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, 2018

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)

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 November 27, 2018:

Class	Outstanding
Common stock, $0.01 par value per share	31,727,947

CONN'S, INC. AND SUBSIDIARIES

FORM 10-Q
FOR THE FISCAL QUARTER ENDED OCTOBER 31, 2018

TABLE OF CONTENTS

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

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	October 31, 2018	January 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 3,492	$ 9,286
Restricted cash (includes VIE balance of $68,493 and $85,322, respectively)	70,043	86,872
Customer accounts receivable, net of allowances (includes VIE balance of $372,481 and $459,708, respectively)	630,396	636,825
Other accounts receivable	63,752	71,186
Inventories	227,164	211,894
Income taxes receivable	556	32,362
Prepaid expenses and other current assets	15,164	31,592
Total current assets	**1,010,567**	**1,080,017**
Long-term portion of customer accounts receivable, net of allowances (includes VIE balance of $326,657 and $455,002, respectively)	654,320	650,608
Property and equipment, net	146,326	143,152
Deferred income taxes	23,157	21,565
Other assets	6,642	5,457
Total assets	**$ 1,841,012**	**$ 1,900,799**
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of capital lease obligations	$ 804	$ 907
Accounts payable	110,359	71,617
Accrued compensation and related expenses	19,614	21,366
Accrued expenses	60,654	44,807
Income taxes payable	7,339	2,939
Deferred revenues and other credits	22,206	22,475
Total current liabilities	**220,976**	**164,111**
Deferred rent	90,410	87,003
Long-term debt and capital lease obligations (includes VIE balance of $611,353 and $787,979, respectively)	920,366	1,090,105
Other long-term liabilities	22,226	24,512
Total liabilities	**1,253,978**	**1,365,731**
Commitments and contingencies		
Stockholders' equity:		
Preferred stock ($0.01 par value, 1,000,000 shares authorized; none issued or outstanding)	—	—
Common stock ($0.01 par value, 100,000,000 shares authorized; 31,726,635 and 31,435,775 shares issued, respectively)	317	314
Additional paid-in capital	107,720	101,087
Retained earnings	478,997	433,667
Total stockholders' equity	**587,034**	**535,068**
Total liabilities and stockholders' equity	**$ 1,841,012**	**$ 1,900,799**

See notes to condensed consolidated financial statements.

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2018	2017	2018	2017
Revenues:				
Product sales	$ 256,731	$ 263,786	$ 773,224	$ 774,741
Repair service agreement commissions	23,579	24,488	72,104	72,703
Service revenues	3,564	3,534	10,615	10,062
Total net sales	283,874	291,808	855,943	857,506
Finance charges and other revenues	89,950	81,364	260,888	238,139
Total revenues	**373,824**	**373,172**	**1,116,831**	**1,095,645**
Costs and expenses:				
Cost of goods sold	166,886	175,591	507,102	519,847
Selling, general and administrative expense	118,380	114,355	353,948	332,524
Provision for bad debts	47,548	56,512	142,455	161,891
Charges and credits	5,537	5,861	5,837	11,156
Total costs and expenses	**338,351**	**352,319**	**1,009,342**	**1,025,418**
Operating income	**35,473**	**20,853**	**107,489**	**70,227**
Interest expense	15,098	18,095	47,484	62,142
Loss on extinguishment of debt	—	461	1,773	2,907
Income before income taxes	**20,375**	**2,297**	**58,232**	**5,178**
Provision for income taxes	5,745	728	13,859	1,916
Net income	**$ 14,630**	**$ 1,569**	**$ 44,373**	**$ 3,262**
Income per share:				
Basic	$ 0.46	$ 0.05	$ 1.40	$ 0.10
Diluted	$ 0.45	$ 0.05	$ 1.38	$ 0.10
Weighted average common shares outstanding:				
Basic	31,712,862	31,292,913	31,636,270	31,121,177
Diluted	32,321,874	31,764,594	32,251,952	31,457,420

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,	
	2018	**2017**
Cash flows from operating activities:		
Net income	$ 44,373	$ 3,262
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	23,262	23,138
Amortization of debt issuance costs	8,795	13,157
Provision for bad debts and uncollectible interest	179,702	192,354
Stock-based compensation expense	8,514	5,899
Charges, net of credits, for store and facility closures and relocations	—	428
Deferred income tax benefit	(1,847)	(1,112)
Gain (loss) on sale/disposal of property and equipment	(620)	5,636
Tenant improvement allowances received from landlords	9,532	5,072
Change in operating assets and liabilities:		
Customer accounts receivable	(176,195)	(126,654)
Other accounts receivables	10,589	5,641
Inventories	(15,269)	(70,623)
Other assets	16,427	964
Accounts payable	35,357	8,186
Accrued expenses	13,505	21,371
Income taxes	36,205	151
Deferred rent, revenues and other credits	(10,236)	(4,971)
Net cash provided by operating activities	**182,094**	**81,899**
Cash flows from investing activities:		
Purchase of property and equipment	(22,609)	(11,995)
Net cash used in investing activities	**(22,609)**	**(11,995)**
Cash flows from financing activities:		
Proceeds from issuance of asset-backed notes	358,300	469,814
Payments on asset-backed notes	(619,674)	(814,568)
Borrowings from Revolving Credit Facility	1,266,333	1,257,052
Payments on Revolving Credit Facility	(1,260,283)	(1,082,552)
Borrowings from warehouse facility	173,286	79,940
Payments on warehouse facility	(88,876)	(23,066)
Payments for debt issuance costs and amendment fees	(7,381)	(8,172)
Proceeds from stock issued under employee benefit plans	1,055	3,011
Tax payments associated with equity-based compensation transactions	(2,931)	(570)
Payments from extinguishment of debt	(1,177)	(837)
Other	(760)	(379)
Net cash used in financing activities	**(182,108)**	**(120,327)**
Net change in cash, cash equivalents and restricted cash	**(22,623)**	**(50,423)**
Cash, cash equivalents and restricted cash, beginning of period	96,158	134,264
Cash, cash equivalents and restricted cash, end of period	**$ 73,535**	**$ 83,841**
Non-cash investing and financing activities:		
Capital lease asset additions and related obligations	$ 508	$ 3,196
Property and equipment purchases not yet paid	$ 5,454	$ 1,021
Supplemental cash flow data:		
Cash interest paid	$ 33,854	$ 44,561
Cash income taxes paid (refunded), net	$ (20,468)	$ 2,878

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 consolidated bankruptcy-remote variable interest entities (“VIEs”) and its wholly owned 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. 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 the VIEs, have been prepared by management in accordance with generally accepted accounting principles in the United States of America (“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, 2018 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, 2018 (the “2018 Form 10-K”) which was filed with the United States Securities and Exchange Commission (the “SEC”) on April 5, 2018, as updated by our Form 8-K filed with the SEC on November 23, 2018.

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 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 consolidated financial statements.

Refer to Note 5, *Debt and Capital Lease Obligations*, and Note 7, *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, 2018, cash and cash equivalents included cash and credit card deposits in transit. As of January 31, 2018, cash and cash equivalents included cash, credit card deposits in transit, and highly liquid debt instruments purchased with a maturity of three months or less. Credit card deposits in transit included in cash and cash equivalents were $2.0 million and $2.0 million as of October 31, 2018 and January 31, 2018, respectively.

Restricted Cash. The restricted cash balance as of October 31, 2018 and January 31, 2018 includes $54.7 million and $58.1 million, respectively, of cash we collected as servicer on the securitized receivables that was subsequently remitted to the VIEs and $13.8 million and $27.2 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 includes 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 repossess collateral or exercise legal remedies available to us. We may extend or “re-age” 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 re-age their obligation by refinancing the account, which 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, 2018 and January 31, 2018, there was $11.6 million and $12.5 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 typically only place accounts in non-accrual status when legally required. Payments received on non-accrual loans will be applied to principal and reduce the balance of the loan. At October 31, 2018, customer receivables carried in non-accrual status were $15.6 million, of which $11.8 million were in bankruptcy status and less than 60 days past due. At January 31, 2018, customer receivables carried in non-accrual status were $16.9 million, of which $14.5 million were in bankruptcy status and less than 60 days past due. At October 31, 2018 and January 31, 2018, customer receivables that were past due 90 days or more and still accruing interest totaled $110.6 million and $109.7 million, respectively.

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 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 policies are also considered.

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. At October 31, 2018, we utilized a qualitative factor related to changes in the nature of the portfolio.

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 Capital Lease Obligations*, are included in other assets on our Condensed Consolidated Balance Sheet and were $6.5 million and $5.2 million as of October 31, 2018 and January 31, 2018, respectively.

Income Taxes. For the nine months ended October 31, 2018 and 2017, we utilized the estimated annual effective tax rate based on our estimated fiscal year 2019 and 2018 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.

On December 22, 2017, H.R. 1, originally known as the Tax Cuts and Jobs Act (the "Tax Act"), was signed into law. Among the significant changes to the U.S. Internal Revenue Code, the Tax Act lowered the U.S. federal corporate income tax rate ("Federal Tax Rate") from 35% to 21% effective January 1, 2018. For the three months ended January 31, 2018, we calculated our best estimate of the impact of the Tax Act in our fiscal year 2018 provision for income taxes in accordance with our understanding of the Tax Act and available guidance as of that date.

We continue to analyze additional information and guidance related to the Tax Act as supplemental legislation, regulatory guidance and evolving technical interpretations become available. We will continue to refine such amounts within the measurement period as provided by Staff Accounting Bulletin No. 118 and expect to complete our analysis no later than the fourth quarter of fiscal year 2019.

For the nine months ended October 31, 2018 and 2017, the effective tax rate was 23.8% and 37.0%, respectively. The primary factors affecting our effective tax rate for the nine months ended October 31, 2018 were a decrease in the Federal Tax Rate as a result of the Tax Act, an increase in pre-tax earnings, and excess tax benefits related to the vesting of equity compensation.

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, the fair value of the grant is the market value of our stock at the date of issuance.

The following table sets forth the restricted stock unit awards ("RSUs"), performance stock unit awards ("PSUs") and stock options granted during the three and nine months ended October 31, 2018 and 2017:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2018	2017	2018	2017
RSUs [1]	3,200	2,740	153,089	646,033
PSUs [2]	—	—	—	501,012
Stock Options [3]	—	—	620,166	—
Total stock awards granted	3,200	2,740	773,255	1,147,045
Aggregate grant date fair value (in thousands)	$ 120	$ 50	$ 17,304	$ 14,596

(1) The majority of RSUs issued during the three and nine months ended October 31, 2018 and 2017 are scheduled to vest ratably over periods of three to four years from the date of grant.

(2) The PSUs issued during the nine months ended October 31, 2017 will vest, if at all, upon the certification, after fiscal year 2020, by the compensation committee of the satisfaction of the annual and cumulative Earnings Before Interest, Taxes, Depreciation and Amortization performance conditions over the three fiscal years commencing with fiscal year 2018.

(3) 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.

For the three months ended October 31, 2018 and 2017, stock-based compensation expense was $2.9 million and $1.7 million, respectively. For the nine months ended October 31, 2018 and 2017, stock-based compensation expense was $8.5 million and $5.9 million, respectively.

Earnings per Share. Basic earnings per share 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 is 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,	
	2018	2017	2018	2017
Weighted-average common shares outstanding - Basic	31,712,862	31,292,913	31,636,270	31,121,177
Dilutive effect of stock options, RSUs and PSUs	609,012	471,681	615,682	336,243
Weighted-average common shares outstanding - Diluted	32,321,874	31,764,594	32,251,952	31,457,420

For the three months ended October 31, 2018 and 2017, the weighted-average number of stock options, RSUs and PSUs not included in the calculation due to their anti-dilutive effect was 630,698 and 158,627, respectively. For the nine months ended October 31, 2018 and 2017, the weighted-average number of stock options, RSUs and PSUs not included in the calculation due to their anti-dilutive effect was 503,747 and 356,116, respectively.

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

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

In determining fair value, we use observable market data when available, or models that incorporate observable market data. When we are required to measure fair value and there is not a market-observable price for the asset or liability or for a similar asset or liability, we use the cost or income approach depending on the quality of information available to support management's assumptions. The cost approach is based on management's best estimate of the current asset replacement cost. The income approach is based on management's best assumptions regarding expectations of future net cash flows and discounts the expected cash flows using a commensurate risk-adjusted discount rate. Such evaluations involve significant judgment, and the results are based on expected future events or conditions such as sales prices, economic and regulatory climates, and other factors, most of which are often outside of management's control. However, we believe assumptions used reflect a market participant's view of long-term prices, costs, and other factors and are consistent with assumptions used in our business plans and investment decisions.

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

The fair value of cash and cash equivalents, restricted cash and accounts payable approximate their carrying amounts because of the short maturity of these instruments. The fair value of customer accounts receivables, determined using a Level 3 discounted cash flow analysis, approximates their carrying amount, which includes 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, 2018, the fair value of the Senior Notes outstanding, which was determined using Level 1 inputs, was $223.6 million as compared to the carrying value of $227.0 million, excluding the impact of the related discount. At October 31, 2018, the fair value of the asset-backed notes approximates their carrying value and was determined using Level 2 inputs based on inactive trading activity.

Recent Accounting Pronouncements Adopted. In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which provides a single comprehensive accounting standard for revenue recognition for contracts with customers and supersedes current guidance. Upon adoption of ASU 2014-09, entities are required to recognize revenue using the following comprehensive model: (1) identify contracts with customers, (2) identify the performance obligations in such contracts, (3) determine transaction price, (4) allocate the transaction price to the performance obligations, and (5) recognize revenue as each performance obligation is satisfied. The FASB also issued ASU 2016-08, *Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net);* ASU 2016-10, *Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing*; ASU 2016-11, *Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting*; and ASU 2016-12, *Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients*, all of which were issued to improve and clarify the guidance in ASU 2014-09. Effective February 1, 2018, the Company adopted these ASUs using the modified retrospective method applied to those contracts that were not completed as of February 1, 2018, with no restatement of comparative periods. Results for reporting periods beginning after February 1, 2018 are presented under ASC Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historic accounting policies under ASC Topic 605. We recognized a net after-tax cumulative effect adjustment to retained earnings of $1.0 million as of the date of adoption. The details of our current revenue recognition policy, as well as the change due to ASC Topic 606, are described below.

Revenue Recognition. The Company has the following material revenue streams: the sale of products (e.g. appliances, electronics) including delivery; the sale of third party warranty and insurance programs, including retrospective income; service income; interest income generated from the financing of point of sale transactions; and volume rebate incentives received from a third party financer. Interest income related to our customer accounts receivable balance and loan origination costs (including sales commissions) meet the scope exception of ASC 606 and are therefore not impacted by the adoption of this standard. For our twelve month no-interest option program, as a practical expedient acceptable under ASC 606, we do not adjust for the time value of money.

Sale of Products Including Delivery: The Company has a single performance obligation associated with these contracts: the delivery of the product to the customer, at which point control transfers. Revenue for the sale of products is recognized at the time of delivery, net of any adjustments for sales incentives such as discounts, coupons, rebates or other free products or services. Sales financed through third-party no-interest option programs typically require us to pay a fee to the third party on each completed sale, which is recorded as a reduction of net sales in the retail segment.

Sale of Third Party Warranty and Insurance Programs, Including Retrospective Income: We sell repair service agreements ("RSA") and credit insurance contracts on behalf of unrelated third-parties. The Company has a single performance obligation associated with these contracts: the delivery of the product to the customer, at which point control transfers. Commissions related to these contracts are recognized in revenue upon delivery of the product. We also may serve as the administrator of the RSAs sold and defer 5% of the revenue received from the sale of RSAs as compensation for this performance obligation as 5% represents the estimated stand-alone sales price to serve as the administrator. The deferred RSA administration fee is recorded in income ratably over the life of the RSA contract sold. Retrospective income on RSA contracts is recognized upon delivery of the product based on an estimate of claims and is adjusted throughout the life of the contracts as actual claims materialize. Retrospective income on insurance contracts is recognized when earned as that is the point at which we no longer believe a significant reversal of income is probable as the consideration is highly susceptible to factors outside of our influence.

Service Income: The Company has a single performance obligation associated with these contracts: the servicing of the RSA claims. Service revenues are recognized at the time service is provided to the customer.

Volume Rebate Incentive: As part of our agreement with our third-party provider of no-interest option programs, we may receive a volume rebate incentive based on the total dollar value of sales made under our third-party provider. The Company has a single performance obligations associated with this contract: the delivery of the product to the customer, at which point control transfers. Revenue for the volume rebate incentive is recognized upon delivery of the product to the customer based on the projected total annual dollar value of sales to be made under our third-party provider.

ASC 606 requires disaggregation of revenue recognized from contracts with customers to depict how the nature, amount, timing and uncertainty of revenue is affected by economic factors. The Company concluded that the disaggregated discrete financial information presented in Note 8, *Segment Reporting*, and Note 4, *Finance Charges and Other Revenues*, reviewed by our chief operating decision maker in evaluating the financial performance of our operating segments adequately addresses the disaggregation of revenue requirements of ASC 606.

Deferred Revenue. Deferred revenue related to contracts with customers as defined by ASC 606 consists of deferred customer deposits and deferred RSA administration fees. During the three and nine months ended October 31, 2018, we recognized $1.7 million and $1.8 million, respectively, of revenue for customer deposits deferred as of the beginning of those periods. During the three and nine months ended October 31, 2018, we recognized $1.5 million and $4.2 million respectively, of revenue for RSA administrative fees deferred as of the beginning of those periods.

Changes in Revenue Recognition Due to ASC 606. The adoption of ASC 606 resulted in a change to our accounting policy related to retrospective income on RSAs. We participate in profit sharing agreements with the underwriters of our RSA products, payment from which is contingent upon the actual performance of the portfolio of the RSAs sold. Prior to the adoption of ASC 606, we recognized this revenue and related receivable as the amount due to us at each reporting date based on the performance of the portfolio through such date. The Company concluded that this retrospective income represents variable consideration under ASC 606 for which the Company’s performance obligation is satisfied when the RSA is sold to the customer. Under ASC 606, an estimate of variable consideration, subject to constraints, is to be included in the transaction price and recognized when or as the performance obligation is satisfied. As a result of the adoption of ASC 606, the Company changed its accounting policy related to retrospective income on RSAs to record an estimate of retrospective income when the RSA is sold, subject to constraints in the estimate. The Company's estimate of the amount of variable consideration is recorded as a contract asset, representing a conditional right to payment, and is included within other accounts receivable in the Condensed Consolidated Balance Sheet. The estimated contract asset will be reassessed at the end of each reporting period, with changes thereto recorded as adjustments to revenue.

The cumulative effect of the changes made to the Company’s Condensed Consolidated Balance Sheet as a result of the adoption of ASC 606 were as follows (in thousands):

	Impact of Adoption of ASC 606		
(in thousands)	Balance at January 31, 2018	Adjustments due to ASC 606	Balance at February 1, 2018
Assets			
Other Accounts Receivable	$ 71,186	$ 1,210	$ 72,396
Deferred Income Taxes	21,565	(254)	21,311
Stockholder's Equity	$ 535,068	$ 956	$ 536,024

The adoption of ASC 606 did not have a material impact on the consolidated financial statements for the three and nine months ended October 31, 2018 and no comparative financial statements are presented.

Internal Controls. As a result of the adoption of ASC 606, we evaluated our internal control framework and there have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU 2016-18 requires that the statement of cash flows provides the change in the total of cash, cash equivalents, and restricted cash or restricted cash equivalents. We hold restricted cash related to our asset backed security transactions and lending license requirements. Effective February 1, 2018, the Company retrospectively adopted the ASU which resulted in us no longer presenting the changes in restricted cash balances as a component of cash flows from financing activities but instead including the balances of both current and long-term restricted cash with cash and cash equivalents in total cash, cash equivalents and restricted cash for the beginning and end of the periods presented. The total cash flow impact for the nine months ended October 31, 2017 was an increase in the cash used in financing activities of $39.6 million. The balances of cash and cash equivalents and restricted cash are separately presented within the Condensed Consolidated Balance Sheet as of October 31, 2018 and January 31, 2018.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows to reduce diversity in practice. Among other things, debt prepayment or debt extinguishment costs will be presented as cash outflows for financing activities on the statement of cash flows. Effective February 1, 2018, the Company retrospectively adopted the ASU, which resulted in us no longer presenting the cash payment for debt extinguishment costs as a component of cash flows from operating activities but instead including the cash payment as a component of cash flows from financing activities. The adoption of this ASU resulted in the reclassification of $0.8 million in payments on extinguishment of debt previously classified as a cash outflow from operating activities to a cash outflow from financing activities for the nine months ended October 31, 2017.

Recent Accounting Pronouncements Yet To Be Adopted. In February 2016 the FASB issued ASU 2016-02, *Leases (Topic 842),* which will change how lessees account for leases. For most leases, a liability will be 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 will recognize a single lease cost on a straight line basis based on the combined amortization of the lease obligation and the right-of-use asset. Other leases will be required to be accounted for as financing arrangements similar to how we currently account for capital leases. We are the lessee under various lease agreements for our retail stores and equipment that are currently accounted for as operating leases as discussed in Note 8, *Leases*, in our audited consolidated financial statements included in our 2018 Form 10-K, as updated by our Form 8-K filed with the SEC on November 23, 2018. On transition, we will recognize a cumulative-effect adjustment to the retained earnings on the opening balance sheet in the period of adoption using a modified retrospective approach. Based on our preliminary assessment, we believe the adoption of this ASU will have a material impact on our Condensed Consolidated Balance Sheet as we will be required to report additional leases on our Condensed Consolidated Balance Sheet. The Company plans to elect certain optional practical expedients which include the option to retain the current classification of leases entered into prior to February 1, 2019, and thus does not anticipate a material impact to the consolidated statements of earnings or consolidated statements of cash flows. The Company also plans to adopt 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. The Company expects to be affected by the transition guidance related to recognition of deferred gains recorded under previous sale and operating leaseback transactions, which requires companies to recognize any deferred gains not resulting from off-market terms as a cumulative-effect adjustment to retained earnings upon adoption of ASU 2016-02. The Company is also evaluating and implementing changes to our accounting policies, processes, and internal controls to ensure compliance with the standard’s reporting and disclosure requirements as well as implementing a new lease accounting module within its lease management system to support the new accounting requirements. The Company is currently quantifying the impact of ASU 2016-02 to its consolidated financial statements, including the impact of recognizing a lease obligation and right-of-use asset on its consolidated balance sheet for lease agreements currently accounted for as operating leases. We will adopt the new standard in the first quarter of fiscal year 2020.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. 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. The standard will become effective for us in the first quarter of fiscal year 2021 and early adoption is permitted beginning in the first quarter of fiscal year 2020. We have formed a cross-functional working group comprised of individuals from various functional areas including credit, finance, accounting, and information technology. While we are currently evaluating the likely impact the adoption of this ASU will have on our consolidated financial statements, the adoption of ASU 2016-13 is likely to result in a material increase in the allowance for loan losses as a result of changing from an “incurred loss” model, which encompasses allowances for current known and inherent losses within the portfolio, to an “expected loss” model, which encompasses allowances for losses expected to be incurred over the life of the portfolio.

2. Customer Accounts Receivable

Customer accounts receivable consisted of the following:

	Total Outstanding Balance					
	Customer Accounts Receivable		60 Days Past Due (1)		Re-aged (1) (2)	
(in thousands)	October 31, 2018	January 31, 2018	October 31, 2018	January 31, 2018	October 31, 2018	January 31, 2018
Customer accounts receivable	$ 1,345,361	$ 1,374,269	$ 103,556	$ 114,120	$ 207,805	$ 217,952
Restructured accounts	181,145	153,593	44,880	37,687	181,145	153,593
Total customer portfolio balance	$ 1,526,506	$ 1,527,862	$ 148,436	$ 151,807	$ 388,950	$ 371,545
Allowance for uncollectible accounts	(207,097)	(203,572)				
Allowances for no-interest option credit programs	(18,716)	(20,960)				
Deferred fees and origination costs, net	(15,977)	(15,897)				
Total customer accounts receivable, net	1,284,716	1,287,433				
Short-term portion of customer accounts receivable, net	(630,396)	(636,825)				
Long-term portion of customer accounts receivable, net	$ 654,320	$ 650,608				
Securitized receivables held by the VIEs	$ 838,835	$ 1,085,385	$ 101,433	$ 124,627	$ 287,902	$ 300,348
Receivables not held by the VIEs	687,671	442,477	47,003	27,180	101,048	71,197
Total customer portfolio balance	$ 1,526,506	$ 1,527,862	$ 148,436	$ 151,807	$ 388,950	$ 371,545

(1) Due to the fact that an account can become past due after having been re-aged, accounts could be represented as both past due and re-aged. As of October 31, 2018 and January 31, 2018, the amounts included within both 60 days past due and re-aged was $92.0 million and $80.8 million, respectively. As of October 31, 2018 and January 31, 2018, the total customer portfolio balance past due one day or greater was $418.4 million and $401.0 million, respectively. These amounts include the 60 days past due balances shown.

(2) The re-aged receivables balance as of October 31, 2018 and January 31, 2018 includes $34.3 million and $62.0 million in first time re-ages related to customers within FEMA-designated Hurricane Harvey disaster areas.

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

	Nine Months Ended October 31, 2018			Nine Months Ended October 31, 2017		
(in thousands)	Customer Accounts Receivable	Restructured Accounts	Total	Customer Accounts Receivable	Restructured Accounts	Total
Allowance at beginning of period	$ 148,856	$ 54,716	$ 203,572	$ 158,992	$ 51,183	$ 210,175
Provision (1)	127,472	51,440	178,912	139,406	52,948	192,354
Principal charge-offs (2)	(119,242)	(38,990)	(158,232)	(133,033)	(44,657)	(177,690)
Interest charge-offs	(23,696)	(7,748)	(31,444)	(21,884)	(7,346)	(29,230)
Recoveries (2)	10,768	3,521	14,289	5,463	1,834	7,297
Allowance at end of period	$ 144,158	$ 62,939	$ 207,097	$ 148,944	$ 53,962	$ 202,906
Average total customer portfolio balance	$ 1,341,415	$ 167,473	$ 1,508,888	$ 1,352,137	$ 141,155	$ 1,493,292

(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 principal collections of 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)	2018	2017	2018	2017
Facility closure costs	$ —	$ —	$ —	$ 1,349
Securities-related regulatory matter and other legal fees	—	—	300	34
Employee severance	737	—	737	1,317
Indirect tax audit reserve	—	—	—	2,595
Legal judgment	4,800	—	4,800	—
Write-off of capitalized software costs	—	5,861	—	5,861
	$ 5,537	$ 5,861	$ 5,837	$ 11,156

During the three months ended October 31, 2018, we recorded severance costs related to a change in the executive management team and costs related to the TFL Judgment (as defined below). Refer to Note 6, *Contingencies*, for additional information about the TFL Judgment. 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. Refer to Note 6, *Contingencies*, for additional information about the TFL Judgment. During the three months ended October 31, 2017, we incurred a loss from the write-off of previously capitalized costs for a software project that was abandoned during the third quarter of fiscal year 2018 related to the implementation of a new point of sale system that began in fiscal year 2013. During the nine months ended October 31, 2017, we incurred exit costs associated with reducing the square footage of a distribution center, severance costs related to a change in the executive management team, a charge related to an increase in our indirect tax audit reserve, and a loss from the write-off of previously capitalized costs for a software project that was abandoned during the third quarter of fiscal year 2018 related to the implementation of a new point of sale system that began in fiscal year 2013.

4. Finance Charges and Other Revenues

Finance charges and other revenues consisted of the following:

	Three Months Ended October 31,		Nine Months Ended October 31,	
(in thousands)	2018	2017	2018	2017
Interest income and fees	$ 82,964	$ 74,144	$ 239,745	$ 210,765
Insurance income	6,807	7,125	20,852	27,107
Other revenues	179	95	291	267
	$ 89,950	$ 81,364	$ 260,888	$ 238,139

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, 2018 and 2017, interest income and fees reflected provisions for uncollectible interest of $13.4 million and $10.5 million, respectively. The amount included in interest income and fees related to TDR accounts for the three months ended October 31, 2018 and 2017 are $7.1 million and $4.8 million, respectively. During the nine months ended October 31, 2018 and 2017, interest income and fees reflected provisions for uncollectible interest of $37.2 million and $31.0 million, respectively. The amount included in interest income and fees related to TDR accounts for the nine months ended October 31, 2018 and 2017 are $19.4 million and $14.0 million, respectively. Insurance income decreased over the nine month period primarily due to a decrease in retrospective income as a result of higher claim volumes related to Hurricane Harvey.

5. Debt and Capital Lease Obligations

Debt and capital lease obligations consisted of the following:

(in thousands)	October 31, 2018	January 31, 2018
Revolving Credit Facility	$ 83,050	$ 77,000
Senior Notes	227,000	227,000
2016-B VIE Asset-backed Class B Notes	—	73,589
2017-A VIE Asset-backed Class A Notes	—	59,794
2017-A VIE Asset-backed Class B Notes	—	106,270
2017-A VIE Asset-backed Class C Notes	—	50,340
2017-B VIE Asset-backed Class A Notes	26,097	292,663
2017-B VIE Asset-backed Class B Notes	132,180	132,180
2017-B VIE Asset-backed Class C Notes	78,640	78,640
2018-A VIE Asset-backed Class A Notes	154,907	—
2018-A VIE Asset-backed Class B Notes	69,550	—
2018-A VIE Asset-backed Class C Notes	69,550	—
Warehouse Notes	84,409	—
Capital lease obligations	4,698	4,949
Total debt and capital lease obligations	930,081	1,102,425
Less:		
Discount on debt	(2,106)	(2,527)
Deferred debt issuance costs	(6,805)	(8,886)
Current maturities of capital lease obligations	(804)	(907)
Long-term debt and capital lease obligations	$ 920,366	$ 1,090,105

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 (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. Specifically, limitations on restricted payments are only effective if one or more of the following occurred: (1) a default were to exist under the Indenture, (2) we could not satisfy a debt incurrence test, and (3) the aggregate amount of restricted payments, excluding certain restricted payments permitted under the Indenture, exceeds the sum of (i) 50% of Consolidated Net Income from November 1, 2015 to the end of the most recent fiscal quarter, (ii) 100% of net cash proceeds and the fair market value of certain capital stock and other property received in or exchanged for the sale or issuance of Capital Stock, (iii) amount by which certain indebtedness is reduced upon conversion or exchange for Capital Stock and (iv) certain reductions in Restricted Investments (the sum of clauses (i) through (iv) as of October 31, 2018, the “Consolidate Net Income Threshold Amount”). These limitations, however, are subject to certain permitted exceptions, including (1) an exception that permits restricted payments regardless of dollar amount so long as, after giving pro forma effect to such dividends and other restricted payments, we would have had a leverage ratio, as defined in the Indenture, of less than or equal to 2.50 to 1.0 and (2) a general exception that permits the payment of up to $375.0 million in restricted payments not otherwise permitted under the Indenture (the “Permitted Distribution Amount”). As a result of the sum of the Consolidated Net Income Threshold Amount and Permitted Distribution Amount, as of October 31, 2018, $207.8 million would have been free from the distribution restriction. 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. 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. During fiscal years 2019, 2018 and 2017 we securitized customer accounts receivables by transferring the receivables to various bankruptcy-remote VIEs. In turn, the VIEs issued 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 repair service agreements on charge-offs of the securitized receivables, which are reflected as a reduction to net charge-offs on a consolidated basis.

The asset-backed notes were offered and sold to qualified institutional buyers pursuant to the exemptions from registration provided by Rule 144A under the Securities Act of 1933, 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 consist of the following:

Asset-Backed Notes	Original Principal Amount	Original Net Proceeds (1)	Current Principal Amount	Issuance Date	Maturity Date	Fixed Interest Rate	Effective Interest Rate (2)
2017-B Class A Notes	$ 361,400	$ 358,945	$ 26,097	12/20/2017	7/15/2020	2.73%	5.17%
2017-B Class B Notes	132,180	131,281	132,180	12/20/2017	4/15/2021	4.52%	5.23%
2017-B Class C Notes	78,640	77,843	78,640	12/20/2017	11/15/2022	5.95%	6.34%
2018-A Class A Notes	219,200	217,832	154,907	8/15/2018	1/17/2023	3.25%	4.73%
2018-A Class B Notes	69,550	69,020	69,550	8/15/2018	1/17/2023	4.65%	5.43%
2018-A Class C Notes	69,550	68,850	69,550	8/15/2018	1/17/2023	6.02%	6.79%
Warehouse Notes	121,060	118,972	84,409	7/16/2018	1/15/2020	Index + 2.50% (3)	6.56%
Total	$ 1,051,580	$ 1,042,743	$ 615,333				

(1) After giving effect to debt issuance costs and restricted cash held by the VIEs.

(2) For the nine months ended October 31, 2018, and inclusive of retrospective adjustments to deferred debt issuance costs based on changes in timing of actual and expected cash flows.

(3) The rate on the Warehouse Notes is defined as the applicable index plus a 2.50% fixed margin.

On February 15, 2018, affiliates of the Company closed on a $52.2 million financing under a receivables warehouse financing transaction entered into on February 6, 2018 (the “Warehouse Notes”). The net proceeds of the Warehouse Notes were used to prepay in full the Series 2016-B Class B Notes (the “2016-B Redeemed Notes”) that were still outstanding as of February 15, 2018.

On February 15, 2018, the Company completed the redemption of the 2016-B Redeemed Notes at an aggregate redemption price of $73.6 million (which was equal to the entire outstanding principal of, plus accrued interest and the call premiums on, the 2016-B Redeemed Notes). The net funds used to call the notes was $50.3 million, which is equal to the redemption price less adjustments of $23.3 million for funds held in reserve and collection accounts in accordance with the terms of the applicable indenture governing the 2016-B Redeemed Notes. The difference between the net proceeds of the Warehouse Notes and the carrying value of the 2016-B Redeemed Notes at redemption was used to fund fees, expenses and a reserve account related to the Warehouse facility. In connection with the early redemption of the 2016-B Redeemed Notes, we wrote-off $0.4 million as a loss on extinguishment of debt.

On July 16, 2018, affiliates of the Company closed on $121.1 million of additional financing under a receivables warehouse financing transaction entered into on July 9, 2018 (the “Additional Funding”). The net proceeds of the Additional Funding were used to prepay in full the Series 2017-A Class B and C Notes (the “2017-A Redeemed Notes”) that were still outstanding as of July 16, 2018.

On July 16, 2018, the Company completed the redemption of the 2017-A Redeemed Notes at an aggregate redemption price of $127.2 million (which was equal to the entire outstanding principal of, plus accrued interest and the call premiums on the 2017-A Redeemed Notes). The net funds used to call the notes was $119.0 million, which is equal to the redemption price less adjustments of $8.2 million for funds held in reserve and collection accounts in accordance with the terms of the applicable indenture governing the 2017-A Redeemed Notes. The difference between the net proceeds of the Additional Funding and the carrying value of the 2017-A Redeemed Notes at redemption was used to fund fees, expenses and a reserve account related to the warehouse facility. In connection with the early redemption of the 2017-A Redeemed Notes, we wrote-off $1.2 million as a loss on extinguishment of debt.

On August 15, 2018, an affiliate of the Company (the “Issuer”) completed the issuance and sale of asset-backed notes at a face amount of $358.3 million secured by the transferred customer accounts receivables and restricted cash held by a VIE, which resulted in net proceeds to us of $355.7 million, net of transaction costs and restricted cash held by the VIE. 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 January 17, 2023 and consist of $219.2 million of the Issuer’s 3.25% Asset Backed Fixed Rate Notes, Series 2018-A, Class A, $69.6 million of the Issuer’s 4.65% Asset Backed Fixed Rate Notes, Series 2018-A, Class B, and $69.6 million of the Issuer’s 6.02% Asset Backed Fixed Rate Notes, Series 2018-A, Class C.

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.

The Fourth Amendment, among other things, (a) extends the maturity date of the credit facility to May 23, 2022; (b) provides for a reduction in the aggregate commitments from $750 million to $650 million; (c) amends the method by which the applicable margin is calculated to be based on the total leverage ratio (ratio of total liabilities less the sum of qualified cash and ABS qualified cash to tangible net worth), with the applicable margin ranging from 2.50% to 3.25% for LIBOR loans and from 1.50% to 2.25% for base rate loans; (d) eliminates a $10 million availability block in calculating the borrowing base; (e) increases the maximum accounts receivable advance rate from 75% to 80%; (f) decreases the maximum unused line fee by 25 basis points, from 75 basis points to 50 basis points; (g) eliminates the cash recovery covenant; (h) modifies the maximum inventory component of the borrowing base from $175 million to 33.33% of revolving loan commitments in effect; (i) modifies the interest coverage covenant such that the minimum interest coverage on a trailing two quarter basis is 1.5x and the minimum interest coverage during any single quarter is 1.0x; (j) increases the maximum capital expenditures from $75 million to $100 million during any period of four consecutive fiscal quarters; and (k) modifies the ability of the Company to effect future securitizations of its customer receivables portfolio, including adding the ability of the Company to enter into revolving ABS transactions.

Subsequent to the adoption of the Fourth Amendment, loans under the Revolving Credit Facility bear interest, at our option, at a rate equal to LIBOR plus the applicable margin based on facility availability which specified a margin ranging from 2.50% to 3.25% per annum (depending on quarterly average net availability under the borrowing base) or the alternate base rate plus a margin ranging from 1.50% to 2.25% per annum (depending on quarterly average net availability under the borrowing base). 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%. As of October 31, 2018, we also paid an unused fee on the portion of the commitments that was 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 7.0% for the nine months ended October 31, 2018.

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, 2018, we had immediately available borrowing capacity of $401.6 million under our Revolving Credit Facility, net of standby letters of credit issued of $2.5 million. We also had $162.8 million that may become available under our Revolving Credit Facility if we grow the balance of eligible customer receivables and total eligible inventory balances.

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, 2018, we were restricted from making distributions, including repayments of the Senior Notes or other distributions, in excess of $282.5 million as a result of the Revolving Credit Facility distribution 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 the debt covenants of our Revolving Credit Facility at October 31, 2018. A summary of the significant financial covenants that govern our Revolving Credit Facility compared to our actual compliance status at October 31, 2018 is presented below:

	Actual	Required Minimum/ Maximum
Interest Coverage Ratio for the quarter must equal or exceed minimum	4.07:1.00	1.00:1.00
Interest Coverage Ratio for the trailing two quarters must equal or exceed minimum	3.97:1.00	1.50:1.00
Leverage Ratio must not exceed maximum	2.01:1.00	4.00:1.00
ABS Excluded Leverage Ratio must not exceed maximum	1.08:1.00	2.00:1.00
Capital Expenditures, net, must not exceed maximum	$16.0 million	$100.0 million

All capitalized terms in the above table are defined by the Revolving Credit Facility and may or may not agree 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. Contingencies

Securities Class Action Litigation. We and two of our former executive officers were defendants in a consolidated securities class action lawsuit pending in the United States District Court for the Southern District of Texas (the “Court”), captioned In re Conn's Inc. Securities Litigation, Cause No. 14-CV-00548 (the “Consolidated Securities Action”). The plaintiffs in the Consolidated Securities Action alleged that the defendants made false and misleading statements or failed to disclose material adverse facts about our business, operations, and prospects. They alleged violations of sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder and sought to certify a class of all persons and entities that purchased or otherwise acquired Conn's common stock or call options, or sold or wrote Conn's put options between April 3, 2013 and December 9, 2014. The complaint did not specify the amount of damages sought.

On June 30, 2015, the Court held a hearing on the defendants' motion to dismiss plaintiffs' complaint. At the hearing the Court dismissed Brian Taylor, a former executive officer, and certain other aspects of the complaint. In May 2016, the Court issued a ruling that dismissed 78 of 91 alleged misstatements. In late June 2017 the Court granted the plaintiffs’ motion for class certification, and shortly thereafter, Defendants filed a petition for permission to appeal to the United States Fifth Circuit Court of Appeals (the “Fifth Circuit”). The Fifth Circuit granted leave to appeal on August 21, 2017.

On June 14, 2018, the parties filed a motion for preliminary approval of a settlement for the Consolidated Securities Action. The Court granted preliminary approval of the settlement terms and stayed the Consolidated Securities Action on June 28, 2018. The $22.5 million settlement was funded solely by proceeds from our insurance carriers. As part of the settlement, we, along with the other executive officer defendants, have denied and continue to deny any wrongdoing giving rise to any liability or violation of the law, including the U.S. securities laws, as well as each and every one of the claims alleged by plaintiffs in the Consolidated Securities Action.

The Court held a final settlement approval hearing on October 11, 2018 and that same day the Court signed its Final Order and Judgment approving the terms of the settlement of the Consolidated Securities Action. On November 16, 2018, after no appeal from the Final Order and Judgment was filed and the settlement became final, we filed a motion to voluntarily dismiss the Fifth Circuit appeal. The Fifth Circuit dismissed the appeal on November 15, 2018.

On April 2, 2018, MicroCapital Fund, LP, MicroCapital Fund Ltd, and MicroCapital LLC filed a lawsuit (the “MicroCapital Lawsuit”) against us and certain of our former executive officers in the United States 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 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.

On April 27, 2018, the plaintiffs in the MicroCapital Action filed a motion for a ruling that discovery can proceed and a request for a Rule 16 conference. We filed a response in opposition, as well as a cross-motion to stay this action in its entirety on May

18, 2018. On July 10, 2018, the court granted our cross-motion to stay this action pending final approval of settlement in the Consolidated Securities Action. On November 6, 2018, defendants filed a motion to dismiss plaintiff’s complaint. Plaintiff’s response is due on December 19, 2018, and defendants’ reply in support of their motion to dismiss is due on January 16, 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 Court, 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 Court, which has been consolidated with the Original Derivative Action.

The Court previously approved a stipulation among the parties to stay the action pending resolution of the motion for class certification in the Consolidated Securities Action. The Court has agreed to continue to the stay through the final settlement approval hearing in the Consolidated Securities Action on October 11, 2018, and set a deadline of November 1, 2018, for defendants to respond to the complaint. On November 1, the defendants filed a motion to dismiss plaintiff’s complaint.

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. On September 7, 2018, the Court held a status conference at which the parties informed the Court of the October 11, 2018 final approval hearing for the settlement in the Consolidated Securities Action. In light of the pending settlement, the Court ordered the parties to appear for a status conference on December 7, 2018, and ordered the plaintiff to send us a courtesy copy of the amended petition that his counsel expressed an interest in filing. We received a copy of the amended petition on October 12, 2018.

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. Pursuant to the parties’ agreement, this action is stayed pending the resolution of the Consolidated Securities Action. 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.

Regulatory Matters. We are continuing to cooperate with the SEC's investigation of our underwriting policies and bad debt provisions, which began in November 2014. The investigation is a non-public, fact-finding inquiry, and the SEC has stated that the investigation does not mean that any violations of law have occurred.

TF LoanCo. In April 2014, Conn’s entered into an agreement with TF LoanCo (“TFL”) to sell Conn’s charged-off accounts. In August 2014, Conn’s sued TFL for breach of contract in the U.S. District Court (the “Court”). TFL filed counterclaims. In October 2016, the Court issued a decision in favor of Conn’s on all claims against TFL. TFL appealed the Court’s decision. On September 10, 2018, the U.S. Court of Appeals for the Fifth Circuit unanimously reversed the Court’s decision and entered a judgment (the “TFL Judgment”) in favor of TFL which required Conn’s to pay approximately $4.8 million, which includes the purchase price, statutory pre-judgment interest and attorney’s fees to TFL. The TFL Judgment was recognized as a charge during the three months ended October 31, 2018.

In addition, 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.

7. Variable Interest Entities

From time to time, we have securitized customer accounts receivables by transferring the receivables to various bankruptcy-remote VIEs. Under the terms of the respective securitization transactions, all cash collections and other cash proceeds of the customer receivables go first to the servicer and the holders of the asset-backed notes, and then to the residual equity holder. We retain the servicing of the securitized portfolio and receive a monthly fee of 4.75% (annualized) based on the outstanding balance of the securitized receivables, and we currently hold all of the residual equity. In addition, we, rather than the VIEs, will retain certain credit insurance income together with certain recoveries related to credit insurance and repair service agreements 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, 2018	January 31, 2018
Assets:		
Restricted cash	$ 68,493	$ 85,322
Due from Conn's, Inc., net	—	15,212
Customer accounts receivable:		
Customer accounts receivable	715,253	987,418
Restructured accounts	123,581	97,967
Allowance for uncollectible accounts	(121,021)	(143,115)
Allowances for no-interest option credit programs	(11,283)	(18,228)
Deferred fees and origination costs	(7,392)	(9,332)
Total customer accounts receivable, net	699,138	914,710
Total assets	**$ 767,631**	**$ 1,015,244**
Liabilities:		
Accrued expenses	$ 4,889	$ 6,723
Other liabilities	7,172	10,639
Due to Conn's, Inc., net	4,496	—
Long-term debt:		
2016-B Class B Notes	—	73,589
2017-A Class A Notes	—	59,794
2017-A Class B Notes	—	106,270
2017-A Class C Notes	—	50,340
2017-B Class A Notes	26,097	292,663
2017-B Class B Notes	132,180	132,180
2017-B Class C Notes	78,640	78,640
2018-A Class A Notes	154,907	—
2018-A Class B Notes	69,550	—
2018-A Class C Notes	69,550	—
Warehouse Notes	84,409	—
	615,333	793,476
Less: deferred debt issuance costs	(3,980)	(5,497)
Total long-term debt	611,353	787,979
Total liabilities	**$ 627,910**	**$ 805,341**

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

8. Segment Reporting

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 include 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 estimated using an annual rate of 2.5% times the average portfolio balance for each applicable period.

As of October 31, 2018, 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, 2018			Three Months Ended October 31, 2017		
(in thousands)	**Retail**	**Credit**	**Total**	**Retail**	**Credit**	**Total**
Revenues:						
Furniture and mattress	$ 91,342	$ —	$ 91,342	$ 97,146	$ —	$ 97,146
Home appliance	79,542	—	79,542	83,837	—	83,837
Consumer electronic	60,008	—	60,008	58,062	—	58,062
Home office	22,661	—	22,661	20,295	—	20,295
Other	3,178	—	3,178	4,446	—	4,446
Product sales	256,731	—	256,731	263,786	—	263,786
Repair service agreement commissions	23,579	—	23,579	24,488	—	24,488
Service revenues	3,564	—	3,564	3,534	—	3,534
Total net sales	283,874	—	283,874	291,808	—	291,808
Finance charges and other revenues	179	89,771	89,950	95	81,269	81,364
Total revenues	**284,053**	**89,771**	**373,824**	**291,903**	**81,269**	**373,172**
Costs and expenses:						
Cost of goods sold	166,886	—	166,886	175,591	—	175,591
Selling, general and administrative expense (1)	80,894	37,486	118,380	80,676	33,679	114,355
Provision for bad debts	286	47,262	47,548	189	56,323	56,512
Charges and credits	737	4,800	5,537	5,861	—	5,861
Total costs and expenses	**248,803**	**89,548**	**338,351**	**262,317**	**90,002**	**352,319**
Operating income (loss)	**35,250**	**223**	**35,473**	**29,586**	**(8,733)**	**20,853**
Interest expense	—	15,098	15,098	—	18,095	18,095
Loss on extinguishment of debt	—	—	—	—	461	461
Income (loss) before income taxes	**$ 35,250**	**$ (14,875)**	**$ 20,375**	**$ 29,586**	**$ (27,289)**	**$ 2,297**

	Nine Months Ended October 31, 2018			Nine Months Ended October 31, 2017		
(in thousands)	**Retail**	**Credit**	**Total**	**Retail**	**Credit**	**Total**
Revenues:						
Furniture and mattress	$ 285,428	$ —	$ 285,428	$ 286,886	$ —	$ 286,886
Home appliance	249,036	—	249,036	253,044	—	253,044
Consumer electronic	167,964	—	167,964	166,761	—	166,761
Home office	60,260	—	60,260	54,945	—	54,945
Other	10,536	—	10,536	13,105	—	13,105
Product sales	773,224	—	773,224	774,741	—	774,741
Repair service agreement commissions	72,104	—	72,104	72,703	—	72,703
Service revenues	10,615	—	10,615	10,062	—	10,062
Total net sales	855,943	—	855,943	857,506	—	857,506
Finance charges and other revenues	291	260,597	260,888	267	237,872	238,139
Total revenues	**856,234**	**260,597**	**1,116,831**	**857,773**	**237,872**	**1,095,645**
Costs and expenses:						
Cost of goods sold	507,102	—	507,102	519,847	—	519,847
Selling, general and administrative expense (1)	241,649	112,299	353,948	233,290	99,234	332,524
Provision for bad debts	789	141,666	142,455	584	161,307	161,891
Charges and credits	1,037	4,800	5,837	11,156	—	11,156
Total costs and expenses	**750,577**	**258,765**	**1,009,342**	**764,877**	**260,541**	**1,025,418**
Operating income (loss)	**105,657**	**1,832**	**107,489**	**92,896**	**(22,669)**	**70,227**
Interest expense	—	47,484	47,484	—	62,142	62,142
Loss on extinguishment of debt	—	1,773	1,773	—	2,907	2,907
Income (loss) before income taxes	**$ 105,657**	**$ (47,425)**	**$ 58,232**	**$ 92,896**	**$ (87,718)**	**$ 5,178**

(1) For the three months ended October 31, 2018 and 2017, the amount of corporate overhead allocated to each segment reflected in selling, general and administrative expense was $9.1 million and $7.3 million, respectively. For the three months ended October 31, 2018 and 2017, the amount of reimbursement made to the retail segment by the credit segment was $9.5 million and $9.3 million, respectively. For the nine months ended October 31, 2018 and 2017, the amount of corporate overhead allocated to each segment reflected in selling, general and administrative expense was $26.7 million and $21.5 million, respectively. For the nine months ended October 31, 2018 and 2017, the amount of reimbursement made to the retail segment by the credit segment was $28.3 million and $27.9 million, respectively.

9. 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, 2018 and January 31, 2018, 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 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, 2018 and January 31, 2018 (after the elimination of intercompany balances and transactions). Condensed Consolidated Net Income is the same as Condensed Consolidated Comprehensive Income for the periods presented.

Condensed Consolidated Balance Sheet as of October 31, 2018:

(in thousands)	Conn's, Inc.	Guarantors	Non-guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ —	$ 3,492	$ —	$ —	$ 3,492
Restricted cash	—	1,550	68,493	—	70,043
Customer accounts receivable, net of allowances	—	257,915	372,481	—	630,396
Other accounts receivable	—	63,752	—	—	63,752
Inventories	—	227,164	—	—	227,164
Other current assets	—	19,121	—	(3,401)	15,720
Total current assets	**—**	**572,994**	**440,974**	**(3,401)**	**1,010,567**
Investment in and advances to subsidiaries	790,746	139,723	—	(930,469)	—
Long-term portion of customer accounts receivable, net of allowances	—	327,663	326,657	—	654,320
Property and equipment, net	—	146,326	—	—	146,326
Deferred income taxes	23,157	—	—	—	23,157
Other assets	—	6,642	—	—	6,642
Total assets	**$ 813,903**	**$ 1,193,348**	**$ 767,631**	**$ (933,870)**	**$ 1,841,012**
Liabilities and Stockholders' Equity					
Current liabilities:					
Current maturities of capital lease obligations	$ —	$ 804	$ —	$ —	$ 804
Accounts payable	—	110,359	—	—	110,359
Accrued expenses	4,800	81,319	4,889	(3,401)	87,607
Other current liabilities	—	14,334	7,872	—	22,206
Total current liabilities	**4,800**	**206,816**	**12,761**	**(3,401)**	**220,976**
Deferred rent	—	90,410	—	—	90,410
Long-term debt and capital lease obligations	222,069	86,944	611,353	—	920,366
Other long-term liabilities	—	18,430	3,796	—	22,226
Total liabilities	**226,869**	**402,600**	**627,910**	**(3,401)**	**1,253,978**
Total stockholders' equity	**587,034**	**790,746**	**139,723**	**(930,469)**	**587,034**
Total liabilities and stockholders' equity	**$ 813,903**	**$ 1,193,346**	**$ 767,633**	**$ (933,870)**	**$ 1,841,012**

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

Condensed Consolidated Balance Sheet as of January 31, 2018:

(in thousands)	Conn's, Inc.	Guarantors	Non-guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ —	$ 9,286	$ —	$ —	$ 9,286
Restricted cash	—	1,550	85,322	—	86,872
Customer accounts receivable, net of allowances	—	177,117	459,708	—	636,825
Other accounts receivable	—	71,186	—	—	71,186
Inventories	—	211,894	—	—	211,894
Other current assets	—	68,621	15,212	(19,879)	63,954
Total current assets	**—**	**539,654**	**560,242**	**(19,879)**	**1,080,017**
Investment in and advances to subsidiaries	735,272	209,903	—	(945,175)	—
Long-term portion of customer accounts receivable, net of allowances	—	195,606	455,002	—	650,608
Property and equipment, net	—	143,152	—	—	143,152
Deferred income taxes	21,565	—	—	—	21,565
Other assets	—	5,457	—	—	5,457
Total assets	**$ 756,837**	**$ 1,093,772**	**$ 1,015,244**	**$ (965,054)**	**$ 1,900,799**
Liabilities and Stockholders' Equity					
Current liabilities:					
Current maturities of capital lease obligations	$ —	$ 907	$ —	$ —	$ 907
Accounts payable	—	71,617	—	—	71,617
Accrued expenses	686	66,370	6,723	(4,667)	69,112
Other current liabilities	—	32,685	5,002	(15,212)	22,475
Total current liabilities	**686**	**171,579**	**11,725**	**(19,879)**	**164,111**
Deferred rent	—	87,003	—	—	87,003
Long-term debt and capital lease obligations	221,083	81,043	787,979	—	1,090,105
Other long-term liabilities	—	18,875	5,637	—	24,512
Total liabilities	**221,769**	**358,500**	**805,341**	**(19,879)**	**1,365,731**
Total stockholders' equity	**535,068**	**735,272**	**209,903**	**(945,175)**	**535,068**
Total liabilities and stockholders' equity	**$ 756,837**	**$ 1,093,772**	**$ 1,015,244**	**$ (965,054)**	**$ 1,900,799**

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, 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	**—**	**46,394**	**(10,921)**	**—**	**35,473**
Interest expense	4,448	2,106	8,544	—	15,098
Loss on extinguishment of debt	—	—	—	—	—
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 Three Months Ended October 31, 2017:

(in thousands)	Conn's, Inc.	Guarantors	Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Total net sales	$ —	$ 291,808	$ —	$ —	$ 291,808
Finance charges and other revenues	—	45,228	36,136	—	81,364
Servicing fee revenue	—	18,178	—	(18,178)	—
Total revenues	**—**	**355,214**	**36,136**	**(18,178)**	**373,172**
Costs and expenses:					
Cost of goods sold	—	175,591	—	—	175,591
Selling, general and administrative expense	—	125,355	7,178	(18,178)	114,355
Provision for bad debts	—	44,454	12,058	—	56,512
Charges and credits	—	5,861	—	—	5,861
Total costs and expenses	**—**	**351,261**	**19,236**	**(18,178)**	**352,319**
Operating income	**—**	**3,953**	**16,900**	**—**	**20,853**
Interest expense	4,443	4,979	8,673	—	18,095
Loss on extinguishment of debt	—	—	461	—	461
Income (loss) before income taxes	**(4,443)**	**(1,026)**	**7,766**	**—**	**2,297**
Provision (benefit) for income taxes	(1,408)	(324)	2,460	—	728
Net income (loss)	**(3,035)**	**(702)**	**5,306**	**—**	**1,569**
Income (loss) from consolidated subsidiaries	4,742	1,988	—	(6,730)	—
Consolidated net income (loss)	**$ 1,707**	**$ 1,286**	**$ 5,306**	**$ (6,730)**	**$ 1,569**

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 Income for the Nine Months Ended October 31, 2017:

(in thousands)	Conn's, Inc.	Guarantors	Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Total net sales	$ —	$ 857,506	$ —	$ —	$ 857,506
Finance charges and other revenues	—	122,305	115,834	—	238,139
Servicing fee revenue	—	46,010	—	(46,010)	—
Total revenues	**—**	**1,025,821**	**115,834**	**(46,010)**	**1,095,645**
Costs and expenses:					
Cost of goods sold	—	519,847	—	—	519,847
Selling, general and administrative expense	—	343,043	35,491	(46,010)	332,524
Provision for bad debts	—	64,438	97,453	—	161,891
Charges and credits	—	11,156	—	—	11,156
Total costs and expenses	**—**	**938,484**	**132,944**	**(46,010)**	**1,025,418**
Operating income (loss)	**—**	**87,337**	**(17,110)**	**—**	**70,227**
Interest expense	13,329	7,501	41,312	—	62,142
Loss on extinguishment of debt	—	349	2,558	—	2,907
Income (loss) before income taxes	**(13,329)**	**79,487**	**(60,980)**	**—**	**5,178**
Provision (benefit) for income taxes	(4,934)	29,420	(22,570)	—	1,916
Net income (loss)	**(8,395)**	**50,067**	**(38,410)**	**—**	**3,262**
Income (loss) from consolidated subsidiaries	11,657	(38,410)	—	26,753	—
Consolidated net income (loss)	**$ 3,262**	**$ 11,657**	**$ (38,410)**	**$ 26,753**	**$ 3,262**

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**

Condensed Consolidated Statement of Cash Flows for the Nine Months Ended October 31, 2017:

(in thousands)	Conn's, Inc.	Guarantors	Non-guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	**$ (3,011)**	**$ (636,406)**	**$ 721,316**	**$ —**	**$ 81,899**
Cash flows from investing activities:					
Purchase of customer accounts receivables	—	—	(544,833)	544,833	—
Sale of customer accounts receivables	—	544,833	—	(544,833)	—
Purchase of property and equipment	—	(11,995)	—	—	(11,995)
Net cash provided by (used in) investing activities	**—**	**532,838**	**(544,833)**	**—**	**(11,995)**
Cash flows from financing activities:					
Proceeds from issuance of asset-backed notes	—	—	469,814	—	469,814
Payments on asset-backed notes	—	(77,105)	(737,463)	—	(814,568)
Borrowings from Revolving Credit Facility	—	1,257,052	—	—	1,257,052
Payments on Revolving Credit Facility	—	(1,082,552)	—	—	(1,082,552)
Borrowings from warehouse facility	—	—	79,940	—	79,940
Payments of debt issuance costs and amendment fees	—	(2,865)	(5,307)	—	(8,172)
Payments on warehouse facility	—	—	(23,066)	—	(23,066)
Proceeds from stock issued under employee benefit plans	3,011	—	—	—	3,011
Tax payments associated with equity-based compensation transactions	—	(570)	—	—	(570)
Payments from extinguishment of debt	—	(837)	—	—	(837)
Other	—	(379)	—	—	(379)
Net cash provided by (used in) financing activities	**3,011**	**92,744**	**(216,082)**	**—**	**(120,327)**
Net change in cash, cash equivalents and restricted cash	**—**	**(10,824)**	**(39,599)**	**—**	**(50,423)**
Cash, cash equivalents and restricted cash, beginning of period	—	23,566	110,698	—	134,264
Cash, cash equivalents and restricted cash, end of period	**$ —**	**$ 12,742**	**$ 71,099**	**$ —**	**$ 83,841**

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; and other risks detailed in Part I, Item 1A, Risk Factors, in our 2018 Form 10-K, Part II, Item 1A, Risk Factors, in the Form 10-Q for the three months ended July 31, 2018 (the "Q2 FY19 Form 10-Q") 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 $373.8 million for the three months ended October 31, 2018 compared to $373.2 million for the three months ended October 31, 2017, an increase of $0.6 million or 0.2%. Retail revenues were $284.1 million for the three months ended October 31, 2018 compared to $291.9 million for the three months ended October 31, 2017, a decrease of $7.9 million or 2.7%. The decrease in retail revenue was primarily driven by a decrease in same store sales of 4.4%, partially offset by new store growth. The decrease in same store sales was due to a decrease in same store sales for markets impacted by Hurricane Harvey of 11.8% and a decrease in same store sales for non-Hurricane Harvey markets of 1.3%. The decrease in same store sales in markets impacted by Hurricane Harvey was primarily a result of the impact of rebuilding efforts during the three months ended October 31, 2017. Credit revenues were $89.8 million for the three months ended October 31, 2018 compared to $81.3 million for the three months ended October 31, 2017, an increase of $8.5 million or 10.5%. 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 21.7% from 19.8%, and by a 2.2% increase in the average balance of the customer receivable portfolio.

Retail gross margin for the three months ended October 31, 2018 was 41.2%, an increase of 140 basis points from the 39.8% reported for the three months ended October 31, 2017. The increase in retail gross margin was driven by improved product margins in almost all product categories.

Selling, general and administrative expense ("SG&A") for the three months ended October 31, 2018 was $118.4 million compared to $114.4 million for the three months ended October 31, 2017, an increase of $4.0 million or 3.5%. The SG&A increase in the retail segment was primarily due to an increase in new store occupancy costs, an increase in compensation cost and an increase in the corporate overhead allocation, offset by a decrease in advertising expense and a decrease in Hurricane Harvey-related expense. The SG&A increase in the credit segment was primarily due to an increase in compensation costs, third-party legal expenses related to bankruptcy collection efforts, expenses related to information technology investments and an increase in the corporate overhead allocation. The increase in the corporate overhead allocation made to each of the segments was driven by investments we are making in information technology, other personnel to support long-term performance improvement initiatives and an increase in accrued compensation.

The provision for bad debts decreased to $47.5 million for the three months ended October 31, 2018 from $56.5 million for the three months ended October 31, 2017, a decrease of $9.0 million. The decrease was driven by to a year-over-year reduction in net charge-offs of $9.7 million.

Interest expense decreased to $15.1 million for the three months ended October 31, 2018, compared to $18.1 million for the three months ended October 31, 2017, primarily reflecting a decrease in our cost of borrowing as a result of lower pricing on our securitization transactions coupled with a lower average outstanding balance of debt.

Net income for the three months ended October 31, 2018 was $14.6 million or $0.45 per diluted share, which included net pre-tax charges of $5.5 million, or $0.14 per diluted share, for severance costs related to a change in the executive management team and costs related to the TFL Judgment (as defined in Note 6, *Contingencies*). Refer to Note 6, *Contingencies*, for additional information about the TFL Judgment. This compares to net income for the three months ended October 31, 2017 of $1.6 million, or $0.05 per diluted share, which included net pre-tax charges of $6.3 million, or $0.13 per diluted share, related to the write-off of previously capitalized costs for a software project that was abandoned during the third quarter of fiscal year 2018 related to the implementation of a new point of sale system that began in fiscal year 2013, and the loss on extinguishment of debt related to the early redemption of our Series 2016-A Class B Notes and Class C Notes (collectively, the "2016-A Redeemed Notes").

Company Initiatives

In the third quarter of fiscal year 2019, we maintained our focus on enhancing our credit platform to support the pursuit of our long-term growth objectives. Our credit segment continued to improve, reflecting the higher yield we earn on our direct loan product, more sophisticated underwriting and improved collections execution, which has led to lower delinquency rates and losses, and better execution and performance in the capital markets, which has led to lower cost of funds. We continue to see the benefit in our credit operations from the structural changes we have made to increase yield, reduce losses and improve overall credit performance. 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 2019:

- Posted our seventh consecutive quarter of profitability, driven by a 70.1% increase in operating income compared to the third quarter of fiscal year 2018;
- Delivered record third quarter retail gross margin of 41.2%, an increase of 140 basis points compared to 39.8% in the third quarter of fiscal year 2018, driven primarily by improved product margins;
- Increased, year-over-year, sales purchased through the lease-to-own product offered through Progressive Leasing, which we offer to our customers who do not qualify for our proprietary credit programs, to 8.0% at October 31, 2018 from 5.7% at October 31, 2017;
- Delivered record quarterly yield on our customer receivables portfolio of 21.7% as a result of the continued seasoning of loans originated under our higher-yielding direct loan program;
- Reduced, year-over-year, the balance of accounts 60 days past due as a percentage of the customer receivables portfolio to 9.7% at October 31, 2018 from 9.9% at October 31, 2017;
- Continued our successful asset-backed securitization program, securitizing $358.3 million of customer receivables and delivering an all-in cost of funds on the August 2018 Class A, Class B and Class C notes, including transaction costs, of approximately 5.6%; and
- Realized a reduction in interest expense as a result of our deleveraging efforts combined with the continued successful execution of our asset-backed securitization program, which led to a 16.6% reduction in interest expense compared to the third quarter of fiscal year 2018.

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 2019:

- 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 seven new stores in our current geographic footprint to leverage our existing infrastructure, five of which were successfully opened during the nine months ended October 31, 2018;
- Increase interest income on our loan portfolio by continuing to originate higher-yielding loans;
- Continue to refine and enhance our underwriting platform;
- Reduce our interest expense despite a rising rate environment;
- 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; and
- Maintain disciplined oversight of our selling, general and administrative expenses.

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 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 consolidated basis:

Consolidated:	**Three Months Ended October 31,**			**Nine Months Ended October 31,**		
(in thousands)	**2018**	**2017**	**Change**	**2018**	**2017**	**Change**
Revenues:						
Total net sales	$ 283,874	$ 291,808	$ (7,934)	$ 855,943	$ 857,506	$ (1,563)
Finance charges and other revenues	89,950	81,364	8,586	260,888	238,139	22,749
Total revenues	**373,824**	**373,172**	**652**	**1,116,831**	**1,095,645**	**21,186**
Costs and expenses:						
Cost of goods sold	166,886	175,591	(8,705)	507,102	519,847	(12,745)
Selling, general and administrative expense	118,380	114,355	4,025	353,948	332,524	21,424
Provision for bad debts	47,548	56,512	(8,964)	142,455	161,891	(19,436)
Charges and credits	5,537	5,861	(324)	5,837	11,156	(5,319)
Total costs and expenses	**338,351**	**352,319**	**(13,968)**	**1,009,342**	**1,025,418**	**(16,076)**
Operating income	**35,473**	**20,853**	**14,620**	**107,489**	**70,227**	**37,262**
Interest expense	15,098	18,095	(2,997)	47,484	62,142	(14,658)
Loss on extinguishment of debt	—	461	(461)	1,773	2,907	(1,134)
Income before income taxes	**20,375**	**2,297**	**18,078**	**58,232**	**5,178**	**53,054**
Provision for income taxes	5,745	728	5,017	13,859	1,916	11,943
Net income	**$ 14,630**	**$ 1,569**	**$ 13,061**	**$ 44,373**	**$ 3,262**	**$ 41,111**

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 before taxes. Selling, general and administrative expense 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 estimated using an annual rate of 2.5% multiplied by the average portfolio balance for each applicable period.

The following tables represent total revenues, costs and expenses, operating income (loss) and income (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)	**2018**	**2017**	**Change**	**2018**	**2017**	**Change**
Revenues:						
Product sales	$ 256,731	$ 263,786	$ (7,055)	$ 773,224	$ 774,741	$ (1,517)
Repair service agreement commissions	23,579	24,488	(909)	72,104	72,703	(599)
Service revenues	3,564	3,534	30	10,615	10,062	553
Total net sales	283,874	291,808	(7,934)	855,943	857,506	(1,563)
Other revenues	179	95	84	291	267	24
Total revenues	**284,053**	**291,903**	**(7,850)**	**856,234**	**857,773**	**(1,539)**
Costs and expenses:						
Cost of goods sold	166,886	175,591	(8,705)	507,102	519,847	(12,745)
Selling, general and administrative expense [1]	80,894	80,676	218	241,649	233,290	8,359
Provision for bad debts	286	189	97	789	584	205
Charges and credits	737	5,861	(5,124)	1,037	11,156	(10,119)
Total costs and expenses	**248,803**	**262,317**	**(13,514)**	**750,577**	**764,877**	**(14,300)**
Operating income	**$ 35,250**	**$ 29,586**	**$ 5,664**	**$ 105,657**	**$ 92,896**	**$ 12,761**
Number of stores:						
Beginning of period	118	116		116	113	
Opened	3	—		5	3	
End of period	121	116		121	116	

Credit Segment:	Three Months Ended October 31,			Nine Months Ended October 31,		
(in thousands)	**2018**	**2017**	**Change**	**2018**	**2017**	**Change**
Revenues:						
Finance charges and other revenues	**$ 89,771**	**$ 81,269**	**$ 8,502**	**$ 260,597**	**$ 237,872**	**$ 22,725**
Costs and expenses:						
Selling, general and administrative expense (1)	37,486	33,679	3,807	112,299	99,234	13,065
Provision for bad debts	47,262	56,323	(9,061)	141,666	161,307	(19,641)
Charges and credits	4,800	—	4,800	4,800	—	4,800
Total costs and expenses	**89,548**	**90,002**	**(454)**	**258,765**	**260,541**	**(1,776)**
Operating income (loss)	**223**	**(8,733)**	**8,956**	**1,832**	**(22,669)**	**24,501**
Interest expense	15,098	18,095	(2,997)	47,484	62,142	(14,658)
Loss on extinguishment of debt	—	461	(461)	1,773	2,907	(1,134)
Loss before income taxes	**$ (14,875)**	**$ (27,289)**	**$ 12,414**	**$ (47,425)**	**$ (87,718)**	**$ 40,293**

(1) For the three months ended October 31, 2018 and 2017, the amount of corporate overhead allocated to each segment reflected in selling, general and administrative expense was $9.1 million and $7.3 million, respectively. For the three months ended October 31, 2018 and 2017, the amount of reimbursements made to the retail segment by the credit segment were $9.5 million and $9.3 million, respectively. For the nine months ended October 31, 2018 and 2017, the amount of corporate overhead allocated to each segment reflected in selling, general and administrative expense was $26.7 million and $21.5 million, respectively. For the nine months ended October 31, 2018 and 2017, the amount of reimbursement made to the retail segment by the credit segment was $28.3 million and $27.9 million, respectively.

Three Months Ended October 31, 2018 Compared to Three Months Ended October 31, 2017

Revenues

The following table provides an analysis of retail net sales by product category in each period, including repair service agreement 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)	**2018**	**% of Total**	**2017**	**% of Total**	**Change**	**Change**	**% Change**
Furniture and mattress (1)	$ 91,342	32.2%	$ 97,146	33.3%	$ (5,804)	(6.0)%	(6.6)%
Home appliance	79,542	28.0	83,837	28.7	(4,295)	(5.1)	(6.4)
Consumer electronics (1)	60,008	21.1	58,062	19.9	1,946	3.4	(0.2)
Home office (1)	22,661	8.0	20,295	7.0	2,366	11.7	9.9
Other	3,178	1.1	4,446	1.5	(1,268)	(28.5)	(26.6)
Product sales	256,731	90.4	263,786	90.4	(7,055)	(2.7)	(4.2)
Repair service agreement commissions (2)	23,579	8.3	24,488	8.4	(909)	(3.7)	(6.3)
Service revenues	3,564	1.3	3,534	1.2	30	0.8	
Total net sales	$ 283,874	100.0%	$ 291,808	100.0%	$ (7,934)	(2.7)%	(4.4)%

(1) During the three months ended October 31, 2017, we reclassified certain products from the consumer electronics and home office product categories into the furniture and mattress product category. Net sales of these products reflected in the consumer electronics and home office product categories for the three months ended October 31, 2017 were $2.7 million and $0.8 million, respectively. The change in same store sales reflects the current product classification for both periods presented.

(2) The total change in sales of repair service agreement commissions includes retrospective commissions, which are not reflected in the change in same store sales.

The following provides a summary of the drivers of same store sales performance of our product categories during the three months ended October 31, 2018 as compared to the three months ended October 31, 2017:

- Furniture unit volume decreased 8.9%, partially offset by a 2.8% increase in average selling price;

- Mattress unit volume decreased 16.6%, partially offset by a 11.3% increase in average selling price;
- Home appliance unit volume decreased 14.0%, partially offset by a 8.8% increase in average selling price;
- Consumer electronic unit volume decreased 7.4%, partially offset by a 7.8% increase in average selling price; and
- Home office unit volume increased 24.5%, partially offset by a 11.7% decrease in average selling price.

Enhancements to product assortments and shifts in product sales mix towards higher-priced items have driven increases to average sales prices in most product categories.

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

(in thousands)	Three Months Ended October 31, 2018	Three Months Ended October 31, 2017	Change
Interest income and fees	$ 82,964	$ 74,144	$ 8,820
Insurance income	6,807	7,125	(318)
Other revenues	179	95	84
Finance charges and other revenues	$ 89,950	$ 81,364	$ 8,586

The increase in interest income and fees was due to an increase in the yield rate to 21.7% for the three months ended October 31, 2018 from 19.8% for the three months ended October 31, 2017, an increase of 190 basis points, and by an increase of 2.2% in the average balance of the customer receivable portfolio. The increase in the yield rate resulted from the origination of our higher-yielding direct loan product.

The following table provides key portfolio performance information:

(dollars in thousands)	Three Months Ended October 31, 2018	Three Months Ended October 31, 2017	Change
Interest income and fees	$ 82,964	$ 74,144	$ 8,820
Net charge-offs	(46,850)	(56,519)	9,669
Interest expense	(15,098)	(18,095)	2,997
Net portfolio income (loss)	$ 21,016	$ (470)	$ 21,486
Average portfolio balance	$ 1,518,513	$ 1,485,683	$ 32,830
Interest income and fee yield (annualized)	21.7%	19.8%	
Net charge-off % (annualized)	12.3%	15.2%	

Retail Gross Margin

(dollars in thousands)	Three Months Ended October 31, 2018	Three Months Ended October 31, 2017	Change
Retail total net sales	$ 283,874	$ 291,808	$ (7,934)
Cost of goods sold	166,886	175,591	(8,705)
Retail gross margin	$ 116,988	$ 116,217	$ 771
Retail gross margin percentage	41.2%	39.8%	

The increase in retail gross margin was driven by improved product margins in almost all product categories.

Selling, General and Administrative Expense

(dollars in thousands)	Three Months Ended October 31, 2018	Three Months Ended October 31, 2017	Change
Retail segment	$ 80,894	$ 80,676	$ 218
Credit segment	37,486	33,679	3,807
Selling, general and administrative expense - Consolidated	$ 118,380	$ 114,355	$ 4,025
Selling, general and administrative expense as a percent of total revenues	31.7%	30.6%	

The SG&A increase in the retail segment was primarily due to an increase in new store occupancy costs, an increase in compensation costs and an increase in the corporate overhead allocation, offset by a decrease in advertising expense and a decrease in Hurricane Harvey-related expenses. The SG&A increase in the credit segment was primarily due to an increase in compensation costs, third-party legal expenses related to bankruptcy collection efforts, expenses related to information technology investments and an increase in the corporate overhead allocation. As a percent of average total customer portfolio balance (annualized), SG&A for the credit segment in the three months ended October 31, 2018 increased 80 basis points as compared to the three months ended October 31, 2017. The increase in the corporate overhead allocation made to each of the segments was driven by investments we are making in information technology, other personnel to support long-term performance improvement initiatives and an increase in accrued compensation.

Provision for Bad Debts

(dollars in thousands)	Three Months Ended October 31, 2018	Three Months Ended October 31, 2017	Change
Retail segment	$ 286	$ 189	$ 97
Credit segment	47,262	56,323	(9,061)
Provision for bad debts - Consolidated	$ 47,548	$ 56,512	$ (8,964)
Provision for bad debts - Credit segment, as a percent of average portfolio balance (annualized)	12.4%	15.2%	

The provision for bad debts decreased to $47.5 million for the three months ended October 31, 2018 from $56.5 million for the three months ended October 31, 2017, a decrease of $9.0 million. The decrease was driven by a year-over-year reduction in net charge-offs of $9.7 million.

Charges and Credits

(in thousands)	Three Months Ended October 31, 2018	Three Months Ended October 31, 2017	Change
Employee severance	$ 737	$ —	$ 737
Legal judgment	4,800	—	4,800
Write-off of capitalized software costs	—	5,861	(5,861)
	$ 5,537	$ 5,861	$ (324)

During the three months ended October 31, 2018, we recorded severance costs related to a change in the executive management team, and costs related to the TFL Judgment. Refer to Note 6, *Contingencies*, for additional information about the TFL Judgment. During the three months ended October 31, 2017, we incurred a loss from the write-off of previously capitalized costs for a software project that was abandoned during the third quarter of fiscal year 2018 related to the implementation of a new point of sale system that began in fiscal year 2013.

Interest Expense

Interest expense decreased to $15.1 million for the three months ended October 31, 2018 from $18.1 million for the three months ended October 31, 2017, a decrease of $3.0 million. The decrease reflects a decrease in our cost of borrowing as a result of lower pricing on our securitization transactions coupled with a lower average outstanding balance of debt.

Loss on Extinguishment of Debt

During the three months ended October 31, 2017, we wrote-off $0.5 million of debt issuance costs related to the early retirement of our 2016-A Redeemed Notes.

Provision for Income Taxes

	Three Months Ended October 31,		
(dollars in thousands)	2018	2017	Change
Provision for income taxes	$ 5,745	$ 728	$ 5,017
Effective tax rate	28.2%	31.7%	

The increase in income tax expense for the three months ended October 31, 2018 compared to the three months ended October 31, 2017 was primarily driven by an increase in taxable income partially offset by a decrease in our effective tax rate pursuant to H.R. 1, originally known as the Tax Cuts and Jobs Act (the "Tax Act*")*, which reduced the federal statutory income tax rate from 35% to 21%.

Nine Months Ended October 31, 2018 Compared to Nine Months Ended October 31, 2017

Revenues

The following table provides an analysis of retail net sales by product category in each period, including repair service agreement 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)	2018	% of Total	2017	% of Total	Change	Change	% Change
Furniture and mattress [(1)]	$ 285,428	33.4%	$ 286,886	33.5%	$ (1,458)	(0.5)%	(3.9)%
Home appliance	249,036	29.1	253,044	29.5	(4,008)	(1.6)	(3.3)
Consumer electronics [(1)]	167,964	19.6	166,761	19.4	1,203	0.7	0.2
Home office [(1)]	60,260	7.1	54,945	6.4	5,315	9.7	10.4
Other	10,536	1.2	13,105	1.6	(2,569)	(19.6)	(20.8)
Product sales	773,224	90.4	774,741	90.4	(1,517)	(0.2)	(2.1)
Repair service agreement commissions [(2)]	72,104	8.4	72,703	8.5	(599)	(0.8)	(5.0)
Service revenues	10,615	1.2	10,062	1.1	553	5.5	
Total net sales	$ 855,943	100.0%	$ 857,506	100.0%	$ (1,563)	(0.2)%	(2.5)%

(1) During the nine months ended October 31, 2017, we reclassified certain products from the consumer electronics and home office product categories into the furniture and mattress product category. Net sales of these products reflected in the consumer electronics and home office product categories for the nine months ended October 31, 2017 were $8.1 million and $2.4 million, respectively. The change in same store sales reflects the current product classification for both periods presented.

(2) The total change in sales of repair service agreement commissions includes retrospective commissions, which are not reflected in the change in same store sales.

The following provides a summary of the drivers of same store sales performance of our product categories during the nine months ended October 31, 2018 as compared to the nine months ended October 31, 2017:

- Furniture unit volume decreased 7.7%, partially offset by a 3.9% increase in average selling price;
- Mattress unit volume decreased 12.7%, partially offset by a 10.8% increase in average selling price;
- Home appliance unit volume decreased 8.8%, partially offset by a 6.0% increase in average selling price;
- Consumer electronic average selling price increased 3.6%, partially offset by a 3.4% decrease in unit volume; and
- Home office unit volume increased 25.5%, partially offset by a 12.1% decrease in average selling price.

Enhancements to product assortments and shifts in product sales mix towards higher-priced items have driven increases to average sales prices in most product categories.

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

(in thousands)	Nine Months Ended October 31, 2018	2017	Change
Interest income and fees	$ 239,745	$ 210,765	$ 28,980
Insurance income	20,852	27,107	(6,255)
Other revenues	291	267	24
Finance charges and other revenues	$ 260,888	$ 238,139	$ 22,749

The increase in interest income and fees was due to an increase in the yield rate to 21.2% for the nine months ended October 31, 2018 from 18.9% for the nine months ended October 31, 2017, an increase of 230 basis points, and by an increase of 1.0% in the average balance of the customer receivable portfolio. The increase in the yield rate resulted from the origination of our higher-yielding direct loan product. Insurance income decreased over the prior year period primarily due to a decrease in retrospective income as a result of higher claim volumes related to Hurricane Harvey.

The following table provides key portfolio performance information:

(dollars in thousands)	Nine Months Ended October 31, 2018	2017	Change
Interest income and fees	$ 239,745	$ 210,765	$ 28,980
Net charge-offs	(143,943)	(170,393)	26,450
Interest expense	(47,484)	(62,142)	14,658
Net portfolio income (loss)	$ 48,318	$ (21,770)	$ 70,088
Average portfolio balance	$ 1,508,887	$ 1,493,292	$ 15,595
Interest income and fee yield (annualized)	21.2%	18.9%	
Net charge-off % (annualized)	12.7%	15.2%	

Retail Gross Margin

(dollars in thousands)	Nine Months Ended October 31, 2018	2017	Change
Retail total net sales	$ 855,943	$ 857,506	$ (1,563)
Cost of goods sold	507,102	519,847	(12,745)
Retail gross margin	$ 348,841	$ 337,659	$ 11,182
Retail gross margin percentage	40.8%	39.4%	

The increase in retail gross margin was driven by improved product margins in almost all product categories.

Selling, General and Administrative Expense

(dollars in thousands)	Nine Months Ended October 31, 2018	2017	Change
Retail segment	$ 241,649	$ 233,290	$ 8,359
Credit segment	112,299	99,234	13,065
Selling, general and administrative expense - Consolidated	$ 353,948	$ 332,524	$ 21,424
Selling, general and administrative expense as a percent of total revenues	31.7%	30.3%	

The SG&A increase in the retail segment was primarily due to an increase in new store occupancy costs, an increase in compensation costs, an increase in professional fees and an increase in the corporate overhead allocation, partially offset by a decrease in advertising expense and a decrease in Hurricane Harvey-related expenses. The SG&A increase in the credit segment was primarily due to an increase in compensation costs, third-party legal expenses related to bankruptcy collection efforts, expenses related to information technology investments and an increase in the corporate overhead allocation. As a percent of average total customer portfolio balance (annualized), SG&A for the credit segment in the nine months ended October 31, 2018 increased 100 basis points as compared to the nine months ended October 31, 2017. The increase in the corporate overhead allocation made to each of the segments was driven by investments we are making in information technology, other personnel to support long-term performance improvement initiatives and an increase in accrued compensation.

Provision for Bad Debts

(dollars in thousands)	Nine Months Ended October 31, 2018	Nine Months Ended October 31, 2017	Change
Retail segment	$ 789	$ 584	$ 205
Credit segment	141,666	161,307	(19,641)
Provision for bad debts - Consolidated	$ 142,455	$ 161,891	$ (19,436)
Provision for bad debts - Credit segment, as a percent of average portfolio balance (annualized)	12.5%	14.4%	

The provision for bad debts decreased to $142.5 million for the nine months ended October 31, 2018 from $161.9 million for the nine months ended October 31, 2017, a decrease of $19.4 million. The decrease was driven by a year-over-year reduction in net charge-offs of $26.5 million, partially offset by a greater decrease in the allowance for bad debts during the nine months ended October 31, 2017 as compared to the nine months ended October 31, 2018. The greater decrease in the allowance for bad debts was primarily driven by the inclusion of changes in first payment default rates and changes in delinquency balances to our allowance for bad debts framework made during the nine months ended October 31, 2017.

Charges and Credits

(in thousands)	Nine Months Ended October 31, 2018	Nine Months Ended October 31, 2017	Change
Facility closure costs	$ —	$ 1,349	$ (1,349)
Securities-related regulatory matter and other legal fees	300	34	266
Employee severance	737	1,317	(580)
Indirect tax audit reserve	—	2,595	(2,595)
Legal judgment	4,800	—	4,800
Write-off of capitalized software costs	—	5,861	(5,861)
	$ 5,837	$ 11,156	$ (5,319)

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. Refer to Note 6, *Contingencies*, for additional information about the TFL Judgment. During the nine months ended October 31, 2017, we incurred exit costs associated with reducing the square footage of a distribution center, charges for severance due to changes in our executive management team, an increase to our indirect tax audit reserve, and a loss from the write-off of previously capitalized costs for a software project that was abandoned during the third quarter of fiscal year 2018 related to the implementation of a new point of sale system that began in fiscal year 2013.

Interest Expense

Interest expense decreased to $47.5 million for the nine months ended October 31, 2018 from $62.1 million for the nine months ended October 31, 2017 a decrease of $14.7 million. The decrease reflects a decrease in our cost of borrowing as a result of lower pricing on our securitization transactions coupled with 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 primarily related to the early retirement of our 2016-B Redeemed Notes and 2017-A Redeemed Notes. During the nine months ended October 31, 2017, we wrote-off $2.9 million of debt issuance costs related to an amendment to our revolving credit facility for lenders that did not continue to participate and the early retirement of our Series 2015-A Class B Notes and 2016-A Redeemed Notes.

Provision for Income Taxes

	Nine Months Ended October 31,		
(dollars in thousands)	**2018**	**2017**	**Change**
Provision for income taxes	$ 13,859	$ 1,916	$ 11,943
Effective tax rate	23.8%	37.0%	

The increase in income tax expense for the nine months ended October 31, 2018 compared to the nine months ended October 31, 2017 was primarily driven by an increase in taxable income partially offset by a decrease in our effective tax rate pursuant to the Tax Act, which reduced the federal statutory income tax rate from 35% to 21%, and a $0.8 million tax benefit related to the vesting of equity compensation.

Customer 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 between 18% and 30%. During the third quarter of fiscal year 2017, we implemented our direct consumer loan program across all Texas locations. During the first quarter of fiscal year 2018, we implemented our direct consumer loan program in all Louisiana locations. During the third quarter of fiscal year 2018, we implemented our direct consumer loan program in all Tennessee and Oklahoma locations. The states of Texas, Louisiana, Tennessee and Oklahoma represented approximately 78% of our originations during the nine months ended October 31, 2018, which, under our previous offerings, had a maximum equivalent interest rate of approximately 21%, compared to an interest rate of up to 27% in Oklahoma and up to 30% in Texas, Louisiana and Tennessee under our new direct consumer loan programs. In states where regulations do not generally limit the interest rate charged, we increased our rates in the third quarter of fiscal year 2017 to 29.99%. These states represented 11% of our originations during the nine months ended October 31, 2018.

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 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,	
	2018	2017
Weighted average credit score of outstanding balances [1]	593	589
Average outstanding customer balance	$ 2,578	$ 2,405
Balances 60+ days past due as a percentage of total customer portfolio balance [2]	9.7%	9.9%
Re-aged balance as a percentage of total customer portfolio balance [2][3]	25.5%	23.8%
Account balances re-aged more than six months (in thousands)	$ 87,484	$ 80,516
Allowance for bad debts as a percentage of total customer portfolio balance	13.6%	13.6%
Percent of total customer portfolio balance represented by no-interest option receivables	21.7%	22.3%

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2018	2017	2018	2017
Total applications processed	283,274	321,373	862,324	909,287
Weighted average origination credit score of sales financed [1]	610	611	609	609
Percent of total applications approved and utilized	28.5%	29.1%	30.1%	31.1%
Average down payment	2.4%	2.9%	2.7%	3.2%
Average income of credit customer at origination	$ 45,400	$ 43,500	$ 44,200	$ 42,700
Percent of retail sales paid for by:				
In-house financing, including down payment received	69.7%	72.0%	70.1%	71.7%
Third-party financing	15.6%	15.1%	15.7%	15.8%
Third-party lease-to-own option	8.0%	5.7%	7.3%	5.7%
	93.3%	92.8%	93.1%	93.2%

(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) 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, 2018 and October 31, 2017 were 2.2% and 4.8%, respectively, of the total customer portfolio balance.

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 extended in excess of three months or refinanced.

For customer accounts receivable (excluding restructured accounts), the allowance for uncollectible accounts as a percentage of the outstanding portfolio balance decreased to 10.7% as of October 31, 2018 from 11.1% as of October 31, 2017. The percentage of non-restructured accounts greater than 60 days past due decreased 50 basis points over the prior year period to 7.7% as of October 31, 2018 from 8.2% as of October 31, 2017.

For restructured accounts, the allowance for uncollectible accounts as a percentage of the portfolio balance was 34.7% as of October 31, 2018 as compared to 36.7% as of October 31, 2017. This 200 basis point decrease reflects the impact of improved delinquency rates.

The percent of bad debt charge-offs, net of recoveries, to average portfolio balance was 12.3% for the three months ended October 31, 2018 as compared to 15.2% for the three months ended October 31, 2017. 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, 2018 and 2017, balances under no-interest programs included within customer receivables were $331.1 million and $331.6 million, respectively.

Liquidity and Capital Resources

We require liquidity and capital resources to finance our operations and future growth as we add new stores and markets 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, 2018, net cash provided by operating activities was $182.1 million compared to $81.9 million for the nine months ended October 31, 2017. The increase in net cash provided by operating activities was primarily driven by an increase in cash provided by working capital, primarily due to more efficient management of inventory, the collection of an income tax receivable and an increase in net income when adjusted for non-cash activity.

Investing cash flows. For the nine months ended October 31, 2018, net cash used in investing activities was $22.6 million compared to $12.0 million for the nine months ended October 31, 2017. The change was primarily the result of higher capital expenditures due to investments in new stores, renovations and expansions of select existing stores, and technology investments we are making to support long-term growth.

Financing cash flows. For the nine months ended October 31, 2018, net cash used in financing activities was $182.1 million compared to $120.3 million for the nine months ended October 31, 2017. 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 fundings of the Warehouse Notes were used to early retire our Series 2016-B Class B Notes (the “2016-B Redeemed Notes”) and our Series 2017-A Class B and C Notes (the “2017-A Redeemed Notes”). Cash collections from the securitized receivables were used to make payments on the asset-backed notes of approximately $708.6 million during the nine months ended October 31, 2018 compared to approximately $837.6 million in the comparable prior year period. During the nine months ended October 31, 2018, net borrowings under our Revolving Credit Facility were $6.1 million compared to $174.5 million for the nine months ended October 31, 2017. During the nine months ended October 31, 2018, the Issuer (as defined below) issued asset-backed notes resulting in net proceeds to us of approximately $355.7 million, net of transaction costs and restricted cash held by the Issuer, which were used to repay indebtedness under the Company’s asset-based credit facility and for other general corporate purposes. During the nine months ended October 31, 2017, the 2017-A VIE issued asset-backed notes resulting in net proceeds to us of approximately $456.7 million, net of transaction costs and restricted cash held by the 2017-A VIE, which were used to pay down the entire balance on our Revolving Credit Facility and for other general corporate purposes.

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 (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. Specifically, limitations on restricted payments are only effective if one or more of the following occurred: (1) a default were to exist under the Indenture, (2) we could not satisfy a debt incurrence test, and (3) the aggregate amount of restricted payments, excluding certain restricted payments permitted under the Indenture, exceeds the sum of (i) 50% of Consolidated Net Income from November 1, 2015 to the end of the most recent fiscal quarter, (ii) 100% of net cash proceeds and the fair market value of certain capital stock and other property received in or exchanged for the sale or issuance of Capital Stock, (iii) amount by which certain indebtedness is reduced upon conversion or exchange for Capital Stock and (iv) certain reductions in Restricted Investments (the sum of clauses (i) through (iv) as of October 31, 2018, the “Consolidate Net Income Threshold Amount”). These limitations, however, are subject to certain permitted exceptions, including (1) an exception that permits restricted payments regardless of dollar amount so long as, after giving pro forma effect to such dividends and other restricted payments, we would have had a leverage ratio, as defined in the Indenture, of less than or equal to 2.50 to 1.0 and (2) a general exception that permits the payment of up to $375.0 million in restricted payments not otherwise permitted under the Indenture (the “Permitted Distribution Amount"). As a result of the sum of the Consolidated Net Income Threshold Amount and Permitted Distribution Amount, as of October 31, 2018, $207.8 million would have been free from the distribution restriction. 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. 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. During fiscal years 2019, 2018 and 2017 we securitized customer accounts receivables by transferring the receivables to various bankruptcy-remote VIEs. In turn, the VIEs issued 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 repair service agreements on charge-offs of the securitized receivables, which are reflected as a reduction to net charge-offs on a consolidated basis.

The asset-backed notes were offered and sold to qualified institutional buyers pursuant to the exemptions from registration provided by Rule 144A under the Securities Act of 1933, 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 consist of the following:

Asset-Backed Notes	Original Principal Amount	Original Net Proceeds (1)	Current Principal Amount	Issuance Date	Maturity Date	Fixed Interest Rate	Effective Interest Rate (2)
2017-B Class A Notes	$ 361,400	$ 358,945	$ 26,097	12/20/2017	7/15/2020	2.73%	5.17%
2017-B Class B Notes	132,180	131,281	132,180	12/20/2017	4/15/2021	4.52%	5.23%
2017-B Class C Notes	78,640	77,843	78,640	12/20/2017	11/15/2022	5.95%	6.34%
2018-A Class A Notes	219,200	217,832	154,907	8/15/2018	1/17/2023	3.25%	4.73%
2018-A Class B Notes	69,550	69,020	69,550	8/15/2018	1/17/2023	4.65%	5.43%
2018-A Class C Notes	69,550	68,850	69,550	8/15/2018	1/17/2023	6.02%	6.79%
Warehouse Notes	121,060	118,972	84,409	7/16/2018	1/15/2020	Index + 2.50% (3)	6.56%
Total	$ 1,051,580	$ 1,042,743	$ 615,333				

(1) After giving effect to debt issuance costs and restricted cash held by the VIEs.

(2) For the nine months ended October 31, 2018, and inclusive of retrospective adjustments to deferred debt issuance costs based on changes in timing of actual and expected cash flows.

(3) The rate on the Warehouse Notes is defined as the applicable index plus a 2.50% fixed margin.

On February 15, 2018, affiliates of the Company closed on a $52.2 million financing under a receivables warehouse financing transaction entered into on February 6, 2018 (the “Warehouse Notes”). The net proceeds of the Warehouse Notes were used to prepay in full the 2016-B Redeemed Notes that were still outstanding as of February 15, 2018.

On February 15, 2018, the Company completed the redemption of the 2016-B Redeemed Notes at an aggregate redemption price of $73.6 million (which was equal to the entire outstanding principal of, plus accrued interest and the call premiums on, the 2016-B Redeemed Notes). The net funds used to call the notes was $50.3 million, which is equal to the redemption price less adjustments of $23.3 million for funds held in reserve and collection accounts in accordance with the terms of the applicable indenture governing the 2016-B Redeemed Notes. The difference between the net proceeds of the Warehouse Notes and the carrying value of the 2016-B Redeemed Notes at redemption was used to fund fees, expenses and a reserve account related to the Warehouse facility. In connection with the early redemption of the 2016-B Redeemed Notes, we wrote-off $0.4 million as a loss on extinguishment of debt.

On July 16, 2018, affiliates of the Company closed on $121.1 million of additional financing under a receivables warehouse financing transaction entered into on July 9, 2018 (the “Additional Funding”). The net proceeds of the Additional Funding were used to prepay in full the Series 2017-A Class B and C Notes (the "2017-A Redeemed Notes") that were still outstanding as of July 16, 2018.

On July 16, 2018, the Company completed the redemption of the 2017-A Redeemed Notes at an aggregate redemption price of $127.2 million (which was equal to the entire outstanding principal of, plus accrued interest and the call premiums on the 2017-A Redeemed Notes). The net funds used to call the notes was $119.0 million, which is equal to the redemption price less adjustments of $8.2 million for funds held in reserve and collection accounts in accordance with the terms of the applicable indenture governing the 2017-A Redeemed Notes. The difference between the net proceeds of the Additional Funding and the carrying value of the 2017-A Redeemed Notes at redemption was used to fund fees, expenses and a reserve account related to the warehouse facility. In connection with the early redemption of the 2017-A Redeemed Notes, we wrote-off $1.2 million as a loss on extinguishment of debt.

On August 15, 2018, an affiliate of the Company (the "Issuer") completed the issuance and sale of asset-backed notes at a face amount of $358.3 million secured by the transferred customer accounts receivables and restricted cash held by a VIE, which resulted in net proceeds to us of $355.7 million, net of transaction costs and restricted cash held by the VIE. 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 January 17, 2023 and consist of $219.2 million of the Issuer's 3.25% Asset Backed Fixed Rate Notes, Series 2018-A, Class A, $69.6 million of the Issuer's 4.65% Asset Backed Fixed Rate Notes, Series 2018-A, Class B, and $69.6 million of the Issuer's 6.02% Asset Backed Fixed Rate Notes, Series 2018-A, Class C.

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.

The Fourth Amendment, among other things, (a) extends the maturity date of the credit facility to May 23, 2022; (b) provides for a reduction in the aggregate commitments from $750 million to $650 million; (c) amends the method by which the applicable margin is calculated to be based on the total leverage ratio (ratio of total liabilities less the sum of qualified cash and ABS qualified cash to tangible net worth), with the applicable margin ranging from 2.50% to 3.25% for LIBOR loans and from 1.50% to 2.25% for base rate loans; (d) eliminates a $10 million availability block in calculating the borrowing base; (e) increases the maximum accounts receivable advance rate from 75% to 80%; (f) decreases the maximum unused line fee by 25 basis points, from 75 basis points to 50 basis points; (g) eliminates the cash recovery covenant; (h) modifies the maximum inventory component of the borrowing base from $175 million to 33.33% of revolving loan commitments in effect; (i) modifies the interest coverage covenant such that the minimum interest coverage on a trailing two quarter basis is 1.5x and the minimum interest coverage during any single quarter is 1.0x; (j) increases the maximum capital expenditures from $75 million to $100 million during any period of four consecutive fiscal quarters; and (k) modifies the ability of the Company to effect future securitizations of its customer receivables portfolio, including adding the ability of the Company to enter into revolving ABS transactions.

Subsequent to the adoption of the Fourth Amendment, loans under the Revolving Credit Facility bear interest, at our option, at a rate equal to LIBOR plus the applicable margin based on facility availability which specified a margin ranging from 2.50% to 3.25% per annum (depending on quarterly average net availability under the borrowing base) or the alternate base rate plus a margin ranging from 1.50% to 2.25% per annum (depending on quarterly average net availability under the borrowing base). 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%. As of October 31, 2018, we also paid an unused fee on the portion of the commitments that was 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 7.0% for the nine months ended October 31, 2018.

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, 2018, we had immediately available borrowing capacity of $401.6 million under our Revolving Credit Facility, net of standby letters of credit issued of $2.5 million. We also had $162.8 million that may become available under our Revolving Credit Facility if we grow the balance of eligible customer receivables and our total eligible inventory balances.

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, 2018, we were restricted from making distributions, including repayments of the Senior Notes or other distributions, in excess of $282.5 million as a result of the Revolving Credit Facility distribution restrictions. The Revolving Credit Facility contains customary default provisions, which, if triggered, could result in acceleration of all amounts outstanding under the Revolving Credit Facility.

Debt Covenants. We were in compliance with our debt covenants at October 31, 2018. A summary of the significant financial covenants that govern our Revolving Credit Facility, as amended, compared to our actual compliance status at October 31, 2018 is presented below:

	Actual	Required Minimum/ Maximum
Interest Coverage Ratio for the quarter must equal or exceed minimum	4.07:1.00	1.00:1.00
Interest Coverage Ratio for the trailing two quarters must equal or exceed minimum	3.97:1.00	1.50:1.00
Leverage Ratio must not exceed maximum	2.01:1.00	4.00:1.00
ABS Excluded Leverage Ratio must not exceed maximum	1.08:1.00	2.00:1.00
Capital Expenditures, net, must not exceed maximum	$16.0 million	$100.0 million

All capitalized terms in the above table are defined by the Revolving Credit Facility, as amended, and may or may not agree directly to the financial statement captions in this document. The covenants are calculated quarterly, except for the 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 under existing GAAP, 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 $2.0 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 five new stores during the nine months ended October 31, 2018 and currently plan to open a total of seven new stores during fiscal year 2019. Additionally, we plan to upgrade several of our facilities and continue to enhance our IT systems during fiscal year 2019. Our anticipated capital expenditures for the remainder of fiscal year 2019 are between $13.0 million and $15.0 million.

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 and repayment of debt, we rely primarily on cash from operations. As of October 31, 2018, beyond cash generated from operations we had (i) immediately available borrowing capacity of $401.6 million under our Revolving Credit Facility, (ii) $162.8 million that may become available under our Revolving Credit Facility if we grow the balance of eligible customer receivables and our total eligible inventory balances and (iii) $3.5 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 covenant 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, 2018:

		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)	$ 97,958	$ 4,186	$ 8,371	$ 85,401	$ —
Senior Notes	288,006	16,458	32,915	238,633	—
2017-B Class A Notes (2)	27,313	712	26,601	—	—
2017-B Class B Notes (2)	146,863	5,975	140,888	—	—
2017-B Class C Notes (2)	97,561	4,679	9,358	83,524	—
2018-A Class A Notes (2)	176,135	5,034	10,069	161,032	—
2018-A Class B Notes (2)	83,186	3,234	6,468	73,484	—
2018-A Class C Notes (2)	87,204	4,187	8,374	74,643	—
Warehouse Notes (1)	89,549	4,254	85,295	—	—
Capital lease obligations	7,271	1,151	1,328	953	3,839
Operating leases:					
Real estate	452,655	64,714	127,145	118,001	142,795
Equipment	2,442	1,184	1,000	258	—
Contractual commitments (3)	132,466	127,176	5,270	20	—
Total	$ 1,688,609	$ 242,944	$ 463,082	$ 835,949	$ 146,634

(1) Estimated interest payments are based on the outstanding balance as of October 31, 2018 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 and 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 includes commitments to purchase inventory of $111.4 million.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States 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 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. The description of critical accounting policies is included in our Form 10-K for the fiscal year ended January 31, 2018 (the "2018 Form 10-K") , as updated by our Form 8-K filed with the SEC on November 23, 2018.

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 quarterly average net availability under the borrowing base) or the alternate base rate plus a margin ranging from 1.50% to 2.25% per annum (depending on quarterly average net availability under the borrowing base). 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 average net availability under the borrowing base 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, 2018, the balance outstanding under our Revolving Credit Facility was $83.1 million. A 100 basis point increase in interest rates on the Revolving Credit Facility would increase our borrowing costs by $0.8 million over a 12-month period, based on the balance outstanding at October 31, 2018.

ITEM 4. CONTROLS AND PROCEDURES

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

For the quarter ended October 31, 2018, there have been no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth in Note 6, *Contingencies*, of the 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 2018 Form 10-K and Item 1A, Risk Factors, in the Q2 FY19 Form 10-Q. The risks described in our 2018 Form 10-K and in the Q2 FY19 Form 10-Q are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 5. OTHER INFORMATION

None.

Table of Contents

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
4.1	Specimen of certificate for shares of Conn's, Inc.'s common stock (incorporated herein by reference to Exhibit 4.1 to registration statement on Form S-1 (File No. 333-109046) as filed with the Securities and Exchange Commission on October 29, 2003)
4.2	Base Indenture, dated as of August 15, 2018, 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 August 17, 2018)
4.3	Series 2018-A Supplement to the Base Indenture, dated as of August 15, 2018, 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 August 17, 2018)
10.1	First Receivables Purchase Agreement, dated August 15, 2018, 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 August 17, 2018)
10.2	Second Receivables Purchase Agreement, dated August 15, 2018, 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 August 17, 2018)
10.3	Purchase and Sale Agreement, dated August 15, 2018, by and between the Seller and the 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 August 17, 2018)
10.4	Servicing Agreement dated as of August 15, 2018, 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 August 17, 2018)
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 2019, filed with the SEC on December 4, 2018, formatted in Extensible Business Reporting Language (XBRL): (i) the consolidated balance sheets at October 31, 2018 and January 31, 2018, (ii) the consolidated statements of income for the three and nine months ended October 31, 2018 and 2017, (iii) the consolidated statements of cash flows for the nine months ended October 31, 2018 and 2017 and (iv) the notes to 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 4, 2018

By: /s/ Lee A. Wright

Lee A. Wright

Executive Vice President and Chief Financial Officer

(Principal Financial Officer and duly authorized to sign this report on behalf of the registrant)

SECOND AMENDED AND RESTATED BYLAWS

OF

CONN'S, INC.

AS OF November 27, 2018

TABLE OF CONTENTS

TABLE OF CONTENTS
(continued)

TABLE OF CONTENTS
(continued)

BYLAWS

OF

CONN'S, INC.

ARTICLE 1
OFFICES

Section 1.1 Registered Office. The registered office and registered agent of Conn's, Inc., a Delaware corporation (the "Corporation"), will be as from time to time set forth in the Corporation's Certificate of Incorporation or in any certificate filed with the Secretary of State of the State of Delaware, and the appropriate County Recorder or Recorders, as the case may be, to amend such information.

Section 1.2 Other Offices. The Corporation may also have offices at such other places, both within and without the State of Delaware, as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE 2
MEETINGS OF STOCKHOLDERS

Section 2.1 Place of Meetings. Meetings of stockholders for all purposes may be held at such time and place, either within or without the State of Delaware, as designated by the Board of Directors and as shall be stated in the notice of the meeting or in a duly executed waiver of notice thereof. The Board of Directors may, in its sole discretion, determine that a meeting of stockholders shall not be held at any place, but may instead be held solely by means of remote communication as authorized by Section 211 of the Delaware General Corporation Law.

Section 2.2 Annual Meeting. An annual meeting of stockholders of the Corporation shall be held each calendar year at such time as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting or in a duly executed waiver of notice of such meeting. At such meeting, the stockholders shall elect directors and transact such other business as may properly be brought before the meeting.

Section 2.3 Special Meetings. Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute, the Corporation's Certificate of Incorporation or these Bylaws, may be called only by the Chairman of the Board, President or by a majority of the Board of Directors. Business transacted at all special meetings shall be confined to the purposes stated in the notice of the meeting.

Section 2.4 Notice. Written or printed notice stating the place, if any, date, and hour of each meeting of the stockholders, the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be given not less than ten (10) nor more than sixty (60) days before the date of the meeting, to each stockholder entitled to vote at such meeting. If such notice is sent by mail, notice is given when deposited in the United States mail, postage prepaid, directed to the stockholder at the stockholder's address as it appears on the records of the Corporation. An affidavit of the Secretary or an Assistant Secretary or of the transfer agent or other agent of the Corporation that the notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein. Notice of any meeting of stockholders shall not be required to be given to any stockholder who shall attend such meeting in person or by proxy and shall not, at the beginning of such meeting, object to the transaction of any business because the meeting is not lawfully called or convened, or who shall, either before or after the meeting, submit a signed waiver of notice, in person or by proxy.

Section 2.5 Voting List. At least ten (10) days before each meeting of stockholders, the Secretary or other officer of the Corporation who has charge of the Corporation's stock ledger, either directly or through another officer appointed by the Secretary or such other officer or through a transfer agent appointed by the Board of Directors, shall prepare a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, for a period of at least ten (10) days prior to the meeting: (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting; or (ii) during ordinary business hours, at the principal place of business of the Corporation. In the event that the Corporation determines to make the list available on an electronic network, the Corporation may take reasonable steps to ensure that such information is available only to stockholders of the Corporation. If the meeting is to be held at a place, then the list shall be produced and kept at the time and place of the meeting during the whole time of the meeting and may be inspected by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting.

Section 2.6 Quorum. A majority of the shares entitled to vote, present in person or represented by proxy, shall constitute a quorum at any meeting of stockholders, except as otherwise provided by statute, the Corporation's Certificate of Incorporation or these Bylaws. The stockholders present at a duly constituted meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum. If a quorum shall not be present at any meeting of stockholders, the stockholders entitled to vote thereat who are present, in person or by proxy, or, if no stockholder entitled to vote is present, any officer of the Corporation, may adjourn the meeting from time to time until a quorum shall be present.

Section 2.7 Adjourned Meeting. When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time, place, if any, thereof, and the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such adjourned meeting are announced at the meeting at which the adjournment is taken. At any adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the original meeting had a quorum been present. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 2.8 Required Vote. In all matters other than the election of directors, the affirmative vote of the majority of shares present in person or represented by proxy at the meeting and entitled to vote on the subject matter shall be the act of the stockholders, unless the question is one on which, by express provision of statute, the Corporation's Certificate of Incorporation or these Bylaws, a different vote is required, in which case such express provision shall govern and control the decision of the question.

Each director shall be elected by the affirmative vote of the holders of the majority of the votes cast at a meeting for the election of directors at which a quorum is present; provided, however, that the directors shall be elected by a plurality of the vote casts at any meeting for which the number of candidates for election as directors exceeds the number of directors to be elected, with the determination thereof being made by the Secretary of the Corporation as of the tenth (10th) day preceding the date the Corporation files its definitive proxy statement for the annual meeting of stockholders (regardless of whether or not thereafter revised or supplemented) with the Securities and Exchange Commission. For purposes of this paragraph, a majority of votes cast means that the number of shares voted “for” a director’s election exceeds the number of shares voted “against” such director’s election. Votes cast shall exclude abstentions with respect to that director’s election.

The Board of Directors shall have the power to establish procedures with respect to the resignation of continuing directors who are not reelected as provided above.

Section 2.9 Proxies.

(a) Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for such stockholder by proxy, but no such proxy shall be voted or acted upon after three (3) years from its date, unless the proxy provides for a longer period. Each proxy shall be filed with the Secretary of the Corporation prior to or at the time of the meeting.

(b) Without limiting the manner in which a stockholder may authorize another person or persons to act for such stockholder as proxy pursuant to subsection (a) of this section, the following shall constitute a valid means by which a stockholder may grant such authority:

(1) A stockholder may execute a writing authorizing another person or persons to act for such stockholder as proxy. Execution may be accomplished by the stockholder or by an authorized officer, director, employee or agent of the stockholder signing such writing or causing such stockholder’s signature to be affixed to such writing by any reasonable means including, but not limited to, by facsimile signature.

(2) stockholder may authorize another person or persons to act for such stockholder as proxy by transmitting or authorizing the transmission of a telegram, cablegram, or other means of electronic transmission to the person who will be the holder of the proxy or to a proxy solicitation firm, proxy support service organization or like agent duly authorized by the person who will be the holder of the proxy to receive such transmission, provided that any such telegram, cablegram or other means of electronic transmission must either set forth or be submitted with information from which it can be determined that the telegram, cablegram or other electronic transmission was authorized by the stockholder. If it is determined that such telegrams, cablegrams or other electronic transmissions are valid, the inspectors or, if there are no inspectors, such other persons making that determination shall specify the information upon which they relied.

(c) Any copy, facsimile telecommunication or other reliable reproduction of the writing or transmission created pursuant to subsection (b) of this section may be substituted or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used, provided that such copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission.

(d) A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power.

Section 2.10 Record Date.

(a) In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting. If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

(b) In order that the Corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, if so permitted by the Corporation's Certificate of Incorporation and these Bylaws, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which date shall not be more than ten (10) days after the date upon which the resolution fixing the record date is adopted by the Board of Directors. If no record date has been fixed by the Board of Directors, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is required by statute or these Bylaws, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the Corporation by delivery to its registered office in Delaware, its principal place of business, or an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Such delivery shall be by hand or by certified or registered mail, return receipt requested. If no record date has been fixed by the Board of Directors and prior action by the Board of Directors is required by statute or these Bylaws, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the day on which the Board of Directors adopts the resolution taking such prior action.

(c) In order that the Corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than sixty (60) days prior to such payment, exercise, or other action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

Section 2.11 Action By Remote Communication. If authorized by the Board of Directors in its sole discretion, and subject to such guidelines and procedures as the Board of Directors may adopt, stockholders and proxy holders not physically present at a meeting of stockholders may, by means of remote communication: (i) participate in a meeting of stockholders; and (ii) be deemed present in person and vote at a meeting of stockholders, whether such meeting is to be held at a designated place or solely by means of remote communication, provided that (A) the Corporation shall implement reasonable measures to verify that each person deemed present and permitted to vote at the meeting by means of remote communication is a stockholder or proxy holder; (B) the Corporation shall implement reasonable measures to provide such stockholders and proxy holders a reasonable opportunity to participate in the meeting and to vote on matters submitted to the stockholders, including an opportunity to read or hear the proceedings of the meeting substantially concurrently with such proceedings; and (C) if any stockholder or proxy holder votes or takes other action at the meeting by means of remote communication, a record of such vote or other action shall be maintained by the Corporation.

Section 2.12 No Stockholder Action by Written Consent. Any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of stockholders of the Corporation and may not be effected by any consent in writing by such stockholders, unless the action to be effected by written consent of the stockholders and the taking of such action by such written consent have been expressly approved in advance by the Board of Directors.

Section 2.13 Inspectors of Elections. The Board of Directors may, in advance of any meeting of stockholders, appoint one or more inspectors to act at such meeting or any adjournment thereof. If any of the inspectors so appointed shall fail to appear or act, the chairman of the meeting shall, or if inspectors shall not have been appointed, the chairman of the meeting may, appoint one or more inspectors. Each inspector, before entering upon the discharge of such inspector's duties, shall take and sign an oath faithfully to execute the duties of inspector at such meeting with strict impartiality and according to the best of such inspector's ability. The inspectors shall determine the number of shares of capital stock of the Corporation outstanding and the voting power of each, the number of shares represented at the meeting, the existence of a quorum, and the validity and effect of proxies and shall receive votes, ballots, or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots, or consents, determine the results, and do such acts as are proper to conduct the election or vote with fairness to all stockholders. On request of the chairman of the meeting, the inspectors shall make a report in writing of any challenge, request, or matter determined by them and shall execute a certificate of any fact found by them. No director or candidate for the office of director shall act as an inspector of an election of directors. Inspectors need not be stockholders.

Section 2.14 Notice of Stockholder Business; Nominations.

(a) Nominations of persons for election to the Board of Directors and the proposal of business to be considered by the stockholders shall be made at an annual meeting of stockholders (1) pursuant to the Corporation's notice of such meeting; (2) by or at the direction of the Board of Directors; or (3) by any stockholder of the Corporation who was a stockholder of record at the time of giving of the notice provided for in this Section 2.14, who is entitled to vote at such meeting and who complies with the notice procedures set forth in this Section 2.14

(b) For nominations or other business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation and such other business must otherwise be a proper matter for stockholder action. To be timely, a stockholder's notice must be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the ninetieth (90th) day nor earlier than the close of business on the one hundred twentieth (120th) day prior to the first anniversary of the preceding year's proxy statement in connection with the last annual meeting. Such stockholder's notice shall set forth: (1) as to each person whom the stockholder proposes to nominate for election or reelection as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; (2) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (3) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (A) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner; and (B) the class and number of shares of the Corporation that are owned beneficially and held of record by such stockholder and such beneficial owner.

(c) Notwithstanding the aforementioned procedure, the Board of Directors may, in its discretion, exclude from any proxy materials sent to stockholders any matters that may properly be excluded under the Exchange Act, Securities and Exchange Commission rules or other applicable laws.

ARTICLE 3
DIRECTORS

Section 3.1 Management. The business and affairs of the Corporation shall be managed by or under the direction of a Board of Directors, who may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute, the Corporation's Certificate of Incorporation or these Bylaws directed or required to be exercised or done by the stockholders. The Board of Directors shall keep regular minutes of its proceedings.

Section 3.2 Number; Election; Change In Number. Except as otherwise provided for or fixed pursuant to the provisions of Article FOUR of the Corporation's Certificate of Incorporation relating to the rights of holders of any series of Preferred Stock to elect additional directors, the total number of directors which shall constitute the entire Board of Directors of the Corporation shall be no less than three (3) directors. The number of directors which shall constitute the entire Board of Directors may be increased or (subject to the immediately preceding sentence) decreased by one or more resolutions adopted by the Board of Directors. Except with respect to the current terms of directors elected prior to the effective time of the amendment to the Corporation's Certificate of Incorporation eliminating the classified Board of Directors, who shall serve the remainder of their term, each director shall hold office until the next annual meeting of the stockholders of the Corporation following such director's election or appointment and, the foregoing notwithstanding, shall serve until his successor shall have been duly elected and qualified, unless he shall resign, become disqualified, disabled or shall otherwise be removed. If authorized by the Board of Directors, a ballot may be submitted by electronic transmission, provided that any such electronic transmission must either set forth, or be submitted with, information from which it can be determined that the electronic transmission was authorized by the stockholder or proxy holder. No decrease in the number of directors constituting the whole Board of Directors shall have the effect of shortening the term of any incumbent director.

Section 3.3 Removal; Resignation. Any director or the entire Board of Directors may be removed from office at any time, with or without cause, by the affirmative vote of a majority of the total voting power of the outstanding shares of the capital stock of the Corporation entitled to vote generally in the election of directors voting together as a single class. Any director may resign at any time upon notice given in writing or by electronic transmission to the Corporation.

Section 3.4 Vacancies and Newly Created Directorships. Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director. Each director so chosen shall hold office until the next election of directors and until such director's successor is elected and qualified or until such director's earlier death, resignation or removal. If at any time there are no directors in office, an election of directors may be held in the manner provided by statute. Except as otherwise provided in these Bylaws, when one or more directors shall resign from the Board of Directors, effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have the power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each director so chosen shall hold office as provided in these Bylaws with respect to the filling of other vacancies.

Section 3.5 Cumulative Voting Prohibited. Cumulative voting shall be prohibited.

Section 3.6 Place of Meetings. The directors of the Corporation may hold their meetings, both regular and special, either within or without the State of Delaware.

Section 3.7 First Meetings. The first meeting of each newly elected Board of Directors shall be held without further notice immediately following the annual meeting of stockholders, and at the same place, unless by unanimous consent of the directors then elected and serving, such time or place shall be changed.

Section 3.8 Regular Meetings. Regular meetings of the Board of Directors may be held without notice at such time and place as shall from time to time be determined by the Board of Directors.

Section 3.9 Special Meetings. Special meetings of the Board of Directors may be called by the Chairman of the Board or the President on twenty-four (24) hours' notice to each director, if by telecopier, electronic facsimile or hand delivery, or on three (3) days' notice to each director, if by mail or by telegram. Except as may be otherwise expressly provided by law or the Corporation's Certificate of Incorporation, neither the business to be transacted at, nor the purpose of, any special meeting need be specified in a notice or waiver of notice.

Section 3.10 Quorum. At all meetings of the Board of Directors, a majority of the total number of directors shall constitute a quorum for the transaction of business, and the vote of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board of Directors, except as may be otherwise specifically provided by law or the Corporation's Certificate of Incorporation. If a quorum shall not be present at any meeting of directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 3.11 Action Without Meeting; Telephone Meetings. Any action required or permitted to be taken at a meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting if all members of the Board of Directors or such committee, as the case may be, consent thereto in writing or by electronic transmission, and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board of Directors or such committee, respectively. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form. Such consent shall have the same force and effect as a unanimous vote at a meeting. Subject to applicable notice provisions and unless otherwise restricted by the Corporation's Certificate of Incorporation, members of the Board of Directors, or any committee designated by the Board of Directors, may participate in and hold a meeting by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and participation in such meeting shall constitute presence in person at such meeting, except where a person's participation is for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

Section 3.12 Chairman of the Board; Vice Chairman. The Board of Directors may elect a Chairman of the Board to preside at their meetings and to perform such other duties as the Board of Directors may from time to time assign to such person. The Chairman of the Board may be either an Executive Chairman of the Board, who shall be an executive of the Corporation; or a Non-Executive Chairman of the Board. The Board of Directors may also elect a Vice Chairman of the Board to preside at their meetings in the absence of the

Chairman of the Board and to perform such other duties as the Board of Directors may from time to time assign to such person. The Vice Chairman of the Board may be either an Executive Vice Chairman of the Board, who shall be an executive of the Corporation, or a Non-Executive Vice Chairman of the Board.

Section 3.13 Compensation. The Board of Directors may fix the compensation of the members of the Board of Directors at any time and from time to time. Nothing herein contained shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

ARTICLE 4
COMMITTEES

Section 4.1 Designation. The Board of Directors may designate one or more committees.

Section 4.2 Number; Term. Each committee shall consist of one or more directors. The number of committee members may be increased or decreased from time to time by the Board of Directors. Each committee member shall serve as such until the earliest of (i) the expiration of such committee member’s term as director; (ii) such committee member’s resignation as a committee member or as a director; or (iii) such committee member’s removal as a committee member or as a director.

Section 4.3 Authority. Each committee, to the extent expressly provided in the resolution of the Board of Directors establishing such committee, shall have and may exercise all of the authority of the Board of Directors in the management of the business and affairs of the Corporation except to the extent expressly restricted by statute, the Corporation’s Certificate of Incorporation or these Bylaws.

Section 4.4 Committee Changes; Removal. The Board of Directors shall have the power at any time to fill vacancies in, to change the membership of, and to discharge any committee. The Board of Directors may remove any committee member, at any time, with or without cause.

Section 4.5 Alternate Members; Acting Members. The Board of Directors may designate one or more directors as alternate members of any committee. Any such alternate member may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in place of any such absent or disqualified member.

Section 4.6 Regular Meetings. Regular meetings of any committee may be held without notice at such time and place as may be designated from time to time by the committee and communicated to all members thereof.

Section 4.7 Special Meetings. Special meetings of any committee may be held whenever called by the Chairman of the Committee, or, if the committee members have not elected a Chairman, by any committee member. The Chairman of the Committee or the committee member calling any special meeting shall cause notice of such special meeting, including therein the time and place of such special meeting, to be given to each committee member at least (i) twenty-four (24) hours before such special meeting if notice is given by telecopy, electronic facsimile or hand delivery or (ii) at least three days before such special meeting if notice is given by mail or by telegram. Neither the business to be transacted at, nor the purpose of, any special meeting of any committee need be specified in the notice or waiver of notice of any special meeting.

Section 4.8 Quorum; Majority Vote. At meetings of any committee, a majority of the number of members designated as the Committee by the Board of Directors shall constitute a quorum for the transaction of business. Alternate members and acting members shall be counted in determining the presence of a quorum.

If a quorum is not present at a meeting of any committee, a majority of the members present may adjourn the meeting from time to time, without notice other than an announcement at the meeting, until a quorum is present. The vote of a majority of the members, including alternate members and acting members, present at any meeting at which a quorum is present shall be the act of a committee, unless the act of a greater number is required by law or the Corporation's Certificate of Incorporation.

Section 4.9 Minutes. Each committee shall cause minutes of its proceedings to be prepared and shall report the same to the Board of Directors upon the request of the Board of Directors. The minutes of the proceedings of each committee shall be delivered to the Secretary of the Corporation for placement in the minute books of the Corporation.

Section 4.10 Compensation. Committee members may, by resolution of the Board of Directors, be allowed a fixed sum and expenses of attendance, if any, for attending any committee meetings or a stated salary.

ARTICLE 5
NOTICES

Section 5.1 Method.

(a) Whenever by statute, the Corporation's Certificate of Incorporation, or these Bylaws, notice is required to be given to any stockholder, director or committee member, and no provision is made as to how such notice shall be given, personal notice shall not be required, and any such notice may be given (i) in writing, by mail, postage prepaid, addressed to such committee member, director, or stockholder at such stockholder's address as it appears on the books or (in the case of a stockholder) the stock transfer records of the Corporation; or (ii) by any other method permitted by law (including, but not limited to, overnight courier service, facsimile telecommunication, electronic mail, telegram, telex, or telefax). Any notice required or permitted to be given by mail shall be deemed to be given when deposited in the United States mail as aforesaid. Any notice required or permitted to be given by overnight courier service shall be deemed to be given at the time delivered to such service with all charges prepaid and addressed as aforesaid.

(b) Without limiting the manner by which notice otherwise may be given effectively to stockholders, any notice to stockholders given by the Corporation under any provision of the Delaware General Corporation Law, the Corporation's Certificate of Incorporation, or these Bylaws shall be effective if given by a form of electronic transmission consented to by the stockholder to whom the notice is given. Any such consent shall be revocable by the stockholder by written notice to the Corporation. Any such consent shall be deemed revoked if: (i) the Corporation is unable to deliver by electronic transmission two (2) consecutive notices given by the Corporation in accordance with such consent; and (ii) such inability becomes known to the Secretary or an Assistant Secretary of the Corporation or to the transfer agent, or other person responsible for the giving of notice; provided, however, the inadvertent failure to treat such inability as a revocation shall not invalidate any meeting or other action.

(c) Notice given pursuant to Section 5.1(b) shall be deemed given: (i) if by facsimile telecommunication, when directed to a number at which the stockholder has consented to receive notice; (ii) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice; (iii) if by a posting on an electronic network together with separate notice to the stockholder of such specific posting, upon the later of (A) such posting and (B) the giving of such separate notice; and (iv) if by any other form of electronic transmission, when directed to the stockholder.

(d) An affidavit of the Secretary or an Assistant Secretary or of the transfer agent or other agent of the Corporation that the notice has been given, including by a form of electronic transmission, shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

Section 5.2 Waiver. Whenever any notice is required to be given to any stockholder, director, or committee member of the Corporation by law, the Corporation's Certificate of Incorporation or these Bylaws, a written waiver thereof, signed by the person or persons entitled to such notice, or a waiver by electronic transmission by the person or persons entitled to such notice, whether before or after the time stated therein, shall be equivalent to notice. Attendance of a stockholder, director, or committee member at a meeting shall constitute a waiver of notice of such meeting, except when the person attends for the express purpose of objecting at the beginning of the meeting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

Section 5.3 Exception to Notice Requirement. The giving of any notice required under any provision of the Delaware General Corporation Law, the Corporation's Certificate of Incorporation or these Bylaws shall not be required to be given to any stockholder to whom: (i) notice of two consecutive annual meetings, and all notices of meetings or of the taking of action by written consent without a meeting to such stockholder during the period between such two consecutive annual meetings; or (ii) all, and at least two, payments (if sent by first-class mail) of dividends or interest on securities during a twelve-month period, have been mailed addressed to such person at such person's address as shown on the records of the Corporation and have been returned undeliverable. If any such stockholder shall deliver to the Corporation a written notice setting forth such stockholder's then current address, the requirement that notice be given to such stockholder shall be reinstated. The exception provided for in this Section 5.3 to the requirement that notice be given shall not be applicable to any notice returned as undeliverable if the notice was given by electronic transmission.

ARTICLE 6
OFFICERS

Section 6.1 Officers. The officers of the Corporation shall be a Chief Executive Officer, a President, one or more Vice Presidents (who shall rank in such order and who shall have such additional titles or designations, such as "Executive," "Senior," "First," or "Second," as may be determined from time to time by the Board of Directors), a Chief Financial Officer, a Chief Operating Officer, a Secretary, and a Treasurer. The Board of Directors may also choose a Chairman of the Board, Vice Chairman of the Board, Presidents of divisions of the Corporation, additional Vice Presidents and one or more Assistant Secretaries and Assistant Treasurers or other officers. The Board of Directors may also from time to time, in its discretion, assign titles, powers, duties and reporting arrangements for any elected officer. Any two or more offices may be held by the same person.

Section 6.2 Election. The Board of Directors at its first meeting after each annual meeting of stockholders shall elect the officers of the Corporation, none of whom need be a member of the Board, a stockholder or a resident of the State of Delaware. The Board of Directors may appoint such other officers and agents as it shall deem necessary, who shall be appointed for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors.

Section 6.3 Compensation. The compensation of all officers and agents of the Corporation shall be fixed by the Compensation Committee.

Section 6.4 Removal and Vacancies. Each officer of the Corporation shall hold office until such officer's successor is elected and qualified or until such officer's earlier resignation or removal. Any officer or agent elected or appointed by the Board of Directors may be removed either for or without cause by a majority of the directors represented at a meeting of the Board of Directors at which a quorum is represented, whenever in the judgment of the Board of Directors the best interests of the Corporation will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. If the office of any officer becomes vacant for any reason, the vacancy may be filled by the Board of Directors, however, any office of the Corporation may be left vacant from time to time at the discretion of the Board of Directors.

Section 6.5 Chief Executive Officer. The Chief Executive Officer shall be the senior officer of the Corporation, shall preside at all meetings of the stockholders and the Board of Directors unless the Board of Directors shall elect a Chairman of the Board or Vice Chairman of the Board, in which event the Chief Executive Officer shall preside at meetings of the Board of Directors only in the absence of both the Chairman of the Board and Vice Chairman of the Board, if any. The Chief Executive Officer shall be an ex-officio member of the executive committee (if established), and will share the general and active management of the business of the Corporation with the President(s), and shall see, along with the President(s), that all orders and resolutions of the Board of Directors are carried into effect. Under the seal of the Corporation, he shall execute bonds, mortgages, and other contracts requiring a seal, except where required or permitted by law to be otherwise signed and executed, except where the signing and execution shall be especially delegated by the Board of Directors to some other officer or agent of the Corporation. Unless otherwise provided by the Board of Directors, all other officers of the Corporation shall report directly or indirectly to the Chief Executive Officer.

Section 6.6 President. The President shall, subject to the control of the Board of Directors, Chairman of the Board of Directors and Chief Executive Officer, in the absence, disability, or inability to act of the Chief Executive Officer, exercise all powers and perform all duties of the Chief Executive Officer (except such powers and duties as are incident to the Chief Executive Officer's position or a member of the Board of Directors or any Executive Committee appointed by the Board of Directors pursuant to Section 4.3 of Article 4). The President shall have general and active management of the business and affairs of the Corporation, shall see that all orders and resolutions of the Board are carried into effect, and shall perform such other duties as the Board of Directors, the Chairman of the Board of Directors, or the Chief Executive Officer shall prescribe.

Section 6.7 Chief Financial Officer. The Chief Financial Officer of the Corporation shall, subject to the control of the Board of Directors, the Chairman of the Board of Directors and the Chief Executive Officer, be the chief financial officer of the Corporation. The Chief Financial Officer shall have custody of the funds and securities of the Corporation and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all monies and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors (or any duly authorized committee thereof). The Chief Financial Officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the Corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital and stock. The Chief Financial Officer shall receive and give receipts and acquittances for money paid in an account of the Corporation and shall pay out of the Corporation's funds on hand all bills, payrolls and other just debts of the Corporation of whatever nature upon maturity. The Chief Financial Officer shall render to the Chief Executive Officer and the Board of Directors, at its regular meetings or when the Board of Directors so requires, an account of all his transactions as Chief Financial Officer and of the financial condition of the

Corporation. The Chief Financial Officer shall have such other powers and perform such other duties as may from time to time be assigned to such officer by the Board of Directors, the Chairman of the Board of Directors or the Chief Executive Officer.

Section 6.8 Chief Operating Officer. The Chief Operating Officer shall, subject to the control of the Board of Directors, the Chairman of the Board of Directors and the Chief Executive Officer, be the chief administrative officer of the Corporation and shall have general charge of the business, affairs and property of the Corporation, and control over its officers (other than the Chief Executive Officer, the President and the Chief Financial Officer), agents and employees. The Chief Operating Officer shall see to it that all orders and resolutions of the Board of Directors (or any duly authorized committee thereof), the Chairman of the Board of Directors and the Chief Executive Officer are carried into effect. The Chief Operating Officer shall have such other powers and perform such other duties as may from time to time be assigned to such officer by the Board of Directors, the Chairman of the Board of Directors or the Chief Executive Officer.

Section 6.9 Executive Vice Presidents. The Board of Directors may designate one or more Vice President(s) as Executive Vice President(s), who shall, in the absence, disability, or inability to act of the President, perform all the duties, exercise the powers and assume all responsibilities of the President. They shall also generally assist the President and exercise any other powers and perform such other duties as are delegated to them by the Chief Executive Officer, President or such other officer to whom they report and as the Board of Directors shall prescribe.

Section 6.10 Vice Presidents. In the absence or disability of the President, and Executive Vice Presidents, the Vice President (or in the event there is more than one Vice President, the Vice Presidents in the order designated by the Board, or in the absence of any designation, then in the order of their election or appointment) shall perform the duties of the President, and when so acting shall have all the powers of and be subject to all of the restrictions upon the President. Each Vice President shall have only such powers and perform only such duties as the Board of Directors may from time to time prescribe or as the Chief Executive Officer, the President or such other officer to whom they report may from time to time delegate.

Section 6.11 Secretary. The Secretary shall attend all sessions of the Board of Directors and all meetings of the stockholders and record all votes and the minutes of all proceedings in a book to be kept for that purpose and shall perform like duties for any committee when required. Except as otherwise provided herein, the Secretary shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or President, under whose supervision the Secretary shall be. The Secretary shall keep in safe custody the seal of the Corporation and, when authorized by the Board of Directors, affix the same to any instrument requiring it, and, when so affixed, it shall be attested by the signature of the Secretary or by the signature of the Treasurer or an Assistant Secretary.

Section 6.12 Assistant Secretaries. Each Assistant Secretary shall have only such powers and perform only such duties as the Board of Directors may from time to time prescribe or as the Chief Executive Officer or the President may from time to time delegate.

Section 6.13 Treasurer. The Treasurer shall perform such duties and have such powers as from time to time may be assigned to him by the Board of Directors (or any duly authorized committee thereof), the Chairman of the Board of Directors, the Chief Executive Officer or the Chief Financial Officer and if there be no Chief Financial Officer or in the absence of the Chief Financial Officer or in the event of the Chief Financial Officer’s disability or refusal to act, shall perform the duties of the Chief Financial Officer, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Chief Financial Officer.

Section 6.14 Assistant Treasurers. Each Assistant Treasurer shall have only such powers and perform only such duties as the Board of Directors may from time to time prescribe or as the Chief Executive Officer or the President may from time to time delegate.

Section 6.15 Other Officers. Other officers of the Corporation shall have such powers and perform such duties as may be prescribed from time to time by the Board of Directors, or the Chief Executive Officer, or any officer of the Corporation to whom such other officer shall report, may from time to time delegate.

ARTICLE 7
CERTIFICATES REPRESENTING SHARES

Section 7.1 Certificated and Uncertificated Shares. The shares of stock of the Corporation shall be represented by certificates of stock; provided, however, that the Board of Directors may provide by resolution or resolutions that some or all of any or all classes or series of the Corporation’s stock shall be uncertificated shares; provided, further, that any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the Corporation. Notwithstanding the adoption of such a resolution by the Board of Directors, every holder of stock represented by certificates and upon request, every holder of uncertificated shares shall be entitled to have a certificate signed by the Chairman or Vice Chairman of the Board of Directors or the President, a Vice President or other officer designated by the Board of Directors, countersigned by the Treasurer or the Secretary or an Assistant Treasurer or an Assistant Secretary. Such signature of the Chairman or Vice Chairman of the Board, President, Vice President, or other officer, such countersignature of the Treasurer or Secretary or Assistant Treasurer or Assistant Secretary, and such seal, or any of them, may be executed in facsimile, engraved or printed. In case any officer who has signed or whose facsimile signature has been placed upon any share certificate shall have ceased to be such officer because of death, resignation or otherwise before the certificate is issued, it may be issued by the Corporation with the same effect as if the officer had not ceased to be such at the date of its issue. Said certificates of stock shall be in such form as the Board of Directors may from time to time prescribe.

Section 7.2 Legends. The Board of Directors shall have the power and authority to provide that certificates representing shares of stock shall bear such legends, and stop transfer instructions and the equivalent of legends with respect to any uncertificated shares, as the Board of Directors shall authorize, including, without limitation, such legends as the Board of Directors deems appropriate to assure that the Corporation does not become liable for violations of federal or state securities laws or other applicable law, including, but not limited to, the requirements imposed pursuant to Section 151(f) of the Delaware General Corporation Law.

Section 7.3 Lost Certificates. The Corporation may issue a new certificate representing shares in place of any certificate theretofore issued by the Corporation, alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate to be lost, stolen or destroyed. The Board of Directors, in its discretion and as a condition precedent to the issuance thereof, may require the owner of such lost, stolen or destroyed certificate, or such owner’s legal representative, to advertise the same in such manner as it shall specify and/or to give the Corporation a bond in such form, in such sum, and with such surety or sureties as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

Section 7.4 Transfers. Certificated shares of the Corporation will only be transferred on its books upon the surrender to the Corporation of the share certificates duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer. The surrendered certificates shall be canceled, new certificates issued to the person entitled to them and the transaction recorded on the books of the Corporation. Uncertificated shares will only be transferred on the books of the Corporation upon the written instruction from the registered owner of such uncertificated shares, or from a duly authorized attorney, or from an individual presenting proper evidence of succession, assignment or authority to transfer the stock.

Section 7.5 Registered Stockholders. The Corporation shall be entitled to treat the holder of record of any share or shares of stock as the holder in fact thereof for any and all purposes, and, accordingly, shall not be bound to recognize any equitable or other claim or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law.

ARTICLE 8
INDEMNIFICATION

Section 8.1 Actions, Suits or Proceedings Other Than by or in the Right of the Corporation. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that such person is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding, if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe such person's conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of *nolo contendere* or its equivalent, shall not, of itself, create a presumption that the person did not meet the standards of conduct set forth in this Section 8.1.

Section 8.2 Actions or Suits by or in the Right of the Corporation. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that such person is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit, if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Corporation, except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of such liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

Section 8.3 Indemnification for Costs, Charges and Expenses of Successful Party. Notwithstanding the other provisions of this Article 8, to the extent that a present or former director or officer of the Corporation has been successful on the merits or otherwise, in defense of any action, suit or proceeding referred to in Section 8.1 and Section 8.2 of this Article 8, or in the defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith.

Section 8.4 Determination of Right to Indemnification. Any indemnification under Section 8.1 and Section 8.2 of this Article 8 (unless ordered by a court) shall be paid by the Corporation only as authorized in the specific case upon a determination that indemnification of the present or former director, officer, employee or agent is proper in the circumstances because the person has met the applicable standard of conduct set forth in Section 8.1 and Section 8.2 of this Article 8. Such determination shall be made, with respect to a person who is a director or officer at the time of such determination, (a) by a majority vote of the Board of Directors who were not parties to such action, suit or proceeding, even though less than a quorum, or (b) by a committee of such directors designated by majority vote of such directors, even though less than a quorum, (c) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (d) by the stockholders.

Section 8.5 Advance of Costs, Charges and Expenses. Costs, charges and expenses (including attorneys, fees) incurred by a person referred to in Section 8.1 and Section 8.2 of this Article 8 in defending a civil or criminal action, suit or proceeding (including investigations by any government agency and all costs, charges and expenses incurred in preparing for any threatened action, suit or proceeding) shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding; provided, however, that the payment of such costs, charges and expenses incurred by a director or officer in such person's capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer) in advance of the final disposition of such action, suit or proceeding shall be made only upon receipt of an undertaking by or on behalf of the director or officer to repay all amounts so advanced in the event that it shall ultimately be determined that such director or officer is not entitled to be indemnified by the Corporation as authorized in this Article 8. No security shall be required for such undertaking and such undertaking shall be accepted without reference to the recipient's financial ability to make repayment. The repayment of such charges and expenses incurred by other employees and agents of the Corporation which are paid by the Corporation in advance of the final disposition of such action, suit or proceeding as permitted by this Section 8.5 may be required upon such terms and conditions, if any, as the Board of Directors deems appropriate. The Board of Directors may, in the manner set forth above, and subject to the approval of such director, officer, employee or agent of the Corporation, authorize the Corporation's counsel to represent such person, in any action, suit or proceeding, whether or not the Corporation is a party to such action, suit or proceeding.

Section 8.6 Procedure for Indemnification. Any indemnification under Section 8.1 and Section 8.2 or Section 8.3 or advance of costs, charges and expenses under Section 8.5 of this Article 8 shall be made promptly, and in any event within 30 days, upon the written request of the director, officer, employee or agent directed to the Secretary of the Corporation. The right to indemnification or advances as granted by this Article 8 shall be enforceable by the director, officer, employee or agent in any court of competent jurisdiction if the Corporation denies such request, in whole or in part, or if no disposition thereof is made within 30 days. Such person's costs and expenses incurred in connection with successfully establishing such person's right to indemnification or advances, in whole or in part, in any such action shall also be indemnified by the Corporation. It shall be a defense to any such action (other than an action brought to enforce a claim for the advance of costs, charges and expenses under Section 8.5 of this Article 8 where the required undertaking, if any, has been received by the Corporation) that the claimant has not met the standard of conduct set forth in Section 8.1 and Section 8.2 of this Article 8, but the burden of proving that such standard of conduct has not been met shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, its independent legal counsel, and its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because such person has met the applicable standard of conduct set forth in Section 8.1 and Section 8.2 or Section 8.3 of this Article 8, nor the fact that there has been an actual determination by the Corporation (including its Board of Directors, its independent legal counsel, and its stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

Section 8.7 Other Rights; Continuation of Right to Indemnification. The indemnification provided by this Article 8 shall not be deemed exclusive of any other rights to which a person seeking indemnification may be entitled under any law (common or statutory), agreement, vote of stockholders or disinterested directors or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding office or while employed by or acting as agent for the Corporation, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the estate, heirs, executors and administrators of such person. All rights to indemnification under this Article 8 shall be deemed to be a contract between the Corporation and each director, officer, employee or agent of the Corporation who serves or served in such capacity at any time while this Article 8 is in effect. No amendment or repeal of this Article 8 or of any relevant provisions of the Delaware General Corporation Law or any other applicable laws shall adversely affect or deny to any director, officer, employee or agent any rights to indemnification which such person may have, or change or release any obligations of the Corporation, under this Article 8 with respect to any costs, charges, expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement which arise out of an action, suit or proceeding based in whole or substantial part on any act or failure to act, actual or alleged, which takes place before or while this Article 8 is in effect. The provisions of this Section 8.7 shall apply to any such action, suit or proceeding whenever commenced, including any such action, suit or proceeding commenced after any amendment or repeal of this Article 8.

Section 8.8 Construction. For purpose of this Article 8:

(i) "the Corporation" shall include any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Article 8 with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued;

(ii) "other enterprises" shall include employee benefit plans, including, but not limited to, any employee benefit plan of the Corporation;

(iii) "serving at the request of the Corporation" shall include any service which imposes duties on, or involves services by, a director, officer, employee, or agent of the Corporation with respect to an employee benefit plan, its participants, or beneficiaries, including acting as a fiduciary thereof;

(iv) "fines" shall include any penalties and any excise or similar taxes assessed on a person with respect to an employee benefit plan;

(v) a person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in Section 8.1 and Section 8.2 of this Article 8; and

(vi) service as a partner, trustee or member of management or similar committee of a partnership or joint venture, or as a director, officer, employee or agent of a corporation which is a partner, trustee or joint venturer, shall be considered service as a director, officer, employee or agent of the partnership, joint venture, trust or other enterprise.

Section 8.9 Savings Clause. If this Article 8 or any portion hereof shall be invalidated on any ground by a court of competent jurisdiction, then the Corporation shall nevertheless indemnify each director, officer, employee and agent of the Corporation as to expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative, including an action by or in the right of the Corporation, to the full extent permitted by any applicable portion of this Article 8 that shall not have been invalidated and to the full extent permitted by applicable law.

Section 8.10 Insurance. The Corporation shall purchase and maintain insurance on behalf of any person who is or was or has agreed to become a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against such person and incurred by such person or on such person's behalf in any such capacity, or arising out of such person's status as such, whether or not the Corporation would have the power to indemnify such person against such liability under the provisions of this Article 8, provided that such insurance is available on acceptable terms as determined by a vote of a majority of the entire Board of Directors.

ARTICLE 9
GENERAL PROVISIONS

Section 9.1 Dividends. The Board of Directors, subject to any restrictions contained in the Corporation's Certificate of Incorporation, may declare dividends upon the shares of the Corporation's capital stock. Dividends may be paid in cash, in property, or in shares of the Corporation, subject to the provisions of the Delaware General Corporation Law and the Corporation's Certificate of Incorporation.

Section 9.2 Reserves. By resolution of the Board of Directors, the directors may set apart out of any of the funds of the Corporation such reserve or reserves as the directors from time to time, in their discretion, think proper to provide for contingencies, or to equalize dividends, or to repair or maintain any property of the Corporation, or for such other purposes as the directors shall think beneficial to the Corporation, and the directors may modify or abolish any such reserve in the manner in which it was created.

Section 9.3 Authority to Sign Instruments. Any checks, drafts, bills of exchange, acceptances, bonds, notes or other obligations or evidences of indebtedness of the Corporation, and all deeds, mortgages, indentures, bills of sale, conveyances, endorsements, assignments, transfers, stock powers, or other instruments of transfer, contracts, agreements, dividend and other orders, powers of attorney, proxies, waivers, consents, returns, reports, certificates, demands, notices, or documents and other instruments or writings of any nature whatsoever may be signed, executed, verified, acknowledged, and delivered, for and in the name and on behalf of the Corporation, by such officers, agents, or employees of the Corporation, or any of them, and in such manner, as from time to time may be authorized by the Board of Directors, and such authority may be general or confined to specific instances.

Section 9.4 Fiscal Year. The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors.

Section 9.5 Seal. The corporate seal shall have inscribed thereon the name of the Corporation. Said seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

Section 9.6 Transactions with Directors and Officers. No contract or other transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association, or other organization in which one or more of its directors or officers, are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee which authorizes the contract or transaction, or solely because any such director's or officer's votes are counted for such purpose, if: (a) the material facts as to the director's or officer's relationship or interest and to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative vote of a majority of the disinterested directors, even though the disinterested directors be less than a quorum, or (b) the material facts as to the director's or officer's relationship or interest as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders, or (c) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified by the Board of Directors, a committee or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

Section 9.7 Amendments. These Bylaws may be altered, amended, or repealed or new bylaws may be adopted by the Board of Directors or by written consent of the Board of Directors. In addition to any requirements of law and any other provision of these Bylaws, the affirmative vote of the holders of at least 75 percent of the of the combined voting power of the then outstanding shares of all classes and series of capital stock entitled generally to vote in the election of directors of the Corporation, voting together as a single class, shall be required for stockholders to adopt, amend, alter, or repeal Section 2.3, Section 2.12, Section 2.14, Section 3.2, Section 3.3, and Section 3.4 of these Bylaws or to amend this Section 9.7 as it relates to the vote required to adopt, amend, alter or repeal the aforementioned sections of these Bylaws.

Section 9.8 Table of Contents; Headings. The table of contents and headings used in these Bylaws have been inserted for convenience only and do not constitute matters to be construed in interpretation.

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 4, 2018

EXHIBIT 31.2

CERTIFICATION

I, Lee A. Wright, 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/ Lee A. Wright

Lee A. Wright
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: December 4, 2018

EXHIBIT 32.1

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

In connection with the Quarterly Report of Conn's, Inc. (the "Company") on Form 10-Q for the period ended October 31, 2018, 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 Lee A. Wright, 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/ Lee A. Wright

Lee A. Wright
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: December 4, 2018

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.