

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2020

or

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

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

CONN'S, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

06-1672840

(I.R.S. Employer Identification Number)

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

(Address of principal executive offices)

77381

(Zip Code)

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

Not Applicable

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

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

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

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of December 1, 2020:

Class	Outstanding
Common stock, \$0.01 par value per share	29,203,187

CONN'S, INC. AND SUBSIDIARIES
FORM 10-Q
FOR THE FISCAL QUARTER ENDED OCTOBER 31, 2020

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

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

Explanatory Note

As previously disclosed in Note 17, *Quarterly Information (Unaudited)*, in our Annual Report on Form 10-K for the fiscal year ended January 31, 2020 (the “2020 Form 10-K”), we restated our audited consolidated financial statements for the three and nine month periods ended October 31, 2019 (the “Non-Reliance Periods”). Accordingly, the condensed consolidated financial statements for the Non-Reliance Periods included in this Form 10-Q have been restated as described in the 2020 Form 10-K. See also Note 1, *Summary of Significant Accounting Policies*, for further information on the impact of the restatement on the condensed consolidated financial statements for the Non-Reliance Periods.

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, 2020	January 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 107,822	\$ 5,485
Restricted cash (includes VIE balances of \$76,438 and \$73,214, respectively)	78,374	75,370
Customer accounts receivable, net of allowances (includes VIE balances of \$322,235 and \$393,764, respectively)	489,841	673,742
Other accounts receivable	56,414	68,753
Inventories	216,161	219,756
Income taxes receivable	10,631	4,315
Prepaid expenses and other current assets	9,944	11,445
Total current assets	969,187	1,058,866
Long-term portion of customer accounts receivable, net of allowances (includes VIE balances of \$263,866 and \$420,454, respectively)	444,352	663,761
Property and equipment, net	191,079	173,031
Operating lease right-of-use assets	269,770	242,457
Deferred income taxes	44,725	18,599
Other assets	14,343	12,055
Total assets	\$ 1,933,456	\$ 2,168,769
Liabilities and Stockholders' Equity		
Current liabilities:		
Current finance lease obligations	\$ 769	\$ 605
Accounts payable	74,338	48,554
Accrued compensation and related expenses	23,673	10,795
Accrued expenses	66,518	52,295
Operating lease liability - current	37,663	35,390
Income taxes payable	1,036	2,394
Deferred revenues and other credits	12,765	12,237
Total current liabilities	216,762	162,270
Operating lease liability - non current	362,035	329,081
Long-term debt and finance lease obligations (includes VIE balances of \$570,991 and \$768,121, respectively)	800,586	1,025,535
Other long-term liabilities	25,602	24,703
Total liabilities	1,404,985	1,541,589
Commitments and contingencies		
Stockholders' equity:		
Preferred stock (\$0.01 par value, 1,000,000 shares authorized; none issued or outstanding)	—	—
Common stock (\$0.01 par value, 100,000,000 shares authorized; 32,645,472 and 32,125,055 shares issued, respectively)	326	321
Treasury stock (at cost; 3,485,441 shares and 3,485,441 shares, respectively)	(66,290)	(66,290)
Additional paid-in capital	128,552	122,513
Retained earnings	465,883	570,636
Total stockholders' equity	528,471	627,180
Total liabilities and stockholders' equity	\$ 1,933,456	\$ 2,168,769

See notes to condensed consolidated financial statements.

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2020	2019	2020	2019
Revenues:				
Product sales	\$ 239,157	\$ 250,233	\$ 702,497	\$ 759,256
Repair service agreement commissions	17,465	26,478	57,730	78,149
Service revenues	3,150	3,411	9,611	10,758
Total net sales	259,772	280,122	769,838	848,163
Finance charges and other revenues	74,386	96,005	248,396	282,535
Total revenues	334,158	376,127	1,018,234	1,130,698
Costs and expenses:				
Cost of goods sold	160,378	170,453	484,015	509,746
Selling, general and administrative expense	122,158	125,608	350,443	371,006
Provision for bad debts	27,493	45,925	176,864	135,707
Charges and credits	—	3,837	3,589	3,142
Total costs and expenses	310,029	345,823	1,014,911	1,019,601
Operating income	24,129	30,304	3,323	111,097
Interest expense	11,563	15,051	39,778	43,944
Income (loss) before income taxes	12,566	15,253	(36,455)	67,153
Provision (benefit) for income taxes	5,147	3,784	(8,192)	16,201
Net income (loss)	\$ 7,419	\$ 11,469	\$ (28,263)	\$ 50,952
Income (loss) per share:				
Basic	\$ 0.25	\$ 0.39	\$ (0.97)	\$ 1.65
Diluted	\$ 0.25	\$ 0.39	\$ (0.97)	\$ 1.62
Weighted average common shares outstanding:				
Basic	29,142,843	29,094,062	29,013,759	30,796,114
Diluted	29,483,481	29,710,740	29,013,759	31,353,834

See notes to condensed consolidated financial statements.

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

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

	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock		Total
	Shares	Amount			Shares	Amount	
Balance January 31, 2019	31,788,162	\$ 318	\$ 111,185	\$ 508,472	—	\$ —	\$ 619,975
Adoption of ASU 2016-02	—	—	—	6,160	—	—	6,160
Exercise of options and vesting of restricted stock, net of withholding tax	136,206	1	(1,241)	—	—	—	(1,240)
Issuance of common stock under Employee Stock Purchase Plan	12,158	—	198	—	—	—	198
Stock-based compensation	—	—	3,217	—	—	—	3,217
Net income	—	—	—	19,509	—	—	19,509
Balance April 30, 2019	31,936,526	\$ 319	\$ 113,359	\$ 534,141	—	\$ —	\$ 647,819
Exercise of options and vesting of restricted stock, net of withholding tax	51,384	1	(327)	—	—	—	(326)
Issuance of common stock under Employee Stock Purchase Plan	12,638	—	194	—	—	—	194
Stock-based compensation	—	—	3,419	—	—	—	3,419
Common stock repurchase	—	—	—	—	(1,874,846)	(34,344)	(34,344)
Net income	—	—	—	19,974	—	—	19,974
Balance July 31, 2019	32,000,548	\$ 320	\$ 116,645	\$ 554,115	(1,874,846)	\$ (34,344)	\$ 636,736
Exercise of options and vesting of restricted stock, net of withholding tax	19,043	—	(211)	—	—	—	(211)
Issuance of common stock under Employee Stock Purchase Plan	18,341	—	220	—	—	—	220
Stock-based compensation	—	—	3,216	—	—	—	3,216
Common stock repurchase	—	—	—	—	(1,261,819)	(24,727)	(24,727)
Net income	—	—	—	11,469	—	—	11,469
Balance October 31, 2019	32,037,932	\$ 320	\$ 119,870	\$ 565,584	(3,136,665)	\$ (59,071)	\$ 626,703

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,	
	2020	2019
Cash flows from operating activities:		
Net income (loss)	\$ (28,263)	\$ 50,952
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation	30,506	27,171
Change in right-of-use asset	21,926	20,588
Amortization of debt issuance costs	6,388	6,410
Provision for bad debts and uncollectible interest	225,713	179,150
Stock-based compensation expense	6,988	9,852
Charges, net of credits	3,589	3,142
Deferred income taxes	(3,954)	2,846
Gain on disposal of property and equipment	198	68
Tenant improvement allowances received from landlords	15,137	19,685
Change in operating assets and liabilities:		
Customer accounts receivable	79,357	(162,075)
Other accounts receivables	11,918	(3,138)
Inventories	3,595	(27,581)
Other assets	(342)	(7,994)
Accounts payable	23,423	14,313
Accrued expenses	24,666	(8,823)
Operating leases	(29,151)	(24,703)
Income taxes	(4,370)	(7,656)
Deferred revenues and other credits	(1,862)	322
Net cash provided by operating activities	385,462	92,529
Cash flows from investing activities:		
Purchases of property and equipment	(46,644)	(48,324)
Proceeds from asset dispositions	—	724
Net cash used in investing activities	(46,644)	(47,600)
Cash flows from financing activities:		
Proceeds from issuance of asset-backed notes	240,100	381,790
Payments on asset-backed notes	(438,523)	(351,424)
Borrowings under revolving credit facility	1,143,311	1,247,195
Payments on revolving credit facility	(1,172,411)	(1,215,395)
Payments on warehouse facility	—	(53,635)
Payments of debt issuance costs and amendment fees	(4,570)	(3,416)
Proceeds from stock issued under employee benefit plans	533	835
Tax payments associated with equity-based compensation transactions	(1,477)	(2,009)
Purchase of treasury stock	—	(59,071)
Other	(440)	(817)
Net cash used in financing activities	(233,477)	(55,947)
Net change in cash, cash equivalents and restricted cash	105,341	(11,018)
Cash, cash equivalents and restricted cash, beginning of period	80,855	64,937
Cash, cash equivalents and restricted cash, end of period	\$ 186,196	\$ 53,919
Non-cash investing and financing activities:		
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ 1,045	\$ 1,110
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 65,958	\$ 56,743
Property and equipment purchases not yet paid	\$ 7,023	\$ 8,558
Supplemental cash flow data:		
Cash interest paid	\$ 28,803	\$ 33,496
Cash income taxes paid (refunded), net	\$ 394	\$ 17,119

See notes to condensed consolidated financial statements.

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

1. Summary of Significant Accounting Policies

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

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

Basis of Presentation. The accompanying unaudited Condensed Consolidated Financial Statements of Conn's, Inc. and its wholly-owned subsidiaries, including its Variable Interest Entities ("VIEs"), have been prepared by management in accordance with U.S. generally accepted accounting principles ("GAAP") and prevailing industry practice for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, we do not include all of the information and footnotes required by GAAP for complete financial statements. The accompanying financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. All such adjustments are of a normal recurring nature. The condensed consolidated financial position, results of operations and cash flows for these interim periods are not necessarily indicative of the results that may be expected in future periods. The balance sheet at January 31, 2020 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, 2020 (the "2020 Form 10-K") filed with the United States Securities and Exchange Commission (the "SEC") on April 14, 2020.

Restatement. In connection with the preparation of the 2020 Form 10-K, the Company's management became aware that the Company's historical condensed consolidated interim financial statements for the Non-Reliance Periods contained errors in the calculation and reporting of finance charges and other revenues and provision for bad debts resulting from an error in the allowance for bad debts and uncollectible interest related to the implementation of the Company's new loan management system. As a result of these errors, the Company restated its historical condensed consolidated interim financial statements for the Non-Reliance Periods. The condensed consolidated cash flow statement for the nine month Non-Reliance Period was not impacted by the errors.

The correction of these errors reduced finance charges and other revenues in the condensed consolidated statements of income for the Non-Reliance Periods by \$1.6 million and increased provision for bad debts for the Non-Reliance Periods by \$3.3 million. Those changes affected the condensed consolidated balance sheets and condensed consolidated statement of stockholders' equity as of the end of the Non-Reliance Periods as follows: customer accounts receivable, net of allowances, decreased by \$4.9 million, income taxes receivable increased by \$0.9 million and deferred income taxes increased by \$0.3 million, resulting in a decrease in each of total assets, total stockholders' equity and total liabilities and stockholders' equity of approximately \$3.7 million. See Note 17, *Quarterly Information (Unaudited)*, in the 2020 Form 10-K for further details.

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

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

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

We securitize customer accounts receivables by transferring the receivables to various bankruptcy-remote VIEs. We retain the servicing of the securitized portfolio and have a variable interest in each corresponding VIE by holding the residual equity. We have determined that we are the primary beneficiary of each respective VIE because (i) our servicing responsibilities for the

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

securitized portfolio give us the power to direct the activities that most significantly impact the performance of the VIE and (ii) our variable interest in the VIE gives us the obligation to absorb losses and the right to receive residual returns that potentially could be significant. As a result, we consolidate the respective VIEs within our Condensed Consolidated Financial Statements.

Refer to Note 5, *Debt and Financing Lease Obligations*, and Note 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. During the three months ended July 31, 2020, we refined our historical charge-off estimate in our current expected credit loss model which resulted in an increase to the allowance for bad debt of \$15.8 million. No further changes were made to the historical charge-off estimate during the three months ended October 31, 2020.

Cash and Cash Equivalents. As of October 31, 2020 and January 31, 2020, cash and cash equivalents included cash and credit card deposits in transit. Credit card deposits in transit included in cash and cash equivalents were \$6.3 million and \$4.0 million as of October 31, 2020 and January 31, 2020, respectively.

Restricted Cash. The restricted cash balance as of October 31, 2020 and January 31, 2020 includes \$67.3 million and \$59.7 million, respectively, of cash we collected as servicer on the securitized receivables that was subsequently remitted to the VIEs and \$9.1 million and \$13.9 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. As discussed in more detail below, *Recent Accounting Pronouncements Adopted*, effective February 1, 2020 the Company adopted ASC 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Under the newly adopted standard, expected lifetime losses on customer accounts receivable are recognized upon origination through an allowance for credit losses account that is deducted from the customer account receivable balance and presented net. Customer accounts receivable include the net of unamortized deferred fees charged to customers and origination costs. Customer receivables are considered delinquent if a payment has not been received on the scheduled due date. Accounts that are delinquent more than 209 days as of the end of a month are charged-off against the allowance for doubtful accounts along with interest accrued subsequent to the last payment.

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

On March 27, 2020 the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”) was signed into law to address the economic impact of the COVID-19 pandemic. Under the CARES Act, modifications deemed to be COVID-19 related are not considered a TDR if the loan was current (not more than 30 days past due as of March 31, 2020) and the deferral was executed between April 1, 2020 and the earlier of 60 days after the termination of the COVID-19 national emergency or December 31, 2020. In response to the CARES Act, the Company implemented short-term deferral programs for our customers. The carrying value of the customer receivables on accounts which were current prior to receiving a COVID-19 related deferment was \$75.8 million as of October 31, 2020.

Interest Income on Customer Accounts Receivable. Interest income, which includes interest income and amortization of deferred fees and origination costs, is recorded using the interest method and is reflected in finance charges and other revenues. Typically, interest income is recorded until the customer account is paid off or charged-off and we provide an allowance for estimated uncollectible interest. We reserve for interest that is more than 60 days past due. Any contractual interest income received from customers in excess of the interest income calculated using the interest method is recorded as deferred revenue on our balance sheets. At October 31, 2020 and January 31, 2020, there was \$9.2 million and \$10.6 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.

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

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

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

We place accounts in non-accrual status when legally required. Payments received on non-accrual loans are applied to principal and reduce the balance of the loan. At October 31, 2020 and January 31, 2020, the carrying value of customer accounts receivable in non-accrual status was \$9.8 million and \$12.5 million, respectively. At October 31, 2020 and January 31, 2020, the carrying value of customer accounts receivable that were past due 90 days or more and still accruing interest totaled \$102.0 million and \$132.7 million, respectively. At October 31, 2020 and January 31, 2020, the carrying value of customer accounts receivable in a bankruptcy status that were less than 60 days past due of \$7.2 million and \$12.1 million, respectively, were included within the customer receivables balance carried in non-accrual status.

Debt Issuance Costs. Costs that are direct and incremental to debt issuance are deferred and amortized to interest expense using the effective interest method over the expected life of the debt. All other costs related to debt issuance are expensed as incurred. We present debt issuance costs associated with long-term debt as a reduction of the carrying amount of the debt. Unamortized costs related to the Revolving Credit Facility, as defined in Note 5, *Debt and Financing Lease Obligations*, are included in other assets on our Condensed Consolidated Balance Sheet and were \$4.1 million and \$3.5 million as of October 31, 2020 and January 31, 2020, respectively.

Income Taxes. For the nine months ended October 31, 2020 and 2019, we utilized the estimated annual effective tax rate based on our estimated fiscal year 2021 and 2020 pre-tax income, respectively, in determining income tax expense.

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

For the nine months ended October 31, 2020 and 2019, the effective tax rate was 22.5% and 24.1%, respectively. The primary factor affecting the decrease in our effective tax rate for the nine months ended October 31, 2020 was a \$2.5 million benefit recognized in the current period as a result of net operating loss provisions within the CARES Act that provide for a five year carryback of losses.

Stock-based Compensation. During the nine months ended October 31, 2020, the Company granted performance stock awards (“PSUs”) and restricted stock awards (“RSUs”). The awards had a combined aggregate grant date fair value of \$8.0 million. The PSUs will vest after the Company’s fiscal year 2024, if at all, upon certification by the compensation committee of the satisfaction of certain total shareholder return conditions over the three fiscal years commencing with the Company’s fiscal year 2021. The majority of the RSUs will vest, if at all, over periods of three years to four years from the date of grant.

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. For grants of performance-based restricted stock units, the fair value is the market value of our stock at the date of issuance adjusted for the market condition using a Monte Carlo model.

The following table sets forth the RSUs and PSUs granted during the three and nine months ended October 31, 2020 and 2019:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2020	2019	2020	2019
RSUs	—	2,534	622,195	106,328
PSUs ⁽¹⁾	—	—	270,828	33,894
Total stock awards granted	—	2,534	893,023	140,222
Aggregate grant date fair value (in thousands)	\$ —	\$ 65	\$ 7,957	\$ 2,910

(1) The weighted-average assumptions used in the Monte Carlo model for the PSUs granted on February 6, 2020 included expected volatility of 60.0%, an expected term of 3 years and risk-free interest rate of 1.42%. No dividend yield was included in the weighted-average assumptions.

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For the three months ended October 31, 2020 and 2019, stock-based compensation expense was \$2.3 million and \$3.2 million, respectively. For the nine months ended October 31, 2020 and 2019, stock-based compensation expense was \$7.0 million and \$9.9 million, respectively.

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

<i>(in thousands)</i>	Three Months Ended October 31,		Nine Months Ended October 31,	
	2020	2019	2020	2019
Weighted-average common shares outstanding - Basic	29,142,843	29,094,062	29,013,759	30,796,114
Dilutive effect of stock options, PSUs and RSUs	340,638	616,678	—	557,720
Weighted-average common shares outstanding - Diluted	29,483,481	29,710,740	29,013,759	31,353,834

For the three months ended October 31, 2020 and 2019, the weighted average number of stock options and RSUs not included in the calculation due to their anti-dilutive effect was 894,130 and 660,304, respectively. For the nine months ended October 31, 2020 and 2019, the weighted average number of stock options and RSUs not included in the calculation due to their anti-dilutive effect, was 1,225,771 and 885,554, respectively.

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

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

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

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

The fair value of cash and cash equivalents, restricted cash and accounts payable approximate their carrying amounts because of the short maturity of these instruments. The fair value of customer accounts receivable, determined using a Level 3 discounted cash flow analysis, approximates their carrying value, net of the allowance for doubtful accounts. The fair value of our Revolving Credit Facility approximates carrying value based on the current borrowing rate for similar types of borrowing arrangements. At October 31, 2020, the fair value of the Senior Notes outstanding, which was determined using Level 1 inputs, was \$219.0 million as compared to the carrying value of \$227.0 million, excluding the impact of the related discount. At October 31, 2020, the fair value of the asset backed notes was \$553.3 million as compared to the carrying value of \$574.6 million and was determined using Level 2 inputs based on inactive trading activity.

Deferred Revenue. Deferred revenue related to contracts with customers consists of deferred customer deposits and deferred RSA administration fees. During the nine months ended October 31, 2020, we recognized \$1.2 million of revenue for customer

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deposits deferred as of January 31, 2020. During the nine months ended October 31, 2020, we recognized \$3.3 million of revenue for RSA administrative fees deferred as of January 31, 2020.

Leases. In response to the COVID-19 pandemic, during the nine months ended October 31, 2020, we renegotiated a portion of our leases as a means of preserving liquidity. On April 10, 2020 the Financial Accounting Standards Board ("FASB") issued guidance for lease concessions entered into in response to the COVID-19 pandemic that allows lessees to make an election not to evaluate whether a lease concession provided by a lessor should be accounted for as a lease modification if it does not result in a substantial increase in the rights of the lessor or the obligations of the lessee. We have elected to apply this guidance to our COVID-19 lease concessions. As a result, for the nine months ended October 31, 2020, there were no material modifications to our leases.

Recent Accounting Pronouncements Adopted. In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASC 326"). ASU 2016-13 replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. Under the new guidance entities must reserve an allowance for expected credit losses over the life of the loan. The measurement of expected credit losses is applicable to financial assets measured at amortized cost. The allowance for credit losses is a valuation account that is deducted from the customer account receivable's amortized cost basis to present the net amount expected to be collected. Customer receivables are charged off against the allowance when management deems an account to be uncollectible. In April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses*. ASU 2019-04 requires that the current estimate of recoveries are included in the allowance for credit losses.

Effective February 1, 2020, the Company adopted ASU 2016-13 and ASU 2019-04 using the modified retrospective approach. The Company has reviewed its entire portfolio of assets recognized on the balance sheet as of January 31, 2020 and identified Customer Accounts Receivables as the materially impacted asset in-scope of ASC 326. The risk of credit losses from the remaining portfolio of assets was concluded to be immaterial. Upon adoption of ASC 326 the Company recorded a net decrease to retained earnings of \$76.5 million as of February 1, 2020. Results for reporting periods prior to February 1, 2020 are not adjusted and continue to be reported in accordance with the Company's historic accounting policies under previously applicable GAAP.

The allowance for credit losses is measured on a collective (pool) basis where similar risk characteristics exist. Upon adoption of ASC 326, the Company elected to maintain the pools of customer accounts receivable that were previously accounted for under ASC 310 (Non-TDR Non-Re-aged, Non-TDR Re-aged, and TDR). These pools are further segmented based on shared risk attributes, which include the borrower's FICO score, product class, length of customer relationship and delinquency status. The allowance for credit losses is determined for each pool and added to the pool's carrying amount to establish a new amortized cost basis. Changes to the allowance for credit losses after adoption are recorded through provision expense.

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

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

The cumulative effect of the changes made to the Company's Consolidated Balance Sheet as a result of the adoption of ASC 326 were as follows:

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(in thousands)	Impact of Adoption of ASC 326		
	Balance at January 31, 2020	Adjustments due to ASC 326	Balance at February 1, 2020
Assets			
Customer accounts receivable	\$ 673,742	\$ (49,700)	\$ 624,042
Long-term portion of customer accounts receivable	663,761	(48,962)	614,799
Deferred Income Taxes	18,599	22,172	40,771
Stockholders' Equity			
Retained Earnings	\$ 570,636	\$ (76,490)	\$ 494,146

Changes due to Securities and Exchange Commission Regulation S-X Rules 13-01 and 13-02. In March 2020, the Securities and Exchange Commission (“SEC”) amended Regulation S-X to create Rules 13-01 and 13-02. These new rules reduce and simplify financial disclosure requirements for issuers and guarantors of registered debt offerings. Previously, with limited exceptions, a parent entity was required to provide detailed disclosures with regard to guarantors of registered debt offerings within the footnotes to the consolidated financial statements. Under the new regulations, disclosure exceptions have been expanded and required disclosures may be provided within the Item 2. *Management’s Discussion and Analysis of Financial Condition and Results of Operations* rather than in the notes to the financial statements. Further, summarized guarantor balance sheet and income statements are permitted, with the requirement to provide guarantor cash flow statements eliminated. Summarized guarantor financial statements only need be disclosed for the current fiscal year rather than all years presented in the financial statements as was previously required. The guidance will become effective for filings on or after January 4, 2021, with early adoption permitted.

The Company elected to early adopt the new regulations beginning with the first quarter of fiscal year 2021. Our summarized guarantor financial statements are presented in Item 2. *Management’s Discussion and Analysis of Financial Condition and Results of Operations*.

2. Customer Accounts Receivable

Customer accounts receivable consisted of the following:

(in thousands)	October 31, 2020	January 31, 2020
Customer accounts receivable ⁽¹⁾	\$ 1,276,100	\$ 1,602,037
Deferred fees and origination costs, net	(14,093)	(15,746)
Allowance for no-interest option credit programs	(10,391)	(14,984)
Allowance for uncollectible interest	(20,894)	(23,662)
Carrying value of customer accounts receivable	1,230,722	1,547,645
Allowance for credit losses ⁽²⁾	(296,529)	(210,142)
Carrying value of customer accounts receivable, net of allowance for credit losses	934,193	1,337,503
Short-term portion of customer accounts receivable, net	(489,841)	(673,742)
Long-term customer accounts receivable, net	\$ 444,352	\$ 663,761

(in thousands)	Carrying Value	
	October 31, 2020	January 31, 2020
Customer accounts receivable 60+ days past due ⁽³⁾	\$ 141,441	\$ 193,797
Re-aged customer accounts receivable ⁽⁴⁾	347,113	455,704
Restructured customer accounts receivable ⁽⁵⁾	190,819	211,857

- (1) As of October 31, 2020 and January 31, 2020, the customer accounts receivable balance included \$32.6 million and \$43.7 million, respectively, in interest receivable. Net of the allowance for uncollectible interest, interest receivable outstanding as of October 31, 2020 and January 31, 2020 was \$11.7 million and \$20.0 million, respectively.

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- (2) Our current methodology to estimate expected credit losses utilized macroeconomic forecasts as of October 31, 2020, which incorporated the continued estimated impact of the global COVID-19 outbreak on the U.S. economy. Our forecast utilized economic projections from a major rating service reflecting an increase in unemployment. The allowance for credit losses as of January 31, 2020 is based on an incurred loss model, which reserves for incurred losses in the portfolio as of January 31, 2020.
- (3) As of October 31, 2020 and January 31, 2020, the carrying value of customer accounts receivable past due one day or greater was \$367.3 million and \$527.0 million, respectively. These amounts include the 60+ days past due balances shown above.
- (4) The re-aged carrying value as of October 31, 2020 and January 31, 2020 includes \$91.3 million and \$131.4 million, respectively, in carrying value that are both 60+ days past due and re-aged.
- (5) The restructured carrying value as of October 31, 2020 and January 31, 2020 includes \$52.4 million and \$64.8 million, respectively, in carrying value that are both 60+ days past due and restructured.

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

<i>(in thousands)</i>	October 31, 2020
Customer accounts receivable - current	\$ 666,294
Allowance for credit losses for customer accounts receivable - current	(176,453)
Customer accounts receivable, net of allowances	489,841
Customer accounts receivable - non current	585,322
Allowance for credit losses for customer accounts receivable - non current	(140,970)
Long-term portion of customer accounts receivable, net of allowances	444,352
Total customer accounts receivable, net	\$ 934,193

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

<i>(in thousands)</i>	Nine Months Ended October 31, 2020			Nine Months Ended October 31, 2019		
	Customer Accounts Receivable	Restructured Accounts	Total	Customer Accounts Receivable	Restructured Accounts	Total
Allowance at beginning of period, prior to adoption of ASC 326	\$ 145,680	\$ 88,123	\$ 233,803	\$ 147,123	\$ 67,756	\$ 214,879
Impact of adoption ASC 326	95,136	3,526	98,662	—	—	—
Provision for credit loss expense ⁽¹⁾	164,697	60,595	225,292	119,846	58,818	178,664
Principal charge-offs ⁽²⁾	(144,048)	(62,678)	(206,726)	(116,698)	(44,686)	(161,384)
Interest charge-offs	(40,340)	(17,553)	(57,893)	(27,076)	(10,368)	(37,444)
Recoveries ⁽³⁾	16,922	7,363	24,285	13,571	5,197	18,768
Allowance at end of period	<u>\$ 238,047</u>	<u>\$ 79,376</u>	<u>\$ 317,423</u>	<u>\$ 136,766</u>	<u>\$ 76,717</u>	<u>\$ 213,483</u>
Average total customer portfolio balance	<u>\$ 1,219,794</u>	<u>\$ 216,433</u>	<u>\$ 1,436,227</u>	<u>\$ 1,362,790</u>	<u>\$ 195,471</u>	<u>\$ 1,558,261</u>

- (1) Includes provision for uncollectible interest, which is included in finance charges and other revenues, and changes in expected future recoveries.
- (2) Charge-offs include the principal amount of losses (excluding accrued and unpaid interest). The increase in bad debt charge-offs, net of recoveries, was primarily due to an increase in new customer mix and the impact of difficulties in collection efforts related to the implementation of our new loan management system during the fourth quarter of fiscal year 2020.
- (3) Recoveries include the principal amount collected during the period for previously charged-off balances.

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We manage our Customer Accounts Receivable portfolio using delinquency as a key credit quality indicator. The following table presents the delinquency distribution of the carrying value of customer accounts receivable by year of origination. The information is updated as of October 31, 2020:

(in thousands)

Delinquency Bucket	2020	2019	2018	2017	Prior	Total	% of Total
Current	\$ 418,548	\$ 316,243	\$ 113,741	\$ 14,045	\$ 851	\$ 863,428	70.2 %
1-30	49,070	78,166	36,580	8,113	685	172,614	14.0 %
31-60	12,652	23,948	12,449	3,805	385	53,239	4.3 %
61-90	7,536	17,974	8,756	2,755	264	37,285	3.0 %
91+	19,328	50,445	25,437	8,026	920	104,156	8.5 %
Total	\$ 507,134	\$ 486,776	\$ 196,963	\$ 36,744	\$ 3,105	\$ 1,230,722	100.0 %

3. Charges and Credits

Charges and credits consisted of the following:

(in thousands)	Three Months Ended October 31,		Nine Months Ended October 31,	
	2020	2019	2020	2019
Professional fees	\$ —	\$ —	\$ 3,589	\$ —
Write-off of software costs	—	1,209	—	1,209
Facility relocation costs	—	2,628	—	1,933
Total charges and credits	\$ —	\$ 3,837	\$ 3,589	\$ 3,142

During the three months ended October 31, 2019, we recognized \$3.2 million in impairments from exiting certain leases upon the relocation of three distribution centers into one facility. These facility closure costs were offset by a \$0.6 million gain from the sale of a cross-dock. In addition, we recognized \$1.2 million in impairments of software costs for a loan management system that was abandoned during the third quarter of fiscal year 2020 related to the implementation of a new loan management system. During the nine months ended October 31, 2020, we recognized \$3.6 million in professional fees associated with non-recurring expenses. During the nine months ended October 31, 2019, we recognized \$3.2 million in impairments from the exiting of certain leases upon the relocation of three distribution centers into one facility. These facility closure costs were offset by a \$0.7 million gain from increased sublease income related to the consolidation of our corporate headquarters and a \$0.6 million gain from the sale of a cross-dock. In addition, we recognized \$1.2 million in impairments of software costs for a loan management system that was abandoned during the third quarter of fiscal year 2020 related to the implementation of a new loan management system.

4. Finance Charges and Other Revenues

Finance charges and other revenues consisted of the following:

(in thousands)	Three Months Ended October 31,		Nine Months Ended October 31,	
	2020	2019	2020	2019
Interest income and fees	\$ 69,996	\$ 85,903	\$ 235,438	\$ 255,124
Insurance income	4,222	9,905	12,359	26,809
Other revenues	168	197	599	602
Total finance charges and other revenues	\$ 74,386	\$ 96,005	\$ 248,396	\$ 282,535

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, 2020 and 2019, interest income and fees reflected provisions for uncollectible interest of \$16.9 million and \$16.8 million, respectively. The amounts included in interest income and fees related to TDR accounts for the three months ended October 31, 2020 and 2019 were \$9.3 million and \$9.0 million, respectively. During the

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nine months ended October 31, 2020 and 2019, interest income and fees reflected provisions for uncollectible interest of \$48.8 million and \$43.4 million, respectively. The amounts included in interest income and fees related to TDR accounts for the nine months ended October 31, 2020 and 2019 were \$28.8 million and \$25.7 million, respectively.

5. Debt and Financing Lease Obligations

Debt and financing lease obligations consisted of the following:

<i>(in thousands)</i>	October 31, 2020	January 31, 2020
Revolving Credit Facility	\$ —	\$ 29,100
Senior Notes	227,000	227,000
2017-B VIE Asset-backed Class C Notes	—	59,655
2018-A VIE Asset-backed Class A Notes	2,029	34,112
2018-A VIE Asset-backed Class B Notes	2,861	20,572
2018-A VIE Asset-backed Class C Notes	2,861	20,572
2019-A VIE Asset-backed Class A Notes	27,393	76,241
2019-A VIE Asset-backed Class B Notes	35,180	64,750
2019-A VIE Asset-backed Class C Notes	33,963	62,510
2019-B VIE Asset-backed Class A Notes	61,412	265,810
2019-B VIE Asset-backed Class B Notes	85,540	85,540
2019-B VIE Asset-backed Class C Notes	83,270	83,270
2020-A VIE Asset-backed Class A Notes	174,900	—
2020-A VIE Asset-backed Class B Notes	65,200	—
Financing lease obligations	5,665	5,209
Total debt and financing lease obligations	<u>807,274</u>	<u>1,034,341</u>
Less:		
Discount on debt	(983)	(1,404)
Deferred debt issuance costs	(4,936)	(6,797)
Current maturities of long-term debt and financing lease obligations	(769)	(605)
Long-term debt and financing lease obligations	<u>\$ 800,586</u>	<u>\$ 1,025,535</u>

Senior Notes. On July 1, 2014, we issued \$250.0 million of unsecured Senior Notes due July 2022 bearing interest at 7.25% (the “Senior Notes”), pursuant to an indenture dated July 1, 2014 (as amended, the “Indenture”), among Conn’s, Inc., its subsidiary guarantors (the “Guarantors”) and U.S. Bank National Association, as trustee. The effective interest rate of the Senior Notes after giving effect to the discount and issuance costs is 7.8%.

The Indenture restricts the Company’s and certain of its subsidiaries’ ability to: (i) incur indebtedness; (ii) pay dividends or make other distributions in respect of, or repurchase or redeem, our capital stock (“restricted payments”); (iii) prepay, redeem or repurchase debt that is junior in right of payment to the notes; (iv) make loans and certain investments; (v) sell assets; (vi) incur liens; (vii) enter into transactions with affiliates; and (viii) consolidate, merge or sell all or substantially all of our assets. These covenants are subject to a number of important exceptions and qualifications. During any time when the Senior Notes are rated investment grade by either of Moody’s Investors Service, Inc. or Standard & Poor’s Ratings Services and no default (as defined in the Indenture) has occurred and is continuing, many of such covenants will be suspended and we will cease to be subject to such covenants during such period. As of October 31, 2020, \$176.0 million would have been free from the restricted payments covenant contained in the Indenture. Events of default under the Indenture include customary events, such as a cross-acceleration provision in the event that we fail to make payment of other indebtedness prior to the expiration of any applicable grace period or upon acceleration of indebtedness prior to its stated maturity date in an amount exceeding \$25.0 million, as well as in the event a judgment is entered against us in excess of \$25.0 million that is not discharged, bonded or insured.

On November 30, 2020, the Company announced a cash tender offer for up to \$100.0 million aggregate principal amount of its Senior Notes. See Note 9, *Subsequent Events*, of the Condensed Consolidated Financial Statements in Part I, Item 1, of this Quarterly Report on Form 10-Q for further details.

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

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

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

The asset-backed notes outstanding as of October 31, 2020 consisted of the following:

(dollars in thousands)

Asset-Backed Notes	Original Principal Amount	Original Net Proceeds ⁽¹⁾	Current Principal Amount	Issuance Date	Maturity Date	Contractual Interest Rate	Effective Interest Rate
2018-A Class A Notes	\$ 219,200	\$ 217,832	\$ 2,029	8/15/2018	1/17/2023	3.25%	5.03%
2018-A Class B Notes	69,550	69,020	2,861	8/15/2018	1/17/2023	4.65%	5.65%
2018-A Class C Notes	69,550	68,850	2,861	8/15/2018	1/17/2023	6.02%	7.02%
2019-A Class A Notes	254,530	253,026	27,393	4/24/2019	10/16/2023	3.40%	4.41%
2019-A Class B Notes	64,750	64,276	35,180	4/24/2019	10/16/2023	4.36%	4.87%
2019-A Class C Notes	62,510	61,898	33,963	4/24/2019	10/16/2023	5.29%	5.81%
2019-B Class A Notes	317,150	315,417	61,412	11/26/2019	6/17/2024	2.66%	4.34%
2019-B Class B Notes	85,540	84,916	85,540	11/26/2019	6/17/2024	3.62%	4.22%
2019-B Class C Notes	83,270	82,456	83,270	11/26/2019	6/17/2024	4.60%	5.02%
2020-A Class A Notes	174,900	173,716	174,900	10/16/2020	6/16/2025	1.71%	3.58%
2020-A Class B Notes	65,200	64,754	65,200	10/16/2020	6/16/2025	4.27%	5.86%
Total	<u>\$ 1,466,150</u>	<u>\$ 1,456,161</u>	<u>\$ 574,609</u>				

(1) After giving effect to debt issuance costs.

(2) For the nine months ended October 31, 2020, and inclusive of the impact of changes in timing of actual and expected cash flows.

On October 16, 2020, the Company completed the issuance and sale of \$240.1 million aggregate principal amount of asset-backed notes secured by the transferred customer accounts receivables and restricted cash held by a consolidated VIE, which resulted in net proceeds to us of \$238.5 million, net of debt issuance costs. Net proceeds from the offering were used to repay indebtedness under the Company's Revolving Credit Facility, as defined below, and for other general corporate purposes. The asset-backed notes mature on June 16, 2025 and consist of \$174.9 million of 1.71% Asset Backed Fixed Rate Notes, Class A, Series 2020-A and \$65.2 million of 4.27% Asset Backed Fixed Rate Notes, Class B, Series 2020-A. Additionally, the Company issued \$62.9 million in aggregate principal amount of 7.10% Asset Backed Fixed Rate Notes, Class C, Series 2020-A which mature on June 16, 2025. The Class C Notes are currently being retained by the Company.

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

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

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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, 2020, we had immediately available borrowing capacity of \$276.9 million under our Revolving Credit Facility, net of standby letters of credit issued of \$27.5 million and prior to giving effect to a minimum liquidity requirement of \$125.0 million pursuant to the Third Amendment as defined below. We also had \$345.6 million that could have become available under our Revolving Credit Facility were we to grow the balance of eligible customer receivables and total eligible inventory balances.

On June 5, 2020 we entered into the Third Amendment to our Revolving Credit Facility (the "Third Amendment"). Under the Third Amendment, loans under the Revolving Credit Facility bear interest, at our option, at a rate of LIBOR plus a margin ranging from 3.00% to 3.75% per annum (depending on a pricing grid determined by our total leverage ratio) or the alternate base rate plus a margin ranging from 2.00% to 2.75% per annum (depending on a pricing grid determined by our total leverage ratio). The alternate base rate is a rate per annum equal to the greatest of the prime rate, the federal funds effective rate plus 0.5%, or LIBOR for a 30-day interest period plus 1.0%. We also pay an unused fee on the portion of the commitments that is available for future borrowings or letters of credit at a rate ranging from 0.25% to 0.50% per annum, depending on the average outstanding balance and letters of credit of the Revolving Credit Facility in the immediately preceding quarter. The weighted-average interest rate on borrowings outstanding and including unused line fees under the Revolving Credit Facility was 5.2% for the nine months ended October 31, 2020.

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. We are restricted from making distributions, including repayments of the Senior Notes or other distributions, as a result of the Revolving Credit Facility distribution and payment restrictions. The Revolving Credit Facility contains customary default provisions, which, if triggered, could result in acceleration of all amounts outstanding under the Revolving Credit Facility.

On November 16, 2020, the Company gave the lenders under the Third Amendment the required 10 days' notice to terminate the Covenant Relief Period (as defined herein). As a result, the Covenant Relief Period ended on November 30, 2020. See Note 9, *Subsequent Events*, of the Condensed Consolidated Financial Statements in Part I, Item 1, of this Quarterly Report on Form 10-Q for further details.

Debt Covenants. As of October 31, 2020, we were in compliance with the covenants in our Revolving Credit Facility. See Note 9, *Subsequent Events*, of the Condensed Consolidated Financial Statements in Part I, Item 1, of this Quarterly Report on Form 10-Q for further details. If we were to breach certain covenants under our Revolving Credit Facility in the future, that breach might trigger a default under our Revolving Credit Facility, which, if not remedied, would require a waiver from the lenders under our Revolving Credit Facility or an amendment to our Revolving Credit Facility in order for us to avoid an event of default. There can be no assurances that, in the event of such a covenant breach, we would be able to obtain the necessary waivers or amendments to remain in compliance with the covenants in our Revolving Credit Facility.

A summary of the significant financial covenants that govern our Revolving Credit Facility, as amended, compared to our actual compliance status at October 31, 2020 is presented below:

	Actual	Required Minimum/ Maximum
Interest Coverage Ratio for the quarter must equal or exceed minimum	4.05:1.00	1.00:1.00
Interest Coverage Ratio for the trailing two quarters must equal or exceed minimum	4.69:1.00	1.50:1.00
Leverage Ratio must not exceed maximum	1.84:1.00	4.50:1.00
ABS Excluded Leverage Ratio must not exceed maximum	0.89:1.00	2.50:1.00
Capital Expenditures, net, must not exceed maximum	\$34.5 million	\$100.0 million

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

6. Contingencies

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

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

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

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 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 (S.D. Tex.) (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 Conn's. 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 (S.D. Tex.), which was consolidated with the Original Derivative Action.

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

On July 19, 2019, plaintiff filed an amended complaint. On November 1, 2019, the magistrate judge heard argument on the motion to dismiss and postponed certain deadlines. Adopting the report and recommendation issued by the magistrate judge on July 22, 2020, the district court entered an order on September 25, 2020 denying defendant's motion on the breach of fiduciary duty claims and granting defendants' motion on the insider trading claims. The district court also allowed plaintiff leave to amend to add 95250 Canada LTEE, which had been omitted from the amended complaint, as a party to the case. Plaintiffs filed a corrected amended complaint on October 21, 2020 in accordance with the district court's order.

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. This case is stayed until at least July 15, 2021.

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 (former director), Douglas H. Martin, David Schofman, Scott L. Thompson (former director) and William E. Saunders Jr., and Conn's, Inc., Cause No. 2016-33135. The complaint asserts claims for breach of fiduciary duties and unjust enrichment based on substantially similar factual allegations as those asserted in the Original Derivative Action. The complaint does not specify the amount of damages sought. Since April 2018, this case has been abated pending the resolution of related cases. At a hearing on October 2, 2020, the court took under advisement whether the abatement should continue pending further developments in the Original Derivative Action.

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

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

7. Variable Interest Entities

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

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

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

<i>(in thousands)</i>	October 31, 2020	January 31, 2020
Assets:		
Restricted cash	\$ 76,438	\$ 73,214
Due from Conn's, Inc., net	5,953	307
Customer accounts receivable:		
Customer accounts receivable	669,954	838,210
Restructured accounts	130,571	147,971
Allowance for uncollectible accounts	(200,770)	(151,263)
Allowance for no-interest option credit programs	(6,312)	(12,445)
Deferred fees and origination costs	(7,342)	(8,255)
Total customer accounts receivable, net	586,101	814,218
Total assets	\$ 668,492	\$ 887,739
Liabilities:		
Accrued expenses	\$ 6,105	\$ 5,517
Other liabilities	5,828	7,584
Long-term debt:		
2017-B Class C Notes	—	59,655
2018-A Class A Notes	2,029	34,112
2018-A Class B Notes	2,861	20,572
2018-A Class C Notes	2,861	20,572
2019-A Class A Notes	27,393	76,241
2019-A Class B Notes	35,180	64,750
2019-A Class C Notes	33,963	62,510
2019-B Class A Notes	61,412	265,810
2019-B Class B Notes	85,540	85,540
2019-B Class C Notes	83,270	83,270
2020-A Class A Notes	174,900	—
2020-A Class B Notes	65,200	—
	574,609	773,032
Less: deferred debt issuance costs	(3,618)	(4,911)
Total debt	\$ 570,991	\$ 768,121
Total liabilities	\$ 582,924	\$ 781,222

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

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8. Segment Information

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

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

As of October 31, 2020, 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:

<i>(in thousands)</i>	Three Months Ended October 31, 2020			Three Months Ended October 31, 2019		
	Retail	Credit	Total	Retail	Credit	Total
Revenues:						
Furniture and mattress	\$ 82,793	\$ —	\$ 82,793	\$ 89,070	\$ —	\$ 89,070
Home appliance	99,872	—	99,872	90,343	—	90,343
Consumer electronics	35,517	—	35,517	48,113	—	48,113
Home office	16,711	—	16,711	18,681	—	18,681
Other	4,264	—	4,264	4,026	—	4,026
Product sales	239,157	—	239,157	250,233	—	250,233
Repair service agreement commissions	17,465	—	17,465	26,478	—	26,478
Service revenues	3,150	—	3,150	3,411	—	3,411
Total net sales	259,772	—	259,772	280,122	—	280,122
Finance charges and other revenues	168	74,218	74,386	197	95,808	96,005
Total revenues	259,940	74,218	334,158	280,319	95,808	376,127
Costs and expenses:						
Cost of goods sold	160,378	—	160,378	170,453	—	170,453
Selling, general and administrative expense	84,245	37,913	122,158	87,105	38,503	125,608
Provision for bad debts	72	27,421	27,493	535	45,390	45,925
Charges and credits	—	—	—	2,628	1,209	3,837
Total costs and expenses	244,695	65,334	310,029	260,721	85,102	345,823
Operating income	15,245	8,884	24,129	19,598	10,706	30,304
Interest expense	—	11,563	11,563	—	15,051	15,051
Income (loss) before income taxes	\$ 15,245	\$ (2,679)	\$ 12,566	\$ 19,598	\$ (4,345)	\$ 15,253

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<i>(in thousands)</i>	Nine Months Ended October 31, 2020			Nine Months Ended October 31, 2019		
	Retail	Credit	Total	Retail	Credit	Total
Revenues:						
Furniture and mattress	\$ 232,670	\$ —	\$ 232,670	\$ 276,889	\$ —	\$ 276,889
Home appliance	288,839	—	288,839	266,989	—	266,989
Consumer electronics	118,677	—	118,677	151,454	—	151,454
Home office	49,056	—	49,056	52,270	—	52,270
Other	13,255	—	13,255	11,654	—	11,654
Product sales	702,497	—	702,497	759,256	—	759,256
Repair service agreement commissions	57,730	—	57,730	78,149	—	78,149
Service revenues	9,611	—	9,611	10,758	—	10,758
Total net sales	769,838	—	769,838	848,163	—	848,163
Finance charges and other revenues	599	247,797	248,396	602	281,933	282,535
Total revenues	770,437	247,797	1,018,234	848,765	281,933	1,130,698
Costs and expenses:						
Cost of goods sold	484,015	—	484,015	509,746	—	509,746
Selling, general and administrative expense ⁽¹⁾	241,003	109,440	350,443	254,874	116,132	371,006
Provision for bad debts	422	176,442	176,864	645	135,062	135,707
Charges and credits	1,355	2,234	3,589	1,933	1,209	3,142
Total costs and expenses	726,795	288,116	1,014,911	767,198	252,403	1,019,601
Operating income (loss)	43,642	(40,319)	3,323	81,567	29,530	111,097
Interest expense	—	39,778	39,778	—	43,944	43,944
Income (loss) before income taxes	\$ 43,642	\$ (80,097)	\$ (36,455)	\$ 81,567	\$ (14,414)	\$ 67,153
	October 31, 2020			October 31, 2019		
<i>(in thousands)</i>	Retail	Credit	Total	Retail	Credit	Total
Total assets	\$ 743,568	\$ 1,189,888	\$ 1,933,456	\$ 672,181	\$ 1,480,970	\$ 2,153,151

- (1) For the three months ended October 31, 2020 and 2019, the amount of corporate overhead allocated to each segment reflected in SG&A was \$8.5 million and \$5.7 million, respectively. For the three months ended October 31, 2020 and 2019, the amount of reimbursement made to the retail segment by the credit segment was \$8.2 million and \$9.8 million, respectively. For the nine months ended October 31, 2020 and 2019, the amount of corporate overhead allocated to each segment reflected in SG&A was \$24.2 million and \$23.4 million, respectively. For the nine months ended October 31, 2020 and 2019, the amount of reimbursement made to the retail segment by the credit segment was \$26.9 million and \$29.2 million, respectively.

9. Subsequent Events

Termination of Covenant Relief Period. As previously disclosed, on June 5, 2020, the Company and the lenders entered into a Third Amendment (the "Third Amendment") to the Fourth Amended and Restated Loan and Security Agreement, dated as of October 30, 2015, by and among the Company, as parent and guarantor, Conn Appliances, Inc., Conn Credit I, LP and Conn Credit Corporation, Inc., as borrowers, certain banks and financial institutions named therein, as lenders, and JPMorgan Chase Bank, N.A., as Administrative Agent for the Lenders. The Third Amendment, among other things, (1) waived the two interest coverage covenants for the period ended on April 30, 2020 and for subsequent periods through the date on which the Company delivers financial statements and a compliance certificate for the quarter ended January 31, 2021 or such earlier date as the borrowers may elect to terminate such relief period upon 10 business days' prior written notice, the "Covenant Relief Period"; (2) added a minimum liquidity covenant of \$125.0 million at any time during the Covenant Relief Period; (3) added a minimum availability covenant requiring at any time during the Covenant Relief Period that the borrowers maintain availability under the revolver equal to the greater of (a) 25% of the lesser of (i) the borrowing base and (ii) the revolver commitments and (b) \$75.0 million; and (4) included temporary restrictions, applicable only during the Covenant Relief Period, prohibiting the borrowers from, among other things, (a) making acquisitions and certain other investments, (b) making certain non-ordinary course restricted payments and (c) prepaying certain indebtedness.

On November 16, 2020, the Company gave the lenders under the Third Amendment the required 10 days' notice to terminate the Covenant Relief Period. As a result, the Covenant Relief Period ended on November 30, 2020.

Cash Tender Offer. On November 30, 2020, the Company announced a cash tender offer for up to \$100.0 million aggregate principal amount of its Senior Notes (the "tender offer") for the total consideration of \$980.00, in cash, per \$1,000 principal amount of Senior Notes, which includes an early tender payment of \$30.00 for holders who validly tender their notes (and do not validly withdraw) prior to 5:00 p.m., New York City time, on December 11, 2020 (the "early tender deadline"). Holders who validly tender their notes after the early tender deadline but on or prior to 11:59 p.m. on December 28, 2020 (the "final expiration date") will be entitled to receive \$950.00, in cash, per \$1,000 principal amount of notes accepted for purchase. Settlement of Senior Notes tendered prior to the early tender deadline is scheduled to occur on or shortly after December 14, 2020. Settlement of any Senior Notes tendered in connection with the final expiration date is scheduled to occur on or shortly after December 30, 2020. The Company has reserved the right, subject to compliance with applicable laws, to amend, extend or terminate the tender offer at any time and for any reason.

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

Forward-Looking Statements

This report contains forward-looking statements within the meaning of the federal securities laws, including, but not limited to, the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. Such forward-looking statements include information concerning our future financial performance, business strategy, plans, goals and objectives. Statements containing the words "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "project," "should," "predict," "will," "potential," or the negative of such terms or other similar expressions are generally forward-looking in nature and not historical facts. Such forward-looking statements are based on our current expectations. We can give no assurance that such statements will prove to be correct, and actual results may differ materially. A wide variety of potential risks, uncertainties, and other factors could materially affect our ability to achieve the results either expressed or implied by our forward-looking statements including, but not limited to: general economic conditions impacting our customers or potential customers; our ability to execute periodic securitizations of future originated customer loans on favorable terms; our ability to continue existing customer financing programs or to offer new customer financing programs; changes in the delinquency status of our credit portfolio; unfavorable developments in ongoing litigation; increased regulatory oversight; higher than anticipated net charge-offs in the credit portfolio; the success of our planned opening of new stores; technological and market developments and sales trends for our major product offerings; our ability to manage effectively the selection of our major product offerings; our ability to protect against cyber-attacks or data security breaches and to protect the integrity and security of individually identifiable data of our customers and employees; our ability to fund our operations, capital expenditures, debt repayment and expansion from cash flows from operations, borrowings from our Revolving Credit Facility, proceeds from accessing debt or equity markets; the effects of epidemics or pandemics, including the COVID-19 outbreak; the impact of our previous restatement and correction of the Company's previously issued financial statements; the previously identified material weakness in the Company's internal control over financial reporting and the Company's ability to remediate that material weakness; the initiation of legal or regulatory proceedings with respect to the prior restatement and corrections; the adverse effects on the Company's business, results of operations, financial condition and stock price as a result of the previous restatement and correction process; and other risks detailed in Part I, Item 1A, Risk Factors, in our Annual Report on Form 10-K for the fiscal year ended January 31, 2020 (the "2020 Form 10-K") and other reports filed with the SEC. If one or more of these or other risks or uncertainties materialize (or the consequences of such a development changes), or should our underlying assumptions prove incorrect, actual outcomes may vary materially from those reflected in our forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. We disclaim any intention or obligation to update publicly or revise such statements, whether as a result of new information, future events or otherwise, or to provide periodic updates or guidance. All forward-looking statements attributable to us, or to persons acting on our behalf, are expressly qualified in their entirety by these cautionary statements.

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

Overview

We continue to monitor the evolving nature of COVID-19 and respond to its impact on our business. We have experienced and continue to experience challenges related to the pandemic. These challenges have increased the complexity of our business and impacted our supply chain and sales for fiscal year 2021 and we expect it to continue into fiscal year 2022. Increased complexity, supply chain issues and reduced sales will likely continue until the effects of COVID-19 diminish. The full impact of COVID-19 remains uncertain and will depend on future developments, including the duration and spread of the pandemic and related actions taken by federal, state and local government officials to prevent and manage disease spread, all of which are uncertain and unpredictable.

We encourage you to read this Management's Discussion and Analysis of Financial Condition and Results of Operations in conjunction with the accompanying Condensed Consolidated Financial Statements and related notes. As discussed in the *Explanatory Note* to this Form 10-Q and in further detail in Note 17, *Quarterly Information (Unaudited)*, in our Annual Report on Form 10-K for the fiscal year ended January 31, 2020, amounts presented for the three and nine month periods ended October 31, 2019 have been restated to reflect the impact of corrections to finance charges and other revenues and provision for bad debts resulting from an error in the calculation and reporting of allowance for bad debts and uncollectible interest related to the implementation of the Company's new loan management system. 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 \$334.2 million for the three months ended October 31, 2020 compared to \$376.1 million for the three months ended October 31, 2019, a decrease of \$41.9 million or 11.1%. Retail revenues were \$259.9 million for the three months ended October 31, 2020 compared to \$280.3 million for the three months ended October 31, 2019, a decrease of \$20.4 million or 7.3%. The decrease in retail revenue was primarily driven by a decrease in same store sales of 10.9% and a decrease in RSA commissions, partially offset by new store growth. The decrease in same store sales reflects proactive underwriting changes, combined with industry wide supply chain disruptions in certain product categories, each of which was the result of the COVID-19 pandemic. Credit revenues were \$74.2 million for the three months ended October 31, 2020 compared to \$95.8 million for the three months ended October 31, 2019, a decrease of \$21.6 million or 22.5%. The decrease in credit revenue was primarily due to a decrease of 16.0% in the average balance of the customer receivable portfolio, a decrease in insurance commissions due to a decline in the balance of sale of our in-house credit financing and a decrease in insurance retrospective income. The decrease was also due to a decline in the yield rate to 21.1% during the three months ended October 31, 2020, 60 basis points lower than the three months ended October 31, 2019.

Retail gross margin for the three months ended October 31, 2020 was 38.3%, a decrease of 90 basis points from the 39.2% reported for the three months ended October 31, 2019. The year-over-year decrease in retail gross margin was primarily driven by the impact of a decrease in RSA commissions and retrospective income.

Selling, general and administrative expense (“SG&A”) for the three months ended October 31, 2020 was \$122.2 million compared to \$125.6 million for the three months ended October 31, 2019, a decrease of \$3.4 million or 2.7%. The SG&A decrease in the retail segment was primarily due to a reduction in advertising costs and labor costs, partially offset by an increase in occupancy costs. The SG&A decrease in the credit segment was primarily due to decreases in labor costs.

Provision for bad debts was \$27.5 million for the three months ended October 31, 2020 compared to \$45.9 million for the three months ended October 31, 2019, a decrease of \$18.4 million. The decrease was driven by a greater decrease in the allowance for bad debts during the three months ended October 31, 2020 compared to the three months ended October 31, 2019. The decrease in the allowance for bad debts was primarily driven by the year-over-year decrease in the customer accounts receivable portfolio and a decrease of \$12.4 million related to a decrease in forecasted unemployment rates. These decreases were partially offset by an \$8.0 million increase from the impact of COVID-19 on the portfolio performance related to accounts that received a COVID-19 payment deferral.

Interest expense was \$11.6 million for the three months ended October 31, 2020 and \$15.1 million for the three months ended October 31, 2019, a decrease of \$3.5 million or 23.2%. The decrease was driven by a lower average outstanding balance of debt.

Net income for the three months ended October 31, 2020 was \$7.4 million, or \$0.25 per diluted share, compared to net income of \$11.5 million, or \$0.39 per diluted share, for the three months ended October 31, 2019.

How We Evaluate Our Operations

Management focuses on certain key indicators to monitor our performance including:

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

Outlook

We are generally classified as an essential business by government authorities in the jurisdictions in which we operate as we provide essential goods and services to our communities. As a result, despite widespread stay-at-home orders that have been in effect from time to time since the COVID-19 pandemic began in March 2020, most of our stores have remained open, though at times operating on reduced schedules as mandated. As of December 8, 2020, substantially all of our stores are open and conduct regular in-store shopping hours. However, as noted in the “Overview” above, our business and industry continue to be impacted by the COVID-19 outbreak in the United States. As we face the possibility of another wave, the full extent to which the pandemic will impact our supply chain, future business and operating results is highly uncertain. Despite this, we are well positioned to continue serving our customers and supporting our employees as we continue with our previously implemented proactive measures and further monitor and respond to the pandemic.

The broad appeal of our value proposition to our geographically diverse core demographic, the unit economics of our business and the current retail real estate market should provide the stability necessary to maintain our business. As the COVID-19 outbreak is contained, we expect our brand recognition and long history in our core markets to give us the opportunity to further penetrate our existing footprint, particularly as we leverage existing marketing spend, logistics infrastructure, and service footprint. There are also many markets in the U.S. with demographic characteristics similar to those in our existing footprint, which provides substantial opportunities for future growth. We plan to continue improving our operating results by leveraging our existing infrastructure and seeking to continually optimize the efficiency of our marketing, merchandising, distribution and credit operations. As we expand in existing markets and penetrate new markets, we expect to increase our purchase volumes, achieve distribution efficiencies and strengthen our relationships with our key vendors. Over time, we also expect our increased store base and higher net sales to further leverage our existing corporate and regional infrastructure.

Results of Operations

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

Consolidated: <i>(in thousands)</i>	Three Months Ended October 31,			Nine Months Ended October 31,		
	2020	2019	Change	2020	2019	Change
Revenues:						
Total net sales	\$ 259,772	\$ 280,122	\$ (20,350)	\$ 769,838	\$ 848,163	\$ (78,325)
Finance charges and other revenues	74,386	96,005	(21,619)	248,396	282,535	(34,139)
Total revenues	334,158	376,127	(41,969)	1,018,234	1,130,698	(112,464)
Costs and expenses:						
Cost of goods sold	160,378	170,453	(10,075)	484,015	509,746	(25,731)
Selling, general and administrative expense	122,158	125,608	(3,450)	350,443	371,006	(20,563)
Provision for bad debts	27,493	45,925	(18,432)	176,864	135,707	41,157
Charges and credits	—	3,837	(3,837)	3,589	3,142	447
Total costs and expenses	310,029	345,823	(35,794)	1,014,911	1,019,601	(4,690)
Operating income	24,129	30,304	(6,175)	3,323	111,097	(107,774)
Interest expense	11,563	15,051	(3,488)	39,778	43,944	(4,166)
Income (loss) before income taxes	12,566	15,253	(2,687)	(36,455)	67,153	(103,608)
Provision (benefit) for income taxes	5,147	3,784	1,363	(8,192)	16,201	(24,393)
Net income (loss)	\$ 7,419	\$ 11,469	\$ (4,050)	\$ (28,263)	\$ 50,952	\$ (79,215)

Supplementary Operating Segment Information

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

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

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

Retail Segment: <i>(dollars in thousands)</i>	Three Months Ended October 31,			Nine Months Ended October 31,		
	2020	2019	Change	2020	2019	Change
Revenues:						
Product sales	\$ 239,157	\$ 250,233	\$ (11,076)	\$ 702,497	\$ 759,256	\$ (56,759)
Repair service agreement commissions	17,465	26,478	(9,013)	57,730	78,149	(20,419)
Service revenues	3,150	3,411	(261)	9,611	10,758	(1,147)
Total net sales	259,772	280,122	(20,350)	769,838	848,163	(78,325)
Finance charges and other	168	197	(29)	599	602	(3)
Total revenues	259,940	280,319	(20,379)	770,437	848,765	(78,328)
Costs and expenses:						
Cost of goods sold	160,378	170,453	(10,075)	484,015	509,746	(25,731)
Selling, general and administrative expense ⁽¹⁾	84,245	87,105	(2,860)	241,003	254,874	(13,871)
Provision for bad debts	72	535	(463)	422	645	(223)
Charges and credits	—	2,628	(2,628)	1,355	1,933	(578)
Total costs and expenses	244,695	260,721	(16,026)	726,795	767,198	(40,403)
Operating income	\$ 15,245	\$ 19,598	\$ (4,353)	\$ 43,642	\$ 81,567	\$ (37,925)
Number of stores:						
Beginning of period	141	131		137	123	
Opened	2	6		6	14	
End of period	<u>143</u>	<u>137</u>		<u>143</u>	<u>137</u>	

Credit Segment: (in thousands)	Three Months Ended October 31,			Nine Months Ended October 31,		
	2020	2019	Change	2020	2019	Change
Revenues:						
Finance charges and other revenues	\$ 74,218	\$ 95,808	\$ (21,590)	\$ 247,797	\$ 281,933	\$ (34,136)
Costs and expenses:						
Selling, general and administrative expense ⁽¹⁾	37,913	38,503	(590)	109,440	116,132	(6,692)
Provision for bad debts	27,421	45,390	(17,969)	176,442	135,062	41,380
Charges and credits	—	1,209	(1,209)	2,234	1,209	1,025
Total costs and expenses	65,334	85,102	(19,768)	288,116	252,403	35,713
Operating income (loss)	8,884	10,706	(1,822)	(40,319)	29,530	(69,849)
Interest expense	11,563	15,051	(3,488)	39,778	43,944	(4,166)
Loss before income taxes	\$ (2,679)	\$ (4,345)	\$ 1,666	\$ (80,097)	\$ (14,414)	\$ (65,683)

(1) For the three months ended October 31, 2020 and 2019, the amount of corporate overhead allocated to each segment reflected in SG&A was \$8.5 million and \$5.7 million, respectively. For the three months ended October 31, 2020 and 2019, the amount of reimbursement made to the retail segment by the credit segment was \$8.2 million and \$9.8 million, respectively. For the nine months ended October 31, 2020 and 2019, the amount of corporate overhead allocated to each segment reflected in SG&A was \$24.2 million and \$23.4 million, respectively. For the nine months ended October 31, 2020 and 2019, the amount of reimbursement made to the retail segment by the credit segment was \$26.9 million and \$29.2 million, respectively.

Three months ended October 31, 2020 compared to three months ended October 31, 2019

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

<i>(dollars in thousands)</i>	Three Months Ended October 31,				Change	% Change	Same Store % Change
	2020	% of Total	2019	% of Total			
Furniture and mattress	\$ 82,793	31.9 %	\$ 89,070	31.8 %	\$ (6,277)	(7.0)%	(12.8)%
Home appliance	99,872	38.4	90,343	32.3	9,529	10.5	6.1
Consumer electronics	35,517	13.7	48,113	17.2	(12,596)	(26.2)	(29.3)
Home office	16,711	6.4	18,681	6.7	(1,970)	(10.5)	(13.9)
Other	4,264	1.6	4,026	1.4	238	5.9	19.8
Product sales	239,157	92.0	250,233	89.4	(11,076)	(4.4)	(8.7)
Repair service agreement commissions ⁽¹⁾	17,465	6.7	26,478	9.5	(9,013)	(34.0)	(27.9)
Service revenues	3,150	1.3	3,411	1.1	(261)	(7.7)	
Total net sales	\$ 259,772	100.0 %	\$ 280,122	100.0 %	\$ (20,350)	(7.3)%	(10.9)%

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

The decrease in total net sales for the three months ended October 31, 2020 was primarily driven by a decrease in same store sales of 10.9% and a decrease in RSA commissions, partially offset by new store growth. The decrease in same store sales reflects proactive underwriting changes, combined with industry wide supply chain disruptions in certain product categories, each of which was the result of the COVID-19 pandemic.

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

<i>(in thousands)</i>	Three Months Ended October 31,		Change
	2020	2019	
Interest income and fees	\$ 69,996	\$ 85,903	\$ (15,907)
Insurance income	4,222	9,905	(5,683)
Other revenues	168	197	(29)
Finance charges and other revenues	<u>\$ 74,386</u>	<u>\$ 96,005</u>	<u>\$ (21,619)</u>

The decrease in finance charges and other revenues was primarily due to a decrease of 16.0% in the average balance of the customer receivable portfolio, a decrease in insurance commissions due to a decline in the balance of sale of our in-house credit financing and a decrease in insurance retrospective income. The decrease was also due to a decrease in the yield rate to 21.1% during the three months ended October 31, 2020, 60 basis points lower than the three months ended October 31, 2019.

The following table provides key portfolio performance information:

<i>(dollars in thousands)</i>	Three Months Ended October 31,		Change
	2020	2019	
Interest income and fees	\$ 69,996	\$ 85,903	\$ (15,907)
Net charge-offs	(48,435)	(44,551)	(3,884)
Interest expense	(11,563)	(15,051)	3,488
Net portfolio income	<u>\$ 9,998</u>	<u>\$ 26,301</u>	<u>\$ (16,303)</u>
Average outstanding portfolio balance	\$ 1,316,638	\$ 1,567,633	\$ (250,995)
Interest income and fee yield (annualized)	21.1 %	21.7 %	
Net charge-off % (annualized)	14.7 %	11.4 %	

Retail Gross Margin

<i>(dollars in thousands)</i>	Three Months Ended October 31,		Change
	2020	2019	
Retail total net sales	\$ 259,772	\$ 280,122	\$ (20,350)
Cost of goods sold	160,378	170,453	(10,075)
Retail gross margin	<u>\$ 99,394</u>	<u>\$ 109,669</u>	<u>\$ (10,275)</u>
Retail gross margin percentage	38.3 %	39.2 %	

The year-over-year decrease in retail gross margin was primarily driven by a decrease in RSA commissions and retrospective income.

Selling, General and Administrative Expense

<i>(dollars in thousands)</i>	Three Months Ended October 31,		Change
	2020	2019	
Retail segment	\$ 84,245	\$ 87,105	\$ (2,860)
Credit segment	37,913	38,503	(590)
Selling, general and administrative expense - Consolidated	<u>\$ 122,158</u>	<u>\$ 125,608</u>	<u>\$ (3,450)</u>
Selling, general and administrative expense as a percent of total revenues	36.6 %	33.4 %	

The SG&A decrease in the retail segment was primarily due to a reduction in advertising costs and labor costs, partially offset by an increase in occupancy costs. The SG&A decrease in the credit segment was primarily due to a decrease in labor costs.

As a percent of average total customer portfolio balance (annualized), SG&A for the credit segment for the three months ended October 31, 2020 increased 1.7% as compared to the three months ended October 31, 2019.

Provision for Bad Debts

(dollars in thousands)	Three Months Ended October 31,		Change
	2020	2019	
Retail segment	\$ 72	\$ 535	\$ (463)
Credit segment	27,421	45,390	(17,969)
Provision for bad debts - Consolidated	<u>\$ 27,493</u>	<u>\$ 45,925</u>	<u>\$ (18,432)</u>
Provision for bad debts - Credit segment, as a percent of average outstanding portfolio balance (annualized)	8.3 %	11.6 %	

The provision for bad debts was \$27.5 million for the three months ended October 31, 2020 compared to \$45.9 million for the three months ended October 31, 2019, a decrease of \$18.4 million. The decrease was driven by a greater decrease in the allowance for bad debts during the three months ended October 31, 2020 compared to the three months ended October 31, 2019. The decrease in the allowance for bad debts was primarily driven by the year-over-year decrease in the customer accounts receivable portfolio and a decrease of \$12.4 million related to a decrease in forecasted unemployment rates. These decreases were partially offset by an \$8.0 million increase from the impact of COVID-19 on the portfolio performance related to accounts that received a COVID-19 payment deferral.

Charges and Credits

(dollars in thousands)	Three Months Ended October 31,		Change
	2020	2019	
Professional fees	\$ —	\$ —	\$ —
Write-off of software costs	—	1,209	(1,209)
Facility relocation costs	—	2,628	(2,628)
Total charges and credits	<u>\$ —</u>	<u>\$ 3,837</u>	<u>\$ (3,837)</u>

During the three months ended October 31, 2019 we recognized \$3.2 million in impairments from exiting certain leases upon the relocation of three distribution centers into one facility. Facility closure costs were offset by a \$0.6 million gain from the sale of a cross-dock. In addition, we recognized \$1.2 million in impairments and write-off of software costs for a loan management system that was abandoned during the third quarter of fiscal year 2020 related to the implementation of a new loan management system.

Interest Expense

Interest expense was \$11.6 million for the three months ended October 31, 2020 and \$15.1 million for the three months ended October 31, 2019, a decrease of \$3.5 million or 23.2%. The decrease was driven by a lower average outstanding balance of debt.

Provision for Income Taxes

(dollars in thousands)	Three Months Ended October 31,		Change
	2020	2019	
Provision (benefit) for income taxes	<u>\$ 5,147</u>	<u>\$ 3,784</u>	<u>\$ 1,363</u>
Effective tax rate	41.0 %	24.8 %	

The increase in income tax expense for the three months ended October 31, 2020 compared to the three months ended October 31, 2019 was driven by a \$1.7 million provision increase recognized in the current period as a result of adjusted net operating loss provisions within the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") that provides for a five year carryback of losses.

Nine months ended October 31, 2020 compared to nine months ended October 31, 2019

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

<i>(dollars in thousands)</i>	Nine Months Ended October 31,				Change	% Change	Same Store % Change
	2020	% of Total	2019	% of Total			
Furniture and mattress	\$ 232,670	30.2 %	\$ 276,889	32.6 %	\$ (44,219)	(16.0)%	(20.5)%
Home appliance	288,839	37.5	266,989	31.5	21,850	8.2	2.9
Consumer electronics	118,677	15.4	151,454	17.9	(32,777)	(21.6)	(26.1)
Home office	49,056	6.4	52,270	6.2	(3,214)	(6.1)	(11.0)
Other	13,255	1.7	11,654	1.4	1,601	13.7	14.9
Product sales	702,497	91.2	759,256	89.6	(56,759)	(7.5)	(12.2)
Repair service agreement commissions ⁽¹⁾	57,730	7.5	78,149	9.2	(20,419)	(26.1)	(25.9)
Service revenues	9,611	1.3	10,758	1.2	(1,147)	(10.7)	
Total net sales	\$ 769,838	100.0 %	\$ 848,163	100.0 %	\$ (78,325)	(9.2)%	(13.8)%

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

The decrease in total net sales for the nine months ended October 31, 2020 was primarily driven by a decrease in same store sales of 13.8%, partially offset by new store growth. The decrease in same store sales reflects proactive underwriting changes, industry wide supply chain disruptions, reductions in store hours and state mandated stay-at-home orders, each of which was the result of the COVID-19 pandemic.

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

<i>(in thousands)</i>	Nine Months Ended October 31,		Change
	2020	2019	
Interest income and fees	\$ 235,438	\$ 255,124	\$ (19,686)
Insurance income	12,359	26,809	(14,450)
Other revenues	599	602	(3)
Finance charges and other revenues	<u>\$ 248,396</u>	<u>\$ 282,535</u>	<u>\$ (34,139)</u>

The decrease in finance charges and other revenues was primarily due to a decrease of 7.8% in the average balance of the customer receivable portfolio, a decrease in insurance commissions due to a decline in the balance of sale of our in-house credit financing and a decrease in insurance retrospective income. The yield rate remained flat year over year at 21.9% for both the nine months ended October 31, 2020 and the nine months ended October 31, 2019.

The following table provides key portfolio performance information:

<i>(dollars in thousands)</i>	Nine Months Ended October 31,		Change
	2020	2019	
Interest income and fees	\$ 235,438	\$ 255,124	\$ (19,686)
Net charge-offs	(182,441)	(142,616)	(39,825)
Interest expense	(39,778)	(43,944)	4,166
Net portfolio income	<u>\$ 13,219</u>	<u>\$ 68,564</u>	<u>\$ (55,345)</u>
Average outstanding portfolio balance	\$ 1,436,227	\$ 1,558,260	\$ (122,033)
Interest income and fee yield (annualized)	21.9 %	21.9 %	
Net charge-off % (annualized)	16.9 %	12.2 %	

Retail Gross Margin

<i>(dollars in thousands)</i>	Nine Months Ended October 31,		Change
	2020	2019	
Retail total net sales	\$ 769,838	\$ 848,163	\$ (78,325)
Cost of goods sold	484,015	509,746	(25,731)
Retail gross margin	<u>\$ 285,823</u>	<u>\$ 338,417</u>	<u>\$ (52,594)</u>
Retail gross margin percentage	37.1 %	39.9 %	

The year-over-year decrease in retail gross margin was primarily driven by the impact of fixed logistics costs on lower sales, a decrease in RSA commissions and retrospective income and a shift in sales from higher margin products to lower margin products.

Selling, General and Administrative Expense

<i>(dollars in thousands)</i>	Nine Months Ended October 31,		Change
	2020	2019	
Retail segment	\$ 241,003	\$ 254,874	\$ (13,871)
Credit segment	109,440	116,132	(6,692)
Selling, general and administrative expense - Consolidated	<u>\$ 350,443</u>	<u>\$ 371,006</u>	<u>\$ (20,563)</u>
Selling, general and administrative expense as a percent of total revenues	34.4 %	32.8 %	

The SG&A decrease in the retail segment was primarily due to a reduction in advertising costs, labor costs and general operating expenses, partially offset by an increase in occupancy costs. The SG&A decrease in the credit segment was primarily due to a decrease in labor costs and general operating expenses.

As a percent of average total customer portfolio balance (annualized), SG&A for the credit segment for the nine months ended October 31, 2020 increased 0.3% as compared to the nine months ended October 31, 2019.

Provision for Bad Debts

<i>(dollars in thousands)</i>	Nine Months Ended October 31,		Change
	2020	2019	
Retail segment	\$ 422	\$ 645	\$ (223)
Credit segment	176,442	135,062	41,380
Provision for bad debts - Consolidated	<u>\$ 176,864</u>	<u>\$ 135,707</u>	<u>\$ 41,157</u>
Provision for bad debts - Credit segment, as a percent of average outstanding portfolio balance (annualized)	16.4 %	11.6 %	

The provision for bad debts was \$176.9 million for the nine months ended October 31, 2020 compared to \$135.7 million for the nine months ended October 31, 2019, an increase of \$41.2 million. The year-over-year increase was primarily driven by a greater increase in the allowance for bad debts during the nine months ended October 31, 2020 compared to the nine months ended October 31, 2019. The increase in the allowance for bad debts for the nine months ended October 31, 2020 was primarily driven by an increase in forecasted unemployment rates stemming from the COVID-19 pandemic, an increase in the year-over-year estimated loss rate driven by a refinement of our historical charge-off estimate in the second quarter of fiscal year 2021 and an increase from the impact of COVID-19 on portfolio performance related to accounts that received a COVID-19 deferral. These increases were partially offset by a year-over-year decline in the customer accounts receivable portfolio and higher charge-offs.

Charges and Credits

<i>(dollars in thousands)</i>	Nine Months Ended October 31,		Change
	2020	2019	
Professional fees	\$ 3,589	\$ —	\$ 3,589
Write-off of software costs	—	1,209	(1,209)
Facility relocation costs	—	1,933	(1,933)
Total charges and credits	<u>\$ 3,589</u>	<u>\$ 3,142</u>	<u>\$ 447</u>

During the nine months ended October 31, 2020, we recognized \$3.6 million in professional fees associated with non-recurring expenses. During the nine months ended October 31, 2019, we recognized \$3.2 million in impairments from exiting certain leases upon the relocation of three distribution centers into one facility. Facility closure costs were offset by a \$0.7 million gain from increased sublease income related to the consolidation of our corporate headquarters and a \$0.6 million gain from the sale of a cross-dock. In addition, we recognized \$1.2 million in impairments and write-off of software costs for a loan management system that was abandoned during the third quarter of fiscal year 2020 related to the implementation of a new loan management system.

Interest Expense

Interest expense was \$39.8 million for the nine months ended October 31, 2020 and \$43.9 million for the nine months ended October 31, 2019, a decrease of \$4.1 million or 9.3%. The decrease was driven by a lower average outstanding balance of debt and a lower effective interest rate.

Provision for Income Taxes

<i>(dollars in thousands)</i>	Nine Months Ended October 31,		Change
	2020	2019	
Provision (benefit) for income taxes	\$ (8,192)	\$ 16,201	\$ (24,393)
Effective tax rate	22.5 %	24.1 %	

The decrease in income tax expense for the nine months ended October 31, 2020 compared to the nine months ended October 31, 2019 was driven by a \$103.6 million decrease in pre-tax earnings at the statutory rate of 21%. An additional \$2.5 million benefit was also recognized in the current period as a result of net operating loss provisions within the CARES Act that provides for a five year carryback of losses.

Customer Accounts Receivable Portfolio

We provide in-house financing to individual consumers on a short- and medium-term basis (contractual terms generally range from 12 to 36 months) for the purchase of durable products for the home. A significant portion of our customer credit portfolio is due from customers that are considered higher-risk, subprime borrowers. Our financing is executed using contracts that require fixed monthly payments over fixed terms. We maintain a secured interest in the product financed. If a payment is delayed, missed or paid only in part, the account becomes delinquent. Our collection personnel attempt to contact a customer once their account becomes delinquent. Our loan contracts generally reflect an interest rate of between 18% and 36%. We have implemented our direct consumer loan program across all Texas, Louisiana, Tennessee and Oklahoma locations. The states of Texas, Louisiana, Tennessee and Oklahoma represented approximately 75% of our originations during the nine months ended October 31, 2020, with maximum equivalent interest rates of up to 27% in Oklahoma, up to 30% in Texas and Tennessee, and up to 36% in Louisiana. In states where regulations do not generally limit the interest rate charged, our loan contracts generally reflect an interest rate between 29.99% and 35.99%. These states represented 12% of our originations during the nine months ended October 31, 2020.

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. During the second quarter of fiscal year 2021, we made a change to our re-age policy to increase the number of days required for a customer to qualify for a unilateral re-age. Re-ages are not granted to debtors who demonstrate a lack of intent or ability to service the obligation or have reached our limits for account re-aging. To a much lesser extent, we may provide the customer the ability to re-age their obligation by refinancing the account, which typically does not change the interest rate or the total principal amount due from the customer but does reduce the monthly contractual payments and extends the term. Under these options, as with extensions, the customer must resolve the reason for delinquency and show a willingness and ability to resume making contractual monthly payments.

On March 27, 2020 the CARES Act was signed into law to address the economic impact of the COVID-19 pandemic. Under the CARES Act, modifications deemed to be COVID-19 related are not considered a TDR if the loan was current (not more than 30 days past due as of March 31, 2020) and the deferral was executed between April 1, 2020 and the earlier of 60 days after the termination of the COVID-19 national emergency or December 31, 2020. In response to the CARES Act, the Company implemented short-term deferral programs for our customers. The carrying value of the customer receivables on accounts which were current prior to receiving a COVID-19 related deferment was \$75.8 million as of October 31, 2020. All deferral programs have ended as of October 31, 2020.

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,	
	2020	2019
Weighted average credit score of outstanding balances ⁽¹⁾	599	592
Average outstanding customer balance	\$ 2,515	\$ 2,735
Balances 60+ days past due as a percentage of total customer portfolio carrying value ⁽²⁾⁽³⁾	11.5 %	10.1 %
Re-aged balance as a percentage of total customer portfolio carrying value ⁽²⁾⁽³⁾	28.2 %	27.8 %
Carrying value of account balances re-aged more than six months (in thousands) ⁽³⁾	\$ 98,307	\$ 110,016
Allowance for bad debts and uncollectible interest as a percentage of total customer accounts receivable portfolio balance ⁽⁴⁾	24.9 %	13.6 %
Percent of total customer accounts receivable portfolio balance represented by no-interest option receivables	18.0 %	21.8 %

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2020	2019	2020	2019
Total applications processed	285,569	305,525	908,078	875,374
Weighted average origination credit score of sales financed ⁽¹⁾	618	608	615	608
Percent of total applications approved and utilized	22.7 %	25.6 %	21.6 %	27.1 %
Average income of credit customer at origination	\$ 46,900	\$ 46,100	\$ 46,500	\$ 45,700
Percent of retail sales paid for by:				
In-house financing, including down payments received	51.5 %	66.7 %	52.6 %	67.9 %
Third-party financing	20.3 %	18.5 %	20.6 %	17.5 %
Third-party lease-to-own option	7.2 %	7.0 %	8.0 %	7.2 %
	<u>79.0 %</u>	<u>92.2 %</u>	<u>81.2 %</u>	<u>92.6 %</u>

(1) Credit scores exclude non-scored accounts.

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

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

(4) For the period ended October 31, 2020, the allowance for bad debts and uncollectible interest is based on the current expected credit loss methodology required under ASC 326. For the period ended October 31, 2019, the allowance for bad debts and uncollectible interest is based on the incurred loss methodology.

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 the payment term has been re-aged in excess of three months or refinanced.

For customer accounts receivable (excluding restructured accounts), the allowance for uncollectible accounts as a percentage of the total customer accounts receivable portfolio balance increased to 22.1% as of October 31, 2020 from 10.0% as of October 31, 2019. The increase in our allowance for uncollectible accounts was primarily related to the implementation of CECL during the first quarter of fiscal year 2021, which transitioned our allowance from an incurred loss reserve to a lifetime reserve, and an increase in our economic adjustment related to the COVID-19 pandemic.

The percentage of the carrying value of non-restructured accounts greater than 60 days past due increased 50 basis points over the prior year period to 8.6% as of October 31, 2020 from 8.1% as of October 31, 2019.

For restructured accounts, the allowance for uncollectible accounts as a percentage of the portfolio balance was 39.7% as of October 31, 2020 as compared to 37.4% as of October 31, 2019. The increase in the allowance for uncollectible accounts was due to an increase in delinquencies.

The percent of bad debt charge-offs, net of recoveries, to average outstanding portfolio balance was 14.7% for the three months ended October 31, 2020 compared to 11.4% for the three months ended October 31, 2019. The increase in bad debt charge-offs, net of recoveries, was primarily due to an increase in new customer mix and the impact of difficulties in collection efforts related to the implementation of our new loan management system during the fourth quarter of fiscal year 2020.

As of October 31, 2020 and 2019, balances under no-interest programs included within customer receivables were \$229.9 million and \$337.6 million, respectively.

Liquidity and Capital Resources

We require liquidity and capital resources to finance our operations and future growth as we add new stores 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, 2020, net cash provided by operating activities was \$385.5 million compared to \$92.5 million for the nine months ended October 31, 2019. The increase in net cash provided by operating activities was primarily driven by an increase in cash provided by working capital, which was primarily due to a decrease in receivables resulting from both an increased collections on customer and a decrease in loan originations, a decrease in inventory driven by industry wide supply chain disruptions in certain product categories and an increase in payables as we preserved our liquidity during the COVID-19 pandemic. These increases were partially offset by a decrease in net income when adjusted for non-cash activity.

Investing cash flows. For the nine months ended October 31, 2020, net cash used in investing activities was \$46.6 million compared to \$47.6 million for the nine months ended October 31, 2019. The cash used during the nine months ended October 31, 2020 was primarily for capital expenditures related to our two new distribution centers to support long-term growth. The cash used during the nine months ended October 31, 2019 was primarily for capital expenditures related to investments in new stores, renovations and expansions of existing stores and a new distribution center.

Financing cash flows. For the nine months ended October 31, 2020, net cash used in financing activities was \$233.5 million compared to net cash used in financing activities of \$55.9 million for the nine months ended October 31, 2019. During the nine months ended October 31, 2020, we issued 2020-A VIE asset backed notes resulting in net proceeds to us of approximately \$238.5 million, net of transaction costs, which were used to pay down the entire balance of the Company's Revolving Credit Facility outstanding at the time of issuance and for other general corporate purposes. During the nine months ended October 31, 2019, we issued 2019-A VIE asset backed notes resulting in net proceeds to us of approximately \$379.2 million, net of transaction costs, which were used to pay down the entire balance of the Company's Revolving Credit Facility outstanding at the time of issuance and for other general corporate purposes. Cash collections from the securitized receivables were used to make payments on asset-backed notes of approximately \$438.5 million during the nine months ended October 31, 2020 compared to approximately \$405.1 million in the comparable prior year period. During the period ended October 31, 2020, net payments under our Revolving Credit Facility were \$29.1 million as compared to net borrowings of \$31.8 million during the period ended October 31, 2019.

Senior Notes. On July 1, 2014, we issued \$250.0 million of the unsecured Senior Notes due July 2022 bearing interest at 7.25% (the “Senior Notes”), pursuant to an indenture dated July 1, 2014 (as amended, the “Indenture”), among Conn’s, Inc., its subsidiary guarantors (the “Guarantors”) and U.S. Bank National Association, as trustee. The effective interest rate of the Senior Notes after giving effect to the discount and issuance costs is 7.8%.

The Indenture restricts the Company’s and certain of its subsidiaries’ ability to: (i) incur indebtedness; (ii) pay dividends or make other distributions in respect of, or repurchase or redeem, our capital stock (“restricted payments”); (iii) prepay, redeem or repurchase debt that is junior in right of payment to the notes; (iv) make loans and certain investments; (v) sell assets; (vi) incur liens; (vii) enter into transactions with affiliates; and (viii) consolidate, merge or sell all or substantially all of our assets. These covenants are subject to a number of important exceptions and qualifications. During any time when the Senior Notes are rated investment grade by either of Moody’s Investors Service, Inc. or Standard & Poor’s Ratings Services and no default (as defined in the Indenture) has occurred and is continuing, many of such covenants will be suspended and we will cease to be subject to such covenants during such period. As of October 31, 2020, \$176.0 million would have been free from the restricted payments covenant contained in the Indenture. Events of default under the Indenture include customary events, such as a cross-acceleration provision in the event that we fail to make payment of other indebtedness prior to the expiration of any applicable grace period or upon acceleration of indebtedness prior to its stated maturity date in an amount exceeding \$25.0 million, as well as in the event a judgment is entered against us in excess of \$25.0 million that is not discharged, bonded or insured.

On November 30, 2020 the Company announced a cash tender offer for up to \$100.0 million aggregate principal amount of its Senior Notes. See Note 9, *Subsequent Events*, of the Condensed Consolidated Financial Statements in Part I, Item 1, of this Quarterly Report on Form 10-Q for further details.

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

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

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

The asset-backed notes outstanding as of October 31, 2020 consisted of the following:

(dollars in thousands)

Asset-Backed Notes	Original Principal Amount	Original Net Proceeds ⁽¹⁾	Current Principal Amount	Issuance Date	Maturity Date	Contractual Interest Rate	Effective Interest Rate ⁽²⁾
2018-A Class A Notes	\$ 219,200	\$ 217,832	\$ 2,029	8/15/2018	1/17/2023	3.25%	5.03%
2018-A Class B Notes	69,550	69,020	2,861	8/15/2018	1/17/2023	4.65%	5.65%
2018-A Class C Notes	69,550	68,850	2,861	8/15/2018	1/17/2023	6.02%	7.02%
2019-A Class A Notes	254,530	253,026	27,393	4/24/2019	10/16/2023	3.40%	4.41%
2019-A Class B Notes	64,750	64,276	35,180	4/24/2019	10/16/2023	4.36%	4.87%
2019-A Class C Notes	62,510	61,898	33,963	4/24/2019	10/16/2023	5.29%	5.81%
2019-B Class A Notes	317,150	315,417	61,412	11/26/2019	6/17/2024	2.66%	4.34%
2019-B Class B Notes	85,540	84,916	85,540	11/26/2019	6/17/2024	3.62%	4.22%
2019-B Class C Notes	83,270	82,456	83,270	11/26/2019	6/17/2024	4.60%	5.02%
2020-A Class A Notes	174,900	173,716	174,900	10/16/2020	6/16/2025	1.71%	3.58%
2020-A Class B Notes	65,200	64,754	65,200	10/16/2020	6/16/2025	4.27%	5.86%
Total	<u>\$ 1,466,150</u>	<u>\$ 1,456,161</u>	<u>\$ 574,609</u>				

(1) After giving effect to debt issuance costs.

(2) For the nine months ended October 31, 2020, and inclusive of the impact of changes in timing of actual and expected cash flows.

On October 16, 2020, the Company completed the issuance and sale of \$240.1 million aggregate principal amount of asset-backed notes secured by the transferred customer accounts receivables and restricted cash held by a consolidated VIE, which resulted in net proceeds to us of \$238.5 million, net of debt issuance costs. Net proceeds from the offering were used to repay indebtedness under the Company's Revolving Credit Facility, as defined below, and for other general corporate purposes. The asset-backed notes mature on June 16, 2025 and consist of \$174.9 million of 1.71% Asset Backed Fixed Rate Notes, Class A, Series 2020-A and \$65.2 million in aggregate principal amount of 4.27% Asset Backed Fixed Rate Notes. Additionally, the Company issued \$62.9 million in aggregate principal amount of 7.10% Asset Backed Fixed Rate Notes, Class C, Series 2020-A which mature on June 16, 2025. The Class C Notes are currently being retained by the Company.

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

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, 2020, we had immediately available borrowing capacity of \$276.9 million under our Revolving Credit Facility, net of standby letters of credit issued of \$27.5 million and prior to giving effect to a minimum liquidity requirement of \$125.0 million pursuant to the Third Amendment. We also had \$345.6 million that could have become available under our Revolving Credit Facility were we to grow the balance of eligible customer receivables and total eligible inventory balances.

On June 5, 2020 we entered into the Third Amendment to our Revolving Credit Facility (the "Third Amendment"). Under the Third Amendment, loans under the Revolving Credit Facility bear interest, at our option, at a rate of LIBOR plus a margin ranging from 3.00% to 3.75% per annum (depending on a pricing grid determined by our total leverage ratio) or the alternate base rate plus a margin ranging from 2.00% to 2.75% per annum (depending on a pricing grid determined by our total leverage ratio). The alternate base rate is a rate per annum equal to the greatest of the prime rate, the federal funds effective rate plus 0.5%, or LIBOR for a 30-day interest period plus 1.0%. We also pay an unused fee on the portion of the commitments that is available for future borrowings or letters of credit at a rate ranging from 0.25% to 0.50% per annum, depending on the average outstanding balance and letters of credit of the Revolving Credit Facility in the immediately preceding quarter. The weighted-average interest rate on borrowings outstanding and including unused line fees under the Revolving Credit Facility was 5.2% for the nine months ended October 31, 2020.

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. We are restricted from making distributions, including repayments of the Senior Notes or other distributions, as a result of the Revolving Credit Facility distribution and payment restrictions. The Revolving Credit Facility contains customary default provisions, which, if triggered, could result in acceleration of all amounts outstanding under the Revolving Credit Facility.

Debt Covenants. As of October 31, 2020, we were in compliance with the covenants in our Revolving Credit Facility. See Note 9, *Subsequent Events*, of the Condensed Consolidated Financial Statements in Part I, Item 1, of this Quarterly Report on Form 10-Q for further details. If we were to breach certain covenants under our Revolving Credit Facility in the future, that breach might trigger a default under our Revolving Credit Facility, which, if not remedied, would require a waiver from the lenders under our Revolving Credit Facility or an amendment to our Revolving Credit Facility in order for us to avoid an event of default. There can be no assurances that, in the event of such a covenant breach, we would be able to obtain the necessary waivers or amendments to remain in compliance with the covenants in our Revolving Credit Facility.

A summary of the significant financial covenants that govern our Revolving Credit Facility, as amended, compared to our actual compliance status at October 31, 2020 is presented below:

	Actual	Required Minimum/ Maximum
Interest Coverage Ratio for the quarter must equal or exceed minimum	4.05:1.00	1.00:1.00
Interest Coverage Ratio for the trailing two quarters must equal or exceed minimum	4.69:1.00	1.50:1.00
Leverage Ratio must not exceed maximum	1.84:1.00	4.50:1.00
ABS Excluded Leverage Ratio must not exceed maximum	0.89:1.00	2.50:1.00
Capital Expenditures, net, must not exceed maximum	\$34.5 million	\$100.0 million

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

Capital Expenditures. We lease the majority of our stores under operating leases and our plans for future store locations anticipate operating leases, but do not exclude store ownership. Our capital expenditures for future new store projects should primarily be for our tenant improvements to the property leased (including any new distribution centers and cross-dock facilities), the cost of which is estimated to be between \$1.6 million and \$2.5 million per store (before tenant improvement allowances), and for our existing store remodels, estimated to range between \$0.7 million and \$1.2 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 six new stores during the nine months ended October 31, 2020 and currently plan to open a total of eight to nine new stores during fiscal year 2021. Our anticipated capital expenditures for the remainder of fiscal year 2021 are between \$9.0 million and \$14.0 million, which includes expenditures for new stores we plan to open in fiscal year 2021.

Cash Flow

We periodically evaluate our liquidity requirements, capital needs and availability of resources in view of inventory levels, expansion plans, debt service requirements and other operating cash needs. To meet our short- and long-term liquidity requirements, including payment of operating expenses, funding of capital expenditures and repayment of debt, we rely primarily on cash from operations. As of October 31, 2020, beyond cash generated from operations, we had (i) immediately available borrowing capacity of \$276.9 million under our Revolving Credit Facility and (ii) \$107.8 million of cash on hand. However, we have, in the past, sought to raise additional capital.

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

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

Off-Balance Sheet Liabilities and Other Contractual Obligations

We do not have any off-balance sheet arrangements as defined by Item 303(a)(4) of Regulation S-K. The following table presents a summary of our minimum contractual commitments and obligations as of October 31, 2020:

(in thousands)	Total	Payments due by period			
		Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Debt, including estimated interest payments ⁽¹⁾ :					
Revolving Credit Facility ⁽¹⁾	\$ —	\$ —	\$ —	\$ —	\$ —
Senior Notes ⁽²⁾	255,046	16,458	238,588	—	—
2018-A Class A Notes ⁽²⁾	2,175	66	2,109	—	—
2018-A Class B Notes ⁽²⁾	3,156	133	3,023	—	—
2018-A Class C Notes ⁽²⁾	3,242	172	3,070	—	—
2019-A Class A Notes ⁽²⁾	30,149	931	29,218	—	—
2019-A Class B Notes ⁽²⁾	39,718	1,534	38,184	—	—
2019-A Class C Notes ⁽²⁾	39,279	1,797	37,482	—	—
2019-B Class A Notes ⁽²⁾	67,343	1,634	3,267	62,442	—
2019-B Class B Notes ⁽²⁾	96,781	3,097	6,193	87,491	—
2019-B Class C Notes ⁽²⁾	97,175	3,830	7,661	85,684	—
2020-A Class A Notes ⁽²⁾	188,740	2,991	5,982	179,767	—
2020-A Class B Notes ⁽²⁾	78,083	2,784	5,568	69,731	—
Financing lease obligations	7,729	1,114	1,856	1,501	3,258
Operating leases:					
Real estate	556,210	81,109	162,950	131,322	180,829
Equipment	658	311	239	80	28
Contractual commitments ⁽³⁾	148,788	141,189	7,585	14	—
Total	<u>\$ 1,614,272</u>	<u>\$ 259,150</u>	<u>\$ 552,975</u>	<u>\$ 618,032</u>	<u>\$ 184,115</u>

(1) Estimated interest payments are based on the outstanding balance as of October 31, 2020 and the interest rate in effect at that time.

(2) The payments due by period for the Senior Notes and asset-backed notes were based on their respective maturity dates at their respective fixed annual interest rate. Actual principal and interest payments on the asset-backed notes will reflect actual proceeds from the securitized customer accounts receivables.

(3) Contractual commitments include commitments to purchase inventory of \$114.4 million.

Issuer and Guarantor Subsidiary Summarized Financial Information

Conn's, Inc. is a holding company with no independent assets or operations other than its investments in its subsidiaries. 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, 2020 and January 31, 2020, 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 tables present on a combined basis for the Issuer and the Guarantor Subsidiaries, a summarized Balance Sheet as of October 31, 2020 and January 31, 2020, and a summarized Statement of Operations on a consolidated basis for the nine months ended October 31, 2020. The information presented below excludes eliminations necessary to arrive at the information on a consolidated basis. Investments in subsidiaries are accounted for by the parent company using the equity method for purposes of this presentation. Amounts provided do not represent our total consolidated amounts, as of October 31, 2020 and January 31, 2020, and for the nine months ended October 31, 2020:

<i>(in thousands)</i>	October 31, 2020	January 31, 2020
Assets		
Cash, cash equivalents and restricted cash	\$ 109,757	\$ 7,641
Customer accounts receivable, net of allowances	167,606	279,977
Inventories	216,161	219,756
Net due from non-guarantor subsidiary	—	3,692
Other current assets	76,989	84,514
Total current assets	570,513	595,580
Long-term portion of customer accounts receivable, net of allowances	180,486	243,307
Property and equipment, net	191,079	173,031
Right of use assets, net	269,770	242,457
Other assets	59,068	30,654
Total assets	\$ 1,270,916	\$ 1,285,029
Liabilities		
Current portion of debt	\$ 769	\$ 605
Lease liability operating - current	37,663	35,390
Net due to non-guarantor subsidiary	900	—
Other liabilities	174,119	119,856
Total current liabilities	213,451	155,851
Lease liability operating - non current	362,035	329,081
Long-term debt	229,595	257,414
Other long-term liabilities	22,934	21,334
Total liabilities	\$ 828,015	\$ 763,680

<i>(in thousands)</i>	Nine Months Ended October 31, 2020
Revenues:	
Net sales and finances charges	\$ 901,222
Servicing fee revenue from non-guarantor subsidiary	28,029
Total revenues	929,251
Total costs and expenses	954,410
Net loss	\$ (25,159)

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with GAAP requires us to make estimates that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Certain accounting policies are considered “critical accounting policies” because they are particularly dependent on estimates made by us about matters that are inherently uncertain and could have a material impact to our Condensed Consolidated Financial Statements. We base our estimates on historical experience and on other assumptions that we believe are reasonable. As a result, actual results could differ because of the use of estimates. Other than with respect to the additional policy below, the description of critical accounting policies is included in our 2020 Form 10-K, filed with the SEC on April 14, 2020.

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 3.00% to 3.75% per annum (depending on a pricing grid determined by our total leverage ratio) or the alternate base rate plus a margin ranging from 2.00% to 2.75% per annum (depending on a pricing grid determined by our total leverage ratio). The alternate base rate is a rate per annum equal to the greatest of the prime rate, the federal funds effective rate plus 0.5%, or LIBOR for a 30-day interest period plus 1.0%. Accordingly, changes in our quarterly total leverage ratio and LIBOR or the alternate base rate will affect the interest rate on, and therefore our costs under, the Revolving Credit Facility. As of October 31, 2020, we did not have borrowings under our Revolving Credit Facility and, consequently, did not have any material exposure to interest rate market risks at the end of this period. However, any future borrowings under our Revolving Credit Facility will be at a variable rate of interest and we could potentially be materially adversely impacted should we require significant borrowings in the future, particularly during a period of rising interest rates.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of October 31, 2020, our management (under the supervision and with the participation of our principal executive officer and our principal financial officer and as defined in Rule 13a-15(f) or Rule 15(d)-15(f) under the Exchange Act) assessed the effectiveness of our internal control over financial reporting. In making this assessment, management used the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Based upon this assessment and those criteria, management believes that, as of October 31, 2020, our internal controls over financial reporting were not effective due to the previously disclosed material weakness in our internal controls over financial reporting described in Part II, Item 9A in our Annual Report on Form 10-K for the fiscal year ended January 31, 2020.

Remediation Plan

As previously described in Part II, Item 9A of our Annual Report on Form 10-K for the fiscal year ended January 31, 2020, we began implementing a remediation plan to address the material weakness mentioned above. We have substantially completed the remediation activities as of the date of this report and believe that we have strengthened our information technology general controls to address the identified material weakness. However, control weaknesses are not considered remediated until new internal controls have been operational for a period of time, are tested, and management concludes that these controls are operating effectively. We expect to complete the remediation process in the fourth quarter of fiscal year 2021.

Changes in Internal Controls over Financial Reporting

Other than the changes related to our remediation efforts described above, for the quarter ended October 31, 2020, 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 Condensed Consolidated Financial Statements in Part I, Item 1, of this quarterly report on Form 10-Q is incorporated herein by reference.

ITEM 1A. RISK FACTORS

As of the date of the filing, there have been no material changes to the risk factors previously disclosed in Part I, Item 1A, of our 2020 Form 10-K.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 5. OTHER INFORMATION

On December 7, 2020, the Board approved the Third Amended and Restated Bylaws of the Company (the “Bylaws”), effective as of December 7, 2020. The Bylaws, among other things, (i) added an exclusive forum provision providing for the designation of the Court of Chancery of the State of Delaware as the exclusive forum in which certain actions may be brought against the Company or its directors, officers or other employees and the designation of the U.S. Federal District Courts as the exclusive forum for any actions asserting a cause of action arising under the Securities Act of 1933, as amended; (ii) revised the advance notice provisions with respect to business to be brought at the meeting to require additional information be provided to the Company regarding such business; (iii) revised the advance notice provisions with respect to stockholder director nominations to require additional information be provided to the Company regarding stockholder director nominees, including how the stockholder director nominee intends to vote their shares of common stock at and whether they plan to attend the stockholder meeting; (iv) revised the procedures relating to stockholder meetings to provide that the Board may adjourn, postpone, reschedule or cancel a stockholder meeting for any reason, the Chief Executive Officer of the Company shall preside at all stockholder meetings and the Board may adopt rules and regulations for the conduct of any stockholder meeting; (v) provides that the Chairman of the Board or the President of the Company may call a special meeting of the Board on 24 hours’ notice, or less, if necessary; and (vi) added an emergency bylaw provision under the Delaware General Corporation Law that will activate in the event an emergency condition prevents the Board or a committee of the Board from obtaining a quorum for a meeting.

The foregoing description of the Bylaws does not purport to be complete and is qualified in its entirety by reference to the full text of the Bylaws, a copy of which is filed as Exhibit 3.2 hereto and incorporated herein by reference.

ITEM 6. EXHIBITS

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

Exhibit Number	Description of Document
3.1	Certificate of Incorporation of Conn's, Inc. (incorporated herein by reference to Exhibit 3.1 to Conn's, Inc. registration statement on Form S-1 (File No. 333-109046) as filed with the Securities and Exchange Commission on September 23, 2003)
3.1.1	Certificate of Amendment to the Certificate of Incorporation of Conn's, Inc. dated June 3, 2004 (incorporated herein by reference to Exhibit 3.1.1 to Form 10-Q for the quarterly period ended April 30, 2004 (File No. 000-50421) as filed with the Securities and Exchange Commission on June 7, 2004)
3.1.2	Certificate of Amendment to the Certificate of Incorporation of Conn's, Inc. dated May 30, 2012 (incorporated herein by reference to Exhibit 3.1.2 to Form 10-Q for the quarterly period ended April 30, 2012 (File No. 001-34956) as filed with the Securities and Exchange Commission on June 5, 2012)
3.1.3	Certificate of Correction to the Certificate of Amendment to Conn's, Inc. Certificate of Incorporation (incorporated herein by reference to Exhibit 3.1.3 to Form 10-K for the annual period ended January 31, 2014 (File No. 001-34956) as filed with the Securities and Exchange Commission on March 27, 2014)
3.1.4	Certificate of Amendment to the Certificate of Incorporation of Conn's, Inc. as filed on May 29, 2014 (incorporated herein by reference to Exhibit 3.1.4 to Conn's, Inc. Form 10-Q for the quarterly period ended April 30, 2014 (File No. 001-34956) as filed with the Securities and Exchange Commission on June 2, 2014)
3.2*	Third Amended and Restated Bylaws of Conn's, Inc. effective as of December 7, 2020
4.1	Base Indenture, dated as of October 16, 2020, by and between the Issuer and the Trustee (incorporated by herein reference to Exhibit 4.1 to Conn's, Inc. Form 8-K (File No. 001-34956) filed with the Securities and Exchange Commission on October 20, 2020)
4.2	Series 2020-A Supplement to the Base Indenture, dated as of October 16, 2020, by and between the Issuer and the Trustee (incorporated by herein reference to Exhibit 4.2 to Conn's, Inc. Form 8-K (File No. 001-34956) filed with the Securities and Exchange Commission on October 20, 2020)
10.1	First Receivables Purchase Agreement, dated October 16, 2020, by and between the Seller and the Depositor (incorporated by herein reference to Exhibit 10.1 to Conn's, Inc. Form 8-K (File No. 001-34956) filed with the Securities and Exchange Commission on October 20, 2020)
10.2	Second Receivables Purchase Agreement, dated October 16, 2020, by and between the Depositor and the Receivables Trust (incorporated by herein reference to Exhibit 10.2 to Conn's, Inc. Form 8-K (File No. 001-34956) filed with the Securities and Exchange Commission on October 20, 2020)
10.3	Purchase and Sale Agreement, dated October 16, 2020, by and between the Depositor and the Issuer (incorporated by herein reference to Exhibit 10.3 to Conn's, Inc. Form 8-K (File No. 001-34956) filed with the Securities and Exchange Commission on October 20, 2020)
10.4	Servicing Agreement dated as of October 16, 2020, by and among the Issuer, the Receivables Trust, the Servicer and the Trustee (incorporated by herein reference to Exhibit 10.4 to Conn's, Inc. Form 8-K (File No. 001-34956) filed with the Securities and Exchange Commission on October 20, 2020)
31.1	Rule 13a-14(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 2021, filed with the SEC on December 8, 2020, formatted in Inline Extensible Business Reporting Language (iXBRL): (i) the Condensed Consolidated Balance Sheets at October 31, 2020 and January 31, 2020, (ii) the Condensed Consolidated Statements of Operations for the three and nine months ended October 31, 2020 and 2019, (iii) the Condensed Consolidated Statements of Shareholders Equity for the periods ended October 31, 2020 and 2019, (iv) the Condensed Consolidated Statements of Cash Flows for the nine months ended October 31, 2020 and 2019 and (v) the notes to the Condensed Consolidated Financial Statements.
104*	Cover Page Interactive Data File (embedded within the Inline XBRL Document and included in Exhibit 101)

*Filed herewith

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 8, 2020

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

THIRD AMENDED AND RESTATED BYLAWS

OF

CONN'S, INC.

AS OF DECEMBER 7, 2020

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**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 postpone, reschedule or cancel any meeting of the stockholders previously scheduled by the Board of Directors for any reason. 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 (the "DGCL").

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. Regardless of whether a quorum is present, the chairman of a meeting of the stockholders or the Board of Directors may adjourn or recess any meeting of stockholders for any reason.

Section 2.7 Adjourned Meeting. When a meeting is adjourned or recessed to another date, time or place, notice need not be given of the adjourned meeting if the date, 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 or recessed meeting are announced at the meeting at which the adjournment or recess is taken. At any adjourned or recessed 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) A 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 Advance Notice Procedures for Business.

(a) At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (i) brought before the meeting by the Corporation and specified in the notice of meeting given by or at the direction of the Board of Directors, (ii) brought before the meeting by or at the direction of the Board of Directors, or (iii) otherwise properly brought before the meeting by a stockholder who (A) was a stockholder of record of the Corporation (and, with respect to any beneficial owner, if different, on whose behalf such business is proposed, only if such beneficial owner was the beneficial owner of shares of the Corporation) both at the time of giving the notice provided for in this Section 2.14 and at the time of the meeting, (B) is entitled to vote at the meeting, and (C) has complied with all of the notice procedures set forth in this Section 2.14 as to such business. Except for proposals properly made in accordance with Rule 14a-8 under the Securities Exchange Act of 1934, as amended (including such rules and regulations promulgated thereunder, the "Exchange Act"), and included in the notice of meeting given by or at the direction of the Board of Directors, the foregoing clause (iii) shall be the exclusive means for a stockholder to propose business to be brought before an annual meeting of the stockholders. Stockholders shall not be permitted to propose business to be brought before a special meeting of the stockholders, and the only matters that may be brought before a special meeting are the matters specified in the notice of meeting

given by or at the direction of the person calling the meeting pursuant to Section 2.3 of these Bylaws. Stockholders seeking to nominate persons for election to the Board of Directors must comply with the notice procedures set forth in Section 2.14 of these Bylaws, and this Section 2.14 shall not be applicable to nominations except as expressly provided in Section 2.15 of these Bylaws.

(b) Without qualification, for business to be properly brought before an annual meeting by a stockholder, the stockholder must (i) provide Timely Notice (as defined below) thereof in writing and in proper form to the Secretary of the Corporation and (ii) provide any updates or supplements to such notice at the times and in the forms required by this Section 2.14. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation not less than ninety (90) days nor more than one hundred twenty (120) days prior to the first anniversary of the preceding year's annual meeting; *provided, however*, that in the event that the date of the annual meeting is more than thirty (30) days before or more than sixty (60) days after such anniversary date, notice by the stockholder to be timely must be so delivered, or mailed and received, not earlier than the one hundred twentieth (120th) day prior to such annual meeting and not later than the ninetieth (90th) day prior to such annual meeting or, if later, the tenth (10th) day following the day on which public disclosure of the date of such annual meeting was first made (such notice within such time periods, "Timely Notice"). In no event shall any adjournment, recess or postponement of an annual meeting or the announcement thereof commence a new time period for the giving of Timely Notice as described above.

(c) To be in proper form for purposes of this Section 2.14, a stockholder's notice to the Secretary pursuant to this Section 2.14 shall be required to set forth:

(i) As to each Proposing Person (as defined below) and if a Proposing Person is an entity, as to each director, executive, managing member or control person of such entity, (A) the name and address of such Proposing Person (including, if applicable, the name and address that appear on the Corporation's books and records), (B) the class or series and number of shares of the Corporation that are, directly or indirectly, owned of record or beneficially owned (within the meaning of Rule 13d-3 under the Exchange Act) by such Proposing Person, except that such Proposing Person shall in all events be deemed to beneficially own any shares of any class or series of the Corporation as to which such Proposing Person has a right to acquire beneficial ownership at any time in the future, (C) the date or dates the shares in the foregoing clause (B) were acquired, (D) the investment intent of each such acquisition in the foregoing clause (C), (E) the nominee holder for, and number of, any Corporation securities owned beneficially but not of record by the Proposing Person and (F) any substantial interest (within the meaning of Item 5 of Schedule 14A under the Exchange Act) of such Proposing Person (the disclosures to be made pursuant to the foregoing clauses are referred to as "Stockholder Information");

(ii) As to each Proposing Person, (A) any derivative, swap or other transaction or series of transactions engaged in, directly or indirectly, by such Proposing

Person, the purpose or effect of which is to give such Proposing Person economic risk similar to ownership of shares of any class or series of the Corporation, including due to the fact that the value of such derivative, swap or other transactions are determined by reference to the price, value or volatility of any shares of any class or series of the Corporation, or which derivative, swap or other transactions provide, directly or indirectly, the opportunity to profit from any increase in the price or value of shares of any class or series of the Corporation (“Synthetic Equity Interests”), which Synthetic Equity Interests shall be disclosed without regard to whether (x) the derivative, swap or other transactions convey any voting rights in such shares to such Proposing Person, (y) the derivative, swap or other transactions are required to be, or are capable of being, settled through delivery of such shares or (z) such Proposing Person may have entered into other transactions that hedge or mitigate the economic effect of such derivative, swap or other transactions, (B) any proxy (other than a revocable proxy or consent given in response to a solicitation made pursuant to, and in accordance with, Section 14(a) of the Exchange Act by way of a solicitation statement filed on Schedule 14A), agreement, arrangement, understanding or relationship pursuant to which such Proposing Person has or shares a right to vote any shares of any class or series of the Corporation, (C) any agreement, arrangement, understanding or relationship, including any repurchase or similar so-called “stock borrowing” agreement or arrangement, engaged in, directly or indirectly, by such Proposing Person, the purpose or effect of which is to mitigate loss to, reduce the economic risk (of ownership or otherwise) of shares of any class or series of the Corporation by, manage the risk of share price changes for, or increase or decrease the voting power of, such Proposing Person with respect to the shares of any class or series of the Corporation, or which provides, directly or indirectly, the opportunity to profit from any decrease in the price or value of the shares of any class or series of the Corporation (“Short Interests”), (D) all trades in shares of any class or series of the Corporation, Synthetic Equity Interests and/or Short Interests made in the past two (2) years, (E) any rights to dividends on the shares of any class or series of the Corporation owned beneficially by such Proposing Person that are separated or separable from the underlying shares of the Corporation, (F) any performance related fees (other than an asset based fee) that such Proposing Person is entitled to based on any increase or decrease in the price or value of shares of any class or series of the Corporation, or any Synthetic Equity Interests or Short Interests, if any, (G) (x) if such Proposing Person is not a natural person, the identity of the natural person or persons associated with such Proposing Person responsible for the formulation of and decision to propose the business to be brought before the meeting (such person or persons, the “Responsible Person”), the manner in which such Responsible Person was selected, any fiduciary duties owed by such Responsible Person to the equity holders or other beneficiaries of such Proposing Person, the qualifications and background of such Responsible Person and any material interests or relationships of such Responsible Person that are not shared generally by any other record or beneficial holder of the shares of any class or series of the Corporation and that reasonably could have influenced the decision of such Proposing Person to propose such business to be brought before the meeting, and (y) if such Proposing Person is a natural person, the qualifications and background of such natural person and any material interests or relationships of such natural person that are not shared generally by

any other record or beneficial holder of the shares of any class or series of the Corporation and that reasonably could have influenced the decision of such Proposing Person to propose such business to be brought before the meeting, (H) any significant equity interests or any Synthetic Equity Interests or Short Interests in any principal competitor of the Corporation held by such Proposing Persons, (I) any direct or indirect interest of such Proposing Person in any contract with the Corporation, any affiliate of the Corporation or any principal competitor of the Corporation (including, in any such case, any employment agreement, collective bargaining agreement or consulting agreement), (J) any pending or threatened litigation in which such Proposing Person is a party or material participant involving the Corporation or any of its officers or directors, or any affiliate of the Corporation, (K) any material transaction occurring during the prior twelve (12) months between such Proposing Person, on the one hand, and the Corporation, any affiliate of the Corporation or any principal competitor of the Corporation, on the other hand, (L) a summary of any material discussions regarding the business proposed to be brought before the meeting (x) between or among any of the Proposing Persons or (y) between or among any Proposing Person and any other record or beneficial holder of the shares of any class or series of the Corporation (including their names) and (M) any other information relating to such Proposing Person that would be required to be disclosed in a proxy statement or other filing required to be made in connection with solicitations of proxies or consents by such Proposing Person in support of the business proposed to be brought before the meeting pursuant to Section 14(a) of the Exchange Act (the disclosures to be made pursuant to the foregoing clauses (A) through (M) are referred to as “Disclosable Interests”); provided, however, that Disclosable Interests shall not include any such disclosures with respect to the ordinary course business activities of any broker, dealer, commercial bank, trust company or other nominee who is a Proposing Person solely as a result of being the stockholder directed to prepare and submit the notice required by these Bylaws on behalf of a beneficial owner;

(iii) As to each Proposing Person, (A) whether such Proposing Person intends or is part of a group which intends (x) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Corporation’s outstanding capital stock required to approve or adopt the proposal(s) or (y) to otherwise solicit proxies in support of such proposal(s); (B) whether and the extent to which any agreement, arrangement or understanding has been made, the effect or intent of which is to increase or decrease the voting power of such Proposing Person with respect to any shares of the capital stock of the Corporation, without regard to whether such transaction is required to be reported on a Schedule 13D in accordance with the Exchange Act; and (C) the investment strategy or objective, if any, of such Proposing Person and a copy of the prospectus, offering memorandum or similar document, if any, provided to investors or potential investors in such Proposing Person;

(iv) A complete and accurate description of all agreements, arrangements or understandings, written or oral, and formal or informal, (A) between or among the stockholder giving notice and any other Proposing Person or (B) between or among the stockholder giving notice or any other Proposing Person and any other person or entity

(naming each such person or entity) in connection with or related to the proposed item of business, including, without limitation, (x) any proxy, contract, arrangement, understanding or relationship pursuant to which such stockholder or other Proposing Person has the right to vote any shares of any security of the Corporation, (y) any understanding, formal or informal, written or oral, that such stockholder or any other Proposing Person may have reached with any stockholder of the Corporation (including their names) with respect to how such stockholder will vote its shares in the Corporation at any meeting of the Corporation's stockholders or take other action in support of a proposed item of business, or other action to be taken, by such stockholder or any other Proposing Person and (z) any other agreements that would be required to be disclosed by such stockholder, any other Proposing Person or any other person or entity pursuant to Item 5 or Item 6 of a Schedule 13D that would be filed pursuant to the Exchange Act and the rules and regulations promulgated thereunder (regardless of whether the requirement to file a Schedule 13D is applicable to the stockholder giving notice, any other Proposing Person, any director nominee or other person or entity); and a representation that the stockholder will notify the Corporation in writing within five (5) business days after the record date for such meeting of any such agreement, arrangement or understanding in effect as of the record date for the meeting;

(v) As to each item of business that a stockholder proposes to bring before the annual meeting, (A) a reasonably brief description of the business desired to be brought before the annual meeting, the reasons for conducting such business at the annual meeting and any material interest in such business of each Proposing Person, including any anticipated benefit therefrom, (B) the text of the proposal or business (including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend the Bylaws of the Corporation, the language of the proposed amendment), (C) a reasonably detailed description of all agreements, arrangements and understandings between or among any of the Proposing Persons or between or among any Proposing Person and any other person or entity (including their names) in connection with the proposal of such business by such stockholder and (D) any other information related to such item of business that would be required to be disclosed in a proxy statement or other filing required to be made by a Proposing Person in connection with the solicitation of proxies or consents in support of such proposed business by such Proposing Person pursuant to Section 14(a) under the Exchange Act; and

(vi) a representation from the stockholder giving notice that (A) such stockholder (x) is a holder of record of stock of the Corporation entitled to vote at the meeting, (y) intends to vote such stock at the meeting and (z) intends to appear in person or by proxy at the meeting to bring such business before the meeting; and (B) if such stockholder does not appear to present such business at the meeting, the Corporation need not present such business for a vote at such meeting, notwithstanding that proxies in respect of such vote may have been received by the Corporation..

(d) For purposes of this Section 2.14, the term “Proposing Person” shall mean (i) the stockholder providing the notice of business proposed to be brought before an annual meeting, (ii) the beneficial owner or beneficial owners, if different, on whose behalf the notice of the business proposed to be brought before the annual meeting is made, (iii) any affiliate or associate (as defined below) of such stockholder or beneficial owner and (iv) any other person with whom such stockholder or beneficial owner (or any of their respective affiliates or associates) is a member of a “group” (as used in Rule 13d-5 of the Exchange Act) or is Acting in Concert (as defined below).

(e) A person shall be deemed to be “Acting in Concert” with another person for purposes of these Bylaws if such person knowingly acts (whether or not pursuant to an express agreement, arrangement or understanding) in concert with, or towards a common goal relating to the management, governance or control of the Corporation in parallel with, such other person where (i) each person is conscious of the other person’s conduct or intent and this awareness is an element in their decision-making processes and (ii) at least one additional factor suggests that such persons intend to act in concert or in parallel, which such additional factors may include, without limitation, exchanging information (whether publicly or privately), attending meetings, conducting discussions, or making or soliciting invitations to act in concert or in parallel; *provided*, that a person shall not be deemed to be Acting in Concert with any other person solely as a result of the solicitation or receipt of revocable proxies or consents from such other person in response to a solicitation made pursuant to, and in accordance with, Section 14(a) of the Exchange Act by way of a proxy or consent solicitation statement filed on Schedule 14A. A person Acting in Concert with another person shall be deemed to be Acting in Concert with any third party who is also Acting in Concert with such other person.

(f) A stockholder providing notice of business proposed to be brought before an annual meeting shall further update and supplement such notice, if necessary, so that the information provided or required to be provided in such notice pursuant to this Section 2.14 shall be true and correct as of the record date for the meeting and as of the date that is ten (10) business days prior to the meeting or any adjournment or postponement thereof, and such update and supplement shall be delivered to, or mailed and received by, the Secretary at the principal executive offices of the Corporation not later than five (5) business days after the record date for the meeting (in the case of the update and supplement required to be made as of the record date), and not later than eight (8) business days prior to the date for the meeting or, if practicable, any adjournment or postponement thereof (and, if not practicable, on the first practicable date prior to the date to which the meeting has been adjourned or postponed) (in the case of the update and supplement required to be made as of ten (10) business days prior to the meeting or any adjournment or postponement thereof).

(g) The Corporation may require any Proposing Person to furnish such other information as the Corporation determines to be relevant to any item of business that the Proposing Person proposes to bring before the annual meeting. Such Proposing Person shall deliver to the Corporation such information no later than five (5) business days after the request by the Corporation for such information has been delivered to such Proposing Person.

(h) Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at an annual meeting except in accordance with this Section 2.14. The chairman of an annual meeting shall, if the facts warrant, determine that the business was not properly brought before the meeting in accordance with this Section 2.14, and if he or she should so determine, he or she shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

(i) Notwithstanding anything in these Bylaws to the contrary, if the stockholder (or a qualified representative of the stockholder) proposing business to be conducted at a meeting of stockholders does not appear at the meeting to present such business, such proposed business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the Corporation.

(j) This Section 2.14 is expressly intended to apply to any business proposed to be brought before an annual meeting of stockholders. In addition to the requirements of this Section 2.14 with respect to any business proposed to be brought before an annual meeting, each Proposing Person shall comply with all applicable requirements of the Exchange Act and state law with respect to any such business; provided, however, that any references in these Bylaws to the Exchange Act are not intended to and shall not limit the disclosure requirements under this Section 2.14 or Section 2.15 of these Bylaws. Nothing in this Section 2.14 shall be deemed to affect the rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

(k) If any information submitted pursuant to this Section 2.14 or Section 2.15 of these Bylaws by any stockholder proposing business for consideration or individuals to nominate for election or reelection as a director at a meeting of stockholders shall be inaccurate in any respect, such information may be deemed not to have been provided in accordance with these Bylaws. Any such stockholder shall notify the Corporation of any inaccuracy or change in any such information within two (2) business days of becoming aware of such inaccuracy or change. Upon written request by the Secretary of the Corporation, the Board of Directors or any Committee thereof, any such stockholder shall provide, within seven (7) business days of delivery of such request (or such other period as may be specified in such request), (i) written verification, reasonably satisfactory to the Board of Directors, any Committee thereof or any authorized officer of the Corporation, to demonstrate the accuracy of any information submitted by the stockholder pursuant to this Section 2.14 or Section 2.15, as applicable, and (ii) a written update of any information (including written confirmation by such stockholder that it continues to intend to bring such nomination or other business proposal before the meeting) submitted by the stockholder pursuant to this Section 2.14 or Section 2.15, as applicable, as of an earlier date. If a stockholder fails to provide such written verification within such period, the information as to which written verification was requested may be deemed not to have been provided in accordance with this Section 2.14 or Section 2.15, as applicable.

(l) For purposes of these Bylaws, (i) an "affiliate" and "associate" each have the respective meanings set forth in Rule 12b-2 under the Exchange Act and (ii) "public disclosure" shall mean disclosure in a press release reported by a national news service, in a

document publicly filed by the Corporation with the Securities and Exchange Commission (the “Commission”) pursuant to Sections 13, 14 or 15(d) of the Exchange Act or in a notice pursuant to the applicable rules of an exchange on which the securities of the Corporation are listed.

Section 2.15 Advance Notice Procedures for Nominations.

(a) Nominations of any person for election to the Board of Directors at an annual meeting or at a special meeting (but only if the election of directors is a matter specified in the notice of meeting given by or at the direction of the person calling such special meeting) may be made at such meeting only (i) by or at the direction of the Board of Directors, or (ii) by a stockholder who (A) was a stockholder of record of the Corporation (and, with respect to any beneficial owner, if different, on whose behalf such nomination is proposed to be made, only if such beneficial owner was the beneficial owner of shares of the Corporation) both at the time of giving the notice provided for in this Section 2.15 and at the time of the meeting, (B) is entitled to vote at the meeting and (C) has complied with this Section 2.15 as to such nomination. The foregoing clause (ii) shall be the exclusive means for a stockholder to make any nomination of a person or persons for election to the Board of Directors to be considered by the stockholders at an annual meeting or special meeting.

(b) Without qualification, for a stockholder to make any nomination of a person or persons for election to the Board of Directors at an annual meeting, the stockholder must (i) provide Timely Notice (as defined in Section 2.14 of these Bylaws) thereof in writing and in proper form to the Secretary of the Corporation and (ii) provide any updates or supplements to such notice at the times and in the forms required by this Section 2.15. Without qualification, if the election of directors is a matter specified in the notice of meeting given by or at the direction of the person calling such special meeting, then for a stockholder to make any nomination of a person or persons for election to the Board of Directors at a special meeting, the stockholder must (A) provide timely notice thereof in writing and in proper form to the Secretary of the Corporation at the principal executive offices of the Corporation and (B) provide any updates or supplements to such notice at the times and in the forms required by this Section 2.15. To be timely, a stockholder’s notice for nominations to be made at a special meeting must be delivered to, or mailed and received at, the principal executive offices of the Corporation not earlier than the one hundred twentieth (120th) day prior to such special meeting and not later than the ninetieth (90th) day prior to such special meeting or, if later, the tenth (10th) day following the day on which public disclosure (as defined in Section 2.14 of these Bylaws) of the date of such special meeting was first made. The number of individuals a stockholder may nominate for election at a meeting of the stockholders (or in the case of a stockholder giving the notice on behalf of a beneficial owner, the number of nominees a stockholder may nominate for election on behalf of such beneficial owner) shall not exceed the number of directors to be elected at such meeting. In no event shall any adjournment, recess or postponement of an annual meeting or special meeting or the announcement thereof commence a new time period for the giving of a stockholder’s notice as described above.

(c) To be in proper form for purposes of this Section 2.15, a stockholder’s notice to the Secretary shall set forth:

(i) As to each Nominating Person (as defined below), the Stockholder Information (as defined in Section 2.14(c) of these Bylaws) except that for purposes of this Section 2.15, the term “Nominating Person” shall be substituted for the term “Proposing Person” in all places it appears in Section 2.14(c);

(ii) As to each Nominating Person, any Disclosable Interests (as defined in Section 2.14(c) of these Bylaws), except that for purposes of this Section 2.15 the term “Nominating Person” shall be substituted for the term “Proposing Person” in all places it appears in Section 2.14(c) and the disclosures in clauses (G), (L) and (M) of Section 2.14(c)(ii) shall be made with respect to the nomination of directors for election at the meeting;

(iii) As to each Nominating Person, the disclosures required by Section 2.14(c)(iii) and 2.14(c)(iv) of these Bylaws, except that, for the purposes of this Section 2.15, the term “Nominating Person” shall be substituted for the term “Proposing Person” in all places it appears in Section 2.14(c) and the disclosures in Section 2.14(c)(iii)(A) and 2.14(c)(iv) shall be made with respect to the nomination of directors for election at the meeting;

(iv) As to each Nominating Person, a reasonably detailed description of all agreements, arrangements and understandings between or among any of the Nominating Persons or between or among any Nominating Person and any other person or entity (including their names) in connection with the nomination of directors for election at the meeting;

(v) a representation from the stockholder giving notice that (A) such stockholder (x) is a holder of record of stock of the Corporation entitled to vote at the meeting, (y) intends to vote such stock at the meeting and (z) intends to appear in person or by proxy at the meeting to bring such nomination before the meeting; and (B) if such stockholder does not appear to present such nomination at the meeting, the Corporation need not present such nomination for a vote at such meeting, notwithstanding that proxies in respect of such vote may have been received by the Corporation;

(vi) As to each person whom a Nominating Person proposes to nominate for election as a director, (A) all information with respect to such proposed nominee that would be required to be set forth in a stockholder’s notice pursuant to Sections 2.14(c)(i), 2.14(c)(ii)(A)-(F) and 2.14(c)(ii)(H)-(L), except that references to “Proposing Person” shall refer to the proposed nominee, (B) the name, age, business address, residence address, principal occupation and employment of such proposed nominee; (C) all information relating to such proposed nominee that is required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors in a contested election pursuant to Section 14(a) under the Exchange Act (including such proposed nominee’s written consent to being named in the proxy statement as a nominee and to serving as a director if elected), (D) a description of

all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three (3) years, and any other material relationships, between or among any Nominating Person, on the one hand, and each proposed nominee, his or her respective affiliates and associates and any other persons with whom such proposed nominee (or any of his or her respective affiliates and associates) is Acting in Concert (as defined in Section 2.14 of these Bylaws), on the other hand, including, without limitation, all information that would be required to be disclosed pursuant to Item 404 under Regulation S-K if such Nominating Person were the “registrant” for purposes of such rule and the proposed nominee were a director or executive officer of such registrant, and (E) a completed and signed questionnaire, representation and agreement as provided in Section 2.15(g) of these Bylaws; and

(vii) The Corporation may require any proposed nominee to furnish such other information (A) as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as an independent director of the Corporation or (B) that could be material to a reasonable stockholder’s understanding of the independence or lack of independence of such proposed nominee, in each case under the listing standards of each principal securities exchange upon which the shares of the Corporation are listed, any applicable rules of the Commission and any publicly disclosed standards used by the Board of Directors (including the Corporation’s Corporate Governance Guidelines) in determining and disclosing the independence of the Corporation’s directors, including those applicable to a director’s service on any of the Committees of the Board of Directors.

(d) For purposes of this Section 2.15, the term “Nominating Person” shall mean (i) the stockholder providing the notice of the nomination proposed to be made at the meeting, (ii) the beneficial owner or beneficial owners, if different, on whose behalf the notice of the nomination proposed to be made at the meeting is made, (iii) any affiliate or associate of such stockholder or beneficial owner and (iv) any other person with whom such stockholder or such beneficial owner (or any of their respective affiliates or associates) is a member of a “group” (as used in Rule 13d-5 of the Exchange Act) or is Acting in Concert.

(e) A stockholder providing notice of any nomination proposed to be made at a meeting pursuant to this Section 2.15 shall further update and supplement such notice, if necessary, so that the information provided or required to be provided in such notice pursuant to this Section 2.15 shall be true and correct as of the record date for the meeting and as of the date that is ten (10) business days prior to the meeting or any adjournment or postponement thereof, and such update and supplement shall be delivered to, or mailed and received by, the Secretary at the principal executive offices of the Corporation not later than five (5) business days after the record date for the meeting (in the case of the update and supplement required to be made as of the record date), and not later than eight (8) business days prior to the date for the meeting or, if practicable, any adjournment or postponement thereof (and, if not practicable, on the first practicable date prior to the date to which the meeting has been adjourned or postponed) (in the case of the update and supplement required to be made as of ten (10) business days prior to the meeting or any adjournment or postponement thereof)

(f) The chairman of the meeting shall, if the facts warrant, determine that a nomination was not properly made in accordance with this Section 2.15, and if he or she should so determine, he or she shall so declare such determination to the meeting and the defective nomination shall be disregarded.

(g) To be eligible to be a nominee for election as a director of the Corporation pursuant to this Section 2.15, the proposed nominee must deliver (in accordance with the time periods prescribed for delivery of notice under this Section 2.15) to the Secretary at the principal executive offices of the Corporation a written questionnaire with respect to the background and qualification of such proposed nominee (which questionnaire shall be provided by the Secretary within ten (10) days of receipt of a request) and a written representation and agreement (in form provided by the Secretary within ten (10) days of receipt of a request) that such proposed nominee (i) is not and will not become a party to (A) any agreement, arrangement or understanding with, and has not given any commitment or assurance to, any person or entity as to how such proposed nominee, if elected as a director of the Corporation, will act or vote on any issue or question (a "Voting Commitment") that has not been disclosed to the Corporation or (B) any Voting Commitment that could limit or interfere with such proposed nominee's ability to comply, if elected as a director of the Corporation, with such proposed nominee's fiduciary duties under applicable law, (ii) is not, and will not become a party to, any agreement, arrangement or understanding with any person or entity other than the Corporation with respect to any direct or indirect compensation, reimbursement or indemnification in connection with service or action as a director that has not been disclosed to the Corporation, (iii) in such proposed nominee's individual capacity and on behalf of the stockholder (or the beneficial owner, if different) on whose behalf the nomination is made, would be in compliance, if elected as a director of the Corporation, and will comply with applicable publicly disclosed corporate governance, ethics, conflict of interest, confidentiality and stock ownership and trading policies and guidelines of the Corporation, (iv) intends to serve a full term if elected as a director of the Corporation and (v) will provide facts, statements and other information in all communications with the Corporation and its stockholders that are or will be true and correct in all material respects, and that do not and will not omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading.

(h) No person may be elected or appointed as a director if such person has ever pleaded guilty or no contest or been convicted of any state or federal crime involving insider trading in securities or of any felony involving a financial crime.

(i) The Corporation may require any proposed nominee and any Nominating Person to furnish such other information as the Corporation determines to be necessary or advisable to determine the eligibility, suitability or qualifications of such proposed nominee to serve as a director of the Corporation. Such proposed nominee or any Nominating Person shall deliver to the Corporation such information no later than five (5) business days after the request by the Corporation for such information has been delivered to such proposed nominee or Nominating Person, as applicable.

(j) No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth in this Section 2.15. In addition to the requirements of this Section 2.15 with respect to any nomination proposed to be made at a meeting, each Nominating Person shall comply with all applicable requirements of the Exchange Act with respect to any such nominations.

(k) Notwithstanding anything in the Bylaws to the contrary, if the stockholder (or a qualified representative of the stockholder) making the nomination does not appear at the meeting to present such nomination, such nomination shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the Corporation

Section 2.16 Conduct of Meetings. The Board of Directors may adopt rules and regulations for the conduct of any meeting of the stockholders as it shall deem appropriate. Except to the extent inconsistent with such rules and regulations, the chairman of any meeting of the stockholders shall have the right and authority to prescribe rules, regulations and procedures and to take all acts as, in the judgment of such chairman, are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the chairman of the meeting, may include or address, without limitation, the following: (i) the establishment of an agenda or order of business for the meeting; (ii) the determination of when the polls shall open and close for any given matter to be voted on at the meeting; (iii) maintenance of order at the meeting and the safety of those present; (iv) compliance with state and local laws and regulations concerning safety and security; (v) limitations on attendance at or participation in the meeting to stockholders of record of the Corporation, their duly authorized and constituted proxies or such other persons as the chairman of the meeting shall determine; (vi) restrictions on entry to the meeting after the time fixed for the commencement thereof; (vii) limitations on the time allotted to questions or comments by participants; (viii) removal of any stockholder or any other individual who refuses to comply with meeting procedures, rules or guidelines; (ix) conclusion, recess or adjournment of the meeting, whether or not a quorum is present, to a later date and time and at a place announced at the meeting; and (x) restrictions on the use of audio and video recording devices and cell phones.

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. 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. As provided in Article TEN of Corporation's Certificate of Incorporation, vacancies and newly created directorships resulting from any increase in the authorized number of directors shall be filled solely 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, by telecopier, electronic facsimile or hand delivery; provided, however, that if the Chairman of the Board or the President determines in good faith that it is necessary or advisable to hold a special meeting of the Board of Directors sooner, less than twenty-four (24) hours' notice may be provided. 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 DGCL, 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 DGCL, 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 as chairman 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 DGCL.

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 DGCL 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 EMERGENCY BYLAWS

Section 9.1 Emergency Bylaws. Notwithstanding anything to the contrary in the Corporation's Certificate of Incorporation or these Bylaws, in the event there is any emergency, disaster or catastrophe, as referred to in Section 110 of the DGCL, or other similar emergency condition (each, an "emergency") and irrespective of whether a quorum of the Board of Directors or a standing Committee thereof can readily be convened for action, this Section 9.1 shall apply.

(a) Any director or senior executive officer of the Corporation may call a meeting of the Board of Directors or any Committee thereof by any feasible means and with such advance notice as circumstances permit in the judgment of the person calling the meeting. Neither the business to be transacted nor the purpose of any such meeting need be specified in the notice thereof.

(b) At any meeting called in accordance with Section 9.1(a) of these Bylaws, the director or directors in attendance shall constitute a quorum. In the event that no directors are able to attend the meeting, the Designated Officers in attendance shall be deemed directors for such meeting. For purposes of this Section 9.1(b), a "Designated Officer" means an officer who

is included on a list of officers of the Corporation who shall be deemed to be directors of the Corporation for purposes of obtaining a quorum during an emergency if a quorum of directors cannot otherwise be obtained, which officers have been designated by the Board of Directors prior to such time as an emergency may have occurred.

(c) Directors may take action to appoint one or more of the directors to membership on any standing or temporary Committees of the Board of Directors as they deem advisable. Directors may also take action to designate one or more of the officers of the Corporation to serve as directors of the Corporation while this Section 9.1 applies.

(d) To the extent that it considers it practical to do so, the Board of Directors shall manage the business of the Corporation during an emergency in a manner that is consistent with the Corporation's Certificate of Incorporation and these Bylaws. It is recognized, however, that in an emergency, it may not always be practical to act in this manner and this Section 9.1 is intended to, and does hereby, empower the Board of Directors with the maximum authority possible under the DGCL and all other applicable law to conduct the interim management of the affairs of the Corporation in an emergency in what it considers to be in the best interests of the Corporation, including, without limitation, taking any action that it determines to be practical and necessary to address the circumstances of the emergency.

(e) No director, officer or employee acting in accordance with this Section 9.1 or otherwise pursuant to Section 110 of the DGCL (or any successor section) shall be liable except for willful misconduct.

(f) This Section 9.1 shall continue to apply until such time following the emergency when it is feasible for at least a majority of the Board of Directors immediately prior to the emergency to resume management of the business of the Corporation.

(g) At any meeting called in accordance with Section 9.1(a), the Board of Directors may modify, amend or add to the provisions of this Section 9.1 in order to make any provision that may be practical or necessary given the circumstances of the emergency.

(h) The provisions of this Section 9.1 shall be subject to repeal or change by further action of the Board of Directors or by action of the stockholders, but no such repeal or change shall modify the provisions of Section 9.1(e) of these Bylaws with regard to action taken prior to the time of such repeal or change.

(i) Nothing contained in this Section 9.1 shall be deemed exclusive of any other provisions for emergency powers consistent with other sections of the DGCL that have been or may be adopted by corporations created under the DGCL.

ARTICLE 10 GENERAL PROVISIONS

Section 10.1 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 DGCL and the Corporation's Certificate of Incorporation.

Section 10.2 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 10.3 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 10.4 Fiscal Year. The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors.

Section 10.5 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 10.6 Forum. Unless the Corporation consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for, and shall have exclusive jurisdiction with respect to, (i) any derivative action or proceeding brought on behalf of the Corporation, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee or agent of the Corporation to the Corporation or the Corporation's stockholders, including a claim alleging the aiding and abetting of such a breach of fiduciary duty, (iii) any action asserting a claim arising out of or relating to any provision of the DGCL, the Corporation's Certificate of Incorporation or these Bylaws, (iv) any action asserting a claim related to or involving the Corporation or any director, officer, stockholder, employee or agent of the Corporation that is governed by the internal affairs doctrine, or (v) any action asserting an "internal corporate claim" as that term is defined in Section 115 of the DGCL; provided, however, that, in the event that the Court of Chancery of the State of Delaware lacks subject matter jurisdiction over any such action or proceeding, the sole and exclusive forum for such action or proceeding shall be another state or

federal court located within the State of Delaware. If any action the subject matter of which is within the scope of this Section 10.6 is filed in a court other than the Court of Chancery of the State of Delaware (or any other state or federal court located within the State of Delaware, as applicable) (a “Foreign Action”) by or in the name of any stockholder, such stockholder shall be deemed to have notice of and consented to (i) the exclusive personal jurisdiction of the Court of Chancery of the State of Delaware (or such other state or federal court located within the State of Delaware, as applicable) in connection with any action brought in any such court to enforce this Section 10.6 and (ii) having service of process made upon such stockholder in any such action by service upon such stockholder’s counsel in the Foreign Action as agent for such stockholder. The existence of any prior consent in writing of the Corporation to the selection of an alternative forum shall not act as a waiver of the Corporation’s ongoing consent right as set forth above in this Section 10.6 with respect to any current or future actions or claims. The U.S. Federal District Courts of the United States shall be the sole and exclusive forum for any action asserting a cause of action arising under the Securities Act of 1933, as amended. Any person or entity purchasing or otherwise acquiring any interest in shares of capital stock of the Corporation shall be deemed to have notice of and consented to the provisions of this Section 10.6. Failure to enforce the foregoing provisions would cause the Corporation irreparable harm and the Corporation shall be entitled to equitable relief, including injunctive relief and specific performance, to enforce the foregoing provisions.

Section 10.7 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 10.8 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 2.15, Section 3.2, Section 3.3, and Section 3.4 of these Bylaws or to amend this Section 10.8 as it relates to the vote required to adopt, amend, alter or repeal the aforementioned sections of these Bylaws.

Section 10.9 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.

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 8, 2020

CERTIFICATION

I, George L. Bchara, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Conn's, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ George L. Bchara

George L. Bchara

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

Date: December 8, 2020

**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, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Norman L. Miller, Chairman of the Board, Chief Executive Officer and President of the Company, and George L. Bchara, Executive Vice President and Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of our knowledge:

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

/s/ Norman L. Miller

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

/s/ George L. Bchara

George L. Bchara
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: December 8, 2020

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.