirty-nine weeks ended October 29, 2016 from 39.3% for the thirty-nine weeks ended October 31, 2015, an increase of 140 basis points. The increase in gross margin was primarily the result of lower distribution and transportation expenses as a percentage of net sales as a result of lower fuel prices, lower import container rates, and slightly higher merchandise margins.

### ***Selling, General and Administrative Expenses***

Selling, general and administrative expenses increased to \$173.1 million in the thirty-nine weeks ended October 29, 2016 from \$147.2 million in the thirty-nine weeks ended October 31, 2015, an increase of \$25.8 million, or 17.5%.

Included in SG&A expenses for the thirty-nine weeks ended October 29, 2016 and October 31, 2015 were approximately \$1.7 million and \$0.3 million of transaction related expenses, respectively. The transaction related expenses for the thirty-nine weeks ended October 29, 2016 primarily consist of expense related to the Company's secondary stock offerings on February 18, 2016, June 6, 2016 and September 6, 2016. The transaction expense for the thirty-nine weeks ended October 31, 2015 were finance fees incurred related to the amendment of the credit facilities to pay an aggregate cash dividend of \$48.8 million dollars to holders of outstanding common stock on May 27, 2015. Excluding the \$1.7 million and \$0.3 million of transaction related expenses, SG&A expenses increased 16.6% to \$171.3 million and as a percent of net sales decreased 10 basis points to 28.2%. Other than the transaction related expenses, the increase in SG&A expenses was primarily driven by increased selling expenses related to new store growth and increased sales volume. The increased selling expenses consisted primarily of store payroll and benefits, store occupancy costs, and other store related expenses. We also incurred additional expenses related to general and administrative infrastructure to support continued growth in the business and public company expenses.

### ***Pre-Opening Expenses***

Pre-opening expenses increased to \$6.2 million in the thirty-nine weeks ended October 29, 2016 from \$5.3 million in the thirty-nine weeks ended October 31, 2015, an increase of \$0.9 million. The increase in pre-opening expenses during the thirty-nine weeks ended October 29, 2016 was due to the timing and number of new store openings during the thirty-nine weeks ended October 31, 2015 when compared to the same period in the prior year.

### ***Interest Expense, Net***

Net interest expense decreased to \$4.5 million in the thirty-nine weeks ended October 29, 2016 from \$12.3 million in the thirty-nine weeks ended October 31, 2015, a decrease of \$7.7 million, or 63.0%. Proceeds from the IPO were used to reduce borrowings on the Term Loan Facility and Revolving Credit Facility, which primarily caused the decrease in interest expense for the thirty-nine weeks ended October 29, 2016 compared to the thirty-nine weeks ended October 31, 2015. Also, the effective interest rate on our term loan and revolving credit facility decreased as a result of the Refinancing that occurred on January 29, 2016.

## **Income Tax Expense**

Income tax expense for the thirty-nine weeks ended October 29, 2016 was \$21.7 million compared to \$11.9 million for the thirty-nine weeks ended October 31, 2015, an increase of \$9.9 million, or 83.3%. This increase in income tax expense was primarily the result of a \$25.4 million increase in pre-tax income and an increase in our effective tax rate from 37.5% to 38.1%.

## **Net Income**

As a result of the foregoing, net income increased to \$35.3 million in the thirty-nine weeks ended October 29, 2016 from \$19.8 million in the thirty-nine weeks ended October 31, 2015, an increase of \$15.6 million or 78.7%.

## **Adjusted EBITDA**

Adjusted EBITDA increased to \$76.0 million for the thirty-nine weeks ended October 29, 2016 from \$56.9 million for the thirty-nine weeks ended October 31, 2015, an increase of \$19.1 million, or 33.5%. The increase in Adjusted EBITDA for the thirty-nine weeks ended October 29, 2016 is primarily due to an increase in net sales which was driven by a 3.7% increase in comparable store sales and an increase in store count over the thirty-nine weeks ended October 31, 2015. Our gross margin increased by 140 basis points to improve our Adjusted EBITDA performance compared to the same period last year.

## **Liquidity and Capital Resources**

### **Overview**

Our primary sources of liquidity are net cash provided by operating activities and borrowings under our New Revolving Credit Facility. Our primary cash needs are for capital expenditures and working capital. As of October 29, 2016 we had \$98.3 million of available borrowings under our New Revolving Credit Facility, \$36.0 million of cash and cash equivalents on hand, and \$196.3 million of outstanding borrowings under our New Term Loan as of October 29, 2016.

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. For the thirty-nine weeks ended October 29, 2016 we have spent \$14.2 million for capital expenditures compared to \$10.9 million for the thirty-nine weeks ended October 31, 2015. We expect to fund capital expenditures from net cash provided by operating activities. We opened 29 new stores during the thirty-nine weeks ended October 29, 2016 and two new stores since October 29, 2016. We also expect to invest in our distribution centers, store resets and general corporate capital expenditures, including information technology in fiscal year 2016.

Historically, we have funded our capital expenditures and working capital requirements during the fiscal year with cash on hand and borrowings under our New 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. Over the past two fiscal years, to the extent we have drawn on the New Revolving Credit Facility, we have paid down the borrowings before the end of December of each fiscal year with cash generated during our peak selling season in 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 New Revolving Credit Facility, will be adequate to finance our planned capital expenditures, working capital requirements and debt service over the next 12 months and the foreseeable future thereafter. If cash provided by operating activities and borrowings under our New Revolving Credit Facility are not sufficient or available to meet our capital requirements, then we will 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 we need it or, if available, the terms will be satisfactory to us and not dilutive to our then-current stockholders.

**Summary of Cash Flows**

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

	<b>Thirty-nine weeks ended</b>	
	<b>October 29, 2016</b>	<b>October 31, 2015</b>
	(in thousands)	
Net cash provided by (used in) operating activities	\$ 4,161	\$ (15,383)
Net cash used in investing activities	(14,218)	(10,894)
Net cash provided by financing activities	15,759	8,285
Net increase (decrease) in cash and cash equivalents	<u>\$ 5,702</u>	<u>\$ (17,992)</u>

**Cash Used In Operating Activities**

Net cash provided by operating activities for the thirty-nine weeks ended October 29, 2016 was \$4.2 million compared to \$15.4 million of net cash used in operating activities for the thirty-nine weeks ended October 31, 2015. The increase in net cash provided by operating activities for the thirty-nine weeks ended October 29, 2016 was primarily due to increases in net income and changes in certain working capital accounts including timing of income tax and account payable payments.

**Cash Used in Investing Activities**

Net cash used in investing activities for the thirty-nine weeks ended October 29, 2016 was \$14.2 million, an increase of \$3.3 million compared to the thirty-nine weeks ended October 31, 2015. The increase in cash used in investing activities relates to the timing of new store openings and a purchase of one of our store locations.

**Cash Provided By Financing Activities**

Net cash provided by financing activities for the thirty-nine weeks ended October 29, 2016 was \$15.8 million compared to \$8.3 million for the thirty-nine weeks ended October 31, 2015. The increase in net cash flows provided by financing activities for the thirty-nine weeks ended October 29, 2016 was primarily related to proceeds received from the exercise of stock options in connection with the secondary offering during the first quarter of fiscal 2016.

**Contractual Obligations**

We enter into long-term contractual obligations and commitments in the normal course of business, primarily operating leases. Except as set forth below, there have been no material changes to our contractual obligations as disclosed in our Annual Report on Form 10-K, other than those which occur in the ordinary course of business.

During the thirty-nine weeks ended October 29, 2016, 31 new store leases commenced. The fully executed leases have initial terms typically between five to seven years with options to renew for two or three successive five-year periods which have future minimum lease payments which total approximately \$34.9 million.

**Off-Balance Sheet Arrangements**

Except for operating leases entered into in the normal course of business, 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.

## 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.

## Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect reported amounts and disclosure of contingent assets and liabilities. There have been no significant changes in the critical accounting policies and estimates described in our Annual Report on Form 10-K.

## Jumpstart Our Business Act of 2012

We are an “emerging growth company” as defined in the Jumpstart Our Business Startups Act of 2012, which we refer to as the JOBS Act. We will remain an emerging growth company until the earlier of (1) the last day of our fiscal year (a) following the fifth anniversary of the completion of our IPO, (b) in which we have total annual gross revenue of at least \$1.0 billion, or (c) in which we are deemed to be a large accelerated filer, which means the market value of our common stock that is held by non-affiliates exceeds \$700.0 million as of the last business day of our most recently completed second fiscal quarter, and (2) the date on which we have issued more than \$1.0 billion in non-convertible debt securities during the prior three-year period. An emerging growth company may take advantage of specified reduced reporting and other burdens that are otherwise applicable generally to public companies. As of July 30, 2016, the market value of our common stock that was held by non-affiliates exceeded \$700.0 million and, therefore, we will no longer qualify as an “emerging growth company” commencing January 28, 2017.

## 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 credit facilities, which bear interest at variable rates. As of October 29, 2016, we had no outstanding borrowings under our revolving credit facility and \$196.3 million under the New Term Loan Facility. The impact of a 1.0% rate change on the outstanding balance of the New Term Loan as of October 29, 2016 would be approximately \$2.0 million.

As of October 29, 2016, other than as set out in Item 1A below, 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 on Form 10-K filed with the SEC on April 11, 2016.

### *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. We have not engaged an independent registered accounting firm to perform an audit of our internal control over financial reporting as of any balance sheet date or for any period reported in our financial statements. This requirement will apply at the time of our Annual Report on Form 10-K for the year ending January 28, 2017, as the market value of our common stock that is held by non-affiliates exceeded \$700.0 million as of the last business day of the most recently completed second quarter and we will meet the definition of large accelerated filer. Our independent public registered accounting firm will first be required to attest to the effectiveness of our internal control over financial reporting for our Annual Report on Form 10-K for fiscal year 2017, as we will no longer be an “emerging growth company”. 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 October 29, 2016 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

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 that we are a party to. 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 on Form 10-K for the year ended January 30, 2016 and in our Quarterly Report on Form 10-Q for the quarter ended July 30, 2016 for a detailed description of risk factors affecting the Company. There have been no significant changes from the risk factors previously disclosed in those filings.

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

Not applicable.

### 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>
<a href="#">*31.1</a>	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.
<a href="#">*31.2</a>	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.
<a href="#">*32.1</a>	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
<a href="#">*32.2</a>	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
**101.INS	XBRL Instance Document.
**101.SCH	XBRL Taxonomy Extension Schema Document.
**101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
**101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
**101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
**101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

\* 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 9, 2016

/s/John Swygert

John Swygert  
Executive Vice President and  
Chief Financial Officer



## CERTIFICATIONS

I, Mark Butler, 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) Intentionally omitted;
  - (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 9, 2016

/s/ Mark Butler

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Mark Butler  
President, Chief Executive Officer and Chairman of the Board  
(Principal Executive Officer)

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## 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) Intentionally omitted;
  - (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 9, 2016

/s/ John Swygert

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John Swygert  
Executive 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 quarterly period ended October 29, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark Butler, 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 9, 2016

/s/ Mark Butler

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Mark Butler  
Chief Executive Officer

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**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 quarterly period ended October 29, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John Swygert, 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 9, 2016

/s/ John Swygert

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John Swygert  
Chief Financial Officer

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