

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2021

or

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

**For the transition period from to
Commission File Number 001-34956**

CONN'S, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

06-1672840

(I.R.S. Employer Identification Number)

**2445 Technology Forest Blvd., Suite 800,
The Woodlands, TX**

(Address of principal executive offices)

77381

(Zip Code)

Registrant's telephone number, including area code: **(936) 230-5899**

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, par value \$0.01 per share	CONN	NASDAQ Global Select Market

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of November 29, 2021:

Class	Outstanding
Common stock, \$0.01 par value per share	29,516,584

CONN'S, INC. AND SUBSIDIARIES
FORM 10-Q
FOR THE FISCAL QUARTER ENDED OCTOBER 31, 2021

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This Quarterly Report on Form 10-Q includes our trademarks such as “Conn’s,” “Conn’s HomePlus,” “YES YOU’RE APPROVED,” “YES Money,” “YES Money,” “YES Lease,” “YES Lease,” and our logos, which are protected under applicable intellectual property laws and are the property of Conn’s, Inc. This report also contains trademarks, service marks, trade names and copyrights of other companies, which are the property of their respective owners. Solely for convenience, trademarks and trade names referred to in this Quarterly Report may appear without the ® or TM symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the rights of the applicable licensor to these trademarks and trade names.

References to “we,” “our,” “us,” “the Company,” “Conn’s” or “CONN” refer to Conn’s, Inc. and, as apparent from the context, its consolidated bankruptcy-remote variable-interest entities (“VIEs”), and its wholly-owned subsidiaries.

PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS**

CONN'S, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited and dollars in thousands, except per share amounts)

	October 31, 2021	January 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,597	\$ 9,703
Restricted cash (includes VIE balances of \$23,478 and \$48,622, respectively)	25,528	50,557
Customer accounts receivable, net of allowances (includes VIE balances of \$131,754 and \$259,811, respectively)	460,808	478,734
Other accounts receivable	74,811	61,716
Inventories	263,134	196,463
Income taxes receivable	8,787	38,059
Prepaid expenses and other current assets	9,745	8,831
Total current assets	853,410	844,063
Long-term portion of customer accounts receivable, net of allowances (includes VIE balances of \$42,047 and \$184,304, respectively)	426,220	430,749
Property and equipment, net	188,502	190,962
Operating lease right-of-use assets	265,592	265,798
Deferred income taxes	—	9,448
Other assets	52,855	14,064
Total assets	\$ 1,786,579	\$ 1,755,084
Liabilities and Stockholders' Equity		
Current liabilities:		
Current finance lease obligations	\$ 942	\$ 934
Accounts payable	91,084	69,367
Accrued compensation and related expenses	38,546	24,944
Accrued expenses	89,508	58,046
Operating lease liability - current	50,390	44,011
Income taxes payable	2,718	1,447
Deferred revenues and other credits	13,684	13,007
Total current liabilities	286,872	211,756
Operating lease liability - non current	345,756	354,598
Long-term debt and finance lease obligations (includes VIE balances of \$146,862 and \$411,551, respectively)	459,319	608,635
Deferred tax liability	8,693	—
Other long-term liabilities	22,424	22,940
Total liabilities	1,123,064	1,197,929
Commitments and contingencies		
Stockholders' equity:		
Preferred stock (\$0.01 par value, 1,000,000 shares authorized; none issued or outstanding)	—	—
Common stock (\$0.01 par value, 100,000,000 shares authorized; 32,982,249 and 32,711,623 shares issued, respectively)	330	327
Treasury stock (at cost; 3,485,441 shares and 3,485,441 shares, respectively)	(66,290)	(66,290)
Additional paid-in capital	137,824	132,108
Retained earnings	591,651	491,010
Total stockholders' equity	663,515	557,155
Total liabilities and stockholders' equity	\$ 1,786,579	\$ 1,755,084

See notes to condensed consolidated financial statements.

CONN'S, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited and dollars in thousands, except per share amounts)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2021	2020	2021	2020
Revenues:				
Product sales	\$ 308,301	\$ 239,157	\$ 897,757	\$ 702,497
Repair service agreement commissions	23,769	17,465	66,600	57,730
Service revenues	2,513	3,150	8,307	9,611
Total net sales	334,583	259,772	972,664	769,838
Finance charges and other revenues	70,875	74,386	214,879	248,396
Total revenues	405,458	334,158	1,187,543	1,018,234
Costs and expenses:				
Cost of goods sold	211,298	160,378	612,219	484,015
Selling, general and administrative expense	138,081	122,158	402,000	350,443
Provision for bad debts	26,532	27,493	19,658	176,864
Charges and credits	—	—	—	3,589
Total costs and expenses	375,911	310,029	1,033,877	1,014,911
Operating income	29,547	24,129	153,666	3,323
Interest expense	5,206	11,563	20,498	39,778
Loss on extinguishment of debt	—	—	1,218	—
Income (loss) before income taxes	24,341	12,566	131,950	(36,455)
Provision (benefit) for income taxes	6,102	5,147	31,309	(8,192)
Net income (loss)	\$ 18,239	\$ 7,419	\$ 100,641	\$ (28,263)
Income (loss) per share:				
Basic	\$ 0.62	\$ 0.25	\$ 3.42	\$ (0.97)
Diluted	\$ 0.60	\$ 0.25	\$ 3.34	\$ (0.97)
Weighted average common shares outstanding:				
Basic	29,488,321	29,142,843	29,418,047	29,013,759
Diluted	30,261,421	29,483,481	30,127,419	29,013,759

See notes to condensed consolidated financial statements.

CONN'S, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(unaudited and in thousands, except for number of shares)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock		Total
	Shares	Amount			Shares	Amount	
Balance January 31, 2021	32,711,623	\$ 327	\$ 132,108	\$ 491,010	(3,485,441)	\$ (66,290)	\$ 557,155
Exercise of options and vesting of restricted stock, net of withholding tax	115,159	1	(999)	—	—	—	(998)
Issuance of common stock under Employee Stock Purchase Plan	18,240	—	180	—	—	—	180
Stock-based compensation	—	—	2,039	—	—	—	2,039
Net income	—	—	—	45,398	—	—	45,398
Balance April 30, 2021	32,845,022	\$ 328	\$ 133,328	\$ 536,408	(3,485,441)	\$ (66,290)	\$ 603,774
Exercise of options and vesting of restricted stock, net of withholding tax	112,223	1	(229)	—	—	—	(228)
Issuance of common stock under Employee Stock Purchase Plan	10,563	—	187	—	—	—	187
Stock-based compensation	—	—	1,713	—	—	—	1,713
Net income	—	—	—	37,004	—	—	37,004
Balance July 31, 2021	32,967,808	\$ 329	\$ 134,999	\$ 573,412	(3,485,441)	\$ (66,290)	\$ 642,450
Exercise of options and vesting of restricted stock, net of withholding tax	3,394	—	(25)	—	—	—	(25)
Issuance of common stock under Employee Stock Purchase Plan	11,047	1	220	—	—	—	221
Stock-based compensation	—	—	2,630	—	—	—	2,630
Net income	—	—	—	18,239	—	—	18,239
Balance October 31, 2021	32,982,249	\$ 330	\$ 137,824	\$ 591,651	(3,485,441)	\$ (66,290)	\$ 663,515

CONN'S, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(unaudited and in thousands, except for number of shares)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock		Total
	Shares	Amount			Shares	Amount	
Balance January 31, 2020	32,125,055	\$ 321	\$ 122,513	\$ 570,636	(3,485,441)	\$ (66,290)	\$ 627,180
Adoption of ASU 2016-13	—	—	—	(76,490)	—	—	(76,490)
Exercise of options and vesting of restricted stock, net of withholding tax	321,468	3	(1,288)	—	—	—	(1,285)
Issuance of common stock under Employee Stock Purchase Plan	47,450	1	176	—	—	—	177
Stock-based compensation	—	—	2,430	—	—	—	2,430
Net loss	—	—	—	(56,202)	—	—	(56,202)
Balance April 30, 2020	32,493,973	\$ 325	\$ 123,831	\$ 437,944	(3,485,441)	\$ (66,290)	\$ 495,810
Exercise of options and vesting of restricted stock, net of withholding tax	70,271	1	(159)	—	—	—	(158)
Issuance of common stock under Employee Stock Purchase Plan	51,643	—	160	—	—	—	160
Stock-based compensation	—	—	2,254	—	—	—	2,254
Net income	—	—	—	20,520	—	—	20,520
Balance July 31, 2020	32,615,887	\$ 326	\$ 126,086	\$ 458,464	(3,485,441)	\$ (66,290)	\$ 518,586
Exercise of options and vesting of restricted stock, net of withholding tax	6,856	—	(32)	—	—	—	(32)
Issuance of common stock under Employee Stock Purchase Plan	22,729	—	194	—	—	—	194
Stock-based compensation	—	—	2,304	—	—	—	2,304
Net income	—	—	—	7,419	—	—	7,419
Balance October 31, 2020	32,645,472	\$ 326	\$ 128,552	\$ 465,883	(3,485,441)	\$ (66,290)	\$ 528,471

See notes to condensed consolidated financial statements.

CONN'S, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited and in thousands)

	Nine Months Ended October 31,	
	2021	2020
Cash flows from operating activities:		
Net income (loss)	\$ 100,641	\$ (28,263)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation	34,233	30,506
Change in right-of-use asset	25,910	21,926
Amortization of debt issuance costs	4,098	6,388
Provision for bad debts and uncollectible interest	45,120	225,713
Stock-based compensation expense	6,382	6,988
Charges, net of credits	—	3,589
Deferred income taxes	18,141	(3,954)
Loss on extinguishment of debt	1,218	—
Loss on disposal of property and equipment	514	198
Tenant improvement allowances received from landlords	11,537	15,137
Change in operating assets and liabilities:		
Customer accounts receivable	(22,468)	79,357
Other accounts receivables	(13,291)	11,918
Inventories	(66,672)	3,595
Other assets	(132)	(342)
Accounts payable	21,717	23,423
Accrued expenses	47,323	24,666
Operating leases	(39,704)	(29,151)
Income taxes	(6,574)	(4,370)
Deferred revenues and other credits	(317)	(1,862)
Net cash provided by operating activities	167,676	385,462
Cash flows from investing activities:		
Purchases of property and equipment	(33,150)	(46,644)
Net cash used in investing activities	(33,150)	(46,644)
Cash flows from financing activities:		
Proceeds from issuance of asset-backed notes	62,900	240,100
Payments on asset-backed notes	(329,464)	(438,523)
Borrowings under revolving credit facility	1,092,106	1,143,311
Payments on revolving credit facility	(837,106)	(1,172,411)
Payments of debt issuance costs and amendment fees	(4,350)	(4,570)
Proceeds from stock issued under employee benefit plans	587	533
Tax payments associated with equity-based compensation transactions	(1,252)	(1,477)
Payment for extinguishment of debt	(141,279)	—
Other	(803)	(440)
Net cash used in financing activities	(158,661)	(233,477)
Net change in cash, cash equivalents and restricted cash	(24,135)	105,341
Cash, cash equivalents and restricted cash, beginning of period	60,260	80,855
Cash, cash equivalents and restricted cash, end of period	\$ 36,125	\$ 186,196
Non-cash investing and financing activities:		
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ 1,160	\$ 1,045
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 34,896	\$ 65,958
Property and equipment purchases not yet paid	\$ 5,545	\$ 7,023
Supplemental cash flow data:		
Cash interest paid	\$ 14,756	\$ 28,803
Cash income taxes paid, net	\$ 19,733	\$ 394

See notes to condensed consolidated financial statements.

CONN'S, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Business. Conn's, Inc., a Delaware corporation, is a holding company with no independent assets or operations other than its investments in its subsidiaries. References to "we," "our," "us," "the Company," "Conn's" or "CONN" refer to Conn's, Inc. and, as apparent from the context, its subsidiaries. Conn's is a leading specialty retailer that offers a broad selection of quality, branded durable consumer goods and related services in addition to proprietary credit solutions for its core credit-constrained consumers. We operate an integrated and scalable business through our retail stores and website. Our complementary product offerings include furniture and mattresses, home appliances, consumer electronics and home office products from leading global brands across a wide range of price points. Our credit offering provides financing solutions to a large, under-served population of credit-constrained consumers who typically have limited credit alternatives.

We operate two reportable segments: retail and credit. Our retail stores bear the "Conn's HomePlus" name with all of our stores providing the same products and services to a common customer group. Our stores follow the same procedures and methods in managing their operations. Our retail business and credit business are operated independently from each other. The credit segment is dedicated to providing short- and medium-term financing to our retail customers. The retail segment is not involved in credit approval decisions or collection efforts. Our management evaluates performance and allocates resources based on the operating results of the retail and credit segments.

Basis of Presentation. The accompanying unaudited Condensed Consolidated Financial Statements of Conn's, Inc. and its wholly-owned subsidiaries, including its Variable Interest Entities ("VIEs"), have been prepared by management in accordance with U.S. generally accepted accounting principles ("GAAP") and prevailing industry practice for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, we do not include all of the information and footnotes required by GAAP for complete financial statements. The accompanying financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. All such adjustments are of a normal recurring nature. The condensed consolidated financial position, results of operations and cash flows for these interim periods are not necessarily indicative of the results that may be expected in future periods. The balance sheet at January 31, 2021 has been derived from the audited financial statements at that date. The financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2021 (the "2021 Form 10-K") filed with the United States Securities and Exchange Commission (the "SEC") on March 31, 2021.

Fiscal Year. Our fiscal year ends on January 31. References to a fiscal year refer to the calendar year in which the fiscal year ends.

Principles of Consolidation. The Condensed Consolidated Financial Statements include the accounts of Conn's, Inc. and its wholly-owned subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

Variable Interest Entities. VIEs are consolidated if the Company is the primary beneficiary. The primary beneficiary of a VIE is the party that has (i) the power to direct the activities that most significantly impact the performance of the VIE and (ii) the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE.

We securitize customer accounts receivables by transferring the receivables to various bankruptcy-remote VIEs. We retain the servicing of the securitized portfolio and have a variable interest in each corresponding VIE by holding the residual equity. We have determined that we are the primary beneficiary of each respective VIE because (i) our servicing responsibilities for the securitized portfolio give us the power to direct the activities that most significantly impact the performance of the VIE and (ii) our variable interest in the VIE gives us the obligation to absorb losses and the right to receive residual returns that potentially could be significant. As a result, we consolidate the respective VIEs within our Condensed Consolidated Financial Statements.

Refer to Note 4, *Debt and Financing Lease Obligations*, and Note 6, *Variable Interest Entities*, for additional information.

Use of Estimates. The preparation of financial statements in accordance with GAAP requires management to make informed judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Changes in facts and circumstances or additional information may result in revised estimates, and actual results may differ, even significantly, from these estimates. Management evaluates its estimates and related assumptions regularly, including those related to the allowance for doubtful accounts and allowances for no-interest option credit programs, which are particularly sensitive given the size of our customer portfolio balance.

Cash and Cash Equivalents. As of October 31, 2021 and January 31, 2021, cash and cash equivalents included cash and credit card deposits in transit. Credit card deposits in transit included in cash and cash equivalents were \$8.2 million and \$7.9 million as of October 31, 2021 and January 31, 2021, respectively.

CONN'S, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Restricted Cash. The restricted cash balance as of October 31, 2021 and January 31, 2021 includes \$18.7 million and \$41.6 million, respectively, of cash we collected as servicer on the securitized receivables that was subsequently remitted to the VIEs and \$4.8 million and \$7.0 million, respectively, of cash held by the VIEs as additional collateral for the asset-backed notes.

Customer Accounts Receivable. Customer accounts receivable reported in the Condensed Consolidated Balance Sheet includes total receivables managed, including both those transferred to the VIEs and those not transferred to the VIEs. Customer accounts receivable are recognized at the time the customer takes possession of the product. Expected lifetime losses on customer accounts receivable are recognized upon origination through an allowance for credit losses account that is deducted from the customer account receivable balance and presented net. Customer accounts receivable include the net of unamortized deferred fees charged to customers and origination costs. Customer receivables are considered delinquent if a payment has not been received on the scheduled due date. Accounts that are delinquent more than 209 days as of the end of a month are charged-off against the allowance for doubtful accounts along with interest accrued subsequent to the last payment.

In an effort to mitigate losses on our accounts receivable, we may make loan modifications to a borrower experiencing financial difficulty. The loan modifications are intended to maximize net cash flow after expenses and avoid the need to exercise legal remedies available to us. We may extend or “re-age” a portion of our customer accounts, which involves modifying the payment terms to defer a portion of the cash payments due. Our re-aging of customer accounts does not change the interest rate or the total principal amount due from the customer and typically does not reduce the monthly contractual payments. To a much lesser extent, we may provide the customer the ability to refinance their account, which typically does not change the interest rate or the total principal amount due from the customer but does reduce the monthly contractual payments and extend the term. We consider accounts that have been re-aged in excess of three months or refinanced as Troubled Debt Restructurings (“TDR” or “Restructured Accounts”).

On March 27, 2020 the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”) was signed into law to address the economic impact of the COVID-19 pandemic. Under the CARES Act, modifications deemed to be COVID-19 related are not considered a TDR if the loan was current (not more than 30 days past due as of March 31, 2020) and the deferral was executed between April 1, 2020 and the earlier of 60 days after the termination of the COVID-19 national emergency or December 31, 2020. In response to the CARES Act, the Company implemented short-term deferral programs for our customers. The carrying value of the customer receivables on accounts which were current prior to receiving a COVID-19 related deferment was \$25.7 million and \$65.2 million as of October 31, 2021 and January 31, 2021, respectively. All COVID-19 specific deferral programs ended during the third quarter of fiscal year 2021.

Interest Income on Customer Accounts Receivable. Interest income, which includes interest income and amortization of deferred fees and origination costs, is recorded using the interest method and is reflected in finance charges and other revenues. Typically, interest income is recorded until the customer account is paid off or charged-off and we provide an allowance for estimated uncollectible interest. We reserve for interest that is more than 60 days past due. Any contractual interest income received from customers in excess of the interest income calculated using the interest method is recorded as deferred revenue on our balance sheets. At October 31, 2021 and January 31, 2021, there was \$8.5 million and \$8.9 million, respectively, of deferred interest included in deferred revenues and other credits and other long-term liabilities. The deferred interest will ultimately be brought into income as the accounts pay off or charge-off.

We offer a 12-month no-interest option program. If the customer is delinquent in making a scheduled monthly payment or does not repay the principal in full by the end of the no-interest option program period (grace periods are provided), the account does not qualify for the no-interest provision and none of the interest earned is waived. Interest income is recognized based on estimated accrued interest earned to date on all no-interest option finance programs with an offsetting reserve for those customers expected to satisfy the requirements of the program based on our historical experience.

We recognize interest income on TDR accounts using the interest income method, which requires reporting interest income equal to the increase in the net carrying amount of the loan attributable to the passage of time. Cash proceeds and other adjustments are applied to the net carrying amount such that it equals the present value of expected future cash flows.

We place accounts in non-accrual status when legally required. Payments received on non-accrual loans are applied to principal and reduce the balance of the loan. At October 31, 2021 and January 31, 2021, the carrying value of customer accounts receivable in non-accrual status was \$6.7 million and \$8.5 million, respectively. At October 31, 2021 and January 31, 2021, the carrying value of customer accounts receivable that were past due 90 days or more and still accruing interest totaled \$70.2 million and \$111.5 million, respectively. At October 31, 2021 and January 31, 2021, the carrying value of customer accounts receivable in a bankruptcy status that were less than 60 days past due of \$6.2 million and \$5.2 million, respectively, were included within the customer receivables balance carried in non-accrual status.

Allowance for Doubtful Accounts. The determination of the amount of the allowance for credit losses is, by nature, highly complex and subjective. Future events that are inherently uncertain could result in material changes to the level of the allowance for credit losses. General economic conditions, changes to state or federal regulations and a variety of other factors

that affect the ability of borrowers to service their debts or our ability to collect will impact the future performance of the portfolio.

We establish an allowance for credit losses, including estimated uncollectible interest, to cover expected credit losses on our customer accounts receivable resulting from the failure of customers to make contractual payments. Our customer accounts receivable portfolio balance consists of a large number of relatively small, homogeneous accounts. None of our accounts are large enough to warrant individual evaluation for impairment. The allowance for credit losses is measured on a collective (pool) basis where similar risk characteristics exist. The allowance for credit losses is determined for each pool and added to the pool's carrying amount to establish a new amortized cost basis.

We use a risk-based, pool-level segmentation framework to calculate the expected loss rate. This framework is based on our historical gross charge-off history. In addition to adjusted historical gross charge-off rates, estimates of post-charge-off recoveries, including cash payments from customers, sales tax recoveries from taxing jurisdictions, and payments received under credit insurance and repair service agreement ("RSA") policies are also considered. We also consider forward-looking economic forecasts based on a statistical analysis of economic factors (specifically, forecast of unemployment rates over the reasonable and supportable forecasting period). To the extent that situations and trends arise which are not captured in our model, management will layer on additional qualitative adjustments.

Pursuant to ASC 326 requirements, the Company uses a 24-month reasonable and supportable forecast period for the customer accounts receivable portfolio. We estimate losses beyond the 24-month forecast period based on historic loss rates experienced over the life of our historic loan portfolio by loan pool type. We revisit our measurement methodology and assumption annually, or more frequently if circumstances warrant.

As of October 31, 2021 and January 31, 2021, the balance of allowance for doubtful accounts and uncollectible interest for non-TDR customer receivables was \$158.4 million and \$219.7 million, respectively. As of October 31, 2021 and January 31, 2021, the amount included in the allowance for doubtful accounts associated with principal and interest on TDR accounts was \$49.8 million and \$78.3 million, respectively.

Debt Issuance Costs. Costs that are direct and incremental to debt issuance are deferred and amortized to interest expense using the effective interest method over the expected life of the debt. All other costs related to debt issuance are expensed as incurred. We present debt issuance costs associated with long-term debt as a reduction of the carrying amount of the debt. Unamortized costs related to the Revolving Credit Facility, as defined in Note 4, *Debt and Financing Lease Obligations*, are included in other assets on our Condensed Consolidated Balance Sheet and were \$5.5 million and \$3.5 million as of October 31, 2021 and January 31, 2021, respectively.

Loss on Extinguishment. During the nine months ended October 31, 2021, we incurred a loss of \$1.0 million related to the retirement of the remaining \$141.2 million aggregate principal amount of our 7.25% Senior Notes due 2022 ("Senior Notes") and a loss of \$0.2 million related to the amendment of our Fifth Amended and Restated Loan and Security Agreement.

Income Taxes. For the nine months ended October 31, 2021 and 2020, we utilized the estimated annual effective tax rate based on our estimated fiscal year 2022 and 2021 pre-tax income, respectively, in determining income tax expense.

Provision for income taxes for interim periods is based on an estimated annual income tax rate, adjusted for discrete tax items. As a result, our interim effective tax rates may vary significantly from the statutory tax rate and the annual effective tax rate.

For the nine months ended October 31, 2021 and 2020, the effective tax rate was 23.7% and 22.5%, respectively. The primary factor affecting the decrease in our effective tax rate for the nine months ended October 31, 2021 was the impact of the tax loss carryback provisions of the CARES Act that was reflected in the prior period.

Stock-based Compensation. During the nine months ended October 31, 2021, the Company granted performance stock awards ("PSUs") and restricted stock awards ("RSUs"). The awards had a combined aggregate grant date fair value of \$17.8 million. The PSUs will vest in fiscal year 2025, if at all, upon certification by the Compensation Committee of the Board of Directors of satisfaction of certain total stockholder return performance conditions over the three fiscal years commencing with fiscal year 2022. The RSUs will vest ratably, over periods of three years to four years from the date of grant.

Stock-based compensation expense is recorded, net of actual forfeitures, for share-based compensation awards over the requisite service period using the straight-line method. For equity-classified share-based compensation awards, expense is recognized based on the grant-date fair value. For stock option grants, we use the Black-Scholes model to determine fair value. For grants of restricted stock units, the fair value of the grant is the market value of our stock at the date of issuance. For grants of performance-based restricted stock units, the fair value is the market value of our stock at the date of issuance adjusted for the market condition using a Monte Carlo model.

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The following table sets forth the RSUs and PSUs granted during the three and nine months ended October 31, 2021 and 2020:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2021	2020	2021	2020
RSUs ⁽¹⁾	204,376	—	586,107	622,195
PSUs ⁽²⁾	115,688	—	268,037	270,828
Total stock awards granted	320,064	—	854,144	893,023
Aggregate grant date fair value (in thousands)	\$ 8,599	\$ —	\$ 17,849	\$ 7,957

- (1) The RSUs issued during the nine months ended October 31, 2021 and 2020 are scheduled to vest ratably over periods of three years to four years from the date of grant.
- (2) The weighted-average assumptions used in the Monte Carlo models for the PSUs granted during the nine months ended October 31, 2021 included expected volatility of 83.0%-87.0%, an expected term of 3 years and risk-free interest rates of 0.17%-0.67%. No dividend yield was included in the weighted-average assumptions for the PSUs granted during the nine months ended October 31, 2021. The weighted-average assumptions used in the Monte Carlo model for the PSUs granted during the nine months ended October 31, 2020 included expected volatility of 60.0%, an expected term of 3 years and risk-free interest rate of 1.42%. No dividend yield was included in the weighted average assumptions for the PSUs granted during the nine months ended October 31, 2020.

For the three months ended October 31, 2021 and 2020, stock-based compensation expense was \$2.6 million and \$2.3 million, respectively. For the nine months ended October 31, 2021 and 2020, stock-based compensation expense was \$6.4 million and \$7.0 million, respectively.

Earnings (Loss) Per Share. Basic earnings (loss) per share for a particular period is calculated by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted earnings per share includes the dilutive effects of any stock options, RSUs and PSUs, which are calculated using the treasury-stock method. The following table sets forth the shares outstanding for the earnings per share calculations:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2021	2020	2021	2020
Weighted-average common shares outstanding - Basic	29,488,321	29,142,843	29,418,047	29,013,759
Dilutive effect of stock options, PSUs and RSUs	773,100	340,638	709,372	—
Weighted-average common shares outstanding - Diluted	30,261,421	29,483,481	30,127,419	29,013,759

For the three months ended October 31, 2021 and 2020, the weighted average number of stock options, RSUs and PSUs not included in the calculation due to their anti-dilutive effect, was 715,051 and 894,130, respectively. For the nine months ended October 31, 2021 and 2020, the weighted average number of stock options, RSUs and PSUs not included in the calculation due to their anti-dilutive effect, was 734,407 and 1,225,771, respectively.

Fair Value of Financial Instruments. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities recorded at fair value are categorized using defined hierarchical levels related to subjectivity associated with the inputs to fair value measurements as follows:

- Level 1 – Inputs represent unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (for example, quoted market prices for similar assets or liabilities in active markets or quoted market prices for identical assets or liabilities in markets not considered to be active, inputs other than quoted prices that are observable for the asset or liability, or market-corroborated inputs).
- Level 3 – Inputs that are not observable from objective sources such as our internally developed assumptions used in pricing an asset or liability (for example, an estimate of future cash flows used in our internally developed present value of future cash flows model that underlies the fair-value measurement).

In determining fair value, we use observable market data when available, or models that incorporate observable market data. When we are required to measure fair value and there is not a market-observable price for the asset or liability or for a similar asset or liability, we use the cost or income approach depending on the quality of information available to support management's assumptions. The cost approach is based on management's best estimate of the current asset replacement cost.

The income approach is based on management's best assumptions regarding expectations of future net cash flows and discounts the expected cash flows using a commensurate risk-adjusted discount rate. Such evaluations involve significant judgment, and the results are based on expected future events or conditions such as sales prices, economic and regulatory climates, and other factors, most of which are often outside of management's control. However, we believe assumptions used reflect a market participant's view of long-term prices, costs, and other factors and are consistent with assumptions used in our business plans and investment decisions.

In arriving at fair-value estimates, we use relevant observable inputs available for the valuation technique employed. If a fair-value measurement reflects inputs at multiple levels within the hierarchy, the fair-value measurement is characterized based on the lowest level of input that is significant to the fair-value measurement.

The fair value of cash and cash equivalents, restricted cash and accounts payable approximate their carrying amounts because of the short maturity of these instruments. The fair value of customer accounts receivable, determined using a Level 3 discounted cash flow analysis, approximates their carrying value, net of the allowance for doubtful accounts. The fair value of our Revolving Credit Facility approximates carrying value based on the current borrowing rate for similar types of borrowing arrangements. At October 31, 2021, the fair value of the asset backed notes was \$148.0 million as compared to the carrying value of \$147.4 million and was determined using Level 2 inputs based on inactive trading activity.

Deferred Revenue. Deferred revenue related to contracts with customers consists of deferred customer deposits and deferred RSA administration fees. During the nine months ended October 31, 2021, we recognized \$4.7 million of revenue for customer deposits deferred as of January 31, 2021. During the nine months ended October 31, 2021, we recognized \$2.7 million of revenue for RSA administrative fees deferred as of January 31, 2021.

Recent Accounting Pronouncements Adopted.

Simplifying the Accounting for Income Taxes. In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, an update intended to simplify various aspects related to accounting for income taxes. This guidance removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. This accounting standards update became effective for us in the first quarter of fiscal year 2022. The adoption did not have a material impact on our consolidated financial statements.

Recent Accounting Pronouncements Yet to Be Adopted.

Reference Rate Reform on Financial Reporting. In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, an update that provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848), Scope*, to clarify the scope of the guidance and reduce potential diversity in practice. The amendments in this update apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. These accounting standard updates were effective upon issuance, with adoption permitted through December 31, 2022. We expect to adopt ASC 2020-04 and ASC 2021-01 upon transition from LIBOR, prior to December 31, 2022. We do not expect the adoption to have a material impact on our consolidated financial statements.

2. Customer Accounts Receivable

Customer accounts receivable consisted of the following:

<i>(in thousands)</i>	October 31, 2021	January 31, 2021
Customer accounts receivable ⁽¹⁾	\$ 1,124,872	\$ 1,233,717
Deferred fees and origination costs, net	(13,482)	(14,212)
Allowance for no-interest option credit programs	(16,208)	(11,985)
Allowance for uncollectible interest	(13,777)	(21,427)
Carrying value of customer accounts receivable	1,081,405	1,186,093
Allowance for credit losses ⁽²⁾	(194,377)	(276,610)
Carrying value of customer accounts receivable, net of allowance for credit losses	887,028	909,483
Short-term portion of customer accounts receivable, net	(460,808)	(478,734)
Long-term customer accounts receivable, net	\$ 426,220	\$ 430,749

<i>(in thousands)</i>	Carrying Value	
	October 31, 2021	January 31, 2021
Customer accounts receivable 60+ days past due ⁽³⁾	\$ 95,534	\$ 146,820
Re-aged customer accounts receivable ⁽⁴⁾	198,279	306,845
Restructured customer accounts receivable ⁽⁵⁾	115,928	178,374

- (1) As of October 31, 2021 and January 31, 2021, the customer accounts receivable balance included \$21.4 million and \$31.1 million, respectively, in interest receivable. Net of the allowance for uncollectible interest, interest receivable outstanding as of October 31, 2021 and January 31, 2021 was \$7.6 million and \$9.7 million, respectively.
- (2) Our current methodology to estimate expected credit losses utilized macroeconomic forecasts as of October 31, 2021 and January 31, 2021, which incorporated the continued estimated impact of the global COVID-19 outbreak on the U.S. economy. Our forecast utilized economic projections from a major rating service reflecting a decrease in unemployment rates.
- (3) As of October 31, 2021 and January 31, 2021, the carrying value of customer accounts receivable past due one day or greater was \$270.2 million and \$340.8 million, respectively. These amounts include the 60+ days past due balances shown above.
- (4) The re-aged carrying value as of October 31, 2021 and January 31, 2021 includes \$48.8 million and \$88.0 million, respectively, in carrying value that are both 60+ days past due and re-aged.
- (5) The restructured carrying value as of October 31, 2021 and January 31, 2021 includes \$30.8 million and \$57.1 million, respectively, in carrying value that are both 60+ days past due and restructured.

The allowance for credit losses included in the current and long-term portion of customer accounts receivable, net as shown in the Condensed Consolidated Balance Sheet were as follows:

<i>(in thousands)</i>	October 31, 2021	January 31, 2021
Customer accounts receivable - current	\$ 578,250	\$ 643,903
Allowance for credit losses for customer accounts receivable - current	(117,442)	(165,169)
Customer accounts receivable, net of allowances	460,808	478,734
Customer accounts receivable - non current	516,932	563,617
Allowance for credit losses for customer accounts receivable - non current	(90,712)	(132,868)
Long-term portion of customer accounts receivable, net of allowances	426,220	430,749
Total customer accounts receivable, net	\$ 887,028	\$ 909,483

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The following presents the activity in our allowance for credit losses and uncollectible interest for customer receivables:

	Nine Months Ended October 31, 2021			Nine Months Ended October 31, 2020		
	Customer Accounts Receivable	Restructured Accounts	Total	Customer Accounts Receivable	Restructured Accounts	Total
<i>(in thousands)</i>						
Allowance at beginning of period, prior to adoption of ASC 326	\$ 219,740	\$ 78,297	\$ 298,037	\$ 145,680	\$ 88,123	\$ 233,803
Impact of adoption ASC 326	—	—	—	95,136	3,526	98,662
Provision for (benefit from) credit losses ⁽¹⁾	21,845	23,079	44,924	164,697	60,595	225,292
Principal charge-offs ⁽²⁾	(81,710)	(50,691)	(132,401)	(144,048)	(62,678)	(206,726)
Interest charge-offs	(22,432)	(13,917)	(36,349)	(40,340)	(17,553)	(57,893)
Recoveries ⁽³⁾	20,947	12,996	33,943	16,922	7,363	24,285
Allowance at end of period	<u>\$ 158,390</u>	<u>\$ 49,764</u>	<u>\$ 208,154</u>	<u>\$ 238,047</u>	<u>\$ 79,376</u>	<u>\$ 317,423</u>
Average total customer portfolio balance	<u>\$ 985,634</u>	<u>\$ 149,745</u>	<u>\$ 1,135,379</u>	<u>\$ 1,219,794</u>	<u>\$ 216,433</u>	<u>\$ 1,436,227</u>

- (1) Includes provision for uncollectible interest, which is included in finance charges and other revenues, and changes in expected future recoveries.
- (2) Charge-offs include the principal amount of losses (excluding accrued and unpaid interest). Recoveries include the principal amount collected during the period for previously charged-off balances. Net charge-offs are calculated as the net of principal charge-offs and recoveries.
- (3) Recoveries include the principal amount collected during the period for previously charged-off balances.

We manage our customer accounts receivable portfolio using delinquency as a key credit quality indicator. The following table presents the delinquency distribution of the carrying value of customer accounts receivable by year of origination. The information is presented as of October 31, 2021:

<i>(in thousands)</i>	2021		2020		2019		2018		Prior		Total		% of Total	
Current	\$	474,139	\$	219,476	\$	102,045	\$	13,529	\$	2,042	\$	811,231	75.0	%
1-30		52,445		42,934		30,315		7,286		1,195		134,175	12.4	%
31-60		15,199		12,681		9,369		2,741		475		40,465	3.8	%
61-90		8,945		7,768		6,165		1,901		324		25,103	2.3	%
91+		17,531		24,488		20,410		6,809		1,193		70,431	6.5	%
Total	\$	568,259	\$	307,347	\$	168,304	\$	32,266	\$	5,229	\$	1,081,405	100.0	%

3. Finance Charges and Other Revenues

Finance charges and other revenues consisted of the following:

<i>(in thousands)</i>	Three Months Ended October 31,		Nine Months Ended October 31,	
	2021	2020	2021	2020
Interest income and fees	\$ 63,621	\$ 69,996	\$ 196,303	\$ 235,438
Insurance income	6,992	4,222	17,881	12,359
Other revenues	262	168	695	599
Total finance charges and other revenues	<u>\$ 70,875</u>	<u>\$ 74,386</u>	<u>\$ 214,879</u>	<u>\$ 248,396</u>

Interest income and fees and insurance income are derived from the credit segment operations, whereas other revenues are derived from the retail segment operations. Insurance income is comprised of sales commissions from third-party insurance companies that are recognized when coverage is sold and retrospective income paid by the insurance carrier if insurance claims are less than earned premiums.

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During the three months ended October 31, 2021 and 2020, interest income and fees reflected provisions for uncollectible interest of \$10.5 million and \$16.9 million, respectively. The amounts included in interest income and fees related to TDR accounts for the three months ended October 31, 2021 and 2020 were \$5.8 million and \$9.3 million, respectively. During the nine months ended October 31, 2021 and 2020, interest income and fees reflected provisions for uncollectible interest of \$25.5 million and \$48.8 million, respectively. The amounts included in interest income and fees related to TDR accounts for the nine months ended October 31, 2021 and 2020 were \$20.0 million and \$28.8 million, respectively.

4. Debt and Financing Lease Obligations

Debt and financing lease obligations consisted of the following:

<i>(in thousands)</i>	October 31, 2021	January 31, 2021
Revolving Credit Facility	\$ 307,000	\$ 52,000
Senior Notes	—	141,172
2019-A VIE Asset-backed Class A Notes	—	19,521
2019-A VIE Asset-backed Class B Notes	—	25,069
2019-A VIE Asset-backed Class C Notes	—	24,202
2019-B VIE Asset-backed Class A Notes	—	17,860
2019-B VIE Asset-backed Class B Notes	—	85,540
2019-B VIE Asset-backed Class C Notes	70,691	83,270
2020-A VIE Asset-backed Class A Notes	15,584	93,326
2020-A VIE Asset-backed Class B Notes	31,124	65,200
2020-A VIE Asset-backed Class C Notes	30,026	—
Financing lease obligations	6,399	6,072
Total debt and financing lease obligations	460,824	613,232
Less:		
Discount on debt	—	(524)
Deferred debt issuance costs	(563)	(3,139)
Current maturities of long-term debt and financing lease obligations	(942)	(934)
Long-term debt and financing lease obligations	\$ 459,319	\$ 608,635

Senior Notes. On July 1, 2014, we issued an aggregate principal amount of \$250.0 million in unsecured 7.25% Senior Notes due 2022 (the “Senior Notes”) pursuant to an indenture dated July 1, 2014 (as amended, the “Indenture”), among Conn’s, Inc., its subsidiary guarantors (the “Guarantors”) and U.S. Bank National Association, as trustee. On April 15, 2021 we completed the redemption of all of our outstanding Senior Notes in an aggregate principal amount of \$141.2 million.

Asset-backed Notes. From time to time, we securitize customer accounts receivables by transferring the receivables to various bankruptcy-remote VIEs. In turn, the VIEs issue asset-backed notes secured by the transferred customer accounts receivables and restricted cash held by the VIEs.

Under the terms of the securitization transactions, all cash collections and other cash proceeds of the customer receivables go first to the servicer and the holders of issued notes, and then to us as the holder of non-issued notes, if any, and residual equity. We retain the servicing of the securitized portfolios and receive a monthly fee of 4.75% (annualized) based on the outstanding balance of the securitized receivables. In addition, we, rather than the VIEs, retain all credit insurance income together with certain recoveries related to credit insurance and RSAs on charge-offs of the securitized receivables, which are reflected as a reduction to net charge-offs on a consolidated basis.

The asset-backed notes were offered and sold to qualified institutional buyers pursuant to the exemptions from registration provided by Rule 144A under the Securities Act of 1933. If an event of default were to occur under the indenture that governs the respective asset-backed notes, the payment of the outstanding amounts may be accelerated, in which event the cash proceeds of the receivables that otherwise might be released to the residual equity holder would instead be directed entirely toward repayment of the asset-backed notes, or if the receivables are liquidated, all liquidation proceeds could be directed solely to repayment of the asset-backed notes as governed by the respective terms of the asset-backed notes. The holders of the asset-backed notes have no recourse to assets outside of the VIEs. Events of default include, but are not limited to, failure to make required payments on the asset-backed notes or specified bankruptcy-related events.

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The asset-backed notes outstanding as of October 31, 2021 consisted of the following:

(dollars in thousands)

Asset-Backed Notes	Original Principal Amount	Original Net Proceeds ⁽¹⁾	Current Principal Amount	Issuance Date	Maturity Date	Contractual Interest Rate	Effective Interest Rate ⁽²⁾
2019-B Class B Notes	\$ 85,540	\$ 84,916	\$ —	11/26/2019	6/17/2024	3.62%	4.59%
2019-B Class C Notes	83,270	82,456	70,691	11/26/2019	6/17/2024	4.60%	5.15%
2020-A Class A Notes	174,900	173,716	15,584	10/16/2020	6/16/2025	1.71%	4.51%
2020-A Class B Notes	65,200	64,754	31,124	10/16/2020	6/16/2025	4.27%	5.52%
2020-A Class C Notes	62,900	62,535	30,026	2/24/2021	6/16/2025	4.20%	5.71%
Total	<u>\$ 471,810</u>	<u>\$ 468,377</u>	<u>\$ 147,425</u>				

(1) After giving effect to debt issuance costs.

(2) For the nine months ended October 31, 2021, and inclusive of the impact of changes in timing of actual and expected cash flows.

On February 24, 2021, the Company completed the sale of \$62.9 million aggregate principal amount of 4.20% Asset Backed Notes, Class C, Series 2020-A, which were previously issued and held by the Company. The asset-backed notes are secured by the transferred customer accounts receivables and restricted cash held by a consolidated VIE, which resulted in net proceeds to us of \$62.5 million, net of debt issuance costs. Net proceeds from the sale were used to repay amounts outstanding under the Company's Revolving Credit Facility.

On May 12, 2021, the Company completed the redemption of the 2019-A Asset Backed Notes at an aggregate redemption price of \$41.1 million (which was equal to the entire outstanding principal balance plus accrued interest). We funded the redemption with cash on hand and borrowings under our Revolving Credit Facility.

Revolving Credit Facility. On March 29, 2021, Conn's, Inc. and certain of its subsidiaries (the "Borrowers") entered into the Fifth Amended and Restated Loan and Security Agreement (the "Fifth Amended and Restated Loan Agreement"), with certain lenders, which provides for a \$650.0 million asset-based revolving credit facility (as amended, the "Revolving Credit Facility") under which credit availability is subject to a borrowing base and a maturity date of March 29, 2025.

The Fifth Amended and Restated Loan Agreement, among other things, permits borrowings under the Letter of Credit Subline (as defined in the Fifth Amended and Restated Loan Agreement) that exceed the cap of \$40 million to \$100 million, solely at the discretion of the lenders for such amounts in excess of \$40 million. The obligations under the Revolving Credit Facility are secured by substantially all assets of the Company, excluding the assets of the VIEs. As of October 31, 2021, we had immediately available borrowing capacity of \$320.5 million under our Revolving Credit Facility, net of standby letters of credit issued of \$22.5 million.

Loans under the Revolving Credit Facility bear interest, at our option, at a rate of LIBOR plus a margin ranging from 2.50% to 3.25% per annum (depending on a pricing grid determined by our total leverage ratio) or the alternate base rate plus a margin ranging from 1.50% to 2.25% per annum (depending on a pricing grid determined by our total leverage ratio). We also pay an unused fee on the portion of the commitments that is available for future borrowings or letters of credit at a rate ranging from 0.25% to 0.50% per annum, depending on the average outstanding balance and letters of credit of the Revolving Credit Facility in the immediately preceding quarter. The weighted-average interest rate on borrowings outstanding and including unused line fees under the Revolving Credit Facility was 4.1% for the nine months ended October 31, 2021.

The Revolving Credit Facility places restrictions on our ability to incur additional indebtedness, grant liens on assets, make distributions on equity interests, dispose of assets, make loans, pay other indebtedness, engage in mergers, and other matters. The Revolving Credit Facility restricts our ability to make dividends and distributions unless no event of default exists and a liquidity test is satisfied. Subsidiaries of the Company may pay dividends and make distributions to the Company and other obligors under the Revolving Credit Facility without restriction. As of October 31, 2021, we were restricted from making distributions in excess of \$164.9 million as a result of the Revolving Credit Facility distribution and payment restrictions. The Revolving Credit Facility contains customary default provisions, which, if triggered, could result in acceleration of all amounts outstanding under the Revolving Credit Facility.

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Debt Covenants. We were in compliance with our debt covenants at October 31, 2021. A summary of the significant financial covenants that govern our Revolving Credit Facility compared to our actual compliance status at October 31, 2021 is presented below:

	Actual	Required Minimum/ Maximum
Interest Coverage Ratio for the quarter must equal or exceed minimum	10.12:1.00	1.00:1.00
Interest Coverage Ratio for the trailing two quarters must equal or exceed minimum	12.34:1.00	1.50:1.00
Leverage Ratio must not exceed maximum	1.25:1.00	4.50:1.00
ABS Excluded Leverage Ratio must not exceed maximum	1.06:1.00	2.50:1.00
Capital Expenditures, net, must not exceed maximum	\$24.8 million	\$100.0 million

All capitalized terms in the above table are defined in the Revolving Credit Facility and may or may not match directly to the financial statement captions in this document. The covenants are calculated quarterly, except for capital expenditures, which is calculated for a period of four consecutive fiscal quarters, as of the end of each fiscal quarter.

5. Contingencies

Securities Litigation. On May 15, 2020, a putative securities class action lawsuit was filed against us and two of our executive officers in the United States District Court for the Southern District of Texas, captioned Uddin v. Conn's, Inc., et al., No. 4:20-1705 ("Uddin Action"). On November 16, 2020, the lead plaintiff voluntarily dismissed the action without prejudice. The court entered an order recognizing the dismissal on November 17, 2020.

On April 2, 2018, MicroCapital Fund, LP, MicroCapital Fund, Ltd., and MicroCapital LLC (collectively, "MicroCapital") filed a lawsuit against us and certain of our former executive officers in the U.S. District Court for the Southern District of Texas, Cause No. 4:18-CV-01020 (the "MicroCapital Action"). The plaintiffs in this action allege that the defendants made false and misleading statements or failed to disclose material facts about our credit and underwriting practices, accounting and internal controls. Plaintiffs allege violations of sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, Texas and Connecticut common law fraud, and Texas common law negligent misrepresentation against all defendants; as well as violations of section 20A of the Securities Exchange Act of 1934; and Connecticut common law negligent misrepresentation against certain defendants arising from plaintiffs' purchase of Conn's, Inc. securities between April 3, 2013 and February 20, 2014. The complaint does not specify the amount of damages sought.

The Court previously stayed the MicroCapital Action pending resolution of other outstanding litigation (In re Conn's Inc. Sec. Litig., Cause No. 14-CV-00548 (S.D. Tex.) (the "Consolidated Securities Action")), which was settled in October 2018. After that settlement, the stay was lifted, and the defendants filed a motion to dismiss plaintiff's complaint in the MicroCapital Action on November 6, 2018. On July 26, 2019, the magistrate judge issued a report recommending that defendants' motion to dismiss the complaint be granted in part and denied in part. On September 25, 2019, the district court adopted the magistrate judge's report, which permitted MicroCapital to file an amended complaint, which MicroCapital filed on October 30, 2019. Defendants filed their answer to the amended complaint on November 27, 2019.

The parties reached a settlement agreement in this matter on October 28, 2021, that resolves the claims against the defendants in their entirety, and the case was dismissed with prejudice on November 18, 2021. Neither the Company nor any individual defendant admitted any wrongdoing.

Derivative Litigation. On December 1, 2014, an alleged shareholder, purportedly on behalf of the Company, filed a shareholder derivative lawsuit in federal court against us and certain of our current and former directors and former executive officers captioned Robert Hack, derivatively on behalf of Conn's, Inc., v. Theodore M. Wright (former executive officer and former director), Bob L. Martin, Jon E.M. Jacoby (former director), Kelly M. Malson, Douglas H. Martin, David Schofman, Scott L. Thompson (former director), Brian Taylor (former executive officer) and Michael J. Poppe (former executive officer) and Conn's, Inc., Case No. 4:14-cv-03442 (S.D. Tex.). The complaint asserts claims for breach of fiduciary duty, unjust enrichment, gross mismanagement, and insider trading based on substantially similar factual allegations as those asserted in the Consolidated Securities Action. The plaintiff seeks unspecified damages against these persons and does not request any damages from Conn's. On February 25, 2015, an additional federal derivative action, captioned 95250 Canada LTEE, derivatively on Behalf of Conn's, Inc. v. Wright et al., Cause No. 4:15-cv-00521 (S.D. Tex.), was filed, asserting substantially similar claims against the same defendants. It was consolidated with the Hack litigation (collectively, the Federal Derivative Actions).

The parties have reached a settlement in principle to fully resolve the Federal Derivative Actions. The settlement remains subject to court approval. Neither the Company nor any individual defendant admits any wrongdoing through the settlement agreement.

In addition to the Federal Derivative Actions, a derivative action was filed in Texas state court on January 27, 2015, captioned Richard A. Dohn v. Wright, et al., Cause No. 2015-04405, in the 281st Judicial District Court, Harris County, Texas. This action makes substantially similar allegations to the Federal Derivative Actions against the same defendants. This case is stayed until at least April 29, 2022.

Prior to filing his lawsuit, another alleged shareholder, Robert J. Casey II ("Casey"), submitted a demand under Delaware law, which our Board of Directors refused. On May 19, 2016, Casey, purportedly on behalf of the Company, filed a second state court lawsuit against us and certain of our current and former directors and former executive officers in the 55th Judicial District Court, Harris County, Texas, captioned Casey, derivatively on behalf of Conn's, Inc., v. Theodore M. Wright (former executive officer and former director), Michael J. Poppe (former executive officer), Brian Taylor (former executive officer), Bob L. Martin, Jon E.M. Jacoby (former director), Kelly M. Malson (former director), Douglas H. Martin, David Schofman, Scott L. Thompson (former director) and William E. Saunders Jr., and Conn's, Inc., Cause No. 2016-33135. The complaint asserts claims for breach of fiduciary duties and unjust enrichment based on substantially similar factual allegations as those asserted in the Federal Derivative Actions. The complaint does not specify the amount of damages sought. Since April 2018, this case has been abated pending the resolution of related cases. In July 2021, the parties requested that the court extend the abatement pending further developments in the Federal Derivative Actions. The case currently remains abated.

Other than Casey, none of the plaintiffs in the other derivative actions made a demand on our Board of Directors prior to filing their respective lawsuits. The defendants in the two state court derivative actions intend to vigorously defend against these claims. It is not possible at this time to predict the timing or outcome of any unsettled litigation, and we cannot reasonably estimate the possible loss or range of possible loss from such claims.

We are involved in other routine litigation and claims, incidental to our business from time to time which, individually or in the aggregate, are not expected to have a material adverse effect on us. As required, we accrue estimates of the probable costs for the resolution of these matters. These estimates have been developed in consultation with counsel and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. However, the results of these proceedings cannot be predicted with certainty, and changes in facts and circumstances could impact our estimate of reserves for litigation. The Company believes that any probable and reasonably estimable loss associated with the foregoing has been adequately reflected in the accompanying financial statements.

6. Variable Interest Entities

From time to time, we securitize customer accounts receivables by transferring the receivables to various bankruptcy-remote VIEs. Under the terms of the respective securitization transactions, all cash collections and other cash proceeds of the customer receivables go first to the servicer and the holders of the asset-backed notes, and then to the residual equity holder. We retain the servicing of the securitized portfolio and receive a monthly fee of 4.75% (annualized) based on the outstanding balance of the securitized receivables, and we currently hold all of the residual equity. In addition, we, rather than the VIEs, will retain certain credit insurance income together with certain recoveries related to credit insurance and RSAs on charge-offs of the securitized receivables, which will continue to be reflected as a reduction of net charge-offs on a consolidated basis for as long as we consolidate the VIEs.

We consolidate VIEs when we determine that we are the primary beneficiary of these VIEs, we have the power to direct the activities that most significantly impact the performance of the VIEs and our obligation to absorb losses and the right to receive residual returns are significant.

CONN'S, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the assets and liabilities held by the VIEs (for legal purposes, the assets and liabilities of the VIEs will remain distinct from Conn's, Inc.):

<i>(in thousands)</i>	October 31, 2021	January 31, 2021
Assets:		
Restricted cash	\$ 23,478	\$ 48,622
Due from Conn's, Inc., net	(12,307)	(5,661)
Customer accounts receivable:		
Customer accounts receivable	171,036	509,574
Restructured accounts	68,433	105,395
Allowance for uncollectible accounts	(64,025)	(159,849)
Allowance for no-interest option credit programs	—	(5,502)
Deferred fees and origination costs	(1,643)	(5,503)
Total customer accounts receivable, net	173,801	444,115
Total assets	\$ 184,972	\$ 487,076
Liabilities:		
Accrued expenses	\$ 1,497	\$ 3,707
Other liabilities	1,682	4,459
Long-term debt:		
2019-A Class A Notes	—	19,521
2019-A Class B Notes	—	25,069
2019-A Class C Notes	—	24,202
2019-B Class A Notes	—	17,860
2019-B Class B Notes	—	85,540
2019-B Class C Notes	70,691	83,270
2020-A Class A Notes	15,584	93,326
2020-A Class B Notes	31,124	65,200
2020-A Class C Notes	30,026	—
	147,425	413,988
Less: deferred debt issuance costs	(563)	(2,437)
Total debt	\$ 146,862	\$ 411,551
Total liabilities	\$ 150,041	\$ 419,717

The assets of the VIEs serve as collateral for the obligations of the VIEs. The holders of asset-backed notes have no recourse to assets outside of the respective VIEs.

7. Segment Information

Operating segments are defined as components of an enterprise that engage in business activities and for which discrete financial information is available that is evaluated on a regular basis by the chief operating decision maker to make decisions about how to allocate resources and assess performance. We are a leading specialty retailer and offer a broad selection of quality, branded durable consumer goods and related services in addition to a proprietary credit solution for our core credit-constrained consumers. We have two operating segments: (i) retail and (ii) credit. Our operating segments complement one another. The retail segment operates primarily through our stores and website. Our retail segment product offerings include furniture and mattresses, home appliances, consumer electronics and home office products from leading global brands across a wide range of price points. Our credit segment offers affordable financing solutions to a large, under-served population of credit-constrained consumers who typically have limited credit alternatives. Our operating segments provide customers the opportunity to comparison shop across brands with confidence in our competitive prices as well as affordable monthly payment options, next day delivery and installation in the majority of our markets, and product repair service. The operating segments follow the same accounting policies used in our Condensed Consolidated Financial Statements.

CONN'S, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

We evaluate a segment's performance based upon operating income before taxes. Selling, general and administrative expenses ("SG&A") includes the direct expenses of the retail and credit operations, allocated overhead expenses, and a charge to the credit segment to reimburse the retail segment for expenses it incurs related to occupancy, personnel, advertising and other direct costs of the retail segment, which benefit the credit operations by sourcing credit customers and collecting payments. The reimbursement received by the retail segment from the credit segment is calculated using an annual rate of 2.5% times the average outstanding portfolio balance for each applicable period.

As of October 31, 2021, we operated retail stores in 15 states with no operations outside of the United States. No single customer accounts for more than 10% of our total revenues.

Financial information by segment is presented in the following tables:

<i>(in thousands)</i>	Three Months Ended October 31, 2021			Three Months Ended October 31, 2020		
	Retail	Credit	Total	Retail	Credit	Total
Revenues:						
Furniture and mattress	\$ 106,756	\$ —	\$ 106,756	\$ 82,793	\$ —	\$ 82,793
Home appliance	128,385	—	128,385	99,872	—	99,872
Consumer electronics	46,751	—	46,751	35,517	—	35,517
Home office	17,373	—	17,373	16,711	—	16,711
Other	9,036	—	9,036	4,264	—	4,264
Product sales	308,301	—	308,301	239,157	—	239,157
Repair service agreement commissions	23,769	—	23,769	17,465	—	17,465
Service revenues	2,513	—	2,513	3,150	—	3,150
Total net sales	334,583	—	334,583	259,772	—	259,772
Finance charges and other revenues	262	70,613	70,875	168	74,218	74,386
Total revenues	334,845	70,613	405,458	259,940	74,218	334,158
Costs and expenses:						
Cost of goods sold	211,298	—	211,298	160,378	—	160,378
Selling, general and administrative expense	100,969	37,112	138,081	84,245	37,913	122,158
Provision for bad debts	36	26,496	26,532	72	27,421	27,493
Total costs and expenses	312,303	63,608	375,911	244,695	65,334	310,029
Operating income	22,542	7,005	29,547	15,245	8,884	24,129
Interest expense	—	5,206	5,206	—	11,563	11,563
Income (loss) before income taxes	\$ 22,542	\$ 1,799	\$ 24,341	\$ 15,245	\$ (2,679)	\$ 12,566

CONN'S, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

<i>(in thousands)</i>	Nine Months Ended October 31, 2021			Nine Months Ended October 31, 2020		
	Retail	Credit	Total	Retail	Credit	Total
Revenues:						
Furniture and mattress	\$ 310,505	\$ —	\$ 310,505	\$ 232,670	\$ —	\$ 232,670
Home appliance	377,090	—	377,090	288,839	—	288,839
Consumer electronics	133,202	—	133,202	118,677	—	118,677
Home office	49,881	—	49,881	49,056	—	49,056
Other	27,079	—	27,079	13,255	—	13,255
Product sales	897,757	—	897,757	702,497	—	702,497
Repair service agreement commissions	66,600	—	66,600	57,730	—	57,730
Service revenues	8,307	—	8,307	9,611	—	9,611
Total net sales	972,664	—	972,664	769,838	—	769,838
Finance charges and other revenues	695	214,184	214,879	599	247,797	248,396
Total revenues	973,359	214,184	1,187,543	770,437	247,797	1,018,234
Costs and expenses:						
Cost of goods sold	612,219	—	612,219	484,015	—	484,015
Selling, general and administrative expense ⁽¹⁾	294,019	107,981	402,000	241,003	109,440	350,443
Provision for bad debts	196	19,462	19,658	422	176,442	176,864
Charges and credits	—	—	—	1,355	2,234	3,589
Total costs and expenses	906,434	127,443	1,033,877	726,795	288,116	1,014,911
Operating income (loss)	66,925	86,741	153,666	43,642	(40,319)	3,323
Interest expense	—	20,498	20,498	—	39,778	39,778
Loss on extinguishment of debt	—	1,218	1,218	—	—	—
Income (loss) before income taxes	\$ 66,925	\$ 65,025	\$ 131,950	\$ 43,642	\$ (80,097)	\$ (36,455)
	October 31, 2021			October 31, 2020		
<i>(in thousands)</i>	Retail	Credit	Total	Retail	Credit	Total
Total assets	\$ 707,402	\$ 1,079,177	\$ 1,786,579	\$ 743,568	\$ 1,189,888	\$ 1,933,456

(1) For the three months ended October 31, 2021 and 2020, the amount of corporate overhead allocated to each segment reflected in SG&A was \$11.1 million and \$8.5 million, respectively. For the three months ended October 31, 2021 and 2020, the amount of reimbursement made to the retail segment by the credit segment was \$7.0 million and \$8.2 million, respectively. For the nine months ended October 31, 2021 and 2020, the amount of corporate overhead allocated to each segment reflected in SG&A was \$30.0 million and \$24.2 million, respectively. For the nine months ended October 31, 2021 and 2020, the amount of reimbursement made to the retail segment by the credit segment was \$21.2 million and \$26.9 million, respectively.

8. Subsequent Events

Asset-backed Note. On November 23, 2021, an affiliate of the Company (“the Issuer”) completed the issuance and sale of asset-backed notes in the aggregate principal amount of \$377.8 million secured by the transferred customer accounts receivable and restricted cash held by a VIE, which resulted in net proceeds to us of \$375.2 million, net of debt issuance costs. Net proceeds from the offering were used to repay indebtedness under the Company’s asset-based credit facility and for other general corporate purposes. The asset-backed notes mature on May 15, 2026 and consist of \$247.8 million of the Issuer’s 1.05% Class A, Series 2021-A Asset Backed Fixed Rate Notes, \$66.1 million of 2.87% Class B, Series 2021-A Asset Backed Fixed Rate Notes, and \$63.9 million of 4.59% Class C, Series 2021-A Asset Backed Fixed Rate Notes.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This report contains forward-looking statements within the meaning of the federal securities laws, including, but not limited to, the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. Such forward-looking statements include information concerning our future financial performance, business strategy, plans, goals and objectives. Statements containing the words "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "project," "should," "predict," "will," "potential," or the negative of such terms or other similar expressions are generally forward-looking in nature and not historical facts. Such forward-looking statements are based on our current expectations. We can give no assurance that such statements will prove to be correct, and actual results may differ materially. A wide variety of potential risks, uncertainties, and other factors could materially affect our ability to achieve the results either expressed or implied by our forward-looking statements including, but not limited to: general economic conditions impacting our customers or potential customers; our ability to execute periodic securitizations of future originated customer loans on favorable terms; our ability to continue existing customer financing programs or to offer new customer financing programs; changes in the delinquency status of our credit portfolio; unfavorable developments in ongoing litigation; increased regulatory oversight; higher than anticipated net charge-offs in the credit portfolio; the success of our planned opening of new stores; technological and market developments and sales trends for our major product offerings; our ability to manage effectively the selection of our major product offerings; our ability to protect against cyber-attacks or data security breaches and to protect the integrity and security of individually identifiable data of our customers and employees; our ability to fund our operations, capital expenditures, debt repayment and expansion from cash flows from operations, borrowings from our Revolving Credit Facility, proceeds from accessing debt or equity markets; the effects of epidemics or pandemics, including the COVID-19 pandemic; and other risks detailed in Part I, Item 1A, Risk Factors, in our Annual Report on Form 10-K for the fiscal year ended January 31, 2021 (the "2021 Form 10-K") and other reports filed with the SEC. If one or more of these or other risks or uncertainties materialize (or the consequences of such a development changes), or should our underlying assumptions prove incorrect, actual outcomes may vary materially from those reflected in our forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. We disclaim any intention or obligation to update publicly or revise such statements, whether as a result of new information, future events or otherwise, or to provide periodic updates or guidance. All forward-looking statements attributable to us, or to persons acting on our behalf, are expressly qualified in their entirety by these cautionary statements.

The Company makes available in the investor relations section of its website at ir.conns.com updated monthly reports to the holders of its asset-backed notes. This information reflects the performance of the securitized portfolio only, in contrast to the financial statements contained herein, which reflect the performance of all of the Company's outstanding receivables, including those originated subsequent to those included in the securitized portfolio. The website and the information contained on our website is not incorporated in this Quarterly Report on Form 10-Q or any other document filed with the SEC.

Overview

We continue to monitor the evolving nature of COVID-19 and respond to its impact on our business. We have experienced and continue to experience challenges related to the pandemic. These challenges increased the complexity of our business, including with respect to supply chain and sales, and, despite our strong performance during the third quarter of fiscal year 2022, will likely continue until the effects of COVID-19 diminish. The full impact of COVID-19 remains uncertain and will depend on future developments, including the duration and spread of the pandemic, and related actions taken by federal, state and local government officials to prevent and manage disease spread and mitigate its economic impact, all of which are uncertain and unpredictable.

We encourage you to read this Management's Discussion and Analysis of Financial Condition and Results of Operations in conjunction with the accompanying Condensed Consolidated Financial Statements and related notes. Our fiscal year ends on January 31. References to a fiscal year refer to the calendar year in which the fiscal year ends.

Executive Summary

Total revenues were \$405.5 million for the three months ended October 31, 2021 compared to \$334.2 million for the three months ended October 31, 2020, an increase of \$71.4 million or 21.4%. Retail revenues were \$334.8 million for the three months ended October 31, 2021 compared to \$259.9 million for the three months ended October 31, 2020, an increase of \$74.9 million or 28.8%. The increase in retail revenue was primarily driven by an increase in same store sales of 20.6%, new store growth and an increase in RSA commissions. The increase in same store sales reflects an increase in demand across most of the Company's home-related product categories. The increase also reflects the impact of prior year proactive underwriting changes, which were the result of the COVID-19 pandemic. Credit revenues were \$70.6 million for the three months ended October 31, 2021 compared to \$74.2 million for the three months ended October 31, 2020, a decrease of \$3.6 million or 4.9%. The decrease

in credit revenue was primarily due to a 15.2% decrease in the average outstanding balance of the customer receivable portfolio. These decreases were partially offset by an increase in the yield rate from 21.1% for the three months ended October 31, 2020 to 22.6% for the three months ended October 31, 2021 and an increase in insurance commissions.

Retail gross margin for the three months ended October 31, 2021 was 36.8%, a decrease of 150 basis points from the 38.3% reported for the three months ended October 31, 2020. The decrease in retail gross margin was primarily driven by the impact of increased product costs as a result of higher freight costs, partially offset by an increase in sales of higher margin products.

Selling, general and administrative expense (“SG&A”) for the three months ended October 31, 2021 was \$138.1 million compared to \$122.2 million for the three months ended October 31, 2020, an increase of \$15.9 million or 13.0%. The SG&A increase was primarily due to increases in labor and occupancy costs related to new store growth and increases in variable expenses associated with same store sales growth, as well as increases in advertising and general operating costs.

Provision for bad debts was \$26.5 million for the three months ended October 31, 2021 compared to \$27.5 million for the three months ended October 31, 2020, a decrease of \$1.0 million. The change was primarily driven by a year-over-year decrease in net charge-offs of \$26.1 million, partially offset by an increase in the change in allowance bad debts. The increase in the change in the allowance for bad debts was primarily driven by an increase in the customer accounts receivable portfolio balance during the third quarter of fiscal year 2022 versus a decrease during the third quarter of fiscal year 2021 and an increase in loss rates due to an increase in delinquency.

Interest expense was \$5.2 million for the three months ended October 31, 2021 and \$11.6 million for the three months ended October 31, 2020, a decrease of \$6.4 million or 55.2%. The decrease was primarily driven by a lower average outstanding balance of debt and by a lower effective interest rate.

Net income for the three months ended October 31, 2021 was \$18.2 million, or \$0.60 per diluted share, compared to net income of \$7.4 million, or \$0.25 per diluted share, for the three months ended October 31, 2020.

How We Evaluate Our Operations

Senior management focuses on certain key indicators to monitor our performance including:

- Same store sales - Our management considers same store sales, which consists of both brick and mortar and eCommerce sales, to be an important indicator of our performance because they reflect our attempts to leverage our SG&A costs, which include rent and other store expenses, and they have a direct impact on our total net sales, net income, cash and working capital. Same store sales is calculated by comparing the reported sales for all stores that were open during both comparative fiscal years, starting in the first period in which the store has been open for a full quarter. Sales from closed stores, if any, are removed from each period. Sales from relocated stores have been included in each period if each such store was relocated within the same general geographic market. Sales from expanded stores have also been included in each period.
- Retail gross margin - Our management views retail gross margin as a key indicator of our performance because it reflects our pricing power relative to the prices we pay for our products. Retail gross margin is calculated by comparing retail total net sales to the cost of goods sold.
- 60+ Day Delinquencies - Our management views customer account delinquencies as a key indicator of our performance because it reflects the quality of our credit portfolio, drives future credit performance and credit offerings, and impacts the interest rates we pay on our asset-backed securitizations. Delinquencies are measured as the percentage of balances that are 60+ days past due.
- Net yield - Our management considers yield to be a key performance metric because it drives future credit decisions and credit offerings and directly impacts our net income. Yield reflects the amount of interest we receive from our portfolio.

Company Initiatives

In the third quarter of fiscal year 2022, we delivered strong results driven by our store and eCommerce performance. We delivered the following financial and operational results in the third quarter of fiscal year 2022:

- Net earnings increased 140% to \$0.60 per diluted share, compared to \$0.25 per diluted share for the same period last fiscal year;
- Same store sales increased 20.6% for the third quarter of fiscal year 2022 as compared to the third quarter of fiscal year 2021 and increased 9.7% on a two-year basis;
- Strong same store sales combined with the contribution of new stores drove a 28.8% increase in total retail sales for the third quarter of fiscal year 2022 as compared to the third quarter of fiscal year 2021;

- eCommerce sales during the third quarter of fiscal year 2022 increased 294.8% as compared to the same period last fiscal year, to a quarterly record of \$19.2 million;
- Inventories increased 21.7% compared to total retail sales growth of 28.8%, with approximately 80% of SKUs available for next day delivery at October 31, 2021;
- During the third quarter of fiscal year 2022, the Company added two new stores bringing the total number of stores at October 31, 2021 to 157, compared to 143 at October 31, 2020;
- At October 31, 2021, the carrying value of customer accounts receivable 60+ days past due declined 32.5% year-over-year and the carrying value of re-aged accounts declined 42.9 % year-over-year;
- Credit spread was 14.6%, the highest credit spread in over 10 years; and
- Completed \$377.8 million ABS transaction in November 2021 at an all-in cost of funds of approximately 3.91%, representing a 110-basis point reduction from the most recent transaction, and the lowest all-in cost of funds since the Company re-entered the ABS market in September 2015.

We believe that we have laid the foundation to execute our long-term growth strategy and prudently manage financial and operational risk while maximizing shareholder value. We remain focused on the following strategic priorities for fiscal year 2022:

- Increase net income by improving performance across our core operational and financial metrics: same store sales, retail margin, charge-offs and net yield;
- Open 12 new stores in our current geographic footprint to leverage our existing infrastructure (inclusive of the 11 new stores opened during the first three quarters of fiscal year 2022);
- Optimize our mix of quality, branded products and gain efficiencies in our warehouse, delivery and transportation operations to increase our retail gross margin;
- Continue to grow our lease-to-own sales;
- Continue to grow our eCommerce sales;
- Maintain disciplined oversight of our SG&A;
- Ensure the Company has the leadership and human capital pipeline and capability to drive results and meet present and future business objectives as the Company continues to expand its retail store base; and
- Leverage technology and shared services to drive efficient, effective and scalable processes.

Outlook

As noted in the “Overview” above, our business and industry continue to be impacted by the COVID-19 pandemic in the United States. Going forward, the full extent to which the pandemic will impact our supply chain, future business and operating results is uncertain. Government support, including the American Rescue Plan Act of 2021, 2021 Child Tax Credit Payments and Infrastructure Investment and Jobs Act, has provided our customers with additional financial means which we expect has helped, and may continue to help, our business. We feel we are well positioned to continue serving our customers and supporting our employees as we continue to monitor and respond to the pandemic.

The broad appeal of our value proposition to our geographically diverse core demographic and the unit economics of our business should provide the stability necessary to maintain and grow our business. We expect our brand recognition and long history in our core markets to give us the opportunity to further penetrate our existing footprint, particularly as we leverage existing marketing spend, logistics infrastructure, and service footprint. There are also many markets in the U.S. with demographic characteristics similar to those in our existing footprint, which provides substantial opportunities for future growth. We plan to improve our operating results by leveraging our existing infrastructure and seeking to continually optimize the efficiency of our marketing, merchandising, distribution and credit operations. As we expand in existing markets and penetrate new markets, we expect to increase our purchase volumes, achieve distribution efficiencies and strengthen our relationships with our key vendors. Over time, we also expect our increased store base and higher net sales to further leverage our existing corporate and regional infrastructure.

Results of Operations

The following tables present certain financial and other information, on a condensed consolidated basis:

<i>Consolidated:</i> (in thousands)	Three Months Ended October 31,			Nine Months Ended October 31,		
	2021	2020	Change	2021	2020	Change
Revenues:						
Total net sales	\$ 334,583	\$ 259,772	\$ 74,811	\$ 972,664	\$ 769,838	\$ 202,826
Finance charges and other revenues	70,875	74,386	(3,511)	214,879	248,396	(33,517)
Total revenues	405,458	334,158	71,300	1,187,543	1,018,234	169,309
Costs and expenses:						
Cost of goods sold	211,298	160,378	50,920	612,219	484,015	128,204
Selling, general and administrative expense	138,081	122,158	15,923	402,000	350,443	51,557
Provision for bad debts	26,532	27,493	(961)	19,658	176,864	(157,206)
Charges and credits	—	—	—	—	3,589	(3,589)
Total costs and expenses	375,911	310,029	65,882	1,033,877	1,014,911	18,966
Operating income	29,547	24,129	5,418	153,666	3,323	150,343
Interest expense	5,206	11,563	(6,357)	20,498	39,778	(19,280)
Loss on extinguishment of debt	—	—	—	1,218	—	1,218
Income (loss) before income taxes	24,341	12,566	11,775	131,950	(36,455)	168,405
Provision (benefit) for income taxes	6,102	5,147	955	31,309	(8,192)	39,501
Net income (loss)	\$ 18,239	\$ 7,419	\$ 10,820	\$ 100,641	\$ (28,263)	\$ 128,904

Supplementary Operating Segment Information

Operating segments are defined as components of an enterprise that engage in business activities and for which discrete financial information is available that is evaluated on a regular basis by the chief operating decision maker to make decisions about how to allocate resources and assess performance. We are a leading specialty retailer and offer a broad selection of quality, branded durable consumer goods and related services in addition to a proprietary credit solution for our core credit-constrained consumers. We have two operating segments: (i) retail and (ii) credit. Our operating segments complement one another. The retail segment operates primarily through our stores and website and its product offerings include furniture and mattresses, home appliances, consumer electronics and home office products from leading global brands across a wide range of price points. Our credit segment offers affordable financing solutions to a large, under-served population of credit-constrained consumers who typically have limited credit alternatives. Our operating segments provide customers the opportunity to comparison shop across brands with confidence in our competitive prices as well as affordable monthly payment options, next day delivery and installation in the majority of our markets, and product repair service. We believe our large, attractively merchandised retail stores and credit solutions offer a distinctive value proposition compared to other retailers that target our core customer demographic. The operating segments follow the same accounting policies used in our Condensed Consolidated Financial Statements.

We evaluate a segment's performance based upon operating income (loss). SG&A includes the direct expenses of the retail and credit operations, allocated corporate overhead expenses, and a charge to the credit segment to reimburse the retail segment for expenses it incurs related to occupancy, personnel, advertising and other direct costs of the retail segment which benefit the credit operations by sourcing credit customers and collecting payments. The reimbursement received by the retail segment from the credit segment is calculated using an annual rate of 2.5% multiplied by the average outstanding portfolio balance for each applicable period.

The following table represents total revenues, costs and expenses, operating income (loss) and income (loss) before taxes attributable to these operating segments for the periods indicated:

Retail Segment: (dollars in thousands)	Three Months Ended October 31,			Nine Months Ended October 31,		
	2021	2020	Change	2021	2020	Change
Revenues:						
Product sales	\$ 308,301	\$ 239,157	\$ 69,144	\$ 897,757	\$ 702,497	\$ 195,260
Repair service agreement commissions	23,769	17,465	6,304	66,600	57,730	8,870
Service revenues	2,513	3,150	(637)	8,307	9,611	(1,304)
Total net sales	334,583	259,772	74,811	972,664	769,838	202,826
Finance charges and other	262	168	94	695	599	96
Total revenues	334,845	259,940	74,905	973,359	770,437	202,922
Costs and expenses:						
Cost of goods sold	211,298	160,378	50,920	612,219	484,015	128,204
Selling, general and administrative expense ⁽¹⁾	100,969	84,245	16,724	294,019	241,003	53,016
Provision for bad debts	36	72	(36)	196	422	(226)
Charges and credits	—	—	—	—	1,355	(1,355)
Total costs and expenses	312,303	244,695	67,608	906,434	726,795	179,639
Operating income	\$ 22,542	\$ 15,245	\$ 7,297	\$ 66,925	\$ 43,642	\$ 23,283
Number of stores:						
Beginning of period	155	141		146	137	
Opened	2	2		11	6	
End of period	157	143		157	143	

Credit Segment: (in thousands)	Three Months Ended October 31,			Nine Months Ended October 31,		
	2021	2020	Change	2021	2020	Change
Revenues:						
Finance charges and other revenues	\$ 70,613	\$ 74,218	\$ (3,605)	\$ 214,184	\$ 247,797	\$ (33,613)
Costs and expenses:						
Selling, general and administrative expense ⁽¹⁾	37,112	37,913	(801)	107,981	109,440	(1,459)
Provision for bad debts	26,496	27,421	(925)	19,462	176,442	(156,980)
Charges and credits	—	—	—	—	2,234	(2,234)
Total costs and expenses	63,608	65,334	(1,726)	127,443	288,116	(160,673)
Operating income (loss)	7,005	8,884	(1,879)	86,741	(40,319)	127,060
Interest expense	5,206	11,563	(6,357)	20,498	39,778	(19,280)
Loss on extinguishment of debt	—	—	—	1,218	—	1,218
Income (loss) before income taxes	\$ 1,799	\$ (2,679)	\$ 4,478	\$ 65,025	\$ (80,097)	\$ 145,122

- (1) For the three months ended October 31, 2021 and 2020, the amount of overhead allocated to each segment reflected in SG&A was \$11.1 million and \$8.5 million, respectively. For the three months ended October 31, 2021 and 2020, the amount of reimbursement made to the retail segment by the credit segment was \$7.0 million and \$8.2 million, respectively. For the nine months ended October 31, 2021 and 2020, the amount of corporate overhead allocated to each segment reflected in SG&A was \$30.0 million and \$24.2 million, respectively. For the nine months ended October 31, 2021 and 2020, the amount of reimbursement made to the retail segment by the credit segment was \$21.2 million and \$26.9 million, respectively.

Three months ended October 31, 2021 compared to three months ended October 31, 2020

Revenues. The following table provides an analysis of retail net sales by product category in each period, including repair service agreement (“RSA”) commissions and service revenues, expressed both in dollar amounts and as a percent of total net sales:

<i>(dollars in thousands)</i>	Three Months Ended October 31,				Change	% Change	Same Store % Change
	2021	% of Total	2020	% of Total			
Furniture and mattress	\$ 106,756	31.9 %	\$ 82,793	31.9 %	\$ 23,963	28.9 %	18.8 %
Home appliance	128,385	38.3	99,872	38.4	28,513	28.5	21.9
Consumer electronics	46,751	14.0	35,517	13.7	11,234	31.6	28.2
Home office	17,373	5.2	16,711	6.4	662	4.0	(3.2)
Other	9,036	2.7	4,264	1.6	4,772	111.9	76.7
Product sales	308,301	92.1	239,157	92.0	69,144	28.9	21.0
Repair service agreement commissions ⁽¹⁾	23,769	7.1	17,465	6.7	6,304	36.1	16.8
Service revenues	2,513	0.8	3,150	1.3	(637)	(20.2)	
Total net sales	\$ 334,583	100.0 %	\$ 259,772	100.0 %	\$ 74,811	28.8 %	20.6 %

(1) The total change in sales of RSA commissions includes retrospective commissions, which are not reflected in the change in same store sales.

The increase in product sales for the three months ended October 31, 2021 was primarily driven by an increase in same store sales of 20.6%, new store growth and an increase in RSA commissions. The increase in same store sales reflects an increase in demand across most of the Company’s home-related product categories. The increase also reflects the impact of prior year proactive underwriting changes, which were the result of the COVID-19 pandemic.

The following table provides the change of the components of finance charges and other revenues:

<i>(in thousands)</i>	Three Months Ended October 31,		Change
	2021	2020	
Interest income and fees	\$ 63,621	\$ 69,996	\$ (6,375)
Insurance income	6,992	4,222	2,770
Other revenues	262	168	94
Finance charges and other revenues	\$ 70,875	\$ 74,386	\$ (3,511)

The decrease in finance charges and other revenues was primarily due to a decrease of 15.2% in the average outstanding balance of the customer accounts receivable portfolio. These decreases were partially offset by an increase in the yield rate from 21.1% for the three months ended October 31, 2020 to 22.6% during the three months ended October 31, 2021 and an increase in insurance commissions.

The following table provides key portfolio performance information:

<i>(dollars in thousands)</i>	Three Months Ended October 31,		Change
	2021	2020	
Interest income and fees	\$ 63,621	\$ 69,996	\$ (6,375)
Net charge-offs	(22,336)	(48,435)	26,099
Interest expense	(5,206)	(11,563)	6,357
Net portfolio income	\$ 36,079	\$ 9,998	\$ 26,081
Average outstanding portfolio balance	\$ 1,116,234	\$ 1,316,638	\$ (200,404)
Interest income and fee yield (annualized)	22.6 %	21.1 %	
Net charge-off % (annualized)	8.0 %	14.7 %	

Retail Gross Margin

	Three Months Ended October 31,		
	2021	2020	Change
<i>(dollars in thousands)</i>			
Retail total net sales	\$ 334,583	\$ 259,772	\$ 74,811
Cost of goods sold	211,298	160,378	50,920
Retail gross margin	\$ 123,285	\$ 99,394	\$ 23,891
Retail gross margin percentage	36.8 %	38.3 %	

The year-over-year decrease in retail gross margin was primarily driven by the impact of increased product costs as a result of higher freight costs, partially offset by an increase in sales of higher margin products.

Selling, General and Administrative Expense

	Three Months Ended October 31,		
	2021	2020	Change
<i>(dollars in thousands)</i>			
Retail segment	\$ 100,969	\$ 84,245	\$ 16,724
Credit segment	37,112	37,913	(801)
Selling, general and administrative expense - Consolidated	\$ 138,081	\$ 122,158	\$ 15,923
Selling, general and administrative expense as a percent of total revenues	34.1 %	36.6 %	

The SG&A increase was primarily due to increases in labor and occupancy costs related to new store growth and increases in variable expenses associated with same store sales growth, as well as increases in advertising and general operating costs.

As a percent of average total customer portfolio balance (annualized), SG&A for the credit segment was 13.3% for the three months ended October 31, 2021 as compared to 11.5% for the three months ended October 31, 2020. The decrease was driven by a year-over-year decrease in the portfolio balance.

Provision for Bad Debts

	Three Months Ended October 31,		
	2021	2020	Change
<i>(dollars in thousands)</i>			
Retail segment	\$ 36	\$ 72	\$ (36)
Credit segment	26,496	27,421	(925)
Provision for bad debts - Consolidated	\$ 26,532	\$ 27,493	\$ (961)
Provision for bad debts - Credit segment, as a percent of average outstanding portfolio balance (annualized)	9.5 %	8.3 %	

The provision for bad debts was \$26.5 million for the three months ended October 31, 2021 compared to \$27.5 million for the three months ended October 31, 2020, a decrease of \$1.0 million. The change was primarily driven by a year-over-year decrease in net charge-offs of \$26.1 million, partially offset by a smaller decrease in the allowance for bad debts during the three months ended October 31, 2021 compared to the three months ended October 31, 2020. The increase in the change in the allowance for bad debts was primarily driven by an increase in the customer accounts receivable portfolio balance during the third quarter of fiscal year 2022 versus a decrease during the third quarter of fiscal year 2021 and an increase in loss rates due to an increase in delinquency.

Charges and Credits

During the three months ended October 31, 2020, we recognized \$1.5 million in professional fees associated with non-recurring expenses.

Interest Expense

Interest expense was \$5.2 million for the three months ended October 31, 2021 and \$11.6 million for the three months ended October 31, 2020, a decrease of \$6.4 million or 55.2%. The decrease was driven by a lower average outstanding balance of debt and by a lower effective interest rate.

Provision for Income Taxes

	Three Months Ended October 31,		
	2021	2020	Change
<i>(dollars in thousands)</i>			
Provision for income taxes	\$ 6,102	\$ 5,147	\$ 955
Effective tax rate	25.1 %	41.0 %	

The increase in income tax expense for the three months ended October 31, 2021 compared to the three months ended October 31, 2020 was primarily driven by a \$11.8 million increase in pre-tax earnings at the statutory rate of 21%. There was also a reduction of \$1.7 million due to a benefit recognized in the three months ended October 31, 2020 as a result of net operating loss provisions within the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") that provides for a five year carryback.

Nine months ended October 31, 2021 compared to nine months ended October 31, 2020

Revenues. The following table provides an analysis of retail net sales by product category in each period, including RSA commissions and service revenues, expressed both in dollar amounts and as a percent of total net sales:

<i>(dollars in thousands)</i>	Nine Months Ended October 31,				Change	% Change	Same Store % Change
	2021	% of Total	2020	% of Total			
Furniture and mattress	\$ 310,505	31.9 %	\$ 232,670	30.2 %	\$ 77,835	33.5 %	22.4 %
Home appliance	377,090	38.8	288,839	37.5	88,251	30.6	23.2
Consumer electronics	133,202	13.7	118,677	15.4	14,525	12.2	9.6
Home office	49,881	5.1	49,056	6.4	825	1.7	(4.7)
Other	27,079	2.8	13,255	1.7	13,824	104.3	85.9
Product sales	897,757	92.3	702,497	91.2	195,260	27.8	20.0
Repair service agreement commissions ⁽¹⁾	66,600	6.8	57,730	7.5	8,870	15.4	7.5
Service revenues	8,307	0.9	9,611	1.3	(1,304)	(13.6)	
Total net sales	\$ 972,664	100.0 %	\$ 769,838	100.0 %	\$ 202,826	26.3 %	18.7 %

(1) The total change in sales of RSA commissions includes retrospective commissions, which are not reflected in the change in same store sales.

The increase in total net sales for the nine months ended October 31, 2021 was primarily driven by an increase in same store sales of 18.7% and new store growth. The increase in same store sales reflects an increase in demand across most of the Company's home-related product categories. The increase also reflects the impact of prior year proactive underwriting changes, industry wide supply chain disruptions, reductions in store hours and state mandated stay-at-home orders, each of which were the result of the COVID-19 pandemic.

The following table provides the change of the components of finance charges and other revenues:

<i>(in thousands)</i>	Nine Months Ended October 31,		
	2021	2020	Change
Interest income and fees	\$ 196,303	\$ 235,438	\$ (39,135)
Insurance income	17,881	12,359	5,522
Other revenues	695	599	96
Finance charges and other revenues	\$ 214,879	\$ 248,396	\$ (33,517)

The decrease in finance charges and other revenues was primarily due to a decrease of 20.9% in the average outstanding balance of the customer accounts receivable portfolio. The decrease was offset by an increase in the yield rate from 21.9% for the nine months ended October 31, 2020 to 23.1% for the nine months ended October 31, 2021 and an increase in insurance commissions.

The following table provides key portfolio performance information:

<i>(dollars in thousands)</i>	Nine Months Ended October 31,		Change
	2021	2020	
Interest income and fees	\$ 196,303	\$ 235,438	\$ (39,135)
Net charge-offs	(98,458)	(182,441)	83,983
Interest expense	(20,498)	(39,778)	19,280
Net portfolio income	\$ 77,347	\$ 13,219	\$ 64,128
Average outstanding portfolio balance	\$ 1,135,379	\$ 1,436,227	\$ (300,848)
Interest income and fee yield (annualized)	23.1 %	21.9 %	
Net charge-off % (annualized)	11.6 %	16.9 %	

Retail Gross Margin

<i>(dollars in thousands)</i>	Nine Months Ended October 31,		Change
	2021	2020	
Retail total net sales	\$ 972,664	\$ 769,838	\$ 202,826
Cost of goods sold	612,219	484,015	128,204
Retail gross margin	\$ 360,445	\$ 285,823	\$ 74,622
Retail gross margin percentage	37.1 %	37.1 %	

Retail gross margin was flat year-over-year driven by an increase in product mix related to a shift in sales from lower margin products to higher margin products and the impact of fixed logistics costs on higher sales, offset by a decline in retail gross margin related to the impact of increased product costs as a result of higher freight costs and a slower rate of increase in repair service agreement commissions compared to product sales.

Selling, General and Administrative Expense

<i>(dollars in thousands)</i>	Nine Months Ended October 31,		Change
	2021	2020	
Retail segment	\$ 294,019	\$ 241,003	\$ 53,016
Credit segment	107,981	109,440	(1,459)
Selling, general and administrative expense - Consolidated	\$ 402,000	\$ 350,443	\$ 51,557
Selling, general and administrative expense as a percent of total revenues	33.9 %	34.4 %	

The SG&A increase was primarily due to increases in labor and occupancy costs related to new store growth and increases in variable expenses associated with same store sales growth, as well as increases in advertising and general operating costs.

As a percent of average total customer portfolio balance (annualized), SG&A for the credit segment was 12.7% for the nine months ended October 31, 2021, as compared to 10.2% for the nine months ended October 31, 2020. The decrease was driven by a year-over-year decrease in the portfolio balance.

Provision for Bad Debts

<i>(dollars in thousands)</i>	Nine Months Ended October 31,		Change
	2021	2020	
Retail segment	\$ 196	\$ 422	\$ (226)
Credit segment	19,462	176,442	(156,980)
Provision for bad debts - Consolidated	\$ 19,658	\$ 176,864	\$ (157,206)
Provision for bad debts - Credit segment, as a percent of average outstanding portfolio balance (annualized)	2.3 %	16.4 %	

The provision for bad debts was \$19.7 million for the nine months ended October 31, 2021 compared to \$176.9 million for the nine months ended October 31, 2020, a decrease of \$157.2 million. The year-over-year decrease was primarily driven by a greater decrease in the allowance for bad debts during the nine months ended October 31, 2021, compared to the nine months ended October 31, 2020, and by a year-over-year decrease in net charge-offs of \$84.0 million. The decrease in the allowance for bad debts for the nine months ended October 31, 2021 was primarily driven by an improvement in the forecasted unemployment rate that drove a \$28.0 million decrease in the economic reserve and a decline in the customer portfolio receivable balance. During the nine months ended October 31, 2020, the decrease in the allowance for bad debts was primarily due to a decline in the customer portfolio receivable balance, partially offset by a \$53.1 million increase in the economic reserve driven by an increase in forecasted unemployment rates stemming from the COVID-19 pandemic.

Charges and Credits

During the nine months ended October 31, 2020, we recognized \$3.6 million in professional fees associated with non-recurring expenses.

Interest Expense

Interest expense was \$20.5 million for the nine months ended October 31, 2021 and \$39.8 million for the nine months ended October 31, 2020, a decrease of \$19.3 million or 48.5%. The decrease was driven by a lower average outstanding balance of debt and a decrease in the effective interest rate.

Provision for Income Taxes

	Nine Months Ended October 31,		Change
	2021	2020	
<i>(dollars in thousands)</i>			
Provision (benefit) for income taxes	\$ 31,309	\$ (8,192)	\$ 39,501
Effective tax rate	23.7 %	22.5 %	

The increase in income tax expense for the nine months ended October 31, 2021 compared to the nine months ended October 31, 2020 was primarily driven by a \$168.8 million increase in pre-tax earnings at the statutory rate of 21%.

Customer Accounts Receivable Portfolio

We provide in-house financing to individual consumers on a short- and medium-term basis (contractual terms generally range from 12 to 36 months) for the purchase of durable products for the home. A significant portion of our customer credit portfolio is due from customers that are considered higher-risk, subprime borrowers. Our financing is executed using contracts that require fixed monthly payments over fixed terms. We maintain a secured interest in the product financed. If a payment is delayed, missed or paid only in part, the account becomes delinquent. Our collection personnel attempt to contact a customer once their account becomes delinquent. Our loan contracts generally reflect an interest rate of between 18% and 36%. We have implemented our direct consumer loan program across all Texas, Louisiana, Tennessee and Oklahoma locations. The states of Texas, Louisiana, Tennessee and Oklahoma represented approximately 70% of our originations during the nine months ended October 31, 2021, with maximum equivalent interest rates of up to 32% in Oklahoma, up to 30% in Texas and Tennessee, and up to 36% in Louisiana. In states where regulations do not generally limit the interest rate charged, our loan contracts generally reflect an interest rate between 29.99% and 35.99%. These states represented 14% of our originations during the nine months ended October 31, 2021.

We offer qualified customers a 12-month no-interest option finance program. If the customer is delinquent in making a scheduled monthly payment or does not repay the principal in full by the end of the no-interest option program period (grace periods are provided), the account does not qualify for the no-interest provision and none of the interest earned is waived.

We regularly extend or "re-age" a portion of our delinquent customer accounts as a part of our normal collection procedures to protect our investment. Generally, extensions are granted to customers who have experienced a financial difficulty (such as the temporary loss of employment), which is subsequently resolved, and when the customer indicates a willingness and ability to resume making monthly payments. These re-ages involve modifying the payment terms to defer a portion of the cash payments currently required of the debtor to help the debtor improve his or her financial condition and eventually be able to pay the account balance. Our re-aging of customer accounts does not change the interest rate or the total principal amount due from the customer and typically does not reduce the monthly contractual payments. We may also charge the customer an extension fee, which approximates the interest owed for the time period the contract was past due. Our re-age programs consist of extensions and two payment updates, which include unilateral extensions to customers who make two full payments in three calendar months in certain states. Re-ages are not granted to debtors who demonstrate a lack of intent or ability to service the obligation or have reached our limits for account re-aging. To a much lesser extent, we may provide the customer the ability to re-age

their obligation by refinancing the account, which typically does not change the interest rate or the total principal amount due from the customer but does reduce the monthly contractual payments and extends the term. Under these options, as with extensions, the customer must resolve the reason for delinquency and show a willingness and ability to resume making contractual monthly payments.

On March 27, 2020 the Coronavirus Aid, Relief Economic Security Act ("CARES Act") was signed into law to address the economic impact of the COVID-19 pandemic. Under the CARES Act, modifications deemed to be COVID-19 related are not considered a TDR if the loan was current (not more than 30 days past due as of March 31, 2020) and the deferral was executed between April 1, 2020 and the earlier of 60 days after the termination of the COVID-19 national emergency or December 31, 2020. In response to the CARES Act, the Company implemented short-term deferral programs for our customers. The carrying value of the customer receivables on accounts which were current prior to receiving a COVID-19 related deferment was \$25.7 million as of October 31, 2021. All COVID-19 specific deferral programs ended during the third quarter of fiscal year 2021.

The following tables present, for comparison purposes, information about our managed portfolio (information reflects on a combined basis the securitized receivables transferred to the VIEs and receivables not transferred to the VIEs):

	As of October 31,	
	2021	2020
Weighted average credit score of outstanding balances ⁽¹⁾	607	599
Average outstanding customer balance	\$ 2,449	\$ 2,515
Balances 60+ days past due as a percentage of total customer portfolio carrying value ⁽²⁾⁽³⁾⁽⁴⁾	8.8 %	11.5 %
Re-aged balance as a percentage of total customer portfolio carrying value ⁽²⁾⁽³⁾⁽⁵⁾	18.3 %	28.2 %
Carrying value of account balances re-aged more than six months (in thousands) ⁽³⁾	\$ 61,807	\$ 98,307
Allowance for bad debts and uncollectible interest as a percentage of total customer accounts receivable portfolio balance	18.5 %	24.9 %
Percent of total customer accounts receivable portfolio balance represented by no-interest option receivables	32.0 %	18.0 %

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2021	2020	2021	2020
Total applications processed	337,112	285,569	971,456	908,078
Weighted average origination credit score of sales financed ⁽¹⁾	616	618	615	615
Percent of total applications approved and utilized	21.5 %	22.7 %	21.9 %	21.6 %
Average income of credit customer at origination	\$ 49,100	\$ 46,900	\$ 48,400	\$ 46,500
Percent of retail sales paid for by:				
In-house financing, including down payments received	52.9 %	51.5 %	50.9 %	52.6 %
Third-party financing	17.9 %	20.3 %	17.5 %	20.6 %
Third-party lease-to-own option	9.2 %	7.2 %	11.0 %	8.0 %
	<u>80.0 %</u>	<u>79.0 %</u>	<u>79.4 %</u>	<u>81.2 %</u>

(1) Credit scores exclude non-scored accounts.

(2) Accounts that become delinquent after being re-aged are included in both the delinquency and re-aged amounts.

(3) Carrying value reflects the total customer accounts receivable portfolio balance, net of deferred fees and origination costs, the allowance for no-interest option credit programs and the allowance for uncollectible interest.

(4) Decrease was primarily due to an increase in cash collections and the tightening of underwriting standards that occurred in fiscal year 2021.

(5) Decrease was primarily due to an increase in cash collections, the change in the unilateral re-age policy that occurred in the second quarter of fiscal year 2021 and the tightening of underwriting standards that occurred in fiscal year 2021.

Our customer portfolio balance and related allowance for uncollectible accounts are segregated between customer accounts receivable and restructured accounts. Customer accounts receivable include all accounts for which the payment term has not been cumulatively extended over three months or refinanced. Restructured accounts include all accounts for which payment term has been re-aged in excess of three months or refinanced.

For customer accounts receivable (excluding restructured accounts), the allowance for uncollectible accounts as a percentage of the total customer accounts receivable portfolio balance decreased to 15.8% as of October 31, 2021 from 22.1% as of October 31, 2020. The decrease in our allowance for uncollectible accounts was primarily related to a decline in the non-TDR re-age balance, improvements in 60+ day delinquencies and a decrease in the economic adjustment due to an improved macroeconomic outlook.

The percentage of the carrying value of non-restructured accounts greater than 60 days past due decreased 190 basis points over the prior year period to 6.7% as of October 31, 2021 from 8.6% as of October 31, 2020. The decrease was primarily due to higher payment rates, continued focus on cash collections and the tightening of underwriting standards that occurred in fiscal year 2021.

For restructured accounts, the allowance for uncollectible accounts as a percentage of the portfolio balance was 40.9% as of October 31, 2021 as compared to 39.7% as of October 31, 2020.

The percent of bad debt charge-offs, net of recoveries, to average outstanding portfolio balance was 8.0% for the three months ended October 31, 2021 compared to 14.7% for the three months ended October 31, 2020. The decrease in bad debt charge-offs, net of recoveries, was primarily due to increased cash collections and the tightening of underwriting standards that occurred in fiscal year 2021.

As of October 31, 2021 and 2020, balances under no-interest programs included within customer receivables were \$360.4 million and \$229.9 million, respectively.

Liquidity and Capital Resources

We require liquidity and capital resources to finance our operations and future growth as we add new stores to our operations, which in turn requires additional working capital for increased customer receivables and inventory. We generally finance our operations through a combination of cash flow generated from operations, the use of our Revolving Credit Facility, and through periodic securitizations of originated customer receivables. We plan to execute periodic securitizations of future originated customer receivables.

We believe, based on our current projections, that we have sufficient sources of liquidity to fund our operations, store expansion and renovation activities, and capital expenditures for at least the next 12 months.

Operating cash flows. For the nine months ended October 31, 2021, net cash provided by operating activities was \$167.7 million compared to \$385.5 million for the nine months ended October 31, 2020. The decrease in net cash provided by operating activities was primarily driven by an increase in inventory in comparison to the prior year period when we were preserving liquidity in the midst of the COVID-19 pandemic. The decrease was also driven by higher prior year collections due to a higher customer accounts receivable balance compared to the current year period.

Investing cash flows. For the nine months ended October 31, 2021, net cash used in investing activities was \$33.2 million compared to \$46.6 million for the nine months ended October 31, 2020. The cash used during the nine months ended October 31, 2021 was primarily for investments in new and existing stores and technology investments. The cash used during the nine months ended October 31, 2020 was primarily for capital expenditures related to our two new distribution centers to support long-term growth.

Financing cash flows. For the nine months ended October 31, 2021, net cash used in financing activities was \$158.7 million compared to net cash used in financing activities of \$233.5 million for the nine months ended October 31, 2020. During the nine months ended October 31, 2021, we issued 2020-A Class C VIE asset backed notes resulting in net proceeds to us of approximately \$62.5 million, net of transaction costs. The proceeds from the 2020-A VIE asset-backed notes were used to partially pay down the balance of the Company's Revolving Credit Facility. During the nine months ended October 31, 2020, we issued 2020-A Class A and 2020-A Class B VIE asset backed notes resulting in net proceeds to us of approximately \$238.5 million, net of transaction costs, which were used to pay down the entire balance of the Company's Revolving Credit Facility outstanding at the time of issuance and for other general corporate purposes. Cash collections from the securitized receivables were used to make payments on asset-backed notes of approximately \$329.5 million during the nine months ended October 31, 2021 compared to approximately \$438.5 million in the comparable prior year period. During the period ended October 31, 2021, net borrowings under our Revolving Credit Facility were \$255.0 million as compared to net payments of \$29.1 million during the period ended October 31, 2020. The net borrowings during the nine months ended October 31, 2020 included \$275.0 million borrowed to preserve financial flexibility in the midst of the COVID-19 pandemic. During the nine months ended October 31, 2021, we retired the remaining \$141.2 million aggregate principal amount of our Senior Notes outstanding.

Senior Notes. On July 1, 2014, we issued an aggregate principal amount of \$250.0 million in unsecured 7.25% Senior Notes due 2022, (the "Senior Notes") pursuant to an indenture dated July 1, 2014 (as amended, the "Indenture"), among Conn's, Inc., its subsidiary guarantors (the "Guarantors") and U.S. Bank National Association, as trustee. On April 15, 2021 we completed the redemption of all of our outstanding Senior Notes in an aggregate principal amount of \$141.2 million.

Asset-backed Notes. From time to time, we securitize customer accounts receivables by transferring the receivables to various bankruptcy-remote VIEs. In turn, the VIEs issue asset-backed notes secured by the transferred customer accounts receivables and restricted cash held by the VIEs.

Under the terms of the securitization transactions, all cash collections and other cash proceeds of the customer receivables go first to the servicer and the holders of issued notes, and then to us as the holder of non-issued notes, if any, and residual equity. We retain the servicing of the securitized portfolios and receive a monthly fee of 4.75% (annualized) based on the outstanding balance of the securitized receivables. In addition, we, rather than the VIEs, retain all credit insurance income together with certain recoveries related to credit insurance and RSAs on charge-offs of the securitized receivables, which are reflected as a reduction to net charge-offs on a consolidated basis.

The asset-backed notes were offered and sold to qualified institutional buyers pursuant to the exemptions from registration provided by Rule 144A under the Securities Act of 1933. If an event of default were to occur under the indenture that governs the respective asset-backed notes, the payment of the outstanding amounts may be accelerated, in which event the cash proceeds of the receivables that otherwise might be released to the residual equity holder would instead be directed entirely toward repayment of the asset-backed notes, or if the receivables are liquidated, all liquidation proceeds could be directed solely to repayment of the asset-backed notes as governed by the respective terms of the asset-backed notes. The holders of the asset-backed notes have no recourse to assets outside of the VIEs. Events of default include, but are not limited to, failure to make required payments on the asset-backed notes or specified bankruptcy-related events.

The asset-backed notes outstanding as of October 31, 2021 consisted of the following:

(dollars in thousands)

Asset-Backed Notes	Original Principal Amount	Original Net Proceeds ⁽¹⁾	Current Principal Amount	Issuance Date	Maturity Date	Contractual Interest Rate	Effective Interest Rate
2019-B Class B Notes	\$ 85,540	\$ 84,916	\$ —	11/26/2019	6/17/2024	3.62%	4.59%
2019-B Class C Notes	83,270	82,456	70,691	11/26/2019	6/17/2024	4.60%	5.15%
2020-A Class A Notes	174,900	173,716	15,584	10/16/2020	6/16/2025	1.71%	4.51%
2020-A Class B Notes	65,200	64,754	31,124	10/16/2020	6/16/2025	4.27%	5.52%
2020-A Class C Notes	62,900	62,535	30,026	2/24/2021	6/16/2025	4.20%	5.71%
Total	<u>\$ 471,810</u>	<u>\$ 468,377</u>	<u>\$ 147,425</u>				

(1) After giving effect to debt issuance costs.

(2) For the nine months ended October 31, 2021, and inclusive of the impact of changes in timing of actual and expected cash flows.

On February 24, 2021, the Company completed the sale of \$62.9 million aggregate principal amount of 4.20% Asset Backed Notes, Class C, Series 2020-A, which were previously issued and held by the Company. The asset-backed notes are secured by the transferred customer accounts receivables and restricted cash held by a consolidated VIE, which resulted in net proceeds to us of \$62.5 million, net of debt issuance costs. Net proceeds from the sale were used to repay amounts outstanding under the Company's Revolving Credit Facility.

On May 12, 2021, the Company completed the redemption of the 2019-A Asset Backed Notes at an aggregate redemption price of \$41.1 million (which was equal to the entire outstanding principal balance plus accrued interest). We funded the redemption with cash on hand and borrowings under our Revolving Credit Facility.

On November 23, 2021, an affiliate of the Company ("the Issuer") completed the issuance and sale of asset-backed notes in the aggregate principal amount of \$377.8 million secured by the transferred customer accounts receivable and restricted cash held by a VIE, which resulted in net proceeds to us of \$375.2 million, net of debt issuance costs. Net proceeds from the offering were used to repay indebtedness under the Company's asset-based credit facility and for other general corporate purposes. The asset-backed notes mature on March 15, 2026 and consist of \$247.8 million of the Issuer's 1.05% Class A, Series 2021-A Asset Backed Fixed Rate Notes, \$66.1 million of 2.87% Class B, Series 2021-A Asset Backed Fixed Rate Notes, and \$63.9 million of 4.59% Class C, Series 2021-A Asset Backed Fixed Rate Notes.

Revolving Credit Facility. On March 29, 2021, Conn's, Inc. and certain of its subsidiaries (the "Borrowers") entered into the Fifth Amended and Restated Loan and Security Agreement (the "Fifth Amended and Restated Loan Agreement"), with certain lenders, which provides for a \$650.0 million asset-based revolving credit facility (as amended, the "Revolving Credit Facility") under which credit availability is subject to a borrowing base and a maturity date of March 29, 2025.

The Fifth Amended and Restated Loan Agreement, among other things, permits borrowings under the Letter of Credit Subline (as defined in the Fifth Amended and Restated Loan Agreement) that exceed the cap of \$40 million to \$100 million, solely at the discretion of the lenders for such amounts in excess of \$40 million. The obligations under the Revolving Credit Facility are secured by substantially all assets of the Company, excluding the assets of the VIEs. As of October 31, 2021, we had immediately available borrowing capacity of \$320.5 million under our Revolving Credit Facility, net of standby letters of credit issued of \$22.5 million.

Loans under the Revolving Credit Facility bear interest, at our option, at a rate of LIBOR plus a margin ranging from 2.50% to 3.25% per annum (depending on a pricing grid determined by our total leverage ratio) or the alternate base rate plus a margin ranging from 1.50% to 2.25% per annum (depending on a pricing grid determined by our total leverage ratio). We also pay an unused fee on the portion of the commitments that is available for future borrowings or letters of credit at a rate ranging from 0.25% to 0.50% per annum, depending on the average outstanding balance and letters of credit of the Revolving Credit Facility in the immediately preceding quarter. The weighted-average interest rate on borrowings outstanding and including unused line fees under the Revolving Credit Facility was 4.1% for the nine months ended October 31, 2021.

The Revolving Credit Facility places restrictions on our ability to incur additional indebtedness, grant liens on assets, make distributions on equity interests, dispose of assets, make loans, pay other indebtedness, engage in mergers, and other matters. The Revolving Credit Facility restricts our ability to make dividends and distributions unless no event of default exists and a liquidity test is satisfied. Subsidiaries of the Company may pay dividends and make distributions to the Company and other obligors under the Revolving Credit Facility without restriction. As of October 31, 2021, we were restricted from making distributions in excess of \$164.9 million as a result of the Revolving Credit Facility distribution and payment restrictions. The Revolving Credit Facility contains customary default provisions, which, if triggered, could result in acceleration of all amounts outstanding under the Revolving Credit Facility.

Debt Covenants. We were in compliance with our debt covenants at October 31, 2021. A summary of the significant financial covenants that govern our Revolving Credit Facility compared to our actual compliance status at October 31, 2021 is presented below:

	Actual	Required Minimum/ Maximum
Interest Coverage Ratio for the quarter must equal or exceed minimum	10.12:1.00	1.00:1.00
Interest Coverage Ratio for the trailing two quarters must equal or exceed minimum	12.34:1.00	1.50:1.00
Leverage Ratio must not exceed maximum	1.25:1.00	4.50:1.00
ABS Excluded Leverage Ratio must not exceed maximum	1.06:1.00	2.50:1.00
Capital Expenditures, net, must not exceed maximum	\$24.8 million	\$100.0 million

All capitalized terms in the above table are defined by the Revolving Credit Facility and may or may not match directly to the financial statement captions in this document. The covenants are calculated quarterly, except for capital expenditures, which is calculated for a period of four consecutive fiscal quarters, as of the end of each fiscal quarter.

Capital Expenditures. We lease the majority of our stores under operating leases and our plans for future store locations anticipate operating leases, but do not exclude store ownership. Our capital expenditures for future new store projects should primarily be for our tenant improvements to the property leased (including any new distribution centers and cross-dock facilities), the cost of which is estimated to be between \$1.7 million and \$2.5 million per store (before tenant improvement allowances), and for our existing store remodels, estimated to range between \$0.3 million and \$0.9 million per store remodel (before tenant improvement allowances), depending on store size. In the event we purchase existing properties, our capital expenditures will depend on the particular property and whether it is improved when purchased. We are continuously reviewing new relationships and funding sources and alternatives for new stores, which may include “sale-leaseback” or direct “purchase-lease” programs, as well as other funding sources for our purchase and construction of those projects. If we do not purchase the real property for new stores, our direct cash needs should include only our capital expenditures for tenant improvements to leased properties and our remodel programs for existing stores. We opened eleven new stores during the nine months ended October 31, 2021 and plan to open one additional store during the fourth quarter of fiscal year 2022. Our anticipated capital expenditures for the remainder of fiscal year 2022 are between \$10.0 million and \$15.0 million, which includes expenditures for new stores we plan to open in fiscal year 2023.

Cash Flow

We periodically evaluate our liquidity requirements, capital needs and availability of resources in view of inventory levels, expansion plans, debt service requirements and other operating cash needs. To meet our short- and long-term liquidity requirements, including payment of operating expenses, funding of capital expenditures and repayment of debt, we rely

primarily on cash from operations. As of October 31, 2021, beyond cash generated from operations, we had (i) immediately available borrowing capacity of \$320.5 million under our Revolving Credit Facility and (ii) \$10.6 million of cash on hand. However, we have, in the past, sought to raise additional capital.

We expect that, for the next 12 months, cash generated from operations, proceeds from potential accounts receivable securitizations and our Revolving Credit Facility will be sufficient to provide us the ability to fund our operations, provide the increased working capital necessary to support our strategy and fund planned capital expenditures discussed above in *Capital Expenditures*.

We may repurchase or otherwise retire our debt and take other steps to reduce our debt or otherwise improve our financial position. These actions could include open market debt repurchases, negotiated repurchases, other retirements of outstanding debt and opportunistic refinancing of debt. The amount of debt that may be repurchased or otherwise retired, if any, will depend on market conditions, the Company's cash position, compliance with debt covenants and restrictions and other considerations.

Off-Balance Sheet Liabilities and Other Contractual Obligations

We do not have any off-balance sheet arrangements as defined by Item 303(a)(4) of Regulation S-K. The following table presents a summary of our minimum contractual commitments and obligations as of October 31, 2021:

(in thousands)	Total	Payments due by period			
		Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Debt, including estimated interest payments ⁽³⁾ :					
Revolving Credit Facility ⁽¹⁾	\$ 334,489	\$ 8,059	\$ 16,118	\$ 310,312	\$ —
2019-B Class C Notes ⁽²⁾	79,244	3,252	75,992	—	—
2020-A Class A Notes ⁽²⁾	16,550	266	533	15,751	—
2020-A Class B Notes ⁽²⁾	35,945	1,329	2,658	31,958	—
2020-A Class C Notes ⁽²⁾	37,760	2,132	4,264	31,364	—
Financing lease obligations	8,239	1,261	2,322	1,653	3,003
Operating leases:					
Real estate	514,406	85,501	160,650	117,932	150,323
Equipment	164	125	27	12	—
Contractual commitments ⁽⁴⁾	91,539	84,558	6,822	159	—
Total	\$ 1,118,336	\$ 186,483	\$ 269,386	\$ 509,141	\$ 153,326

- (1) Estimated interest payments are based on the outstanding balance as of October 31, 2021 and the interest rate in effect at that time.
- (2) The payments due by period for the asset-backed notes were based on their respective maturity dates at their respective fixed annual interest rate. Actual principal and interest payments on the asset-backed notes will reflect actual proceeds from the securitized customer accounts receivables.
- (3) On November 23, 2021, an affiliate of the Company ("the Issuer") completed the issuance and sale of asset-backed notes in the aggregate principal amount of \$377.8 million secured by the transferred customer accounts receivable and restricted cash held by a VIE, which resulted in net proceeds to us of \$375.2 million, net of debt issuance costs. Net proceeds from the offering were used to repay indebtedness under the Company's asset-based credit facility and for other general corporate purposes. The asset-backed notes mature on March 15, 2026 and consist of \$247.8 million of the Issuer's 1.05% Class A, Series 2021-A Asset Backed Fixed Rate Notes, \$66.1 million of 2.87% Class B, Series 2021-A Asset Backed Fixed Rate Notes, and \$63.9 million of 4.59% Class C, Series 2021-A Asset Backed Fixed Rate Notes.
- (4) Contractual commitments primarily include commitments to purchase inventory of \$62.9 million.

Issuer and Guarantor Subsidiary Summarized Financial Information

Conn's, Inc. is a holding company with no independent assets or operations other than its investments in its subsidiaries. As of October 31, 2021 and January 31, 2021, the direct or indirect subsidiaries of Conn's, Inc. that were not Guarantors (the "Non-Guarantor Subsidiaries") were the VIEs and minor subsidiaries.

The following tables present on a combined basis for the Issuer and the Guarantor Subsidiaries, a summarized Balance Sheet as of October 31, 2021 and January 31, 2021, and a summarized Statement of Operations on a consolidated basis for the nine months ended October 31, 2021. The information presented below excludes eliminations necessary to arrive at the information on a consolidated basis. Investments in subsidiaries are accounted for by the parent company using the equity method for purposes of this presentation. Amounts provided do not represent our total consolidated amounts, as of October 31, 2021 and January 31, 2021, and for the nine months ended October 31, 2021:

<i>(in thousands)</i>	October 31, 2021	January 31, 2021
Assets		
Cash, cash equivalents and restricted cash	\$ 12,647	\$ 11,638
Customer accounts receivable	329,055	218,923
Inventories	263,134	196,463
Net due from non-guarantor subsidiary	13,418	8,571
Other current assets	93,342	108,606
Total current assets	711,596	544,201
Long-term portion of customer accounts receivable	384,172	246,445
Property and equipment, net	188,502	190,962
Right of use assets, net	265,592	265,798
Other assets	52,855	23,512
Total assets	\$ 1,602,717	\$ 1,270,918
Liabilities		
Current portion of debt	\$ 942	\$ 934
Lease liability operating - current	50,390	44,011
Other liabilities	234,006	163,429
Total current liabilities	285,338	208,374
Lease liability operating - non current	345,756	354,598
Long-term debt	312,457	197,084
Other long-term liabilities	30,583	21,068
Total liabilities	\$ 974,134	\$ 781,124

<i>(in thousands)</i>	Nine Months Ended October 31, 2021
Revenues:	
Net sales and finances charges	\$ 1,117,285
Servicing fee revenue from non-guarantor subsidiary	31,103
Total revenues	1,148,388
Total costs and expenses	1,090,542
Net income	\$ 57,846

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with GAAP requires us to make estimates that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Certain accounting policies are considered “critical accounting policies” because they are particularly dependent on estimates made by us about matters that are inherently uncertain and could have a material impact to our Condensed Consolidated Financial Statements. We base our estimates on historical experience and on other assumptions that we believe are reasonable. As a result, actual results could differ because of the use of estimates. Other than with respect to the additional policy below, the description of critical accounting policies is included in our 2021 Form 10-K, filed with the SEC on March 31, 2021.

Recent Accounting Pronouncements

The information related to recent accounting pronouncements as set forth in Note 1, *Summary of Significant Accounting Policies*, of the Condensed Consolidated Financial Statements in Part I, Item 1, of this quarterly report on Form 10-Q is incorporated herein by reference.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The market risk inherent in our financial instruments represents the potential loss arising from adverse changes in interest rates. We have not been materially impacted by fluctuations in foreign currency exchange rates, as substantially all of our business is transacted in, and is expected to continue to be transacted in, U.S. dollars or U.S. dollar-based currencies. Our asset-backed notes bear interest at a fixed rate and would not be affected by interest rate changes.

During the three months ended October 31, 2021, loans under the Revolving Credit Facility bore interest, at our option, at a rate equal to LIBOR plus a margin ranging from 2.50% to 3.25% per annum (depending on a pricing grid determined by our total leverage ratio) or the alternate base rate plus a margin ranging from 1.50% to 2.25% per annum (depending on a pricing grid determined by our total leverage ratio). Accordingly, changes in our quarterly total leverage ratio and LIBOR or the alternate base rate will affect the interest rate on, and therefore our costs under, the Revolving Credit Facility. As of October 31, 2021, the balance outstanding under our Revolving Credit Facility was \$307 million. A 100 basis point increase in interest rates on the Revolving Credit Facility would increase our borrowing costs by \$3.1 million over a 12-month period, based on the outstanding balance at October 31, 2021.

ITEM 4. CONTROLS AND PROCEDURES

Based on management’s evaluation (with the participation of our Chief Executive Officer (“CEO”) and our Chief Financial Officer (“CFO”)), as of the end of the period covered by this report, our CEO and CFO have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

For the quarter ended October 31, 2021, there have been no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth in Note 5, *Contingencies*, of the Condensed Consolidated Financial Statements in Part I, Item 1, of this quarterly report on Form 10-Q is incorporated herein by reference.

ITEM 1A. RISK FACTORS

As of the date of the filing, there have been no material changes to the risk factors previously disclosed in Part I, Item 1A, of our 2021 Form 10-K.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The exhibits filed as part of this report are as follows (exhibits incorporated by reference are set forth with the name of the registrant, the type of report and registration number or last date of the period for which it was filed, and the exhibit number in such filing):

Exhibit Number	Description of Document
3.1	Certificate of Incorporation of Conn's, Inc. (incorporated herein by reference to Exhibit 3.1 to Conn's, Inc. registration statement on Form S-1 (File No. 333-109046) as filed with the Securities and Exchange Commission on September 23, 2003)
3.1.1	Certificate of Amendment to the Certificate of Incorporation of Conn's, Inc. dated June 3, 2004 (incorporated herein by reference to Exhibit 3.1.1 to Form 10-Q for the quarterly period ended April 30, 2004 (File No. 000-50421) as filed with the Securities and Exchange Commission on June 7, 2004)
3.1.2	Certificate of Amendment to the Certificate of Incorporation of Conn's, Inc. dated May 30, 2012 (incorporated herein by reference to Exhibit 3.1.2 to Form 10-Q for the quarterly period ended April 30, 2012 (File No. 001-34956) as filed with the Securities and Exchange Commission on June 5, 2012)
3.1.3	Certificate of Correction to the Certificate of Amendment to Conn's, Inc. Certificate of Incorporation (incorporated herein by reference to Exhibit 3.1.3 to Form 10-K for the annual period ended January 31, 2014 (File No. 001-34956) as filed with the Securities and Exchange Commission on March 27, 2014)
3.1.4	Certificate of Amendment to the Certificate of Incorporation of Conn's, Inc. as filed on May 29, 2014 (incorporated herein by reference to Exhibit 3.1.4 to Conn's, Inc. Form 10-Q for the quarterly period ended April 30, 2014 (File No. 001-34956) as filed with the Securities and Exchange Commission on June 2, 2014)
3.2	Third Amended and Restated Bylaws of Conn's, Inc. effective as of December 7, 2020 (incorporated herein by reference to exhibit 3.2 to Form 10-Q for the quarterly period ended October 31, 2020 (File No. 001-34956) as filed with the Securities and Exchange Commission on December 4, 2020)
10.1†	Executive Severance Agreement, dated as of August 9, 2021, between Conn's, Inc. and Chandra Holt (incorporated herein by reference to Exhibit 10.2 to Conn's, Inc.'s Current on Form 8-K (File No. 001-34956) as filed with the Securities and Exchange Commission on August 5, 2021).
10.2†	Letter Agreement, dated August 4, 2021, between Conn's, Inc. and Norman L. Miller. (incorporated herein by reference to Exhibit 10.3 to Conn's, Inc.'s Current on Form 8-K (File No. 001-34956) as filed with the Securities and Exchange Commission on August 5, 2021).
31.1	Rule 13a-14(a)/15d-14(a) Certification (Chief Executive Officer) (filed herewith)
31.2	Rule 13a-14(d)/15d-14(d) Certification (Chief Financial Officer) (filed herewith)
32.1	Section 1350 Certification (Chief Executive Officer and Chief Financial Officer) (furnished herewith)
101*	The following financial information from our Quarterly Report on Form 10-Q for the third quarter of fiscal year 2022, filed with the SEC on December 7, 2021, formatted in Inline Extensible Business Reporting Language (iXBRL): (i) the Condensed Consolidated Balance Sheets at October 31, 2021 and January 31, 2021, (ii) the Condensed Consolidated Statements of Operations for the three and nine months ended October 31, 2021 and 2020, (iii) the Condensed Consolidated Statements of Shareholders Equity for the periods ended October 31, 2021 and 2020, (iv) the Condensed Consolidated Statements of Cash Flows for the nine months ended October 31, 2021 and 2020 and (v) the notes to the Condensed Consolidated Financial Statements.
104*	Cover Page Interactive Data File (embedded within the Inline XBRL Document and included in Exhibit 101)

*Filed herewith

† Management contract or compensatory plan or arrangement

SIGNATURE

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.

CONN'S, INC.

Date: December 7, 2021

By: /s/ George L. Bchara
George L. Bchara
Executive Vice President and Chief Financial Officer
*(Principal Financial Officer and duly authorized to sign this
report on behalf of the registrant)*

CERTIFICATION

I, Chandra R. Holt, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Conn's, 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(s) 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(s) 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.

/s/ Chandra R. Holt

Chandra R. Holt
Chief Executive Officer and President
(Principal Executive Officer)

Date: December 7, 2021

CERTIFICATION

I, George L. Bchara, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Conn's, 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(s) 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(s) 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.

/s/ George L. Bchara

George L. Bchara

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: December 7, 2021

**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 Conn's, Inc. (the "Company") on Form 10-Q for the period ended October 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Chandra R. Holt, Chief Executive Officer and President of the Company, and George L. Bchara, Executive Vice President and Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of our knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Chandra R. Holt

Chandra R. Holt

Chief Executive Officer and President
(Principal Executive Officer)

/s/ George L. Bchara

George L. Bchara

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: December 7, 2021

A signed original of this written statement required by Section 906 has been provided to Conn's, Inc. and will be retained by Conn's, Inc. and furnished to the Securities and Exchange Commission or its staff upon request. The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.