UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2019

or

o **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	**06-1672840**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
2445 Technology Forest Blvd., Suite 800, The Woodlands, TX	**77381**
(Address of principal executive offices)	(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 (l) 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 o

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 o

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	o	Accelerated filer	☒
Non-accelerated filer	o	Smaller reporting company	o
		Emerging growth company	o

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 o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of December 3, 2019:

Class	Outstanding
Common stock, $0.01 par value per share	28,697,445

CONN’S, INC. AND SUBSIDIARIES

FORM 10-Q
FOR THE FISCAL QUARTER ENDED OCTOBER 31, 2019

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This Quarterly Report on Form 10-Q includes our trademarks such as “Conn’s,” “Conn’s HomePlus,” “YE$ YOU’RE APPROVED,” “YES Money,” “YE$ Money,” “YES Lease,” “YE$ Lease,” “$i Estas Aprobado,” 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.

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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, 2019	January 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 4,672	$ 5,912
Restricted cash (includes VIE balances of $47,472 and $57,475, respectively)	49,247	59,025
Customer accounts receivable, net of allowances (includes VIE balances of $190,778 and $324,064, respectively)	666,922	652,769
Other accounts receivable	66,748	67,078
Inventories	247,614	220,034
Income taxes receivable	1,688	407
Prepaid expenses and other current assets	10,861	9,169
Total current assets	**1,047,752**	**1,014,394**
Long-term portion of customer accounts receivable, net of allowances (includes VIE balances of $286,395 and $230,901, respectively)	660,521	686,344
Property and equipment, net	172,341	148,983
Operating lease right-of-use assets	240,879	—
Deferred income taxes	22,908	27,535
Other assets	12,424	7,651
Total assets	**$ 2,156,825**	**$ 1,884,907**
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of debt and finance lease obligations (includes VIE balances of $0 and $53,635, respectively)	$ 607	$ 54,109
Accounts payable	85,908	71,118
Accrued compensation and related expenses	15,187	27,052
Accrued expenses	59,406	54,381
Operating lease liability - current	38,541	—
Income taxes payable	2,184	8,902
Deferred revenues and other credits	10,998	22,006
Total current liabilities	**212,831**	**237,568**
Deferred rent	—	93,127
Operating lease liability - non current	322,248	—
Long-term debt and finance lease obligations (includes VIE balances of $438,618 and $407,993, respectively)	965,063	901,222
Other long-term liabilities	26,306	33,015
Total liabilities	**1,526,448**	**1,264,932**
Commitments and contingencies		
Stockholders' equity:		
Preferred stock ($0.01 par value, 1,000,000 shares authorized; none issued or outstanding)	—	—
Common stock ($0.01 par value, 100,000,000 shares authorized; 32,037,932 and 31,788,162 shares issued, respectively)	320	318
Treasury stock (at cost; 3,136,665 shares and 0 shares, respectively)	(59,071)	—
Additional paid-in capital	119,870	111,185
Retained earnings	569,258	508,472
Total stockholders' equity	**630,377**	**619,975**
Total liabilities and stockholders' equity	**$ 2,156,825**	**$ 1,884,907**

See notes to condensed consolidated financial statements.

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
Revenues:				
Product sales	$ 250,233	$ 256,731	$ 759,256	$ 773,224
Repair service agreement commissions	26,478	23,579	78,149	72,104
Service revenues	3,411	3,564	10,758	10,615
Total net sales	280,122	283,874	848,163	855,943
Finance charges and other revenues	97,586	89,950	284,116	260,888
Total revenues	**377,708**	**373,824**	**1,132,279**	**1,116,831**
Costs and expenses:				
Cost of goods sold	170,453	166,886	509,746	507,102
Selling, general and administrative expense	125,608	118,380	371,006	353,948
Provision for bad debts	42,586	47,548	132,368	142,455
Charges and credits	3,837	5,537	3,142	5,837
Total costs and expenses	**342,484**	**338,351**	**1,016,262**	**1,009,342**
Operating income	**35,224**	**35,473**	**116,017**	**107,489**
Interest expense	15,051	15,098	43,944	47,484
Loss on extinguishment of debt	—	—	—	1,773
Income before income taxes	**20,173**	**20,375**	**72,073**	**58,232**
Provision for income taxes	5,030	5,745	17,447	13,859
Net income	**$ 15,143**	**$ 14,630**	**$ 54,626**	**$ 44,373**
Income per share:				
Basic	$ 0.52	$ 0.46	$ 1.77	$ 1.40
Diluted	$ 0.51	$ 0.45	$ 1.74	$ 1.38
Weighted average common shares outstanding:				
Basic	29,094,062	31,712,862	30,796,114	31,636,270
Diluted	29,710,740	32,321,874	31,353,834	32,251,952

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, 2019	**31,788,162**	**$ 318**	**$ 111,185**	**$ 508,472**	**—**	**$ —**	**$ 619,975**
Adoption of ASU 2016-02	—	—	—	6,160	—	—	6,160
Exercise of options and vesting of restricted stock, net of withholding tax	136,206	1	(1,241)	—	—	—	(1,240)
Issuance of common stock under Employee Stock Purchase Plan	12,158	—	198	—	—	—	198
Stock-based compensation	—	—	3,217	—	—	—	3,217
Net income	—	—	—	19,509	—	—	19,509
Balance April 30, 2019	**31,936,526**	**$ 319**	**$ 113,359**	**$ 534,141**	**—**	**$ —**	**$ 647,819**
Exercise of options and vesting of restricted stock, net of withholding tax	51,384	1	(327)	—	—	—	(326)
Issuance of common stock under Employee Stock Purchase Plan	12,638	—	194	—	—	—	194
Stock-based compensation	—	—	3,419	—	—	—	3,419
Common stock repurchase	—	—	—	—	(1,874,846)	(34,344)	(34,344)
Net income	—	—	—	19,974	—	—	19,974
Balance July 31, 2019	**32,000,548**	**$ 320**	**$ 116,645**	**$ 554,115**	**(1,874,846)**	**$ (34,344)**	**$ 636,736**
Exercise of options and vesting of restricted stock, net of withholding tax	19,043	—	(211)	—	—	—	(211)
Issuance of common stock under Employee Stock Purchase Plan	18,341	—	220	—	—	—	220
Stock-based compensation	—	—	3,216	—	—	—	3,216
Common stock repurchase	—	—	—	—	(1,261,819)	(24,727)	(24,727)
Net income	—	—	—	15,143	—	—	15,143
Balance October 31, 2019	**32,037,932**	**$ 320**	**$ 119,870**	**$ 569,258**	**(3,136,665)**	**$ (59,071)**	**$ 630,377**

	Common Stock		Additional Paid-in Capital	Retained Earnings	Total
	Shares	Amount			
Balance January 31, 2018	**31,435,775**	**$ 314**	**$ 101,087**	**$ 433,667**	**$ 535,068**
Adoption of ASU 2014-09	—	—	—	957	957
Exercise of options and vesting of restricted stock, net of withholding tax	143,021	2	(1,850)	—	(1,848)
Issuance of common stock under Employee Stock Purchase Plan	8,031	—	226	—	226
Stock-based compensation	—	—	2,520	—	2,520
Net income	—	—	—	12,732	12,732
Balance April 30, 2018	**31,586,827**	**$ 316**	**$ 101,983**	**$ 447,356**	**$ 549,655**
Exercise of options and vesting of restricted stock, net of withholding tax	100,018	1	(274)	—	(273)
Issuance of common stock under Employee Stock Purchase Plan	7,569	—	213	—	213
Stock-based compensation	—	—	3,042	—	3,042
Net income	—	—	—	17,011	17,011
Balance July 31, 2018	**31,694,414**	**$ 317**	**$ 104,964**	**$ 464,367**	**$ 569,648**
Exercise of options and vesting of restricted stock, net of withholding tax	24,585	—	(411)	—	(411)
Issuance of common stock under Employee Stock Purchase Plan	7,636	—	215	—	215
Stock-based compensation	—	—	2,952	—	2,952
Net income	—	—	—	14,630	14,630
Balance October 31, 2018	**31,726,635**	**$ 317**	**$ 107,720**	**$ 478,997**	**$ 587,034**

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,	
	2019	**2018**
Cash flows from operating activities:		
Net income	$ 54,626	$ 44,373
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	27,171	23,262
Amortization of right-of-use asset	20,588	—
Amortization of debt issuance costs	6,410	8,795
Provision for bad debts and uncollectible interest	174,230	179,702
Stock-based compensation expense	9,852	8,514
Charges, net of credits	3,142	—
Deferred income taxes	3,180	(1,847)
Loss (gain) on sale/disposal of property and equipment	68	(620)
Tenant improvement allowances received from landlords	19,685	9,532
Change in operating assets and liabilities:		
Customer accounts receivable	(162,075)	(176,195)
Other accounts receivables	(3,138)	10,589
Inventories	(27,581)	(15,269)
Other assets	(7,994)	16,427
Accounts payable	14,313	35,357
Accrued expenses	(8,823)	13,505
Operating leases	(24,703)	—
Income taxes	(6,744)	36,205
Deferred revenues and other credits	322	(10,236)
Net cash provided by operating activities	**92,529**	**182,094**
Cash flows from investing activities:		
Purchases of property and equipment	(48,324)	(22,609)
Proceeds from asset dispositions	724	—
Net cash used in investing activities	**(47,600)**	**(22,609)**
Cash flows from financing activities:		
Proceeds from issuance of asset-backed notes	381,790	358,300
Payments on asset-backed notes	(351,424)	(619,674)
Borrowings from revolving credit facility	1,247,195	1,266,333
Payments on revolving credit facility	(1,215,395)	(1,260,283)
Borrowings from warehouse facility	—	173,286
Payments on warehouse facility	(53,635)	(88,876)
Payments of debt issuance costs and amendment fees	(3,416)	(7,381)
Proceeds from stock issued under employee benefit plans	835	1,055
Tax payments associated with equity-based compensation transactions	(2,009)	(2,931)
Payment from extinguishment of debt	—	(1,177)
Payment for share repurchases	(59,071)	—
Other	(817)	(760)
Net cash used in financing activities	**(55,947)**	**(182,108)**
Net change in cash, cash equivalents and restricted cash	**(11,018)**	**(22,623)**
Cash, cash equivalents and restricted cash, beginning of period	64,937	96,158
Cash, cash equivalents and restricted cash, end of period	**$ 53,919**	**$ 73,535**
Non-cash investing and financing activities:		
Right-of-use assets obtained in exchange for new finance lease liabilities	$ 1,110	$ —
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 56,743	$ —
Property and equipment purchases not yet paid	$ 8,558	$ 5,454
Supplemental cash flow data:		
Cash interest paid	$ 33,496	$ 33,854
Cash income taxes paid, net	$ 17,119	$ (20,468)

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, 2019 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, 2019 (the "2019 Form 10-K") filed with the United States Securities and Exchange Commission (the "SEC") on March 26, 2019.

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 5, *Debt and Financing Lease Obligations*, and Note 8, *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, 2019 and January 31, 2019, cash and cash equivalents included cash, credit card deposits in transit, and highly liquid debt instruments purchased with a maturity date of three months or less. Credit card deposits in transit included in cash and cash equivalents were $2.7 million and $2.5 million as of October 31, 2019 and January 31, 2019, respectively.

Restricted Cash. The restricted cash balance as of October 31, 2019 and January 31, 2019 includes $36.5 million and $45.3 million, respectively, of cash we collected as servicer on the securitized receivables that was subsequently remitted to the VIEs and $11.0 million and $12.2 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. Based on contractual terms, we record the amount of principal and accrued interest on customer receivables that is expected to be collected within the next twelve months in current assets with the remaining balance in long-term assets on the Condensed Consolidated Balance Sheet. 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. In our role as servicer, we may also make modifications to loans held by the VIEs. 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”).

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. 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, 2019 and January 31, 2019, there was $10.7 million and $11.2 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, 2019 and January 31, 2019, the carrying value of customer accounts receivable in non-accrual status was $14.2 million and $13.9 million, respectively. At October 31, 2019 and January 31, 2019, the carrying value of customer accounts receivable that were past due 90 days or more and still accruing interest totaled $112.7 million and $106.5 million, respectively. At October 31, 2019 and January 31, 2019, the carrying value of customer accounts receivable in a bankruptcy status that were less than 60 days past due of $11.8 million and $12.0 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 bad debts 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 bad debts. 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 doubtful accounts, including estimated uncollectible interest, to cover probable and estimable 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.

We record an allowance for doubtful accounts on our non-TDR customer accounts receivable that we expect to charge-off over the next 12 months based on historical gross charge-off rates over the last 24 months. We incorporate an adjustment to historical gross charge-off rates for a scaled factor of the year-over-year change in six month average first payment default rates and the year-over-year change in the balance of customer accounts receivable that are 60 days or more past due. In addition to adjusted historical gross charge-off rates, estimates of post-charge-off recoveries, including cash payments from customers, amounts realized from the repossession of the products financed, sales tax recoveries from taxing jurisdictions, and payments received under credit insurance and repair service agreement (“RSA”) policies are also considered. During the three months ended October 31, 2019, we shortened the lookback period used to estimate post-charge-off recoveries for customer balances from a cumulative average collection rate to a 24 month average collection rate. The 24 month lookback period is consistent with the lookback period used elsewhere in the allowance for bad debt calculation and is more closely aligned with current collections practices. The impact of the change to a 24 month recovery rate implemented in the third quarter was a reduction to the allowance for doubtful accounts of $2.8 million.

Qualitative adjustments are made to the allowance for bad debts when, based on management’s judgment, there are internal or external factors impacting probable incurred losses not taken into account by the quantitative calculations. These qualitative considerations are based on the following factors: changes in lending policies and procedures, changes in economic and business conditions, changes in the nature and volume of the portfolio, changes in lending management, changes in credit quality statistics, changes in concentrations of credit, and other internal or external factor changes. We utilize an economic qualitative adjustment based on changes in unemployment rates if current unemployment rates in our markets are worse than they were on average over the last 24 months. We also qualitatively limit the impact of changes in first payment default rates and changes in delinquency when those changes result in a decrease to the allowance for bad debts based on a measure of the dispersion of historical charge-off rates.

We determine allowances for those accounts that are TDR based on the discounted present value of cash flows expected to be collected over the life of those accounts based primarily on the performance of TDR loans over the last 24 months. The cash flows are discounted based on the weighted-average effective interest rate of the TDR accounts. The excess of the carrying amount over the discounted cash flow amount is recorded as an allowance for loss on those accounts.

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 5, *Debt and Financing Lease Obligations*, are included in other assets on our Condensed Consolidated Balance Sheet and were $4.7 million and $6.1 million as of October 31, 2019 and January 31, 2019, respectively.

Income Taxes. For the nine months ended October 31, 2019 and 2018, we utilized the estimated annual effective tax rate based on our estimated fiscal year 2020 and 2019 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, 2019 and 2018, the effective tax rate was 24.2% and 23.8%, respectively. The primary factor affecting the increase in our effective tax rate for the nine months ended October 31, 2019 was a decrease in deductible compensation expense compared to the prior year period.

Stock-based Compensation. Stock-based compensation expense is recorded, net of estimated forfeitures, for share-based compensation awards over the requisite service period using the straight-line method. An adjustment is made to compensation cost for any difference between the estimated forfeitures and the actual forfeitures related to the awards. 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 (“RSUs”), 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 (“PSUs”), the fair value of the grant is the market value of our stock at the date of issuance adjusted for a market condition, a performance condition and a service condition.

The following table sets forth the RSUs, stock options and PSUs granted during the three and nine months ended October 31, 2019 and 2018:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
RSUs (1)	2,534	3,200	106,328	153,089
Stock Options (2)	—	—	—	620,166
PSUs (3)	—	—	33,894	—
Total stock awards granted	2,534	3,200	140,222	773,255
Aggregate grant date fair value (in thousands)	$ 65	$ 120	$ 2,910	$ 17,304

(1) The majority of RSUs issued during the three and nine months ended October 31, 2019 and 2018 are scheduled to vest ratably over periods of three to four years from the date of grant.

(2) The weighted-average assumptions for the option awards granted during the nine months ended October 31, 2018 included expected volatility of 68.0%, an expected term of 6.5 years and risk-free interest rate of 2.67%. No dividend yield was included in the weighted-average assumptions for the option awards granted during the nine months ended October 31, 2018.

(3) The PSUs issued during the nine months ended October 31, 2019 will vest, if at all, upon certification, after the Company's fiscal year 2022 by the Compensation Committee, of the satisfaction of certain performance conditions.

For the three months ended October 31, 2019 and 2018, stock-based compensation expense was $3.2 million and $2.9 million, respectively. For the nine months ended October 31, 2019 and 2018, stock-based compensation expense was $9.9 million and $8.5 million, respectively.

Earnings per Share. Basic earnings per share for a particular period is calculated by dividing net income 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,	
	2019	2018	2019	2018
Weighted-average common shares outstanding - Basic	29,094,062	31,712,862	30,796,114	31,636,270
Dilutive effect of stock options, PSUs and RSUs	616,678	609,012	557,720	615,682
Weighted-average common shares outstanding - Diluted	29,710,740	32,321,874	31,353,834	32,251,952

For the three months ended October 31, 2019 and 2018, the weighted-average number of stock options and RSUs not included in the calculation due to their anti-dilutive effect, was 660,304 and 630,698, respectively. For the nine months ended October 31, 2019 and 2018, the weighted-average number of stock options and RSUs not included in the calculation due to their anti-dilutive effect, was 885,554 and 503,747, respectively.

As the performance conditions pursuant to the Company's PSU agreements have not been met in full, 225,561 PSUs are not included in the computation of diluted EPS for the three and nine months ended October 31, 2019 and 389,167 PSUs are not included in the computation of diluted EPS for the three and nine months ended October 31, 2018.

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, 2019, the fair value of the Senior Notes outstanding, which was determined using Level 1 inputs, was $226.5 million as compared to the carrying value of $227.0 million, excluding the impact of the related discount. At October 31, 2019, the fair value of the asset-backed notes approximates their carrying value 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 three and nine months ended October 31, 2019, we recognized $1.0 million and $1.4 million of revenue for customer deposits deferred as of January 31, 2019. During the three and nine months ended October 31, 2019, we recognized $1.4 million and $3.9 million of revenue for RSA administrative fees deferred as of January 31, 2019.

Recent Accounting Pronouncements Adopted. In February 2016 the Financial Accounting Standards Board (“FASB”) issued ASU 2016-02, *Leases (Topic 842)*, which requires lessees to recognize assets and liabilities for most leases. Effective February 1, 2019, the Company adopted ASU 2016-02 using the modified retrospective approach. For most leases, a liability was recorded on the balance sheet based on the present value of future lease obligations with a corresponding right-of-use asset. Primarily for those leases currently classified by us as operating leases, we recognize a single lease cost on a straight line basis. Other leases are required to be accounted for as financing arrangements similar to how we previously accounted for capital leases. Upon adoption we elected a package of practical expedients permitted under the transition guidance within the new standard. The practical expedients adopted allowed us to carry forward the historical lease classification, allowed us to not separate and allocate the consideration paid between lease and non-lease components included within a contract and allowed us to carry forward our accounting treatment for land easements on existing agreements. We also adopted an optional transition method finalized by the FASB in July 2018 that waives the requirement to apply this ASU in the comparative periods presented within the financial statements in the year of adoption. Therefore, results for reporting periods beginning after February 1, 2019 are presented under ASC Topic 842, while prior period amounts are not adjusted and continue to be reported in accordance with the Company’s historic accounting policies under ASC Topic 840.

Additionally, we have elected the short-term policy election for the Company for any lease that, at the commencement date, has a lease term of twelve months or less. We will not recognize a lease liability or right-of-use asset on the balance sheet for any of our short-term leases. Rather, the short-term lease payments will be recognized as an expense on a straight-line basis over the lease term. The current period short-term lease expense reasonably reflects our short-term lease commitments.

The cumulative effect of the changes made to the Company’s Condensed Consolidated Balance Sheet as a result of the adoption of ASC 842 were as follows (in thousands):

	Impact of Adoption of ASC 842		
(in thousands)	Balance at January 31, 2019	Adjustments due to ASC 842	Balance at February 1, 2019
Assets			
Current assets (1)	$ 1,014,394	$ (2,983)	$ 1,011,411
Operating lease right-of-use assets (2)	—	227,421	227,421
Deferred income taxes (3)	27,535	(1,447)	26,088
Liabilities			
Current liabilities (4)	237,568	(12,426)	225,142
Operating lease liability - current (5)	—	29,815	29,815
Deferred rent (4)	93,127	(93,127)	—
Operating lease liability - non-current (5)	—	300,170	300,170
Other long-term liabilities (3)	33,015	(7,606)	25,409
Stockholder's equity (3)	619,975	6,160	626,135

(1) Reclassification of the $3.0 million January 31, 2019 balance of accounts receivable for tenant improvement allowances to a reduction in the operating lease liability.

(2) The operating lease right-of-use assets represent the present value of the lease liability offset by the full value of deferred rent and tenant improvement allowances received from the lessor which had not been utilized as of the date of adoption.

(3) A net cumulative-effect adjustment to increase retained earnings by $6.2 million to recognize the $7.6 million January 31, 2019 balance of deferred gains which resulted from sale and operating leaseback transactions made at off-market terms offset by the $1.4 million impact on our deferred tax asset related to the sale-leaseback transactions.

(4) Reclassification of the full value of deferred rent and tenant improvement allowances received from lessors, which were previously recorded as liabilities as they had not been utilized as of the date of adoption, to a reduction of the operating lease right-of-use assets.

(5) The operating lease liability represents the $340.5 million present value of future operating lease obligations as of January 31, 2019, offset by $10.5 million of accounts receivable for tenant improvement allowances.

Recent Accounting Pronouncements Yet to Be Adopted. In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (CECL). ASU 2016-13 requires that financial assets measured at amortized cost be presented at the net amount expected to be collected through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management's current estimate of credit losses that are expected to occur over the remaining life of a financial asset. This is a change from the current incurred loss model. In April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses*. ASU 2019-04 requires the current estimate of recoveries to be included in the allowance for credit losses. The standards will become effective for us on February 1, 2020, and we plan to adopt these standards under the modified retrospective approach. Any changes in reserves at the date of adoption will be recorded in retained earnings as of the beginning of the reporting period of the adoption date as a cumulative-effect adjustment. We performed a scoping analysis of our balance sheet to determine which accounts would be impacted by the new standard. Based on this review, it was determined that, aside from the customer accounts receivable balance, no other financial statement line items would be materially impacted by CECL.

We have formed a cross-functional working group comprised of individuals from various functional areas including credit, finance, accounting, and information technology to oversee our CECL implementation. We have developed a model based on our historical gross charge-off history, adjusted for expected recoveries by running the existing portfolio through preliminary simulations, which incorporate current portfolio composition and economic assumptions and expectations. The results of those preliminary simulations indicate that our reserves for credit losses could increase between 40-60% upon implementation of ASU 2016-13. This projected increase is primarily driven by the required change from incurred to lifetime expected losses. However, we continue to refine and validate our model through review of key assumptions and parallel testing against both our current incurred loss model and a challenger model. These efforts to refine the model will continue through the remainder of fiscal year 2020, with parallel runs to continue into adoption and through fiscal year 2021. The ultimate impact on the date of adoption will depend on the size and composition of our portfolio, the portfolio's credit quality and economic conditions at the date of adoption, in addition to refinements to our model, methodology and key assumptions.

We have established formal policies supporting the accounting, controls and additional disclosures around the ASU 2016-13 implementation. As with our continued efforts to refine the model, we expect our work related to controls and governance to continue through the remainder of fiscal year 2020.

2. Customer Accounts Receivable

Customer accounts receivable consisted of the following:

(in thousands)	October 31, 2019	January 31, 2019
Customer accounts receivable portfolio balance	$ 1,567,700	$ 1,589,828
Deferred fees and origination costs, net	(15,566)	(16,579)
Allowance for no-interest option credit programs	(16,127)	(19,257)
Allowance for uncollectible interest	(17,229)	(15,555)
Carrying value of customer accounts receivable	1,518,778	1,538,437
Allowance for bad debts	(191,335)	(199,324)
Carrying value of customer accounts receivable, net of allowance for bad debts	1,327,443	1,339,113
Short-term portion of customer accounts receivable, net	(666,922)	(652,769)
Long-term customer accounts receivable, net	$ 660,521	$ 686,344

	Carrying Value	
(in thousands)	October 31, 2019	January 31, 2019
Customer accounts receivable 60+ days past due [(1)]	$ 152,825	$ 146,188
Re-aged customer accounts receivable [(2)(3)(4)]	422,771	395,576
Restructured customer accounts receivable [(5)]	201,121	183,641

(1) As of October 31, 2019 and January 31, 2019, the carrying value of customer accounts receivable past due one day or greater was $482.3 million and $420.9 million, respectively. These amounts include the 60+ days past due balances shown above.

(2) The re-aged carrying value as of October 31, 2019 and January 31, 2019 includes $98.5 million and $92.4 million in carrying value that are both 60+ days past due and re-aged.

(3) The re-aged carrying value as of October 31, 2019 and January 31, 2019 includes $12.4 million and $26.5 million in first time re-ages related to customers within FEMA-designated Hurricane Harvey disaster areas.

(4) The re-aged carrying value as of October 31, 2019 includes $7.3 million in first time re-ages related to customers within FEMA-designated Tropical Storm Imelda disaster areas.

(5) The restructured carrying value as of October 31, 2019 and January 31, 2019 includes $46.9 million and $43.9 million in carrying value that are both 60+ days past due and restructured.

The following presents the activity in our allowance for doubtful accounts and uncollectible interest for customer accounts receivable:

	Nine Months Ended October 31, 2019			Nine Months Ended October 31, 2018		
(in thousands)	**Customer Accounts Receivable**	**Restructured Accounts**	**Total**	**Customer Accounts Receivable**	**Restructured Accounts**	**Total**
Allowance at beginning of period	$ 147,123	$ 67,756	$ 214,879	$ 148,856	$ 54,716	$ 203,572
Provision (1)	118,442	55,303	173,745	127,472	51,440	178,912
Principal charge-offs (2)	(116,698)	(44,686)	(161,384)	(119,242)	(38,990)	(158,232)
Interest charge-offs	(27,076)	(10,368)	(37,444)	(23,696)	(7,748)	(31,444)
Recoveries (2)	13,571	5,197	18,768	10,768	3,521	14,289
Allowance at end of period	$ 135,362	$ 73,202	$ 208,564	$ 144,158	$ 62,939	$ 207,097
Average total customer portfolio balance	$ 1,362,790	$ 195,471	$ 1,558,261	$ 1,341,415	$ 167,473	$ 1,508,888

(1) Includes provision for uncollectible interest, which is included in finance charges and other revenues.

(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. Charges and Credits

Charges and credits consisted of the following:

	Three Months Ended October 31,		Nine Months Ended October 31,	
(in thousands)	**2019**	**2018**	**2019**	**2018**
Securities-related regulatory matter and other legal fees	$ —	$ —	$ —	$ 300
Employee severance	—	737	—	737
Legal judgment	—	4,800	—	4,800
Write-off of software costs	1,209	—	1,209	—
Facility closure costs	2,628	—	1,933	—
Total charges and credits	$ 3,837	$ 5,537	$ 3,142	$ 5,837

During the three months ended October 31, 2019, we recognized $3.2 million in impairments from the exiting of certain leases upon the relocation of three distribution centers into one facility. These facility closure costs were offset by a $0.6 million gain from the sale of a cross-dock. In addition, we recognized $1.2 million in impairments of software costs for a loan management system that was abandoned during the third quarter of fiscal year 2020 related to the implementation of a new loan management system. During the nine months ended October 31, 2019, we recognized $3.2 million in impairments from the exiting of certain leases upon the relocation of three distribution centers into one facility. These facility closure costs were offset by a $0.7 million gain from increased sublease income related to the consolidation of our corporate headquarters and a $0.6 million gain from the sale of a cross-dock. In addition, we recognized $1.2 million in impairments of software costs for a loan management system that was abandoned during the third quarter of fiscal year 2020 related to the implementation of a new loan management system. During the three months ended October 31, 2018, we recorded $0.7 million in severance costs related to a change in the executive management team and $4.8 million in costs related to the judgment (the "TFL LoanCo Judgment") in favor of TF LoanCo ("TFL") requiring Conn's to pay approximately $4.8 million to TFL. See Part II, Item 8., in Note 12, Contingencies, of the 2019 Form 10-K for additional details of the TFL Judgment costs incurred during the three months ended October 31, 2018. During the nine months ended October 31, 2018, we recorded $0.3 million in costs associated with a contingency reserve related to a regulatory matter, $0.7 million in severance costs related to a change in the executive management team and $4.8 million in costs related to the TFL Judgment.

4. Finance Charges and Other Revenues

Finance charges and other revenues consisted of the following:

(in thousands)	Three Months Ended October 31, 2019	Three Months Ended October 31, 2018	Nine Months Ended October 31, 2019	Nine Months Ended October 31, 2018
Interest income and fees	$ 87,484	$ 82,964	$ 256,705	$ 239,745
Insurance income	9,905	6,807	26,809	20,852
Other revenues	197	179	602	291
Total finance charges and other revenues	$ 97,586	$ 89,950	$ 284,116	$ 260,888

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.

During the three months ended October 31, 2019 and 2018, interest income and fees reflected provisions for uncollectible interest of $15.2 million and $13.4 million, respectively. The amount included in interest income and fees related to TDR accounts for the three months ended October 31, 2019 and 2018 were $9.0 million and $7.1 million, respectively. During the nine months ended October 31, 2019 and 2018, interest income and fees reflected provisions for uncollectible interest of $41.9 million and $37.2 million, respectively. The amount included in interest income and fees related to TDR accounts for the nine months ended October 31, 2019 and 2018 were $25.7 million and $19.4 million, respectively.

5. Debt and Financing Lease Obligations

Debt and financing lease obligations consisted of the following:

(in thousands)	October 31, 2019	January 31, 2019
Revolving Credit Facility	$ 298,300	$ 266,500
Senior Notes	227,000	227,000
2017-B VIE Asset-backed Class B Notes	3,765	98,297
2017-B VIE Asset-backed Class C Notes	78,640	78,640
2018-A VIE Asset-backed Class A Notes	46,667	105,971
2018-A VIE Asset-backed Class B Notes	28,144	63,908
2018-A VIE Asset-backed Class C Notes	28,144	63,908
2019-A VIE Asset-backed Class A Notes	128,470	—
2019-A VIE Asset-backed Class B Notes	64,750	—
2019-A VIE Asset-backed Class C Notes	62,510	—
Warehouse Notes	—	53,635
Financing lease obligations	5,368	5,075
Total debt and financing lease obligations	971,758	962,934
Less:		
Discount on debt	(1,545)	(1,966)
Deferred debt issuance costs	(4,543)	(5,637)
Current maturities of long-term debt and financing lease obligations	(607)	(54,109)
Long-term debt and financing lease obligations	$ 965,063	$ 901,222

Senior Notes. On July 1, 2014, we issued $250.0 million of unsecured Senior Notes due July 2022 bearing interest at 7.25% (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. The effective interest rate of the Senior Notes after giving effect to the discount and issuance costs is 7.8%.

The Indenture restricts the Company's and certain of its subsidiaries' ability to: (i) incur indebtedness; (ii) pay dividends or make other distributions in respect of, or repurchase or redeem, our capital stock ("restricted payments"); (iii) prepay, redeem or repurchase debt that is junior in right of payment to the notes; (iv) make loans and certain investments; (v) sell assets; (vi) incur liens; (vii) enter into transactions with affiliates; and (viii) consolidate, merge or sell all or substantially all of our assets. These covenants are subject to a number of important exceptions and qualifications. During any time when the Senior Notes are rated investment grade by either of Moody's Investors Service, Inc. or Standard & Poor's Ratings Services and no default (as defined in the Indenture) has occurred and is continuing, many of such covenants will be suspended and we will cease to be subject to such covenants during such period. As of October 31, 2019, $196.7 million would have been free from the restricted payments covenant contained in the Indenture. Events of default under the Indenture include customary events, such as a cross-acceleration provision in the event that we fail to make payment of other indebtedness prior to the expiration of any applicable grace period or upon acceleration of indebtedness prior to its stated maturity date in an amount exceeding $25.0 million, as well as in the event a judgment is entered against us in excess of $25.0 million that is not discharged, bonded or insured.

Asset-backed Notes. From time to time, we securitize customer accounts receivable 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 are offered and sold to qualified institutional buyers pursuant to the exemptions from registration provided by Rule 144A or in compliance with Regulation S under the Securities Act of 1933, as amended. 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, 2019 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)
2017-B Class B Notes	$ 132,180	$ 131,281	$ 3,765	12/20/2017	4/15/2021	4.52%	5.32%
2017-B Class C Notes	78,640	77,843	78,640	12/20/2017	11/15/2022	5.95%	6.37%
2018-A Class A Notes	219,200	217,832	46,667	8/15/2018	1/17/2023	3.25%	4.81%
2018-A Class B Notes	69,550	69,020	28,144	8/15/2018	1/17/2023	4.65%	5.60%
2018-A Class C Notes	69,550	68,850	28,144	8/15/2018	1/17/2023	6.02%	6.97%
2019-A Class A Notes	254,530	253,026	128,470	4/24/2019	10/16/2023	3.40%	4.75%
2019-A Class B Notes	64,750	64,276	64,750	4/24/2019	10/16/2023	4.36%	5.20%
2019-A Class C Notes	62,510	61,898	62,510	4/24/2019	10/16/2023	5.29%	6.18%
Total	$ 950,910	$ 944,026	$ 441,090				

(1) After giving effect to debt issuance costs.

(2) For the nine months ended October 31, 2019, and inclusive of the impact of changes in timing of actual and expected cash flows.

On April 24, 2019, the Company completed the issuance and sale of asset-backed notes at a face amount of $381.8 million secured by the transferred customer accounts receivables and restricted cash held by a VIE, which resulted in net proceeds to us of $379.2 million, net of debt issuance costs. Net proceeds from the offering were used to repay indebtedness under the Company's Revolving Credit Facility, as defined below, and for other general corporate purposes. The asset-backed notes mature on October 16, 2023 and consist of $254.5 million of 3.40% Series 2019-A, Class A Asset Backed Fixed Rate Notes, $64.8 million of 4.36% Series 2019-A, Class B Asset Backed Fixed Rate Notes and $62.5 million of 5.29%, Series 2019-A, Class C Asset Backed Fixed Rate Notes.

See Note 12 for additional information regarding asset-backed notes.

Revolving Credit Facility. On May 23, 2018, Conn's, Inc. and certain of its subsidiaries (the "Borrowers") entered into a Fourth Amendment to the Fourth Amended and Restated Loan and Security Agreement (the "Fourth Amendment"), dated as of October 30, 2015, with certain lenders, which provides for a $650.0 million asset-based revolving credit facility (the "Revolving Credit Facility") under which credit availability is subject to a borrowing base and a maturity date of May 23, 2022.

Loans under the Revolving Credit Facility bear interest, at our option, at a rate equal to LIBOR plus the applicable 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). The alternate base rate is the greatest of the prime rate announced by Bank of America, N.A., the federal funds rate plus 0.5%, or LIBOR for a 30-day interest period plus 1.0%. 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 6.2% for the nine months ended October 31, 2019.

The Revolving Credit Facility provides funding based on a borrowing base calculation that includes customer accounts receivable and inventory and provides for a $40.0 million sub-facility for letters of credit to support obligations incurred in the ordinary course of business. 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, 2019, we had immediately available borrowing capacity of $349.2 million under our Revolving Credit Facility, net of standby letters of credit issued of $2.5 million.

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, 2019, we were restricted from making distributions, including repayments of the Senior Notes or other distributions, in excess of $190.2 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, as amended, at October 31, 2019. A summary of the significant financial covenants that govern our Revolving Credit Facility, as amended, compared to our actual compliance status at October 31, 2019 is presented below:

	Actual	Required Minimum/ Maximum
Interest Coverage Ratio for the quarter must equal or exceed (minimum)	4.05:1.00	1.00:1.00
Interest Coverage Ratio for the trailing two quarters must equal or exceed (minimum)	4.36:1.00	1.50:1.00
Leverage Ratio must not exceed (maximum)	2.00:1.00	4.00:1.00
ABS Excluded Leverage Ratio must not exceed (maximum)	1.37:1.00	2.00:1.00
Capital Expenditures, net, must not exceed (maximum)	$32.3 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.

6. Leases

We lease most of our current store locations and certain of our facilities and operating equipment under operating leases. The fixed, non-cancelable terms of our real estate leases are generally five to fifteen years and generally include renewal options that allow us to extend the term beyond the initial non-cancelable term. However, prior to the expiration of the existing contract, the Company will typically renegotiate any lease contracts as opposed to continuing in the current lease under the renewal terms. As such, the lease renewal options are not recognized as part of the right-of-use assets and liabilities. Most of the real estate leases require payment of real estate taxes, insurance and certain common area maintenance costs in addition to future minimum lease payments. Equipment leases generally provide for initial lease terms of three to five years and provide for a purchase right at the end of the lease term at the then fair market value of the equipment.

Certain operating leases contain tenant allowance provisions, which obligate the landlord to remit cash to us as an incentive to enter into the lease agreement. We record the full amount to be remitted by the landlord as a reduction to the operating lease right-of-use assets upon commencement of the lease and amortize the balance on a straight-line basis over the life of the lease.

Supplemental lease information is summarized below:

(in thousands)	*Balance sheet classification*		October 31, 2019
Assets			
Operating lease assets	Operating lease right-of-use assets	$	240,879
Finance lease assets	Property and equipment, net		5,436
Total leased assets			246,315
Liabilities			
Operating [(1)]	Operating lease liability - current	$	46,513
Finance	Current maturities of debt and finance lease obligations		607
Operating	Operating lease liability - non current		322,248
Finance	Long-term debt and finance lease obligations		4,761
Total lease liabilities		$	374,129

(1) Represents the gross operating lease liability before tenant improvement allowances. As of October 31, 2019, we had $8.0 million of tenant improvement allowances to be remitted by the landlord.

Lease Cost			Three Months Ended October 31, 2019		Nine Months Ended October 31, 2019
(in thousands)	*Income statement classification*				
Operating lease costs [(1)]	Selling, general and administrative expense	$	14,838	$	43,353
Impairment of ROU asset	Charges and credits		1,933		1,933
Total Operating Lease Cost		$	16,771	$	45,286

(1) Includes short-term and variable lease costs, which are not significant.

Operating lease right-of-use assets ("ROU Assets") and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments.

Operating lease ROU Assets are regularly reviewed for impairment under the long-lived assets impairment guidance in *ASC Subtopic 360-10, Property, Plant, and Equipment - Overall*. During the three and nine months ended October 31, 2019, we recognized $1.9 million of impairments of ROU Assets on the condensed consolidated statement of income from the exiting of certain leases upon relocation of three of our distribution centers into one facility.

Additional details regarding the Company's leasing activities as a lessee are presented below:

Other Information *(dollars in thousands)*		Nine Months Ended October 31, 2019
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows for operating leases	$	51,109
Weighted-average remaining lease term (in years)		
Finance leases		11.2
Operating leases		7.1
Weighted-average discount rate		
Finance leases		6.1%
Operating leases [(1)]		8.4%

(1) Upon adoption of ASC 842, discount rates for existing operating leases were established as of February 1, 2019.

The following table presents a summary of our minimum contractual commitments and obligations as of October 31, 2019:

(in thousands)	Operating Leases	Finance Leases	Total
2020	$ 75,016	$ 927	$ 75,943
2021	73,241	916	74,157
2022	72,146	726	72,872
2023	67,374	734	68,108
2024	58,799	750	59,549
Thereafter	145,986	3,512	149,498
Total undiscounted cash flows	492,562	7,565	500,127
Less: Interest	123,801	2,197	125,998
Total lease liabilities	$ 368,761	$ 5,368	$ 374,129

7. Contingencies

Securities Litigation. 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 had 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. Briefing on the motion to dismiss was completed on January 16, 2019. On July 26, 2019, the magistrate judge to which defendants' motion to dismiss had been assigned issued a report and recommendation, recommending that defendants' motion to dismiss the complaint be granted in part and denied in part. Both parties filed timely objections to that report and recommendation on August 9, 2019. On September 25, 2019, the district court adopted the magistrate judge's report and recommendation, which permitted MicroCapital to file an amended complaint, which MicroCapital filed on October 30, 2019. On November 8, 2019, the parties filed a joint discovery and case management plan, proposing various deadlines. Defendants filed their answer to the amended complaint on November 27, 2019.

We intend to vigorously defend our interests in the MicroCapital Action. It is not possible at this time to predict the timing or outcome of this litigation, and we cannot reasonably estimate the possible loss or range of possible loss from these claims.

Derivative Litigation. On December 1, 2014, an alleged shareholder, purportedly on behalf of the Company, filed a derivative shareholder lawsuit against us and certain of our current and former directors and former executive officers in the U.S. District Court for the Southern District of Texas, captioned as 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 (the "Original Derivative Action"). 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 us. Setting forth substantially similar claims against the same defendants, 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, was filed in the U.S. District Court for the Southern District of Texas, which has been consolidated with the Original Derivative Action.

The Court previously approved a stipulation among the parties to stay the Original Derivative Action pending resolution of the Consolidated Securities Action. The stay was lifted on November 1, 2018, and the defendants filed a motion to dismiss plaintiff’s complaint. Briefing on the motion to dismiss was completed December 3, 2018, and the parties began engaging in discovery. On May 29, 2019, the magistrate judge, to which defendants’ motion to dismiss had been assigned, issued a report and recommendation, recommending that defendants’ motion to dismiss the complaint be granted, but recommended that the plaintiff be permitted to replead his claims. The district court adopted the recommendation on July 5, 2019.

On July 19, 2019, plaintiff filed an amended complaint. On August 13, 2019, the magistrate judge issued a new scheduling order, which permitted defendants to file a motion to dismiss the amended complaint on demand-futility grounds. That briefing was completed on October 15, 2019. On November 1, 2019, the magistrate judge heard argument on the motion to dismiss and postponed certain deadlines. That motion to dismiss remains pending.

Another derivative action was filed on January 27, 2015, captioned as 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 Original Derivative Action against the same defendants. We received a copy of the proposed amended petition on October 12, 2018, but the amended proposed petition has not yet been filed. The parties jointly requested a stay on this case pending resolution of the Original Derivative Action. This case remains stayed until at least January 10, 2020.

Prior to filing a lawsuit, an 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 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 as 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, 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 Original Derivative Action. The complaint does not specify the amount of damages sought. No further activity has occurred in this case since the Final Order and Judgment was entered in the Consolidated Securities Action.

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 derivative actions intend to vigorously defend against these claims. It is not possible at this time to predict the timing or outcome of any of this litigation, and we cannot reasonably estimate the possible loss or range of possible loss from these 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.

8. Variable Interest Entities

From time to time, we securitize customer accounts receivable 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 all 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.

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.):

(in thousands)	October 31, 2019	January 31, 2019
Assets:		
Restricted cash	$ 47,472	$ 57,475
Due from Conn's, Inc., net	10,181	5,504
Customer accounts receivable:		
Customer accounts receivable	454,573	538,826
Restructured accounts	130,820	135,834
Allowance for uncollectible accounts	(99,514)	(106,327)
Allowance for no-interest option credit programs	(4,478)	(8,047)
Deferred fees and origination costs	(4,228)	(5,321)
Total customer accounts receivable, net	477,173	554,965
Total assets	**$ 534,826**	**$ 617,944**
Liabilities:		
Accrued expenses	$ 3,455	$ 3,939
Other liabilities	4,557	5,513
Short-term debt:		
Warehouse Notes	—	53,635
Long-term debt:		
2017-B Class B Notes	3,765	98,297
2017-B Class C Notes	78,640	78,640
2018-A Class A Notes	46,667	105,971
2018-A Class B Notes	28,144	63,908
2018-A Class C Notes	28,144	63,908
2019-A Class A Notes	128,470	—
2019-A Class B Notes	64,750	—
2019-A Class C Notes	62,510	—
	441,090	410,724
Less: deferred debt issuance costs	(2,472)	(2,731)
Total long-term debt	438,618	407,993
Total debt	$ 438,618	$ 461,628
Total liabilities	**$ 446,630**	**$ 471,080**

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.

9. 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.

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, 2019, we operated retail stores in 14 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:

	Three Months Ended October 31, 2019			Three Months Ended October 31, 2018		
(in thousands)	**Retail**	**Credit**	**Total**	**Retail**	**Credit**	**Total**
Revenues:						
Furniture and mattress	$ 89,070	$ —	$ 89,070	$ 91,342	$ —	$ 91,342
Home appliance	90,343	—	90,343	79,542	—	79,542
Consumer electronics	48,113	—	48,113	60,008	—	60,008
Home office	18,681	—	18,681	22,661	—	22,661
Other	4,026	—	4,026	3,178	—	3,178
Product sales	250,233	—	250,233	256,731	—	256,731
Repair service agreement commissions	26,478	—	26,478	23,579	—	23,579
Service revenues	3,411	—	3,411	3,564	—	3,564
Total net sales	280,122	—	280,122	283,874	—	283,874
Finance charges and other revenues	197	97,389	97,586	179	89,771	89,950
Total revenues	**280,319**	**97,389**	**377,708**	**284,053**	**89,771**	**373,824**
Costs and expenses:						
Cost of goods sold	170,453	—	170,453	166,886	—	166,886
Selling, general and administrative expense (1)	87,105	38,503	125,608	80,894	37,486	118,380
Provision for bad debts	535	42,051	42,586	286	47,262	47,548
Charges and credits	2,628	1,209	3,837	737	4,800	5,537
Total costs and expenses	**260,721**	**81,763**	**342,484**	**248,803**	**89,548**	**338,351**
Operating income	**19,598**	**15,626**	**35,224**	**35,250**	**223**	**35,473**
Interest expense	—	15,051	15,051	—	15,098	15,098
Income (loss) before income taxes	**$ 19,598**	**$ 575**	**$ 20,173**	**$ 35,250**	**$ (14,875)**	**$ 20,375**

	Nine Months Ended October 31, 2019			Nine Months Ended October 31, 2018		
(in thousands)	Retail	Credit	Total	Retail	Credit	Total
Revenues:						
Furniture and mattress	$ 276,889	$ —	$ 276,889	$ 285,428	$ —	$ 285,428
Home appliance	266,989	—	266,989	249,036	—	249,036
Consumer electronics	151,454	—	151,454	167,964	—	167,964
Home office	52,270	—	52,270	60,260	—	60,260
Other	11,654	—	11,654	10,536	—	10,536
Product sales	759,256	—	759,256	773,224	—	773,224
Repair service agreement commissions	78,149	—	78,149	72,104	—	72,104
Service revenues	10,758	—	10,758	10,615	—	10,615
Total net sales	848,163	—	848,163	855,943	—	855,943
Finance charges and other revenues	602	283,514	284,116	291	260,597	260,888
Total revenues	**848,765**	**283,514**	**1,132,279**	**856,234**	**260,597**	**1,116,831**
Costs and expenses:						
Cost of goods sold	509,746	—	509,746	507,102	—	507,102
Selling, general and administrative expense (1)	254,874	116,132	371,006	241,649	112,299	353,948
Provision for bad debts	645	131,723	132,368	789	141,666	142,455
Charges and credits	1,933	1,209	3,142	1,037	4,800	5,837
Total costs and expenses	**767,198**	**249,064**	**1,016,262**	**750,577**	**258,765**	**1,009,342**
Operating income	**81,567**	**34,450**	**116,017**	**105,657**	**1,832**	**107,489**
Interest expense	—	43,944	43,944	—	47,484	47,484
Loss on extinguishment of debt	—	—	—	—	1,773	1,773
Income (loss) before income taxes	**$ 81,567**	**$ (9,494)**	**$ 72,073**	**$ 105,657**	**$ (47,425)**	**$ 58,232**

	October 31, 2019			October 31, 2018		
(in thousands)	Retail	Credit	Total	Retail	Credit	Total
Total assets	**$ 672,181**	**$ 1,484,644**	**$ 2,156,825**	**$ 453,279**	**$ 1,387,733**	**$ 1,841,012**

(1) For the three months ended October 31, 2019 and 2018, the amount of corporate overhead allocated to each segment reflected in SG&A was $5.7 million and $9.1 million, respectively. For the three months ended October 31, 2019 and 2018, the amount of reimbursement made to the retail segment by the credit segment was $9.8 million and $9.5 million, respectively. For the nine months ended October 31, 2019 and 2018, the amount of corporate overhead allocated to each segment reflected in SG&A was $23.4 million and $26.7 million, respectively. For the nine months ended October 31, 2019 and 2018, the amount of reimbursement made to the retail segment by the credit segment was $29.2 million and $28.3 million, respectively.

10. Guarantor Financial Information

Conn’s, Inc. is a holding company with no independent assets or operations other than its investments in its subsidiaries. The Senior Notes, which were issued by Conn’s, Inc., are fully and unconditionally guaranteed on a joint and several senior unsecured basis by the Guarantors. As of October 31, 2019 and January 31, 2019, the direct or indirect subsidiaries of Conn’s, Inc. that were not Guarantors (the “Non-Guarantor Subsidiaries”) were the VIEs and minor subsidiaries. There are no restrictions under the Indenture on the ability of any of the Guarantors to transfer funds to Conn’s, Inc. in the form of dividends or distributions.

The following financial information presents the Condensed Consolidated Balance Sheet, Condensed Consolidated Statement of Income, and Condensed Consolidated Statement of Cash Flows for Conn’s, Inc. (the issuer of the Senior Notes), the Guarantors, and the Non-Guarantor Subsidiaries, together with certain eliminations. Investments in subsidiaries are accounted for by the parent company using the equity method for purposes of this presentation. Results of operations of subsidiaries are therefore reflected in the parent company’s investment accounts and operations. The condensed consolidated financial information includes financial data for:

(i) Conn’s, Inc. (on a parent-only basis),

(ii) Guarantors,

(iii) Non-Guarantor Subsidiaries, and

(iv) the parent company and the subsidiaries on a consolidated basis at October 31, 2019 and January 31, 2019 (after the elimination of intercompany balances and transactions).

Condensed Consolidated Balance Sheet as of October 31, 2019:

(in thousands)	Conn’s, Inc.	Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ —	$ 4,672	$ —	$ —	$ 4,672
Restricted cash	—	1,775	47,472	—	49,247
Customer accounts receivable, net of allowances	—	476,144	190,778	—	666,922
Other accounts receivable	—	66,748	—	—	66,748
Inventories	—	247,614	—	—	247,614
Other current assets	—	14,153	10,181	(11,785)	12,549
Total current assets	**—**	**811,106**	**248,431**	**(11,785)**	**1,047,752**
Investment in and advances to subsidiaries	835,653	88,196	—	(923,849)	—
Long-term portion of customer accounts receivable, net of allowances	—	374,126	286,395	—	660,521
Property and equipment, net	—	172,341	—	—	172,341
Operating lease right-of-use assets	—	240,879	—	—	240,879
Deferred income taxes	22,908	—	—	—	22,908
Other assets	—	12,424	—	—	12,424
Total assets	**$ 858,561**	**$ 1,699,072**	**$ 534,826**	**$ (935,634)**	**$ 2,156,825**
Liabilities and Stockholders’ Equity					
Current liabilities:					
Current maturities of debt and financing lease obligations	$ —	$ 607	$ —	$ —	$ 607
Accounts payable	—	85,908	—	—	85,908
Accrued expenses	4,800	70,939	3,455	(2,417)	76,777
Operating lease liability - current	—	38,541	—	—	38,541
Other current liabilities	—	17,646	2,720	(9,368)	10,998
Total current liabilities	**4,800**	**213,641**	**6,175**	**(11,785)**	**212,831**
Operating lease liability - non current	—	322,248	—	—	322,248
Long-term debt and financing lease obligations	223,384	303,061	438,618	—	965,063
Other long-term liabilities	—	24,469	1,837	—	26,306
Total liabilities	**228,184**	**863,419**	**446,630**	**(11,785)**	**1,526,448**
Total stockholders’ equity	**630,377**	**835,653**	**88,196**	**(923,849)**	**630,377**
Total liabilities and stockholders’ equity	**$ 858,561**	**$ 1,699,072**	**$ 534,826**	**$ (935,634)**	**$ 2,156,825**

Deferred income taxes related to tax attributes of the Guarantors and Non-Guarantor Subsidiaries are reflected under Conn’s, Inc.

Condensed Consolidated Balance Sheet as of January 31, 2019:

(in thousands)	Conn's, Inc.	Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ —	$ 5,912	$ —	$ —	$ 5,912
Restricted cash	—	1,550	57,475	—	59,025
Customer accounts receivable, net of allowances	—	328,705	324,064	—	652,769
Other accounts receivable	—	67,078	—	—	67,078
Inventories	—	220,034	—	—	220,034
Other current assets	—	12,344	5,504	(8,272)	9,576
Total current assets	**—**	**635,623**	**387,043**	**(8,272)**	**1,014,394**
Investment in and advances to subsidiaries	815,524	146,864	—	(962,388)	—
Long-term portion of customer accounts receivable, net of allowances	—	455,443	230,901	—	686,344
Property and equipment, net	—	148,983	—	—	148,983
Deferred income taxes	27,535	—	—	—	27,535
Other assets	—	7,651	—	—	7,651
Total assets	**$ 843,059**	**$ 1,394,564**	**$ 617,944**	**$ (970,660)**	**$ 1,884,907**
Liabilities and Stockholders' Equity					
Current liabilities:					
Current maturities of debt and financing lease obligations	$ —	$ 474	$ 53,635	$ —	$ 54,109
Accounts payable	—	71,118	—	—	71,118
Accrued expenses	686	88,478	3,939	(2,768)	90,335
Other current liabilities	—	24,918	2,592	(5,504)	22,006
Total current liabilities	**686**	**184,988**	**60,166**	**(8,272)**	**237,568**
Deferred rent	—	93,127	—	—	93,127
Long-term debt and financing lease obligations	222,398	270,831	407,993	—	901,222
Other long-term liabilities	—	30,094	2,921	—	33,015
Total liabilities	**223,084**	**579,040**	**471,080**	**(8,272)**	**1,264,932**
Total stockholders' equity	**619,975**	**815,524**	**146,864**	**(962,388)**	**619,975**
Total liabilities and stockholders' equity	**$ 843,059**	**$ 1,394,564**	**$ 617,944**	**$ (970,660)**	**$ 1,884,907**

Deferred income taxes related to tax attributes of the Guarantor Subsidiaries and Non-Guarantor Subsidiaries are reflected under Conn's, Inc.

Condensed Consolidated Statement of Income for the Three Months Ended October 31, 2019:

(in thousands)	Conn’s, Inc.	Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Total net sales	$ —	$ 280,122	$ —	$ —	$ 280,122
Finance charges and other revenues	—	56,758	40,828	—	97,586
Servicing fee revenue	—	7,778	—	(7,778)	—
Total revenues	**—**	**344,658**	**40,828**	**(7,778)**	**377,708**
Costs and expenses:					
Cost of goods sold	—	170,453	—	—	170,453
Selling, general and administrative expense	—	125,402	7,984	(7,778)	125,608
Provision for bad debts	—	26,973	15,613	—	42,586
Charges and credits	—	3,837	—	—	3,837
Total costs and expenses	**—**	**326,665**	**23,597**	**(7,778)**	**342,484**
Operating income	**—**	**17,993**	**17,231**	**—**	**35,224**
Interest expense	4,444	3,918	6,689	—	15,051
Income (loss) before income taxes	**(4,444)**	**14,075**	**10,542**	**—**	**20,173**
Provision (benefit) for income taxes	(1,101)	3,575	2,556	—	5,030
Net income (loss)	**(3,343)**	**10,500**	**7,986**	**—**	**15,143**
Income from consolidated subsidiaries	18,486	7,986	—	(26,472)	—
Consolidated net income	**$ 15,143**	**$ 18,486**	**$ 7,986**	**$ (26,472)**	**$ 15,143**

Condensed Consolidated Statement of Income for the Three Months Ended October 31, 2018:

(in thousands)	Conn’s, Inc.	Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Total net sales	$ —	$ 283,874	$ —	$ —	$ 283,874
Finance charges and other revenues	—	48,666	41,284	—	89,950
Servicing fee revenue	—	12,226	—	(12,226)	—
Total revenues	**—**	**344,766**	**41,284**	**(12,226)**	**373,824**
Costs and expenses:					
Cost of goods sold	—	166,886	—	—	166,886
Selling, general and administrative expense	—	118,234	12,372	(12,226)	118,380
Provision for bad debts	—	7,715	39,833	—	47,548
Charges and credits	—	5,537	—	—	5,537
Total costs and expenses	**—**	**298,372**	**52,205**	**(12,226)**	**338,351**
Operating income (loss)	**—**	**46,394**	**(10,921)**	**—**	**35,473**
Interest expense	4,448	2,106	8,544	—	15,098
Income (loss) before income taxes	**(4,448)**	**44,288**	**(19,465)**	**—**	**20,375**
Provision (benefit) for income taxes	(1,254)	12,487	(5,488)	—	5,745
Net income (loss)	**(3,194)**	**31,801**	**(13,977)**	**—**	**14,630**
Income (loss) from consolidated subsidiaries	17,824	(13,977)	—	(3,847)	—
Consolidated net income (loss)	**$ 14,630**	**$ 17,824**	**$ (13,977)**	**$ (3,847)**	**$ 14,630**

Condensed Consolidated Statement of Income for the Nine Months Ended October 31, 2019:

(in thousands)	Conn's, Inc.	Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Total net sales	$ —	$ 848,163	$ —	$ —	$ 848,163
Finance charges and other revenues	—	164,110	120,006	—	284,116
Servicing fee revenue	—	25,476	—	(25,476)	—
Total revenues	**—**	**1,037,749**	**120,006**	**(25,476)**	**1,132,279**
Costs and expenses:					
Cost of goods sold	—	509,746	—	—	509,746
Selling, general and administrative expense	—	370,407	26,075	(25,476)	371,006
Provision for bad debts	—	71,312	61,056	—	132,368
Charges and credits	—	3,142	—	—	3,142
Total costs and expenses	**—**	**954,607**	**87,131**	**(25,476)**	**1,016,262**
Operating income	**—**	**83,142**	**32,875**	**—**	**116,017**
Interest expense	13,330	9,842	20,772	—	43,944
Income (loss) before income taxes	**(13,330)**	**73,300**	**12,103**	**—**	**72,073**
Provision (benefit) for income taxes	(3,227)	17,744	2,930	—	17,447
Net income (loss)	**(10,103)**	**55,556**	**9,173**	**—**	**54,626**
Income from consolidated subsidiaries	64,729	9,173	—	(73,902)	—
Consolidated net income	**$ 54,626**	**$ 64,729**	**$ 9,173**	**$ (73,902)**	**$ 54,626**

Condensed Consolidated Statement of Income for the Nine Months Ended October 31, 2018:

(in thousands)	Conn's, Inc.	Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Total net sales	$ —	$ 855,943	$ —	$ —	$ 855,943
Finance charges and other revenues	—	150,974	109,914	—	260,888
Servicing fee revenue	—	32,007	—	(32,007)	—
Total revenues	**—**	**1,038,924**	**109,914**	**(32,007)**	**1,116,831**
Costs and expenses:					
Cost of goods sold	—	507,102	—	—	507,102
Selling, general and administrative expense	—	353,542	32,413	(32,007)	353,948
Provision for bad debts	—	44,591	97,864	—	142,455
Charges and credits	—	5,837	—	—	5,837
Total costs and expenses	**—**	**911,072**	**130,277**	**(32,007)**	**1,009,342**
Operating income (loss)	**—**	**127,852**	**(20,363)**	**—**	**107,489**
Interest expense	13,339	8,872	25,273	—	47,484
Loss on extinguishment of debt	—	142	1,631	—	1,773
Income (loss) before income taxes	**(13,339)**	**118,838**	**(47,267)**	**—**	**58,232**
Provision (benefit) for income taxes	(3,175)	28,284	(11,250)	—	13,859
Net income (loss)	**(10,164)**	**90,554**	**(36,017)**	**—**	**44,373**
Income (loss) from consolidated subsidiaries	54,537	(36,017)	—	(18,520)	—
Consolidated net income (loss)	**$ 44,373**	**$ 54,537**	**$ (36,017)**	**$ (18,520)**	**$ 44,373**

Condensed Consolidated Statement of Cash Flows for the Nine Months Ended October 31, 2019:

(in thousands)	Conn's, Inc.	Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by operating activities	**$ 25,217**	**$ 50,692**	**$ 16,620**	**$ —**	**$ 92,529**
Cash flows from investing activities:					
Purchase of customer accounts receivables	—	—	(379,200)	379,200	—
Sale of customer accounts receivables	—	—	379,200	(379,200)	—
Purchase of property and equipment	—	(48,324)	—	—	(48,324)
Proceeds from asset dispositions	—	724	—	—	724
Investment in subsidiary	—	(33,019)	—	33,019	—
Net cash used in investing activities	**—**	**(80,619)**	**—**	**33,019**	**(47,600)**
Cash flows from financing activities:					
Proceeds from issuance of asset-backed notes	—	—	381,790	—	381,790
Payments on asset-backed notes	—	—	(351,424)	—	(351,424)
Borrowings from revolving credit facility	—	1,247,195	—	—	1,247,195
Contribution from subsidiary	33,019	—	—	(33,019)	—
Payments on revolving credit facility	—	(1,215,395)	—	—	(1,215,395)
Payments of debt issuance costs and amendment fees	—	(62)	(3,354)	—	(3,416)
Payments on warehouse facility	—	—	(53,635)	—	(53,635)
Proceeds from stock issued under employee benefit plans	835	—	—	—	835
Tax payments associated with equity-based compensation transactions	—	(2,009)	—	—	(2,009)
Payment for share repurchases	(59,071)	—	—	—	(59,071)
Other	—	(817)	—	—	(817)
Net cash provided by (used in) financing activities	**(25,217)**	**28,912**	**(26,623)**	**(33,019)**	**(55,947)**
Net change in cash, cash equivalents and restricted cash	**—**	**(1,015)**	**(10,003)**	**—**	**(11,018)**
Cash, cash equivalents and restricted cash, beginning of period	—	7,462	57,475	—	64,937
Cash, cash equivalents and restricted cash, end of period	**$ —**	**$ 6,447**	**$ 47,472**	**$ —**	**$ 53,919**

Condensed Consolidated Statement of Cash Flows for the Nine Months Ended October 31, 2018:

(in thousands)	Conn's, Inc.	Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	**$ (1,055)**	**$ 188,302**	**$ (5,153)**	**$ —**	**$ 182,094**
Cash flows from investing activities:					
Purchase of customer accounts receivables	—	—	(525,846)	525,846	—
Sale of customer accounts receivables	—	—	525,846	(525,846)	—
Purchase of property and equipment	—	(22,609)	—	—	(22,609)
Net cash used in investing activities	**—**	**(22,609)**	**—**	**—**	**(22,609)**
Cash flows from financing activities:					
Proceeds from issuance of asset-backed notes	—	—	358,300	—	358,300
Payments on asset-backed notes	—	(169,443)	(450,231)	—	(619,674)
Borrowings from revolving credit facility	—	1,266,333	—	—	1,266,333
Payments on revolving credit facility	—	(1,260,283)	—	—	(1,260,283)
Borrowings from warehouse facility	—	—	173,286	—	173,286
Payments of debt issuance costs and amendment fees	—	(3,226)	(4,155)	—	(7,381)
Payments on warehouse facility	—	—	(88,876)	—	(88,876)
Proceeds from stock issued under employee benefit plans	1,055	—	—	—	1,055
Tax payments associated with equity-based compensation transactions	—	(2,931)	—	—	(2,931)
Payments from extinguishment of debt	—	(1,177)	—	—	(1,177)
Other	—	(760)	—	—	(760)
Net cash provided by (used in) financing activities	**1,055**	**(171,487)**	**(11,676)**	**—**	**(182,108)**
Net change in cash, cash equivalents and restricted cash	**—**	**(5,794)**	**(16,829)**	**—**	**(22,623)**
Cash, cash equivalents and restricted cash, beginning of period	—	10,836	85,322	—	96,158
Cash, cash equivalents and restricted cash, end of period	**$ —**	**$ 5,042**	**$ 68,493**	**$ —**	**$ 73,535**

11. Stockholders' Equity

Share Repurchases. On May 30, 2019, we entered into a stock repurchase program pursuant to which we may repurchase up to $75.0 million of our outstanding common stock. The program will remain effective for one year, unless extended by the Board of Directors. During the three months ended October 31, 2019, we repurchased 1,261,819 shares of our common stock at an average weighted cost per share of $19.58 for an aggregate amount of $24.7 million. During the nine months ended October 31, 2019, we repurchased 3,136,665 shares of our common stock at an average weighted cost per share of $18.82 for an aggregate amount of $59.1 million.

12. Subsequent Events

Asset-backed Note. On November 26, 2019, an affiliate of the Company ("the Issuer") completed the issuance and sale of asset-backed notes in the aggregate principal amount of $486.0 million secured by the transferred customer accounts receivable and restricted cash held by a VIE, which resulted in net proceeds to us of $482.8 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 June 17, 2024 and consist of $317.2 million of the Issuer's 2.66% Class A, Series 2019-B Asset Backed Fixed Rate Notes, $85.5 million of 3.62% Class B, Series 2019-B Asset Backed Fixed Rate Notes, and $83.3 million of 4.60% Class C, Series 2019-B Asset Backed Fixed Rate Notes.

Share Repurchases. For the period November 1, 2019 through December 6, 2019, we repurchased an additional 348,776 shares of our common stock for $7.2 million at an average price of $20.68 per share. The total shares repurchased through December 6, 2019 under the plan in aggregate is 3,485,441 shares for $66.2 million at an average price of $19.00 per share.

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, and proceeds from accessing debt or equity markets; the expected timing and amount of our share repurchases; 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, 2019 (the "2019 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 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 $377.7 million for the three months ended October 31, 2019 compared to $373.8 million for the three months ended October 31, 2018, an increase of $3.9 million or 1.0%. Retail revenues were $280.3 million for the three months ended October 31, 2019 compared to $284.1 million for the three months ended October 31, 2018, a decrease of $3.7 million or 1.3%. The decrease in retail revenue was primarily driven by a decrease in same store sales of 8.4%, partially offset by new store growth. The decrease in same store sales was driven by a decrease of 12.8% in markets impacted by Hurricane Harvey, and by a decrease of 6.7% in markets not impacted by Hurricane Harvey. We believe the decrease in markets impacted by Hurricane Harvey were impacted by rebuilding efforts during the three months ended October 31, 2018. Same store sales include e-commerce sales. The decrease in same store sales reflects underwriting adjustments made during the three months ended October 31, 2019, which negatively impacted same store sales. In addition, a combination of significant price deflation for premium large screen televisions and an increase in production by second- and third-tier manufacturers, which has made cash purchases of large screen televisions more accessible to our core customer, negatively impacted same store sales during the quarter. Credit revenues were $97.4 million for the three months ended October 31, 2019 compared to $89.8 million for the three months ended October 31, 2018, an increase of $7.6 million or 8.5%. The increase in credit revenue resulted from the origination of our higher-yielding direct loan product, which resulted in an increase in the portfolio yield rate to 22.1% from 21.7% for the comparative period in fiscal year 2019, and from a 3.2% increase in the average outstanding balance of the customer accounts receivable portfolio. In addition, insurance income contributed to an increase in credit revenue over the prior year period primarily due to an increase in insurance retrospective income for the three months ended October 31, 2019.

Retail gross margin for the three months ended October 31, 2019 was 39.2%, a decrease of 200 basis points from the 41.2% reported for the three months ended October 31, 2018. The decrease in retail gross margin was primarily driven by higher margins realized in the comparative three months ended October 31, 2018 due to the one-time benefit of increases in appliance retail pricing related to tariff adjustments and the associated forward purchases of inventory, coupled with increased logistics costs to help support future growth in the three months ended October 31, 2019. The decrease was partially offset by an increase in retrospective income on our repair service agreements ("RSAs") during the three months ended October 31, 2019.

Selling, general and administrative expense ("SG&A") for the three months ended October 31, 2019 was $125.6 million compared to $118.4 million for the three months ended October 31, 2018, an increase of $7.2 million or 6.1%. The SG&A increase in the retail segment was primarily due to increases in new store occupancy costs, compensation costs and an increase in advertising expense, partially offset by a decrease in corporate overhead allocation. The SG&A increase in the credit segment was primarily due to an increase in general operational expenses and third-party legal expenses related to collection efforts on charged off accounts.

Provision for bad debts decreased to $42.6 million for the three months ended October 31, 2019 from $47.5 million for the three months ended October 31, 2018, a decrease of $5.0 million. The decrease was driven by lower net charge-offs of $2.3 million for the three months ended October 31, 2019 compared to the three months ended October 31, 2018 and a decrease in the allowance for bad debts for the three months ended October 31, 2019. The decrease in the allowance for bad debts was primarily driven by a year-over-year decrease in the incurred loss rate and an increase in customer recovery rate, partially offset by an increase in first payment default and delinquency rates and a greater increase in the year-over-year change in carrying value of the customer accounts receivable portfolio balance.

Interest expense was $15.1 million for the three months ended October 31, 2019 and $15.1 million for the three months ended October 31, 2018.

Net income for the three months ended October 31, 2019 was $15.1 million or $0.51 per diluted share, compared to $14.6 million, or $0.45 per diluted share, for the three months ended October 31, 2018.

Company Initiatives

In the third quarter of fiscal year 2020, we delivered strong credit segment performance, driven by higher yields, better portfolio performance and lower borrowing costs. Retail operating margins remained strong, demonstrating our differentiated business model, improved product mix, and emphasis on disciplined cost management. We delivered the following financial and operational results in the third quarter of fiscal year 2020:

- Achieved earnings per diluted share of $0.51 for the three months ended October 31, 2019, an increase of 13.3% compared to $0.45 for the three months ended October 31, 2018;
- Recorded an increase in e-commerce sales of 350% compared to the third quarter of fiscal year 2019;
- Recorded record third quarter yield on our customer receivables portfolio of 22.1% as a result of the continued seasoning of loans originated under our higher-yielding direct loan program;
- Recorded positive credit segment income before taxes for the first time in five and half years;
- Increased our credit spread, which is the difference between net yield and charge-offs as a percentage of our average customer accounts receivable portfolio balance, to 10.7% for the three months ended October 31, 2019 from 9.4% for the three months ended October 31, 2018;
- Repurchased $24.7 million or approximately 1.3 million shares of the Company's common stock at an average share price of $19.58; and
- Opened six new stores for a total of 14 new stores for fiscal year 2020.

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 2020:

- Increase net income by improving performance across our core operational and financial metrics: same store sales, retail margin, portfolio yield, charge-off rate, and interest expense;
- Open 14 new stores in our current geographic footprint to leverage our existing infrastructure;
- Continue to refine and enhance our underwriting platform;
- Mitigate increases in our interest expense;
- 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 e-commerce sales;
- Maintain disciplined oversight of our SG&A;
- Ensure that 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

The broad appeal of the Conn's value proposition to our geographically diverse core demographic, unit economics of our business and current retail real estate market conditions provide us ample opportunity for continued expansion. Our brand recognition and long history in our core markets 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 United States with demographic characteristics similar to those in our existing footprint, which provides substantial opportunities for future growth. We plan to continue 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:

Consolidated:	**Three Months Ended October 31,**			**Nine Months Ended October 31,**		
(in thousands)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Revenues:						
Total net sales	$ 280,122	$ 283,874	$ (3,752)	$ 848,163	$ 855,943	$ (7,780)
Finance charges and other revenues	97,586	89,950	7,636	284,116	260,888	23,228
Total revenues	**377,708**	**373,824**	**3,884**	**1,132,279**	**1,116,831**	**15,448**
Costs and expenses:						
Cost of goods sold	170,453	166,886	3,567	509,746	507,102	2,644
Selling, general and administrative expense	125,608	118,380	7,228	371,006	353,948	17,058
Provision for bad debts	42,586	47,548	(4,962)	132,368	142,455	(10,087)
Charges and credits	3,837	5,537	(1,700)	3,142	5,837	(2,695)
Total costs and expenses	**342,484**	**338,351**	**4,133**	**1,016,262**	**1,009,342**	**6,920**
Operating income	**35,224**	**35,473**	**(249)**	**116,017**	**107,489**	**8,528**
Interest expense	15,051	15,098	(47)	43,944	47,484	(3,540)
Loss on extinguishment of debt	—	—	—	—	1,773	(1,773)
Income before income taxes	**20,173**	**20,375**	**(202)**	**72,073**	**58,232**	**13,841**
Provision for income taxes	5,030	5,745	(715)	17,447	13,859	3,588
Net income	**$ 15,143**	**$ 14,630**	**$ 513**	**$ 54,626**	**$ 44,373**	**$ 10,253**

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. 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 and loss before taxes attributable to these operating segments for the periods indicated:

Retail Segment:	**Three Months Ended October 31,**			**Nine Months Ended October 31,**		
(dollars in thousands)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Revenues:						
Product sales	$ 250,233	$ 256,731	$ (6,498)	$ 759,256	$ 773,224	$ (13,968)
Repair service agreement commissions	26,478	23,579	2,899	78,149	72,104	6,045
Service revenues	3,411	3,564	(153)	10,758	10,615	143
Total net sales	280,122	283,874	(3,752)	848,163	855,943	(7,780)
Finance charges and other	197	179	18	602	291	311
Total revenues	**280,319**	**284,053**	**(3,734)**	**848,765**	**856,234**	**(7,469)**
Costs and expenses:						
Cost of goods sold	170,453	166,886	3,567	509,746	507,102	2,644
Selling, general and administrative expense [1]	87,105	80,894	6,211	254,874	241,649	13,225
Provision for bad debts	535	286	249	645	789	(144)
Charges and credits	2,628	737	1,891	1,933	1,037	896
Total costs and expenses	**260,721**	**248,803**	**11,918**	**767,198**	**750,577**	**16,621**
Operating income	**$ 19,598**	**$ 35,250**	**$ (15,652)**	**$ 81,567**	**$ 105,657**	**$ (24,090)**
Number of stores:						
Beginning of period	131	118		123	116	
Opened	6	3		14	5	
End of period	137	121		137	121	

Credit Segment:	**Three Months Ended October 31,**			**Nine Months Ended October 31,**		
(in thousands)	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Revenues:						
Finance charges and other revenues	**$ 97,389**	**$ 89,771**	**$ 7,618**	**$ 283,514**	**$ 260,597**	**$ 22,917**
Costs and expenses:						
Selling, general and administrative expense (1)	38,503	37,486	1,017	116,132	112,299	3,833
Provision for bad debts	42,051	47,262	(5,211)	131,723	141,666	(9,943)
Charges and credits	1,209	4,800	(3,591)	1,209	4,800	(3,591)
Total costs and expenses	**81,763**	**89,548**	**(7,785)**	**249,064**	**258,765**	**(9,701)**
Operating income	**15,626**	**223**	**15,403**	**34,450**	**1,832**	**32,618**
Interest expense	15,051	15,098	(47)	43,944	47,484	(3,540)
Loss on extinguishment of debt	—	—	—	—	1,773	(1,773)
Loss before income taxes	**$ 575**	**$ (14,875)**	**$ 15,450**	**$ (9,494)**	**$ (47,425)**	**$ 37,931**

(1) For the three months ended October 31, 2019 and 2018, the amount of overhead allocated to each segment reflected in SG&A was $5.7 million and $9.1 million, respectively. For the three months ended October 31, 2019 and 2018, the amount of reimbursement made to the retail segment by the credit segment was $9.8 million and $9.5 million, respectively. For the nine months ended October 31, 2019 and 2018, the amount of corporate overhead allocated to each segment reflected in SG&A was $23.4 million and $26.7 million, respectively. For the nine months ended October 31, 2019 and 2018, the amount of reimbursement made to the retail segment by the credit segment was $29.2 million and $28.3 million, respectively.

Three months ended October 31, 2019 compared to three months ended October 31, 2018

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:

	Three Months Ended October 31,					**%**	**Same Store**
(dollars in thousands)	**2019**	**% of Total**	**2018**	**% of Total**	**Change**	**Change**	**% Change**
Furniture and mattress	$ 89,070	31.8%	$ 91,342	32.2%	$ (2,272)	(2.5)%	(7.7)%
Home appliance	90,343	32.3	79,542	28.0	10,801	13.6	5.5
Consumer electronics	48,113	17.2	60,008	21.1	(11,895)	(19.8)	(25.6)
Home office	18,681	6.7	22,661	8.0	(3,980)	(17.6)	(20.8)
Other	4,026	1.4	3,178	1.1	848	26.7	10.7
Product sales	250,233	89.4	256,731	90.4	(6,498)	(2.5)	(8.6)
Repair service agreement commissions (1)	26,478	9.5	23,579	8.3	2,899	12.3	(6.2)
Service revenues	3,411	1.1	3,564	1.3	(153)	(4.3)	
Total net sales	$ 280,122	100.0%	$ 283,874	100.0%	$ (3,752)	(1.3)%	(8.4)%

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

The decrease in product sales for the three months ended October 31, 2019 was primarily due to a decrease in same store sales of 8.4%, partially offset by new store growth. The decrease in same store sales was driven by a decrease of 12.8% in markets impacted by Hurricane Harvey and 6.7% in markets not impacted by Hurricane Harvey. We believe the decrease in markets impacted by Hurricane Harvey were impacted by rebuilding efforts during the three months ended October 31, 2018. The decrease in same store sales reflects underwriting adjustments made during the three months ended October 31, 2019, which negatively impacted same store sales. In addition, a combination of significant price deflation for premium large screen televisions and an increase in production by second- and third-tier manufacturers, which has made cash purchases of large screen televisions more accessible to our core customer, negatively impacted same store sales during the quarter.

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

(in thousands)	Three Months Ended October 31, 2019	2018	Change
Interest income and fees	$ 87,484	$ 82,964	$ 4,520
Insurance income	9,905	6,807	3,098
Other revenues	197	179	18
Finance charges and other revenues	$ 97,586	$ 89,950	$ 7,636

The increase in interest income and fees resulted from an increase in the yield rate to 22.1% for the three months ended October 31, 2019 from 21.7% for the three months ended October 31, 2018, an increase of 40 basis points, and from an increase of 3.2% in the average balance of the customer accounts receivable portfolio. The increase in the yield rate resulted from the origination of our higher-yielding direct loan product, which represented approximately 75% of our originations for the three months ended October 31, 2019. In addition, insurance income contributed to an increase in credit revenue over the prior year period primarily due to an increase in insurance retrospective income for the three months ended October 31, 2019.

The following table provides key portfolio performance information:

(dollars in thousands)	Three Months Ended October 31, 2019	2018	Change
Interest income and fees	$ 87,484	$ 82,964	$ 4,520
Net charge-offs	(44,551)	(46,850)	2,299
Interest expense	(15,051)	(15,098)	47
Net portfolio income	$ 27,882	$ 21,016	$ 6,866
Average outstanding portfolio balance	$ 1,567,633	$ 1,518,513	$ 49,120
Interest income and fee yield (annualized)	22.1%	21.7%	
Net charge-off % (annualized)	11.4%	12.3%	

Retail Gross Margin

(dollars in thousands)	Three Months Ended October 31, 2019	2018	Change
Retail total net sales	$ 280,122	$ 283,874	$ (3,752)
Cost of goods sold	170,453	166,886	3,567
Retail gross margin	$ 109,669	$ 116,988	$ (7,319)
Retail gross margin percentage	39.2%	41.2%	

The decrease in retail gross margin was primarily driven by higher margins realized in the comparative three months ended October 31, 2018 due to the one-time benefit of increases in appliance retail pricing related to tariff adjustments and the associated forward purchases of inventory, coupled with increased logistics costs to help support future growth in the three months ended October 31, 2019. The decrease was partially offset by an increase in retrospective income on our RSAs during the three months ended October 31, 2019.

Selling, General and Administrative Expense

(dollars in thousands)	Three Months Ended October 31, 2019	Three Months Ended October 31, 2018	Change
Retail segment	$ 87,105	$ 80,894	$ 6,211
Credit segment	38,503	37,486	1,017
Selling, general and administrative expense - Consolidated	$ 125,608	$ 118,380	$ 7,228
Selling, general and administrative expense as a percent of total revenues	33.3%	31.7%	

The SG&A increase in the retail segment was primarily due to increases in new store occupancy costs, compensation costs and advertising expense, offset by a decrease in corporate overhead allocation. The SG&A increase in the credit segment was primarily due to an increase in general operational expenses and third-party legal expenses related to collection efforts on charged off accounts. As a percent of average total customer portfolio balance (annualized), SG&A for the credit segment for the three months ended October 31, 2019 decreased 10 basis points as compared to the three months ended October 31, 2018.

Provision for Bad Debts

(dollars in thousands)	Three Months Ended October 31, 2019	Three Months Ended October 31, 2018	Change
Retail segment	$ 535	$ 286	$ 249
Credit segment	42,051	47,262	(5,211)
Provision for bad debts - Consolidated	$ 42,586	$ 47,548	$ (4,962)
Provision for bad debts - Credit segment, as a percent of average outstanding portfolio balance (annualized)	10.7%	12.4%	

The provision for bad debts decreased to $42.6 million for the three months ended October 31, 2019 from $47.5 million for the three months ended October 31, 2018, a decrease of $5.0 million. The decrease was driven by lower net charge-offs of $2.3 million for the three months ended October 31, 2019 compared to the three months ended October 31, 2018 and a decrease in the allowance for bad debts for the three months ended October 31, 2019. The decrease in the allowance for bad debts was primarily driven by a year-over-year decrease in the incurred loss rate and an increase in customer recovery rate, partially offset by an increase in first payment default and delinquency rates and a greater increase in the year-over-year change in carrying value of the customer accounts receivable portfolio balance.

Charges and Credits

(in thousands)	Three Months Ended October 31, 2019	Three Months Ended October 31, 2018	Change
Employee severance	$ —	$ 737	$ (737)
Legal judgment	—	4,800	(4,800)
Write-off of software costs	1,209	—	1,209
Facility closure costs	2,628	—	2,628
Total charges and credits	$ 3,837	$ 5,537	$ (1,700)

During the three months ended October 31, 2019, we recognized $3.2 million in impairments from the exiting of certain leases upon the relocation of three distribution centers into one facility. Facility closure costs were offset by a $0.6 million gain from the sale of a cross-dock. In addition, we recognized $1.2 million in impairments and write-off of software costs for a loan management system that was abandoned during the third quarter of fiscal year 2020 related to the implementation of a new loan management system. During the three months ended October 31, 2018, we recorded severance costs related to a change in the executive management team of $0.7 million and costs related to the judgment (the “TFL LoanCo Judgment”) in favor of TF LoanCo (“TFL”) requiring Conn’s to pay approximately $4.8 million to TFL. See Part II, Item 8., in Note 12, Contingencies, of the 2019 Form 10-K for the fiscal year ended January 31, 2019 for additional details of the TFL Judgment.

Interest Expense

Interest expense was $15.1 million for the three months ended October 31, 2019 and $15.1 million for the three months ended October 31, 2018.

Provision for Income Taxes

	Three Months Ended October 31,		
(dollars in thousands)	**2019**	**2018**	**Change**
Provision for income taxes	$ 5,030	$ 5,745	$ (715)
Effective tax rate	24.9%	28.2%	

The decrease in income tax expense for the three months ended October 31, 2019 compared to the three months ended October 31, 2018 was primarily driven by a decrease in pre-tax earnings and a decrease in the effective tax rate. The primary factor affecting the decrease in our effective tax rate for the three months ended October 31, 2019 was a decrease in state income tax expense compared to the prior year period.

Nine months ended October 31, 2019 compared to nine months ended October 31, 2018

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:

	Nine Months Ended October 31,					%	Same Store
(dollars in thousands)	**2019**	**% of Total**	**2018**	**% of Total**	**Change**	**Change**	**% Change**
Furniture and mattress	$ 276,889	32.6%	$ 285,428	33.4%	$ (8,539)	(3.0)%	(6.1)%
Home appliance	266,989	31.5	249,036	29.1	17,953	7.2	1.9
Consumer electronics	151,454	17.9	167,964	19.6	(16,510)	(9.8)	(15.8)
Home office	52,270	6.2	60,260	7.1	(7,990)	(13.3)	(16.3)
Other	11,654	1.4	10,536	1.2	1,118	10.6	2.5
Product sales	759,256	89.6	773,224	90.4	(13,968)	(1.8)	(6.3)
Repair service agreement commissions (1)	78,149	9.2	72,104	8.4	6,045	8.4	(6.3)
Service revenues	10,758	1.2	10,615	1.2	143	1.3	
Total net sales	$ 848,163	100.0%	$ 855,943	100.0%	$ (7,780)	(0.9)%	(6.3)%

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

The decrease in product sales for the nine months ended October 31, 2019 was due to a decrease in same store sales of 6.3% partially offset by new store growth. The decrease in same store sales was 12.2% in markets impacted by Hurricane Harvey and 4.0% in markets not impacted by Hurricane Harvey. We believe the decrease in markets impacted by Hurricane Harvey were impacted by rebuilding efforts during the nine months ended October 31, 2018. The decrease in same store sales reflects underwriting adjustments made during the nine months ended October 31, 2019, which negatively impacted same store sales. In addition, a combination of significant price deflation for premium large screen televisions and an increase in production by second- and third-tier manufacturers, which has made cash purchases of large screen televisions more accessible to our core customer, negatively impacted same store sales during the nine months ended October 31, 2019. We also believe same store sales were negatively impacted, primarily in the first fiscal quarter of fiscal year 2020, by a greater-than-expected shift towards online applications, which exhibit higher credit risk and lower approval rates, disruption in the transition to our new e-commerce platform to support our full omnichannel offering and the delay in customers receiving federal tax refunds.

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

(in thousands)	Nine Months Ended October 31, 2019	Nine Months Ended October 31, 2018	Change
Interest income and fees	$ 256,705	$ 239,745	$ 16,960
Insurance income	26,809	20,852	5,957
Other revenues	602	291	311
Finance charges and other revenues	$ 284,116	$ 260,888	$ 23,228

The increase in interest income and fees resulted from an increase in the yield rate to 22.0% for the nine months ended October 31, 2019 from 21.2% for the nine months ended October 31, 2018, an increase of 80 basis points, and from an increase of 3.3% in the average balance of the customer accounts receivable portfolio. The increase in the yield rate resulted from the origination of our higher-yielding direct loan product, which represented approximately 76% of our originations for the nine months ended October 31, 2019. In addition, insurance income contributed to an increase in credit revenue over the prior year period primarily due to an increase in insurance retrospective income for the nine months ended October 31, 2019.

The following table provides key portfolio performance information:

(dollars in thousands)	Nine Months Ended October 31, 2019	Nine Months Ended October 31, 2018	Change
Interest income and fees	$ 256,705	$ 239,745	$ 16,960
Net charge-offs	(142,616)	(143,943)	1,327
Interest expense	(43,944)	(47,484)	3,540
Net portfolio income	$ 70,145	$ 48,318	$ 21,827
Average outstanding portfolio balance	$ 1,558,260	$ 1,508,887	$ 49,373
Interest income and fee yield (annualized)	22.0%	21.2%	
Net charge-off % (annualized)	12.2%	12.7%	

Retail Gross Margin

(dollars in thousands)	Nine Months Ended October 31, 2019	Nine Months Ended October 31, 2018	Change
Retail total net sales	$ 848,163	$ 855,943	$ (7,780)
Cost of goods sold	509,746	507,102	2,644
Retail gross margin	$ 338,417	$ 348,841	$ (10,424)
Retail gross margin percentage	39.9%	40.8%	

The decrease in retail gross margin was primarily driven by higher margins realized in the comparative nine months ended October 31, 2018 due to the one-time benefit of increases in appliance retail pricing related to tariff adjustments and the associated forward purchases of inventory, coupled with increased logistics costs to help support future growth in the nine months ended October 31, 2019. The decrease was partially offset by an increase in retrospective income on our RSAs during the nine months ended October 31, 2019.

Selling, General and Administrative Expense

(dollars in thousands)	Nine Months Ended October 31, 2019	Nine Months Ended October 31, 2018	Change
Retail segment	$ 254,874	$ 241,649	$ 13,225
Credit segment	116,132	112,299	3,833
Selling, general and administrative expense - Consolidated	$ 371,006	$ 353,948	$ 17,058
Selling, general and administrative expense as a percent of total revenues	32.8%	31.7%	

The SG&A increase in the retail segment was primarily due to increases in new store occupancy costs, compensation costs and advertising expense, offset by a decrease in fees related to professional services. The SG&A increase in the credit segment was primarily due to an increase in general operational expenses and third-party legal expenses related to collection efforts on charged off accounts. As a percent of average total customer portfolio balance (annualized), SG&A for the credit segment for the nine months ended October 31, 2019 remained flat as compared to the nine months ended October 31, 2018.

Provision for Bad Debts

(dollars in thousands)	Nine Months Ended October 31, 2019	Nine Months Ended October 31, 2018	Change
Retail segment	$ 645	$ 789	$ (144)
Credit segment	131,723	141,666	(9,943)
Provision for bad debts - Consolidated	$ 132,368	$ 142,455	$ (10,087)
Provision for bad debts - Credit segment, as a percent of average outstanding portfolio balance (annualized)	11.3%	12.5%	

The provision for bad debts decreased to $132.4 million for the nine months ended October 31, 2019 from $142.5 million for the nine months ended October 31, 2018, a decrease of $10.1 million. The decrease was driven by a greater decrease in the allowance for bad debts during the nine months ended October 31, 2019 compared to the nine months ended October 31, 2018, and by a year-over-year decrease in net charge-offs of $1.3 million. The decrease in the allowance for bad debts for the nine months ended October 31, 2019 was primarily driven by a year-over-year decrease in the incurred loss rate and an increase in customer recovery rate as of the nine months ended October 31, 2019 compared to the nine months ended October 31, 2018, partially offset by an increase in first payment default and delinquency rates.

Charges and Credits

(in thousands)	Nine Months Ended October 31, 2019	Nine Months Ended October 31, 2018	Change
Securities-related regulatory matter and other legal fees	$ —	$ 300	$ (300)
Employee severance	—	737	(737)
Legal judgment	—	4,800	(4,800)
Write-off of software costs	1,209	—	1,209
Facility closure costs	1,933	—	1,933
Total charges and credits	$ 3,142	$ 5,837	$ (2,695)

During the nine months ended October 31, 2019, we recognized $3.2 million in impairments from the exiting of certain leases upon the relocation of three distribution centers into one facility. Facility closure costs were offset by a $0.7 million gain from increased sublease income related to the consolidation of our corporate headquarters and a $0.6 million gain from the sale of a cross-dock. In addition, we recognized $1.2 million in impairments and write-off of software costs for a loan management system that was abandoned during the third quarter of fiscal year 2020 related to the implementation of a new loan management system. During the nine months ended October 31, 2018, we recorded a contingency reserve related to a regulatory matter, severance costs related to a change in the executive management team, and costs related to the TFL Judgment.

Interest Expense

Interest expense decreased to $43.9 million for the nine months ended October 31, 2019 from $47.5 million for the nine months ended October 31, 2018, a decrease of $3.6 million. The decrease was driven by a lower weighted average cost of borrowing and a lower average outstanding balance of debt.

Loss on Extinguishment of Debt

During the nine months ended October 31, 2018, we recorded a $1.8 million loss on extinguishment of debt related to the retirement of our Series 2016-B Class B Notes (the “2016-B Redeemed Notes”) and Series 2017-A Class B and Class C Notes and associated call premiums.

Provision for Income Taxes

	Nine Months Ended October 31,		
(dollars in thousands)	**2019**	**2018**	**Change**
Provision for income taxes	$ 17,447	$ 13,859	$ 3,588
Effective tax rate	24.2%	23.8%	

The increase in income tax expense for the nine months ended October 31, 2019 compared to the nine months ended October 31, 2018 was primarily driven by an increase in pre-tax earnings and an increase in the effective tax rate. The primary factor affecting the increase in our effective tax rate for the nine months ended October 31, 2019 was a decrease in deductible compensation expense compared to the prior year period.

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 76% of our originations during the nine months ended October 31, 2019, which have a maximum equivalent interest rate of up to 27% in Oklahoma, up to 30% in Texas and Tennessee, and up to 36% in Louisiana under our direct consumer loan programs. 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 12% of our originations during the nine months ended October 31, 2019.

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.

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,	
	2019	2018
Weighted average credit score of outstanding balances (1)	592	593
Average outstanding customer balance	$ 2,735	$ 2,578
Balances 60+ days past due as a percentage of total customer portfolio carrying value (2)(3)	10.1%	9.3%
Re-aged balance as a percentage of total customer portfolio carrying value (2)(3)(4)(5)	27.8%	26.1%
Carrying value of account balances re-aged more than six months (in thousands) (3)	$ 110,016	$ 86,807
Allowance for bad debts and uncollectible interest as a percentage of total customer accounts receivable portfolio balance	13.3%	13.6%
Percent of total customer accounts receivable portfolio balance represented by no-interest option receivables	21.8%	21.7%

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
Total applications processed (6)	305,525	283,274	875,374	862,324
Weighted average origination credit score of sales financed (1)	608	610	608	609
Percent of total applications approved and utilized	25.6%	28.5%	27.1%	30.1%
Average income of credit customer at origination	$ 46,100	$ 45,400	$ 45,700	$ 44,200
Percent of retail sales paid for by:				
In-house financing, including down payments received	66.7%	69.7%	67.9%	70.1%
Third-party financing	18.5%	15.6%	17.5%	15.7%
Third-party lease-to-own option	7.0%	8.0%	7.2%	7.3%
	92.2%	93.3%	92.6%	93.1%

(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) First time re-ages related to customers affected by Hurricane Harvey within FEMA-designated disaster areas included in the re-aged balance as of October 31, 2019 and October 31, 2018 were 0.8% and 2.2%, respectively, of the total customer portfolio carrying value.

(5) First time re-ages related to customers affected by Tropical Storm Imelda within FEMA-designated disaster areas included in the re-aged balance as of October 31, 2019 were 0.5% of the total customer portfolio carrying value.

(6) The total applications processed during the three and nine months ended October 31, 2018, we believe, reflect the impact of the rebuilding efforts following Hurricane Harvey.

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 9.9% as of October 31, 2019 from 10.7% as of October 31, 2018. This decrease is primarily driven by an increase in customer recoveries, as well as a reduction in the non-TDR loss rate. The percentage of the carrying value of non-restructured accounts greater than 60 days past due increased 80 basis points over the prior year period to 8.1% as of October 31, 2019 from 7.3% as of October 31, 2018.

For restructured accounts, the allowance for uncollectible accounts as a percentage of the portfolio balance was 35.7% as of October 31, 2019 as compared to 34.7% as of October 31, 2018.

The percent of bad debt charge-offs, net of recoveries, to average outstanding portfolio balance was 11.4% for the three months ended October 31, 2019 compared to 12.3% for the three months ended October 31, 2018. The decrease was primarily due to the seasoning of loans originated with tighter underwriting standards, improved collections execution and improvements in recoveries due to enhancements in our collections program.

As of October 31, 2019 and 2018, balances under no-interest programs included within customer receivables were $337.6 million and $331.1 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, 2019, net cash provided by operating activities was $92.5 million compared to $182.1 million for the nine months ended October 31, 2018. The decrease in net cash provided by operating activities was primarily driven by a decrease in cash provided by working capital, which was primarily due to timing of receipts and payments on inventory, and the collection of an income tax refund of $34.5 million during the nine months ended October 31, 2018, partially offset by an increase in net income when adjusted for non-cash activity.

Investing cash flows. For the nine months ended October 31, 2019, net cash used in investing activities was $47.6 million compared to $22.6 million for the nine months ended October 31, 2018. The change was primarily the result of higher capital expenditures due to investments in new stores, renovations and expansions of select existing stores, a new distribution center and technology investments we are making to support long-term growth.

Financing cash flows. For the nine months ended October 31, 2019, net cash used in financing activities was $55.9 million compared to net cash used in financing activities of $182.1 million for the nine months ended October 31, 2018. During the nine months ended October 31, 2019, we issued 2019-A VIE asset-backed notes resulting in net proceeds to us of approximately $379.2 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 the asset-backed notes of approximately $405.1 million during the nine months ended October 31, 2019 compared to approximately $708.6 million in the comparable prior year period. During the period ended October 31, 2019, net payments under our Revolving Credit Facility were $31.8 million as compared to net borrowings of $6.1 million during the period ended October 31, 2018.

During the nine months ended October 31, 2018, the issuance of additional funding under the Warehouse Notes resulted in net proceeds of $169.7 million, net of transaction costs and restricted cash. The proceeds from the Warehouse Notes were used to early retire the 2016-B Redeemed Notes.

Share Repurchase Program. On May 30, 2019, we entered into a stock repurchase program pursuant to which we may repurchase up to $75.0 million of our outstanding common stock. The program will remain effective for one year, unless extended by the Board of Directors. During the nine months ended October 31, 2019, we repurchased 3,136,665 shares of our common stock at an average weighted cost per share of $18.82 for an aggregate amount of $59.1 million.

Senior Notes. On July 1, 2014, we issued $250.0 million of the unsecured Senior Notes due July 2022 bearing interest at 7.25% (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. The effective interest rate of the Senior Notes after giving effect to the discount and issuance costs is 7.8%.

The Indenture restricts the Company's and certain of its subsidiaries' ability to: (i) incur indebtedness; (ii) pay dividends or make other distributions in respect of, or repurchase or redeem, our capital stock ("restricted payments"); (iii) prepay, redeem or repurchase debt that is junior in right of payment to the notes; (iv) make loans and certain investments; (v) sell assets; (vi) incur liens; (vii) enter into transactions with affiliates; and (viii) consolidate, merge or sell all or substantially all of our assets. These covenants are subject to a number of important exceptions and qualifications. During any time when the Senior Notes are rated investment grade by either of Moody's Investors Service, Inc. or Standard & Poor's Ratings Services and no default (as defined in the Indenture) has occurred and is continuing, many of such covenants will be suspended and we will cease to be subject to such covenants during such period. As of October 31, 2019, $196.7 million would have been free from the restricted payments covenant contained in the Indenture. Events of default under the Indenture include customary events, such as a cross-acceleration provision in the event that we fail to make payment of other indebtedness prior to the expiration of any applicable grace period or upon acceleration of indebtedness prior to its stated maturity date in an amount exceeding $25.0 million, as well as in the event a judgment is entered against us in excess of $25.0 million that is not discharged, bonded or insured.

Asset-backed Notes. From time to time, we securitize customer accounts receivable 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 are offered and sold to qualified institutional buyers pursuant to the exemptions from registration provided by Rule 144A or in compliance with Regulation S under the Securities Act of 1933, as amended. 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, 2019 consisted of the following:

Asset-Backed Notes	Original Principal Amount	Original Net Proceeds (1)	Current Principal Amount	Issuance Date	Maturity Date	Contractual Interest Rate	Effective Interest Rate (2)
2017-B Class B Notes	$ 132,180	$ 131,281	$ 3,765	12/20/2017	4/15/2021	4.52%	5.32%
2017-B Class C Notes	78,640	77,843	78,640	12/20/2017	11/15/2022	5.95%	6.37%
2018-A Class A Notes	219,200	217,832	46,667	8/15/2018	1/17/2023	3.25%	4.81%
2018-A Class B Notes	69,550	69,020	28,144	8/15/2018	1/17/2023	4.65%	5.60%
2018-A Class C Notes	69,550	68,850	28,144	8/15/2018	1/17/2023	6.02%	6.97%
2019-A Class A Notes	254,530	253,026	128,470	4/24/2019	10/16/2023	3.40%	4.75%
2019-A Class B Notes	64,750	64,276	64,750	4/24/2019	10/16/2023	4.36%	5.20%
2019-A Class C Notes	62,510	61,898	62,510	4/24/2019	10/16/2023	5.29%	6.18%
Total	$ 950,910	$ 944,026	$ 441,090				

(1) After giving effect to debt issuance costs.

(2) For the nine months ended October 31, 2019, and inclusive of the impact of changes in timing of actual and expected cash flows.

On April 24, 2019, the Company completed the issuance and sale of asset-backed notes at a face amount of $381.8 million secured by the transferred customer accounts receivables and restricted cash held by a VIE, which resulted in net proceeds to us of $379.2 million, net of debt issuance costs. Net proceeds from the offering were used to repay indebtedness under the Company's Revolving Credit Facility, as defined below, and for other general corporate purposes. The asset-backed notes mature on October 16, 2023 and consist of $254.5 million of 3.40% Series 2019-A, Class A Asset Backed Fixed Rate Notes, $64.8 million of 4.36% Series 2019-A, Class B Asset Backed Fixed Rate Notes and $62.5 million of 5.29%, Series 2019-A, Class C Asset Backed Fixed Rate Notes.

See Note 12 for additional information regarding asset-backed notes.

Revolving Credit Facility. On May 23, 2018, Conn's, Inc. and certain of its subsidiaries (the "Borrowers") entered into a Fourth Amendment to the Fourth Amended and Restated Loan and Security Agreement (the "Fourth Amendment"), dated as of October 30, 2015, with certain lenders, which provides for a $650.0 million asset-based revolving credit facility (the "Revolving Credit Facility") under which credit availability is subject to a borrowing base and a maturity date of May 23, 2022.

Loans under the Revolving Credit Facility bear interest, at our option, at a rate equal to LIBOR plus the applicable 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). The alternate base rate is the greatest of the prime rate announced by Bank of America, N.A., the federal funds rate plus 0.5%, or LIBOR for a 30-day interest period plus 1.0%. 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 6.2% for the nine months ended October 31, 2019.

The Revolving Credit Facility provides funding based on a borrowing base calculation that includes customer accounts receivable and inventory and provides for a $40.0 million sub-facility for letters of credit to support obligations incurred in the ordinary course of business. 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, 2019, we had immediately available borrowing capacity of $349.2 million under our Revolving Credit Facility, net of standby letters of credit issued of $2.5 million.

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, 2019, we were restricted from making distributions, including repayments of the Senior Notes or other distributions, in excess of $190.2 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, as amended, at October 31, 2019. A summary of the significant financial covenants that govern our Revolving Credit Facility, as amended, compared to our actual compliance status at October 31, 2019 is presented below:

	Actual	**Required Minimum/ Maximum**
Interest Coverage Ratio for the quarter must equal or exceed (minimum)	4.05:1.00	1.00:1.00
Interest Coverage Ratio for the trailing two quarters must equal or exceed (minimum)	4.36:1.00	1.50:1.00
Leverage Ratio must not exceed (maximum)	2.00:1.00	4.00:1.00
ABS Excluded Leverage Ratio must not exceed (maximum)	1.37:1.00	2.00:1.00
Capital Expenditures, net, must not exceed (maximum)	$32.3 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 $1.5 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 $1.5 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 14 new stores during the nine months ended October 31, 2019, in line with our previously announced plan to open a total of 14 new stores during fiscal year 2020. Our anticipated capital expenditures for the remainder of fiscal year 2020 are between $10.0 million and $12.0 million, which includes continued enhancements to our IT systems and expenditures for new stores to be opened in fiscal year 2021.

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, 2019, beyond cash generated from operations, we had (i) immediately available borrowing capacity of $349.2 million under our Revolving Credit Facility and (ii) $4.7 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, 2019:

		Payments due by period			
(in thousands)	**Total**	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**More Than 5 Years**
Debt, including estimated interest payments [1]:					
Revolving Credit Facility [1]	$ 333,069	$ 13,573	$ 319,496	$ —	$ —
Senior Notes	271,548	16,458	255,090	—	—
2017-B Class B Notes [2]	4,013	170	3,843	—	—
2017-B Class C Notes [2]	92,882	4,679	9,358	78,845	—
2018-A Class A Notes [2]	51,546	1,517	3,033	46,996	—
2018-A Class B Notes [2]	32,353	1,309	2,617	28,427	—
2018-A Class C Notes [2]	33,592	1,694	3,388	28,510	—
2019-A Class A Notes [2]	145,774	4,368	8,736	132,670	—
2019-A Class B Notes [2]	75,934	2,823	5,646	67,465	—
2019-A Class C Notes [2]	75,611	3,307	6,614	65,690	—
Financing lease obligations	7,565	927	1,642	1,484	3,512
Operating leases:					
Real estate	549,154	76,075	154,070	136,625	182,384
Equipment	1,363	849	495	19	—
Contractual commitments [3]	140,938	135,129	4,129	1,680	—
Total	$ 1,815,342	$ 262,878	$ 778,157	$ 588,411	$ 185,896

(1) Estimated interest payments are based on the outstanding balance as of October 31, 2019 and the interest rate in effect at that time.

(2) The payments due by period for the Senior Notes and 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) Contractual commitments primarily include commitments to purchase inventory of $115.9 million.

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 2019 Form 10-K, filed with the SEC on March 26, 2019.

Leases

On February 1, 2019, we adopted ASU 2016-02, Leases (Topic 842). We determine if an arrangement is a lease at inception. Operating lease right-of-use assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. We record lease incentives as a reduction to the operating lease right-of-use assets upon commencement of the lease and amortize the balance on a straight-line basis over the life of the lease. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Rather, the short-term lease payments will be recognized as an expense on a straight-line basis over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise the option. Lease expense is recognized on a straight-line basis over the lease term.

We have made a policy election for all classifications of leases to combine lease and non-lease components and to account for them as a single lease component.

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 Senior Notes and asset-backed notes bear interest at a fixed rate and would not be affected by interest rate changes.

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). The alternate base rate is a rate per annum equal to the greatest of the prime rate announced by Bank of America, N.A., the federal funds rate plus 0.5%, or LIBOR for a 30-day interest period plus 1.0%. 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, 2019, the balance outstanding under our Revolving Credit Facility was $298.3 million. A 100 basis point increase in interest rates on the Revolving Credit Facility would increase our borrowing costs by $3.0 million over a 12-month period, based on the outstanding balance at October 31, 2019.

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.

During the quarter ended October 31, 2019, we implemented a new loan servicing system, which did not require material changes to our internal controls. Apart from the foregoing, there were 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 7, *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 2019 Form 10-K.

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

The following table presents information with respect to purchases of Conn's common stock by Conn's or its affiliates during the quarter ended October 31, 2019.

Period	Total Number of Shares Purchased (in thousands) (1)	Average Price Paid per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Program (in thousands) (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (in millions)
August 1 - 31	1,262	$ 19.58	1,262	$ 15.9
September 1 - 30	—	$ —	—	$ 15.9
October 1 - 31	—	$ —	—	$ 15.9
Total	1,262		1,262	

(1) On May 30, 2019, our Board of Directors approved a stock repurchase program pursuant to which we may repurchase up to $75.0 million of our outstanding common stock. The program will remain effective for one year, unless extended by the Board of Directors. See Note 11 in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information related to share repurchases.

(2) Average price paid per share excludes costs associated with the repurchases.

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	Second Amended and Restated Bylaws of Conn's, Inc. effective as of November 27, 2018 (incorporated herein by reference to exhibit 3.2 to Form 10-Q for the quarterly period ended October 31, 2018 (File No. 001-34956) as filed with the Securities and Exchange Commission on December 4, 2018)
4.1	Base Indenture, dated as of November 26, 2019, by and between the Issuer and the Trustee (incorporated herein by reference to Exhibit 4.1 to Form 8-K (File No. 001-34956) as filed with the Securities and Exchange Commission on November 27, 2019)
4.2	Series 2019-B Supplement to the Base Indenture, dated as of November 26, 2019, by and between the Issuer and the Trustee (incorporated herein by reference to Exhibit 4.2 to Form 8-K (File No. 001-34956) as filed with the Securities and Exchange Commission on November 27, 2019)
10.1	First Receivables Purchase Agreement, dated November 26, 2019, by and between the Seller and the Depositor (incorporated herein by reference to Exhibit 10.1 to Form 8-K (File No. 001-34956) as filed with the Securities and Exchange Commission on November 27, 2019)
10.2	Second Receivables Purchase Agreement, dated November 26, 2019, by and between the Seller and the Receivables Trust (incorporated herein by reference to Exhibit 10.2 to Form 8-K (File No. 001-34956) as filed with the Securities and Exchange Commission on November 27, 2019)
10.3	Purchase and Sale Agreement, dated November 26, 2019, by and between the Seller and Receivables Trust (incorporated herein by reference to Exhibit 10.3 to Form 8-K (File No. 001-34956) as filed with the Securities and Exchange Commission on November 27, 2019)
10.4	Servicing Agreement, dated as of November 26, 2019, by and among the Issuer, the Receivables Trust, the Servicer and the Trustee (incorporated herein by reference to Exhibit 10.4 to Form 8-K (File No. 001-34956) as filed with the Securities and Exchange Commission on November 27, 2019)
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 2020, filed with the SEC on December 10, 2019, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets at October 31, 2019 and January 31, 2019, (ii) the Condensed Consolidated Statements of Income for the three and nine months ended October 31, 2019 and 2018, (iii) the Condensed Consolidated Statements of Shareholders Equity for the periods ended October 31, 2019 and 2018, (iv) the Condensed Consolidated Statements of Cash Flows for the nine months ended October 31, 2019 and 2018 and (v) the notes to the Condensed Consolidated Financial Statements.

*Filed herewith

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 10, 2019

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)

EXHIBIT 31.1

CERTIFICATION

I, Norman L. Miller, 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/ Norman L. Miller

Norman L. Miller
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)

Date: December 10, 2019

EXHIBIT 31.2

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 10, 2019

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, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, Norman L. Miller, Chairman of the Board, 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/ Norman L. Miller
Norman L. Miller
Chairman of the Board, 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 10, 2019

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.