UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

Form 10-Q

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

For the quarterly period ended November 3, 2018

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

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The number of shares of the registrant's common stock, $0.001 par value, outstanding as of December 4, 2018 was 62,881,216.

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ITEM 1 – CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

OLLIE'S BARGAIN OUTLET HOLDINGS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Income
(In thousands, except per share amounts)
(Unaudited)

	Thirteen weeks ended		Thirty-nine weeks ended	
	November 3, 2018	October 28, 2017	November 3, 2018	October 28, 2017
Net sales	$ 283,606	$ 238,116	$ 847,443	$ 720,363
Cost of sales	168,184	140,127	506,521	429,213
Gross profit	115,422	97,989	340,922	291,150
Selling, general and administrative expenses	78,440	68,124	223,794	195,633
Depreciation and amortization expenses	2,914	2,503	8,531	7,150
Pre-opening expenses	4,779	3,152	8,460	7,005
Operating income	29,289	24,210	100,137	81,362
Interest expense, net	372	1,143	1,188	3,601
Loss on extinguishment of debt	-	-	100	397
Income before income taxes	28,917	23,067	98,849	77,364
Income tax expense	4,100	4,205	13,730	19,824
Net income	$ 24,817	$ 18,862	$ 85,119	$ 57,540
Earnings per common share:				
Basic	$ 0.40	$ 0.31	$ 1.36	$ 0.94
Diluted	$ 0.38	$ 0.29	$ 1.29	$ 0.89
Weighted average common shares outstanding:				
Basic	62,747	61,488	62,452	61,187
Diluted	66,095	65,102	65,861	64,794

See accompanying notes to the condensed consolidated financial statements.

OLLIE'S BARGAIN OUTLET HOLDINGS, INC. AND SUBSIDIARIES

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

Assets	**November 3, 2018**	**October 28, 2017**	**February 3, 2018**
Current assets:			
Cash and cash equivalents	$ 736	$ 42,164	$ 39,234
Inventories	332,325	284,331	255,185
Accounts receivable	2,401	990	1,271
Prepaid expenses and other assets	9,063	3,882	7,986
Total current assets	344,525	331,367	303,676
Property and equipment, net of accumulated depreciation of $56,659, $46,909 and $50,076, respectively	107,766	53,632	54,888
Goodwill	444,850	444,850	444,850
Trade name and other intangible assets, net of accumulated amortization of $2,076, $1,741 and $1,825, respectively	232,388	232,723	232,639
Other assets	1,923	2,256	2,146
Total assets	$ 1,131,452	$ 1,064,828	$ 1,038,199
Liabilities and Stockholders’ Equity			
Current liabilities:			
Current portion of long-term debt	$ 10,186	$ 8,882	$ 10,158
Accounts payable	101,281	70,618	74,206
Income taxes payable	-	5,731	6,035
Accrued expenses and other	58,047	45,691	46,327
Total current liabilities	169,514	130,922	136,726
Revolving credit facility	-	-	-
Long-term debt	9,042	117,120	38,835
Deferred income taxes	56,551	88,011	59,073
Other long-term liabilities	7,535	6,943	7,103
Total liabilities	242,642	342,996	241,737
Stockholders’ equity:			
Preferred stock - 50,000 shares authorized at $0.001 par value; no shares issued	-	-	-
Common stock - 500,000 shares authorized at $0.001 par value; 62,821, 61,666 and 62,007 shares issued, respectively	63	62	62
Additional paid-in capital	596,286	578,891	583,467
Retained earnings	292,547	142,965	213,019
Treasury - common stock, at cost; 9 shares	(86)	(86)	(86)
Total stockholders’ equity	888,810	721,832	796,462
Total liabilities and stockholders’ equity	$ 1,131,452	$ 1,064,828	$ 1,038,199

See accompanying notes to the condensed consolidated financial statements.

OLLIE'S BARGAIN OUTLET HOLDINGS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Stockholders' Equity
(In thousands)
(Unaudited)

	Common stock		Treasury stock		Additional paid-in capital	Retained earnings	Total stockholders' equity
	Shares	Amount	Shares	Amount			
Balance as of January 28, 2017	60,756	$ 61	(9)	$ (86)	$ 565,861	$ 85,425	$ 651,261
Stock-based compensation expense	-	-	-	-	5,932	-	5,932
Proceeds from stock options exercised	890	1	-	-	7,317	-	7,318
Vesting of restricted stock	27	-	-	-	-	-	-
Common shares withheld for taxes	(7)	-	-	-	(219)	-	(219)
Net income	-	-	-	-	-	57,540	57,540
Balance as of October 28, 2017	61,666	$ 62	(9)	$ (86)	$ 578,891	$ 142,965	$ 721,832
Balance as of February 3, 2018	62,007	$ 62	(9)	$ (86)	$ 583,467	$ 213,019	$ 796,462
Cumulative effect of adopting ASU 2014-09 (Note 2)	-	-	-	-	-	(5,591)	(5,591)
Stock-based compensation expense	-	-	-	-	5,392	-	5,392
Proceeds from stock options exercised	774	1	-	-	8,129	-	8,130
Vesting of restricted stock	52	-	-	-	-	-	-
Common shares withheld for taxes	(12)	-	-	-	(702)	-	(702)
Net income	-	-	-	-	-	85,119	85,119
Balance as of November 3, 2018	62,821	$ 63	(9)	$ (86)	$ 596,286	$ 292,547	$ 888,810

See accompanying notes to the condensed consolidated financial statements.

OLLIE'S BARGAIN OUTLET HOLDINGS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Thirty-nine weeks ended	
	November 3, 2018	**October 28, 2017**
Cash flows from operating activities:		
Net income	$ 85,119	$ 57,540
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	10,207	8,707
Amortization of debt issuance costs	368	497
Amortization of original issue discount	4	13
Loss on extinguishment of debt	100	397
Loss (gain) on disposal of assets	212	(21)
Amortization of intangibles	251	254
Deferred income tax provision benefit	(600)	(1,213)
Deferred rent expense	235	1,691
Stock-based compensation expense	5,392	5,932
Changes in operating assets and liabilities:		
Inventories	(77,140)	(74,224)
Accounts receivable	(1,130)	(689)
Prepaid expenses and other assets	(1,166)	(326)
Accounts payable	27,636	19,300
Income taxes payable	(6,035)	1,183
Accrued expenses and other liabilities	3,457	1,343
Net cash provided by operating activities	46,910	20,384
Cash flows from investing activities:		
Purchases of property and equipment	(62,720)	(15,205)
Proceeds from sale of property and equipment	70	86
Net cash used in investing activities	(62,650)	(15,119)
Cash flows from financing activities:		
Borrowings on revolving credit facility	895,291	759,691
Repayments on revolving credit facility	(895,291)	(759,691)
Repayments on term loan and capital leases	(30,186)	(68,883)
Proceeds from stock option exercises	8,130	7,318
Common shares withheld for taxes	(702)	(219)
Net cash used in financing activities	(22,758)	(61,784)
Net decrease in cash and cash equivalents	(38,498)	(56,519)
Cash and cash equivalents at the beginning of the period	39,234	98,683
Cash and cash equivalents at the end of the period	$ 736	$ 42,164
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 837	$ 3,093
Income taxes	$ 21,467	$ 19,857
Non-cash investing activities:		
Accrued purchases of property and equipment	$ 2,311	$ 1,584

See accompanying notes to the condensed consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Description of Business

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

Since its first store opened in 1982, the Company has grown to 297 retail locations in 23 states as of November 3, 2018. Ollie's Bargain Outlet retail locations are located in Alabama, Arkansas, Connecticut, Delaware, Florida, Georgia, Indiana, Kentucky, Louisiana, Maryland, Michigan, Mississippi, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Virginia and West Virginia.

(b) Fiscal Year

Ollie's follows a 52/53-week fiscal year, which ends on the Saturday nearer to January 31 of the following year. References to the thirteen weeks ended November 3, 2018 and October 28, 2017 refer to the thirteen weeks from August 5, 2018 to November 3, 2018 and from July 30, 2017 to October 28, 2017, respectively. References to year-to-date periods ending November 3, 2018 and October 28, 2017 refer to the thirty-nine weeks from February 4, 2018 to November 3, 2018 and January 29, 2017 to October 28, 2017, respectively. References to "2017" refer to the fiscal year ended February 3, 2018, which consisted of a 53-week period. References to "2018" refer to the fiscal year ending February 2, 2019, which consists of a 52-week period.

(c) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. The condensed consolidated financial statements reflect all normal recurring adjustments which management believes are necessary to present fairly the Company's results of operations, financial condition, and cash flows for all periods presented. The condensed consolidated balance sheets as of November 3, 2018 and October 28, 2017, the condensed consolidated statements of income for the thirteen and thirty-nine weeks ended November 3, 2018 and October 28, 2017, respectively, and the condensed consolidated statements of stockholders' equity and cash flows for the thirty-nine weeks ended November 3, 2018 and October 28, 2017 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 2018 or any other period. All intercompany accounts, transactions, and balances have been eliminated in consolidation.

The Company's balance sheet as of February 3, 2018, 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 4, 2018 ("Annual Report"), but does not include all disclosures required by GAAP. These financial statements should be read in conjunction with the financial statements for 2017 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.

(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, its revolving credit facility and its 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

<u>*Leases*</u>

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

The Company is in the process of determining the impact of the adoption of this guidance on its consolidated financial statements and notes thereto, having identified that substantially all of the Company’s store locations and distribution centers subject to operating lease arrangements will most likely be affected. Management anticipates the new guidance will have a material impact on the total assets and liabilities on the Company’s consolidated balance sheets. Management does not anticipate a material impact to the consolidated statements of income as a result of implementing this guidance.

The Company plans to adopt this standard in the first quarter of its fiscal year ending February 1, 2020 using the cumulative effect transition method.

(2) Net Sales

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

OLLIE'S BARGAIN OUTLET HOLDINGS, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
November 3, 2018 and October 28, 2017
(Unaudited)

Adoption of ASU 2014-09, Revenue from Contracts with Customers

In May 2014, the FASB issued 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. The new standard supersedes U.S. GAAP guidance on revenue recognition and requires the use of more estimates and judgments than prior guidance.

The Company adopted ASU 2014-09 as of February 4, 2018 using the modified retrospective transition method. Results for reporting periods beginning after February 4, 2018 are presented pursuant to the requirements of the new standard, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historic accounting under prior guidance.

The Company recorded a net reduction to the opening balance of retained earnings of $5.6 million as of February 4, 2018 due to the cumulative impact of adopting ASU 2014-09, with the impact primarily related to the changes in revenue recognition associated with the Company's customer loyalty program and gift card breakage.

The cumulative effect of changes to the Company's consolidated February 4, 2018 balance sheet for the adoption of ASU 2014-09 was as follows (in thousands):

	Balance at February 3, 2018	Adjustments Due to ASU 2014-09	Balance at February 4, 2018
Assets			
Inventories	$ 255,185	$ 339	$ 255,524
Liabilities			
Accrued expenses and other	46,327	7,853	54,180
Deferred income taxes	59,073	(1,923)	57,150
Equity			
Retained earnings	213,019	(5,591)	207,428

The Company determined the adoption of ASU 2014-09 changed the presentation for the following:

- Revenue is deferred for the Ollie's Army loyalty program where members accumulate points that can be redeemed for discounts on future purchases. The Company determined it has an additional performance obligation to Ollie's Army members at the time of the initial transaction. The Company allocates the transaction price to the initial transaction and the discount awards based upon its relative standalone selling price, which considers historical redemption patterns for the award. Revenue is recognized as those discount awards are redeemed. Discount awards which are issued upon the achievement of specified point levels are valid for a maximum of 90 days from the date of issuance. At the end of each fiscal period, unredeemed discount awards and accumulated points to earn a future discount award are reflected as a liability. Discount awards are combined in one homogeneous pool and are not separately identifiable. Therefore, the revenue recognized consisted of discount awards redeemed that were included in the deferred revenue balance at the beginning of the period as well as discount awards issued during the current period. The following table is a reconciliation of the liability related to this program (in thousands):

Balance at February 3, 2018	$ 8,321
Revenue deferred	8,821
Revenue recognized	(8,207)
Balance at November 3, 2018	$ 8,935

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

Balance at February 3, 2018	$	1,223
Gift card issuances		2,858
Gift card redemption and breakage		(2,880)
Balance at November 3, 2018	$	1,201

- Sales return allowance is recorded on a gross basis on the condensed consolidated balance sheet as a refund liability and an asset for recovery rather than as a net liability. The allowance for estimated retail merchandise returns is based on prior experience.

The adoption of ASU 2014-09 did not have a material impact on the Company's condensed consolidated income statement and statement of cash flows for the thirteen and thirty-nine weeks ended November 3, 2018. As a result of the adoption of ASU 2014-09, the Company's balance sheet at November 3, 2018 reflected an additional liability of $8.9 million related to the Ollie's Army loyalty program which would not have been recorded prior to adoption. Other changes to the condensed consolidated balance sheet at November 3, 2018 were not significant.

(3) Earnings per Common Share

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

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

	Thirteen weeks ended		Thirty-nine weeks ended	
	November 3, 2018	October 28, 2017	November 3, 2018	October 28, 2017
Net income	$ 24,817	$ 18,862	$ 85,119	$ 57,540
Weighted average number of common shares outstanding – Basic	62,747	61,488	62,452	61,187
Dilutive impact of stock options and restricted stock units	3,348	3,614	3,409	3,607
Weighted average number of common shares outstanding - Diluted	66,095	65,102	65,861	64,794
Earnings per common share – Basic	$ 0.40	$ 0.31	$ 1.36	$ 0.94
Earnings per common share - Diluted	$ 0.38	$ 0.29	$ 1.29	$ 0.89

The effect of the weighted average assumed exercise of stock options outstanding totaling 3,248 and 3,221 for the thirteen weeks ended November 3, 2018 and October 28, 2017, respectively, and 131,424 and 167,480 for the thirty-nine weeks ended November 3, 2018 and October 28, 2017, respectively, were excluded from the calculation of diluted weighted average common shares outstanding because the effect would have been antidilutive.

The effect of weighted average non-vested restricted stock units outstanding totaling 0 and 63 for the thirteen weeks ended November 3, 2018 and October 28, 2017, respectively, and 8,893 and 13,416 for the thirty-nine weeks ended November 3, 2018 and October 28, 2017, respectively, were excluded from the calculation of diluted weighted average common shares outstanding because the effect would have been antidilutive.

(4) Accrued Expenses and Other

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

	November 3, 2018	October 28, 2017	February 3, 2018
Compensation and benefits	$ 11,245	$ 13,003	$ 14,181
Deferred revenue	8,935	-	-
Insurance	5,967	3,622	2,768
Sales and use taxes	5,322	4,239	3,865
Freight	5,216	5,391	3,836
Real estate related	3,965	3,793	4,019
Advertising	3,884	4,668	5,523
Other	13,513	10,975	12,135
	$ 58,047	$ 45,691	$ 46,327

(5) Debt Obligations and Financing Arrangements

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

	November 3, 2018	October 28, 2017	February 3, 2018
Term loan, net	$ 18,689	$ 125,586	$ 48,530
Capital leases	539	416	463
Total debt	19,228	126,002	48,993
Less: current portion	(10,186)	(8,882)	(10,158)
Long-term debt	$ 9,042	$ 117,120	$ 38,835

On January 29, 2016, the Company refinanced its existing senior secured credit facility with the proceeds of its new Credit Facilities (as defined below). The new credit facilities consist of a $200.0 million term loan ("Term Loan Facility") and a $100.0 million revolving credit facility ("Revolving Credit Facility", and together with the Term Loan Facility, the "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 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 Credit Facilities mature on January 29, 2021.

As of November 3, 2018, the Term Loan Facility is subject to amortization with principal payable in quarterly installments of $2.5 million to be made on the last business day of each fiscal quarter prior to maturity. The remaining initial aggregate advances under the Term Loan Facility are payable at maturity.

The Company made voluntary prepayments under the Term Loan Facility totaling $25.0 million and $65.0 million during the thirty-nine weeks ended November 3, 2018 and October 28, 2017, respectively. In connection with these prepayments, $0.1 million and $0.3 million of debt issuance cost and $7,000 and $0.1 million of original issue discount were accelerated and included in loss on extinguishment of debt for the thirty-nine weeks ended November 3, 2018 and October 28, 2017, respectively. In accordance with the terms of the Term Loan Facility, prepayments were applied against the remaining scheduled installment payments of principal due under the Term Loan Facility in direct order of maturity. As a result, the Company is no longer obligated to make the scheduled installment payments of principal; however, the Company currently intends to continue to make these payments and therefore has classified such payments as current portion of long-term debt in the condensed consolidated balance sheet.

Under the terms of the Revolving Credit Facility, as of November 3, 2018, the Company could borrow up to 90.0% of the most recent appraised value (valued at cost, discounted for the current net orderly liquidation value) of its eligible inventory, as defined, up to $100.0 million.

As of November 3, 2018, the Company had $18.7 million of outstanding indebtedness under the Term Loan Facility and no outstanding borrowings under the Revolving Credit Facility, with $89.9 million of borrowing availability, letter of credit commitments of $9.8 million and $0.3 million of rent reserves. The interest rate on the outstanding borrowings under the Term Loan Facility was 1.75% plus the 30-day Eurodollar Rate, or 4.05%. The Revolving Credit Facility also contains a variable unused line fee ranging from 0.250% to 0.375% per annum.

As of November 3, 2018 and October 28, 2017, the amounts outstanding under the Term Loan Facility are net of unamortized original issue discount of $4,000 and $46,000 and deferred financing fees of $56,000 and $0.6 million in each respective period.

The 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 financial covenants include a consolidated fixed charge coverage ratio test of at least 1.1 to 1.0 and a total leverage test of no greater than 3.5 to 1.0. The Company was in compliance with all terms of the Credit Facilities during the thirteen and thirty-nine weeks ended November 3, 2018.

The provisions of the 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 November 3, 2018, from being used to pay any dividends or make other restricted payments to the Company without prior written consent from the financial institutions that are a party to the Credit Facilities, subject to certain exceptions.

(6) Income Taxes

The provision for income taxes is based on the current estimate of the annual effective tax rate and is adjusted as necessary for discrete events occurring in a particular period. The effective tax rates for the thirteen and thirty-nine weeks ended November 3, 2018 were 14.2% and 13.9%, respectively. The effective tax rates for the thirteen and thirty-nine weeks ended October 28, 2017 were 18.2% and 25.6%, respectively. The effective tax rate was lower for the thirteen and thirty-nine weeks ended November 3, 2018 primarily as a result of the provisions of the 2017 Tax Cuts and Jobs Act, which, among other things, permanently lowered the federal corporate tax rate to 21% from the prior maximum rate of 35%, effective for tax years including or commencing January 1, 2018. In addition, the thirteen weeks ended November 3, 2018 and October 28, 2017 included a discrete tax benefit of $3.9 million and $4.7 million, respectively, due to the excess tax benefits related to stock-based compensation. The thirty-nine weeks ended November 3, 2018 and October 28, 2017 included a similar discrete tax benefit of $11.7 million and $9.8 million, respectively.

(7) Commitments and Contingencies

The Company commenced 38 new store leases during the thirty-nine weeks ended November 3, 2018. The fully executed leases have initial terms of approximately seven years with options to renew for three to five successive five-year periods. The initial terms of these new store leases have future minimum lease payments totaling approximately $55.9 million.

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

(8) Equity Incentive Plans

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

In connection with its initial public offering, the Company adopted the 2015 equity incentive plan (the "2015 Plan") pursuant to which the Company's Board of Directors may grant stock options, restricted shares or other awards to employees, directors and consultants. The 2015 Plan allows for the issuance of up to 5,250,000 shares. Awards will be made pursuant to agreements and may be subject to vesting and other restrictions as determined by the Board of Directors or the Compensation Committee of the Board. The Company uses authorized and unissued shares to satisfy share award exercises. As of November 3, 2018, there were 3,468,848 shares available for grant under the 2015 Plan.

Stock Options

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

A summary of the Company's stock option activity and related information follows for the thirty-nine weeks ended November 3, 2018:

	Number of options	Weighted average exercise price	Weighted average remaining contractual term (years)
Outstanding at February 3, 2018	4,458,387	$ 11.65	
Granted	276,276	58.90	
Forfeited	(22,669)	41.72	
Exercised	(774,054)	10.50	
Outstanding at November 3, 2018	3,937,940	15.02	5.6
Exercisable at November 3, 2018	2,565,963	9.03	4.6

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.

OLLIE'S BARGAIN OUTLET HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
November 3, 2018 and October 28, 2017
(Unaudited)

The weighted average grant date fair value per option for options granted during the thirty-nine weeks ended November 3, 2018 and October 28, 2017 was $18.77 and $10.60, respectively. The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model that used the weighted average assumptions in the following table:

	Thirty-nine weeks ended	
	November 3, 2018	**October 28, 2017**
Risk-free interest rate	2.70%	2.20%
Expected dividend yield	—	—
Expected term (years)	6.25 years	6.25 years
Expected volatility	25.85%	28.33%

Restricted Stock Units

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

A summary of the Company's RSU activity and related information for the thirty-nine weeks ended November 3, 2018 is as follows:

	Number of shares	**Weighted average grant date fair value**
Non-vested balance at February 3, 2018	207,346	$ 26.15
Granted	63,442	58.86
Vested	(51,424)	26.06
Non-vested balance at November 3, 2018	219,364	35.63

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 $1.9 million for each of the thirteen weeks ended November 3, 2018 and October 28, 2017 and $5.4 million and $5.9 million for the thirty-nine weeks ended November 3, 2018 and October 28, 2017, respectively.

As of November 3, 2018 there was $14.8 million of total unrecognized compensation cost related to non-vested stock-based compensation arrangements. That cost is expected to be recognized over a weighted average period of 2.6 years. Compensation costs related to awards are recognized using the straight-line method.

(9) Transactions with Related Parties

The Company has entered into five non-cancelable operating leases with related parties for office and store locations. Ollie's made $1.0 million in rent payments to such related parties during each of the thirty-nine weeks ended November 3, 2018 and October 28, 2017.

(10) Subsequent Events

On November 29, 2018, the Company acquired a 58-acre parcel of land in Lancaster, Texas for the construction of its third distribution center. Construction of the planned 615,000 square foot facility has commenced and the building is expected to be operational by the first quarter of fiscal 2020. The Company anticipates investing a total of $45 million to $50 million in the project over the course of the construction period.

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 4, 2018. As used in this Quarterly Report on Form 10-Q, except where the context otherwise requires or where otherwise indicated, the terms "Ollie's," the "Company," "we," "our" and "us" refer to Ollie's Bargain Outlet Holdings, Inc.

We operate on a fiscal calendar widely used by the retail industry that results in a fiscal year consisting of a 52- or 53-week period ending on the Saturday nearer to January 31 of the following year. References to "2018" refer to the 52-week period from February 4, 2018 to February 2, 2019. References to "2017" refer to the 53-week period from January 29, 2017 to February 3, 2018. The fiscal quarters or "third quarter" ended November 3, 2018 and October 28, 2017 refer to the 13 weeks from August 5, 2018 to November 3, 2018 and from July 30, 2017 to October 28, 2017, respectively. Year-to-date periods ended November 3, 2018 and October 28, 2017 refer to the thirty-nine weeks from February 4, 2018 to November 3, 2018 and January 29, 2017 to October 28, 2017, respectively. Historical results are not necessarily indicative of the results to be expected for any future period and results for any interim period may not necessarily be indicative of the results that may be expected for a full year.

Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as "could," "may," "might," "will," "likely," "anticipates," "intends," "plans," "seeks," "believes," "estimates," "expects," "continues," "projects" and similar references to future periods, prospects, financial performance and industry outlook. Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, by their nature, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. As a result, our actual results may differ materially from those contemplated by the forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include regional, national or global political, economic, business, competitive, market and regulatory conditions, including recently enacted tax legislation, and the following: our failure to adequately procure and manage our inventory or anticipate consumer demand; changes in consumer confidence and spending; risks associated with intense competition; our failure to open new profitable stores, or successfully enter new markets, on a timely basis or at all; our failure to hire and retain key personnel and other qualified personnel; our inability to obtain favorable lease terms for our properties; the failure to timely acquire and open, the loss of, or disruption or interruption in the operations of, our centralized distribution centers; fluctuations in comparable store sales and results of operations, including on a quarterly basis; risks associated with our lack of operations in the growing online retail marketplace; our inability to successfully implement our marketing, advertising and promotional efforts; the seasonal nature of our business; risks associated with the timely and effective deployment and protection of computer networks and other electronic systems; the risks associated with doing business with international manufacturers; changes in government regulations, procedures and requirements; 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 SEC, including our Annual Report on Form 10-K. 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 in every department, including housewares, food, books and stationery, bed and bath, floor coverings, toys, health and beauty aids and other categories. Our differentiated go-to market strategy is characterized by a unique, fun and engaging treasure hunt shopping experience, compelling customer value proposition and witty, humorous in-store signage and advertising campaigns.

Our Growth Strategy

Since 1982, when we were founded, we have grown organically by backfilling in existing marketplaces and leveraging our brand awareness, marketing and infrastructure to expand into new markets in contiguous states. 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 297 stores located in 23 states as of November 3, 2018.

Our stores are supported by two distribution centers, one in York, PA and one in Commerce, GA, which we believe can support between 350 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;
- expanding the capacity of our two distribution centers to their current 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 $3.9 million.

While we are focused on driving comparable store sales and managing our expenses, our revenue and profitability growth will primarily come from opening new stores. The core elements of our business model are procuring great deals, offering extreme values to our customers and creating consistent, predictable store growth and margins. In addition, our new stores generally open strong, immediately contributing to the growth in net sales and profitability of our business. We plan to achieve continued net sales growth, including comparable stores sales, by adding additional stores to our store base and by continuing to provide quality merchandise at a value for our customers as we scale and gain more access to purchase directly from major manufacturers. We also plan to leverage and expand our Ollie's Army database 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 to grow, even though we compete with a broad range of retailers.

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

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

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

Number of New Stores

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

We opened 31 stores, including the relocation of one store, during the thirty-nine weeks ended November 3, 2018. 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 three or four 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

Ollie's recognizes retail sales in its stores when merchandise is sold and the customer takes possession of merchandise. Also included in net sales in 2018 is revenue allocated to certain redeemed discounts earned via the Ollie's Army loyalty program and gift card breakage. Net sales are presented net of returns and sales tax. Net sales consist of sales from comparable stores and non-comparable stores, described below under "Comparable Store Sales." Growth of our net sales is primarily driven by expansion of our store base in existing and new markets. As we continue to grow, we believe we will have greater access to brand name and closeout merchandise and an increased deal selection, resulting in more potential offerings for our customers. Net sales are impacted by product mix, merchandise mix and availability, as well as promotional activities and the spending habits of our customers. Our broad selection of offerings across diverse product categories supports growth in net sales by attracting new customers, which results in higher spending levels and frequency of shopping visits from our customers, including Ollie's Army members.

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

Comparable Store Sales

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

We define comparable stores to be stores that:

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

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

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

Gross Profit and Gross Margin

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

In addition, our gross margin is 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 margin. 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

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

Pre-Opening Expenses

Pre-opening expenses consist of expenses of opening new stores and distribution centers, as well as store closing costs. For opening 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 opening distribution centers, pre-opening expenses primarily include inventory transportation costs, employee travel expenses and occupancy costs. Store closing costs primarily consist of inventory write-offs, store payroll and rent.

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

We define EBITDA as net income before net interest 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, transaction related expenses and debt financing 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

On January 29, 2016, we completed a transaction ("Refinancing") in which we refinanced the existing 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 ("Term Loan Facility") and a $100.0 million revolving credit facility ("Revolving Credit Facility," and together with the Term Loan, the "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 made voluntary prepayments under the Term Loan Facility totaling $25.0 million and $65.0 million during the thirty-nine weeks ended November 3, 2018 and October 28, 2017, respectively. In connection with these prepayments, $0.1 million and $0.3 million of debt issuance cost and $7,000 and $0.1 million of original issue discount were accelerated and included in loss on extinguishment of debt for the thirty-nine weeks ended November 3, 2018 and October 28, 2017, respectively. In accordance with the terms of the Term Loan Facility, the prepayments were applied against the remaining scheduled installment payments of principal due under the Term Loan Facility in direct order of maturity. As a result, we are no longer obligated to make the scheduled installment payments of principal; however, we currently intend to continue to make these payments and therefore have classified such payments as current portion of long-term debt in the condensed consolidated balance sheet.

Store Openings

We opened 17 new stores, including one relocated store, and closed two stores in the thirteen weeks ended November 3, 2018. In the thirteen weeks ended October 28, 2017 we opened 15 new stores. In connection with these store openings, relocations and closings, we incurred pre-opening expenses of $4.8 million and $3.2 million for the thirteen weeks ended November 3, 2018 and October 28, 2017, respectively. We opened 31 new stores, including one relocated store, and closed two stores in the thirty-nine weeks ended November 3, 2018. In the thirty-nine weeks ended October 28, 2017 we opened 31 new stores, respectively. In connection with these store openings, relocations and closings, we incurred pre-opening expenses of $8.5 million and $7.0 million for the thirty-nine weeks ended November 3, 2018 and October 28, 2017, respectively.

Seasonality

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

Results of Operations

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

We derived the condensed consolidated statements of income for the thirteen and thirty-nine weeks ended November 3, 2018 and October 28, 2017 from our unaudited condensed consolidated financial statements and related notes. Our historical results are not necessarily indicative of the results that may be expected in the future.

	Thirteen weeks ended		Thirty-nine weeks ended	
	November 3, 2018	October 28, 2017	November 3, 2018	October 28, 2017
	(dollars in thousands)			
Condensed consolidated statements of income data:				
Net sales	$ 283,606	$ 238,116	$ 847,443	$ 720,363
Cost of sales	168,184	140,127	506,521	429,213
Gross profit	115,422	97,989	340,922	291,150
Selling, general and administrative expenses	78,440	68,124	223,794	195,633
Depreciation and amortization expenses	2,914	2,503	8,531	7,150
Pre-opening expenses	4,779	3,152	8,460	7,005
Operating income	29,289	24,210	100,137	81,362
Interest expense, net	372	1,143	1,188	3,601
Loss on extinguishment of debt	-	-	100	397
Income before income taxes	28,917	23,067	98,849	77,364
Income tax expense	4,100	4,205	13,730	19,824
Net income	$ 24,817	$ 18,862	$ 85,119	$ 57,540
Percentage of net sales (1):				
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	59.3	58.8	59.8	59.6
Gross profit	40.7	41.2	40.2	40.4
Selling, general and administrative expenses	27.7	28.6	26.4	27.2
Depreciation and amortization expenses	1.0	1.1	1.0	1.0
Pre-opening expenses	1.7	1.3	1.0	1.0
Operating income	10.3	10.2	11.8	11.3
Interest expense, net	0.1	0.5	0.1	0.5
Loss on extinguishment of debt	—	—	0.0	0.1
Income before income taxes	10.2	9.7	11.7	10.7
Income tax expense	1.4	1.8	1.6	2.8
Net income	8.8%	7.9%	10.0%	8.0%
Select operating data:				
Number of new stores	17	15	31	31
Number of closed stores	(2)	—	(2)	—
Number of stores open at end of period	297	265	297	265
Average net sales per store (2)	$ 984	$ 923	$ 3,027	$ 2,917
Comparable stores sales change	4.6%	2.1%	3.6%	2.8%

(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 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:

	Thirteen weeks ended		Thirty-nine weeks ended	
	November 3, 2018	October 28, 2017	November 3, 2018	October 28, 2017
	(dollars in thousands)			
Net income	$ 24,817	$ 18,862	$ 85,119	$ 57,540
Interest expense, net	372	1,143	1,188	3,601
Loss on extinguishment of debt	-	-	100	397
Depreciation and amortization expenses (1)	3,568	3,123	10,458	8,961
Income tax expense	4,100	4,205	13,730	19,824
EBITDA	32,857	27,333	110,595	90,323
Non-cash stock-based compensation expense	1,882	1,893	5,392	5,932
Non-cash purchase accounting items (2)	-	(17)	(1)	(59)
Adjusted EBITDA	$ 34,739	$ 29,209	$ 115,986	$ 96,196

(1) Includes depreciation and amortization relating to our distribution centers, which is included within cost of sales on our condensed consolidated statements of income.
(2) Includes purchase accounting impact from unfavorable lease liabilities related to a prior acquisition.

Third Quarter 2018 Compared to Third Quarter 2017

Net Sales

Net sales increased to $283.6 million in the thirteen weeks ended November 3, 2018 from $238.1 million in the thirteen weeks ended October 28, 2017, an increase of $45.5 million, or 19.1%. The increase was the result of a comparable store sales increase of $10.3 million, or 4.6%, and a non-comparable store sales increase of $35.2 million. The increase in non-comparable store sales was driven by sales from stores that have not been open for a full 15 months.

Comparable store sales increased 4.6% for the thirteen weeks ended November 3, 2018 compared to a 2.1% increase for the thirteen weeks ended October 28, 2017. The increase in comparable store sales for the thirteen weeks ended November 3, 2018 was driven by strong sales in our toys, housewares, electronics and floor coverings departments, partially offset by decreases in our furniture and food departments.

Cost of Sales

Cost of sales increased to $168.2 million in the thirteen weeks ended November 3, 2018 from $140.1 million in the thirteen weeks ended October 28, 2017, an increase of $28.1 million, or 20.0%. The increase in cost of sales was primarily the result of increased net sales.

Gross Profit and Gross Margin

Gross profit increased to $115.4 million in the thirteen weeks ended November 3, 2018 from $98.0 million in the thirteen weeks ended October 28, 2017, an increase of $17.4 million, or 17.8%. Gross margin decreased to 40.7% in the thirteen weeks ended November 3, 2018 from 41.2% in the thirteen weeks ended October 28, 2017 due to increased supply chain costs as a percentage of net sales, partially offset by an increased merchandise margin.

Selling, General and Administrative Expenses

SG&A increased to $78.4 million in the thirteen weeks ended November 3, 2018 from $68.1 million in the thirteen weeks ended October 28, 2017, an increase of $10.3 million, or 15.1%. As a percentage of net sales, SG&A decreased 90 basis points to 27.7% in the thirteen weeks ended November 3, 2018 from 28.6% in the thirteen weeks ended October 28, 2017. The dollar increase in SG&A was primarily driven by increased selling expenses related to new store growth and increased sales volume. These increased expenses consisted primarily of store payroll and benefits, store occupancy costs and other store-related expenses.

Pre-Opening Expenses

Pre-opening expenses increased to $4.8 million in the thirteen weeks ended November 3, 2018 from $3.2 million in the thirteen weeks ended October 28, 2017, an increase of $1.6 million. The increase in pre-opening expenses during the thirteen weeks ended November 3, 2018 was due to the timing and number of new store openings.

Interest Expense, Net

Net interest expense decreased to $0.4 million in the thirteen weeks ended November 3, 2018 from $1.1 million in the thirteen weeks ended October 28, 2017, a decrease of $0.8 million, or 67.5%. The decrease was primarily due to prepayments on the Term Loan Facility that reduced our average outstanding loan balance and resulted in a lower interest expense for the thirteen weeks ended November 3, 2018.

Income Tax Expense

Income tax expense for the thirteen weeks ended November 3, 2018 was $4.1 million compared to $4.2 million for the thirteen weeks ended October 28, 2017, a decrease of $0.1 million, or 2.5%. The decrease in income tax expense was the result of a lower effective tax rate due to the provisions of the 2017 Tax Cuts and Jobs Act (the “2017 Tax Act”), which, among other things, permanently lowered the federal corporate tax rate to 21% from the prior maximum rate of 35%. In addition, the thirteen weeks ended November 3, 2018 and October 28, 2017 included a discrete tax benefit of $3.9 million and $4.7 million, respectively, due to excess tax benefits related to stock-based compensation.

Net Income

As a result of the foregoing, net income increased to $24.8 million in the thirteen weeks ended November 3, 2018 from $18.9 million in the thirteen weeks ended October 28, 2017, an increase of $6.0 million or 31.6%.

Adjusted EBITDA

Adjusted EBITDA increased to $34.7 million in the thirteen weeks ended November 3, 2018 from $29.2 million in the thirteen weeks ended October 28, 2017, an increase of $5.5 million, or 18.9%. Factors contributing to this growth included increased gross profit due to the higher sales volume and a 90-basis-point reduction of SG&A as a percentage of net sales.

Thirty-Nine Weeks 2018 Compared to Thirty-Nine Weeks 2017

Net Sales

Net sales increased to $847.4 million in the thirty-nine weeks ended November 3, 2018 from $720.4 million in the thirty-nine weeks ended October 28, 2017, an increase of $127.1 million, or 17.6%. The increase was the result of a comparable store sales increase of $24.9 million, or 3.6%, and a non-comparable store sales increase of $102.2 million. The increase in non-comparable store sales was driven by sales from stores that have not been open for a full 15 months.

Comparable store sales increased 3.6% for the thirty-nine weeks ended November 3, 2018 compared to a 2.8% increase for the thirty-nine weeks ended October 28, 2017. The increase in comparable store sales for the thirty-nine weeks ended November 3, 2018 was driven by strong sales in our housewares, toys, automotive and floor coverings departments, partially offset by decreases in our books and hardware departments.

Cost of Sales

Cost of sales increased to $506.5 million in the thirty-nine weeks ended November 3, 2018 from $429.2 million in the thirty-nine weeks ended October 28, 2017, an increase of $77.3 million, or 18.0%. The increase in cost of sales was primarily the result of increased net sales.

Gross Profit and Gross Margin

Gross profit increased to $340.9 million in the thirty-nine weeks ended November 3, 2018 from $291.2 million in the thirty-nine weeks ended October 28, 2017, an increase of $49.8 million, or 17.1%. Gross margin decreased to 40.2% in the thirty-nine weeks ended November 3, 2018 from 40.4% in the thirty-nine weeks ended October 28, 2017 due to increased supply chain costs as a percentage of net sales, partially offset by an increased merchandise margin.

Selling, General and Administrative Expenses

SG&A increased to $223.8 million in the thirty-nine weeks ended November 3, 2018 from $195.6 million in the thirty-nine weeks ended October 28, 2017, an increase of $28.2 million, or 14.4%. As a percentage of net sales, SG&A decreased 80 basis points to 26.4% in the thirty-nine weeks ended November 3, 2018 from 27.2% in the thirty-nine weeks ended October 28, 2017. The dollar increase in SG&A was primarily driven by increased selling expenses related to new store growth and increased sales volume. These increased expenses consisted primarily of store payroll and benefits, store occupancy costs and other store-related expenses.

Pre-Opening Expenses

Pre-opening expenses increased to $8.5 million in the thirty-nine weeks ended November 3, 2018 from $7.0 million in the thirty-nine weeks ended October 28, 2017, an increase of $1.5 million. The increase in pre-opening expenses during the thirty-nine weeks ended November 3, 2018 was due to the timing of new store openings.

Interest Expense, Net

Net interest expense decreased to $1.2 million in the thirty-nine weeks ended November 3, 2018 from $3.6 million in the thirty-nine weeks ended October 28, 2017, a reduction of $2.4 million, or 67.0%. The decrease was primarily due to prepayments on the Term Loan Facility that reduced our average outstanding loan balance and resulted in a lower interest expense for the thirty-nine weeks ended November 3, 2018.

Income Tax Expense

Income tax expense in the thirty-nine weeks ended November 3, 2018 was $13.7 million compared to $19.8 million in the thirty-nine weeks ended October 28, 2017, a decrease of $6.1 million, or 30.7%. The decrease in income tax expense was the result of a lower effective tax rate due to the provisions of the 2017 Tax Act, which, among other things, permanently lowered the federal corporate tax rate to 21% from the prior maximum rate of 35%. In addition, the thirty-nine weeks ended November 3, 2018 and October 28, 2017 included a discrete tax benefit of $11.7 million and $9.8 million, respectively, due to excess tax benefits related to stock-based compensation.

Net Income

As a result of the foregoing, net income increased to $85.1 million in the thirty-nine weeks ended November 3, 2018 from $57.5 million in the thirty-nine weeks ended October 28, 2017, an increase of $27.6 million or 47.9%.

Adjusted EBITDA

Adjusted EBITDA increased to $116.0 million in the thirty-nine weeks ended November 3, 2018 from $96.2 million in the thirty-nine weeks ended October 28, 2017, an increase of $19.8 million, or 20.6%. Factors contributing to this growth included increased gross profit due to the higher sales volume and an 80-basis-point reduction of SG&A as a percentage of net sales.

Liquidity and Capital Resources

Overview

Our primary sources of liquidity are net cash provided by operating activities and borrowings under our Revolving Credit Facility. Our primary cash needs are for capital expenditures and working capital. As of November 3, 2018, we had $89.9 million of available borrowings under our Revolving Credit Facility, $0.7 million of cash and cash equivalents on hand, and $18.8 million of outstanding borrowings under our Term Loan Facility.

Our capital expenditures are primarily related to new store openings, store resets, which consist of improvements to stores as they are needed, expenditures related to our distribution centers and infrastructure-related investments, including investments related to upgrading and maintaining our information technology systems. We spent $52.5 million and $62.7 million for capital expenditures during the thirteen and thirty-nine weeks ended November 3, 2018, respectively. Included in capital expenditures in the thirteen and thirty-nine weeks ended November 3, 2018, is approximately $42.0 million for the acquisition of 12 former Toys "R" Us locations. We spent $6.5 and $15.2 million for capital expenditures for the thirteen and thirty-nine weeks ended October 28, 2017, respectively. We expect to fund capital expenditures from net cash provided by operating activities. We opened 31 stores, including the relocation of one store, during the thirty-nine weeks ended November 3, 2018 and expect to open 37 stores, including the relocation of one store, in 2018. We also expect to invest in our distribution centers, store resets and general corporate capital expenditures, including information technology, in 2018.

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

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

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

Summary of Cash Flows

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

	Thirty-nine weeks ended	
	November 3, 2018	**October 28, 2017**
	(in thousands)	
Net cash provided by operating activities	$ 46,910	$ 20,384
Net cash used in investing activities	(62,650)	(15,119)
Net cash used in financing activities	(22,758)	(61,784)
Net decrease in cash and cash equivalents	$ (38,498)	$ (56,519)

Cash Provided by Operating Activities

Net cash provided by operating activities was $46.9 million for the thirty-nine weeks ended November 3, 2018 compared to net cash provided operating activities of $20.4 million for the thirty-nine weeks ended October 28, 2017. The increase in net cash provided by operating activities for the thirty-nine weeks ended November 3, 2018 was primarily due to increases in net income due to new store openings and increased profitability at existing stores.

Cash Used in Investing Activities

Net cash used in investing activities for the thirty-nine weeks ended November 3, 2018 and October 28, 2017 was $62.7 million and $15.1 million, respectively. The increase in cash used in investing activities primarily relates to the August 2018 purchase of 12 former Toys R Us store sites.

Cash Used in Financing Activities

Net cash used in financing activities was $22.8 million and $61.8 million for the thirty-nine weeks ended November 3, 2018 and October 28, 2017, respectively. The decrease in cash outflows for the thirty-nine weeks ended November 3, 2018 was primarily related to the $40.0 million reduction in voluntary term loan prepayments in the thirty-nine weeks ended November 3, 2018 compared to the thirty-nine weeks ended October 28, 2017.

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 November 3, 2018, 38 new store leases commenced. The fully executed leases have initial terms of approximately seven years with options to renew for three to five successive five-year periods and have future minimum lease payments that total approximately $55.9 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.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. We have identified the policies below as critical to our business operations and understanding of our results of operations.

Inventories

Inventories are stated at the lower of cost or market determined using the retail inventory method on a first-in, first-out basis. The cost of inventories includes the merchandise cost, transportation costs, and certain distribution and storage costs. Such costs are thereafter expensed as cost of sales upon the sale of the merchandise.

Under the retail inventory method, which is widely used in the retail industry, inventory is segregated into departments of merchandise having similar characteristics. The valuation of inventories and the resulting gross margin is derived by applying a calculated cost-to-retail ratio to the retail value of inventories, for each department.

Inherent in the retail inventory method are certain management judgments and estimates including, among others, merchandise markups, the amount and timing of permanent markdowns, and shrinkage, which may significantly impact both the ending inventory valuation and gross margin. Factors considered in the determination of permanent markdowns include inventory obsolescence, excess inventories, current and anticipated demand, age of the merchandise and customer preferences. A significant increase in the demand for merchandise could result in a short-term increase in inventory purchases while a significant decrease in demand could result in an increase in the amount of excess inventory quantities on-hand. If our inventory is determined to be overvalued in the future, we would be required to recognize such costs in costs of goods sold and reduce operating income at the time of such determination. Therefore, although every effort is made to ensure the accuracy of forecasts of merchandise demand, any significant unanticipated changes in demand or in economic conditions within our markets could have a significant impact on the value of our inventory and reported operating results. Similarly, if higher than anticipated levels of shrinkage were to occur, it could have a material effect on our results of operations.

Goodwill/Intangible Assets

We amortize intangible assets over their useful lives unless we determine such lives to be indefinite. Goodwill and intangible assets having indefinite useful lives are not amortized to earnings, but instead are subject to annual impairment testing or more frequently if events or circumstances indicate that the value of goodwill or intangible assets having indefinite useful lives might be impaired.

Goodwill and intangible assets having indefinite useful lives are tested for impairment annually in the fiscal month of October. We have the option to evaluate qualitative factors to determine if it is more likely than not that the carrying amount of our sole reporting unit or our nonamortizing intangible assets (consisting of a tradename) exceed their implied respective fair value and whether it is necessary to perform a quantitative analysis to determine impairment. As part of this qualitative assessment, we weigh the relative impact of factors that are specific to our sole reporting unit or our nonamortizing intangible assets as well as industry, regulatory and macroeconomic factors that could affect the inputs used to determine the fair value of the assets.

If management determines a quantitative goodwill impairment test is required, or it elects to perform a quantitative test, the test is performed by determining the fair value of our sole reporting unit. Fair value is determined based upon our public market capitalization. The quantitative test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the Company must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after the allocation is the implied fair value of the reporting unit's goodwill.

For 2018, we completed a quantitative step-one impairment test of our goodwill and determined that no impairment of goodwill existed.

If management determines a quantitative analysis of intangible assets having indefinite useful lives is required, the test is performed using the discounted cash flow method based on management's projection of future revenues and an estimated royalty rate to determine the fair value of the asset, specifically, our tradename. An impairment loss is recognized for any excess of the carrying amount of the asset over the implied fair value of that asset.

For 2018, we completed a qualitative impairment test of our tradename and determined that no impairment of the asset existed.

Intangible assets with determinable useful lives are amortized over their estimated useful lives and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Our policy is to conduct impairment testing based on our most current business plans, which reflect anticipated changes in the economy and the retail industry. Should significant changes in our overall business strategy, future results or economic events cause us to adjust our projected cash flows, future estimates of fair value may not support the carrying amount of these assets. If actual results prove inconsistent with our assumptions and judgments, we could be exposed to an impairment charge.

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 November 3, 2018, we had no outstanding borrowings under our Revolving Credit Facility and $18.8 million of outstanding indebtedness under the Term Loan Facility. The impact of a 1.0% rate change on the outstanding balance of the Term Loan Facility as of November 3, 2018 would be approximately $0.2 million.

As of November 3, 2018, 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 4, 2018.

Impact of Inflation

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting during the thirteen weeks ended November 3, 2018 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 to which we are a party. However, we do not believe that an unfavorable decision of any of the current claims or legal actions against us, individually or in the aggregate, will have a material adverse effect on our financial position, results of operations, liquidity or capital resources.

ITEM 1A. RISK FACTORS

See Item 1A in our Annual Report on Form 10-K for the year ended February 3, 2018 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

Exhibit No.	Description of Exhibits
*31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
**101.INS	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 7, 2018

/s/ Jay Stasz

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

Exhibit 31.1

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

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

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

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

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

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

Date: December 7, 2018

/s/ Mark Butler

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

Exhibit 31.2

CERTIFICATIONS

I, Jay Stasz, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ollie's Bargain Outlet Holdings, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: December 7, 2018

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

Exhibit 32.1

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

In connection with the quarterly report of Ollie’s Bargain Outlet Holdings, Inc. (the “Company”) on Form 10-Q for the quarter ended November 3, 2018, 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 7, 2018

/s/ Mark Butler

Mark Butler
Chief Executive Officer

Exhibit 32.2

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

In connection with the quarterly report of Ollie's Bargain Outlet Holdings, Inc. (the "Company") on Form 10-Q for the quarter ended November 3, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jay Stasz, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: December 7, 2018

/s/ Jay Stasz

Jay Stasz
Chief Financial Officer