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 June 29, 2024
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: 001-38950

Grocery Outlet Holding Corp.
(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**47-1874201** **(I.R.S. Employer Identification No.)**
5650 Hollis Street, Emeryville, California **(Address of principal executive offices)**	**94608** **(Zip Code)**

(510) 845-1999
(Registrant's telephone number, including area code)

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 $0.001 per share	GO	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 such files). Yes ☒ No ☐

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

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

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

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

As of August 1, 2024, the registrant had 97,990,326 shares of common stock outstanding.

GROCERY OUTLET HOLDING CORP.
FORM 10-Q

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q ("Form 10-Q" or "report") constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained in this report other than statements of historical fact may constitute forward-looking statements, including statements regarding our future operating results and financial position, our business strategy and plans, the integration of our recent acquisition of United Grocery Outlet, our enterprise resource planning system upgrades and recent impacts, business and market trends, macroeconomic and geopolitical conditions, and the sufficiency of our cash balances, working capital and cash generated from operating, investing and financing activities for our future liquidity and capital resource needs. Words such as "anticipate," "believe," "estimate," "expect," "intend," "may," "outlook," "plan," "project," "seek," "will," and similar expressions, are intended to identify such forward-looking statements. These forward-looking statements are subject to a number of risks, uncertainties and assumptions that may cause actual results to differ materially from those expressed or implied by any forward-looking statements we make, including those described under the headings "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in our Annual Report on Form 10-K for the fiscal year ended December 30, 2023, and as described in other subsequent reports we file with the United States ("U.S.") Securities and Exchange Commission (the "SEC"), including this report. We encourage you to read this report and our other filings with the SEC carefully. Moreover, we operate in a very competitive and rapidly changing environment and new risks emerge from time to time.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, and our expectations based on third-party information and projections are from sources that management believes to be reputable, we cannot guarantee future results, levels of activities, performance or achievements. These forward-looking statements are made as of the date of this report or as of the date specified herein and we have based these forward-looking statements on our current expectations and projections about future events and trends. Except as required by law, we do not undertake any duty to update any of these forward-looking statements after the date of this report or to conform these statements to actual results or revised expectations.

As used in this report, references to "Grocery Outlet," "the Company," "registrant," "we," "us" and "our," refer to Grocery Outlet Holding Corp. and its consolidated subsidiaries unless otherwise indicated or the context requires otherwise.

Website Disclosure

We use our website, https://investors.groceryoutlet.com, as a channel of distribution of Company information. Financial and other important information about us is routinely accessible through and posted on our website. Accordingly, investors should monitor our website, in addition to following our press releases, SEC filings and public conference calls and webcasts. The contents of our website and information accessible through our website is not, however, incorporated by reference or a part of this report. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports, and the proxy statements for our annual meetings of stockholders are available, free of charge, on our website as soon as practicable after we file the reports with the SEC.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GROCERY OUTLET HOLDING CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)
(unaudited)

	June 29, 2024	December 30, 2023
Assets		
Current assets:		
Cash and cash equivalents	$ 67,065	$ 114,987
Independent operator receivables and current portion of independent operator notes, net of allowance $5,378 and $5,092	12,243	14,943
Other accounts receivable, net of allowance $58 and $2	4,388	4,185
Merchandise inventories	367,313	349,993
Prepaid expenses and other current assets	24,259	32,443
Total current assets	475,268	516,551
Independent operator notes and receivables, net of allowance $11,186 and $11,059	30,675	28,134
Property and equipment, net	712,764	642,462
Operating lease right-of-use assets	998,366	945,710
Intangible assets, net	76,887	78,556
Goodwill	776,832	747,943
Other assets	9,884	10,230
Total assets	$ 3,080,676	$ 2,969,586
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade accounts payable	$ 210,231	$ 209,354
Accrued and other current liabilities	54,304	66,655
Accrued compensation	18,655	24,749
Current portion of long-term debt	5,625	5,625
Current lease liabilities	71,940	63,774
Income and other taxes payable	7,924	13,808
Total current liabilities	368,679	383,965
Long-term debt, net	373,555	287,107
Deferred income tax liabilities, net	41,154	38,601
Long-term lease liabilities	1,075,019	1,038,307
Other long-term liabilities	1,425	2,267
Total liabilities	1,859,832	1,750,247
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock, par value $0.001 per share, 500,000,000 shares authorized; 99,154,749 and 99,223,863 shares issued and outstanding, respectively	99	99
Series A preferred stock, par value $0.001 per share, 50,000,000 shares authorized; no shares issued and outstanding	—	—
Additional paid-in capital	865,805	877,276
Retained earnings	354,940	341,964
Total stockholders' equity	1,220,844	1,219,339
Total liabilities and stockholders' equity	$ 3,080,676	$ 2,969,586

See Notes to Condensed Consolidated Financial Statements

GROCERY OUTLET HOLDING CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(in thousands, except per share data)
(unaudited)

	13 Weeks Ended		26 Weeks Ended	
	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Net sales	$ 1,128,520	$ 1,010,255	$ 2,165,464	$ 1,975,722
Cost of sales	779,280	683,685	1,512,279	1,348,609
Gross profit	349,240	326,570	653,185	627,113
Selling, general and administrative expenses	323,135	290,089	626,517	557,814
Operating income	26,105	36,481	26,668	69,299
Other expenses:				
Interest expense, net	5,559	4,766	8,735	10,685
Loss on debt extinguishment and modification	—	—	—	5,340
Total other expenses	5,559	4,766	8,735	16,025
Income before income taxes	20,546	31,715	17,933	53,274
Income tax expense	6,545	7,244	4,957	15,083
Net income and comprehensive income	$ 14,001	$ 24,471	$ 12,976	$ 38,191
Basic earnings per share	$ 0.14	$ 0.25	$ 0.13	$ 0.39
Diluted earnings per share	$ 0.14	$ 0.24	$ 0.13	$ 0.38
Weighted average shares outstanding:				
Basic	99,542	98,515	99,531	98,218
Diluted	100,369	100,639	100,753	100,604

See Notes to Condensed Consolidated Financial Statements

GROCERY OUTLET HOLDING CORP.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share amounts)
(unaudited)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Stockholders' Equity
	Shares	Amount			
Balance as of December 30, 2023	99,223,863	$ 99	$ 877,276	$ 341,964	$ 1,219,339
Exercise and vesting of share-based awards	1,124,005	1	3,441	—	3,442
Share-based compensation expense	—	—	8,142	—	8,142
Repurchase of common stock	(200,803)	—	(5,325)	—	(5,325)
Net loss and comprehensive loss	—	—	—	(1,025)	(1,025)
Balance as of March 30, 2024	100,147,065	$ 100	$ 883,534	$ 340,939	$ 1,224,573
Exercise and vesting of share-based awards	112,410	—	302	—	302
Share-based compensation expense	—	—	7,001	—	7,001
Repurchase of common stock	(1,104,726)	(1)	(25,032)	—	(25,033)
Net income and comprehensive income	—	—	—	14,001	14,001
Balance as of June 29, 2024	99,154,749	$ 99	$ 865,805	$ 354,940	$ 1,220,844

See Notes to Condensed Consolidated Financial Statements

GROCERY OUTLET HOLDING CORP.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY, continued
(in thousands, except share amounts)
(unaudited)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Stockholders' Equity
	Shares	Amount			
Balance as of December 31, 2022	97,674,356	$ 98	$ 847,589	$ 262,527	$ 1,110,214
Exercise and vesting of share-based awards	734,310	—	204	—	204
Share-based compensation expense	—	—	6,676	—	6,676
Repurchase of common stock	(122,862)	—	(3,275)	—	(3,275)
Net income and comprehensive income	—	—	—	13,720	13,720
Balance as of April 1, 2023	98,285,804	$ 98	$ 851,194	$ 276,247	$ 1,127,539
Exercise and vesting of share-based awards, net of shares withheld for employee taxes	487,445	1	1,507	—	1,508
Share-based compensation expense	—	—	11,305	—	11,305
Dividends paid	—	—	(9)	—	(9)
Net income and comprehensive income	—	—	—	24,471	24,471
Balance as of July 1, 2023	98,773,249	$ 99	$ 863,997	$ 300,718	$ 1,164,814

See Notes to Condensed Consolidated Financial Statements

GROCERY OUTLET HOLDING CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	26 Weeks Ended	
	June 29, 2024	July 1, 2023
Cash flows from operating activities:		
Net income	$ 12,976	$ 38,191
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property and equipment	43,462	36,969
Amortization of intangible and other assets	7,972	4,826
Amortization of debt issuance costs and debt discounts	455	628
Non-cash rent	1,788	2,705
Loss on debt extinguishment and modification	—	5,340
Share-based compensation	15,143	17,981
Provision for independent operator and other accounts receivable reserves	1,947	2,154
Deferred income taxes	2,077	9,938
Other	745	342
Changes in operating assets and liabilities:		
Independent operator and other accounts receivable	1,006	(3,395)
Merchandise inventories	(3,112)	13,975
Prepaid expenses and other assets	10,973	(2,657)
Income and other taxes payable	(6,626)	3,486
Trade accounts payable, accrued compensation and other liabilities	(45,210)	20,985
Operating lease liabilities	5,842	5,652
Net cash provided by operating activities	49,438	157,120
Cash flows from investing activities:		
Advances to independent operators	(5,541)	(3,540)
Repayments of advances from independent operators	2,692	3,551
Business acquisition, net of cash and cash equivalents acquired	(60,774)	—
Purchases of property and equipment	(85,131)	(66,025)
Proceeds from sales of assets	—	24
Investments in intangible assets and licenses	(6,532)	(12,309)
Proceeds from insurance recoveries - property and equipment	—	215
Net cash used in investing activities	(155,286)	(78,084)
Cash flows from financing activities:		
Proceeds from exercise of stock options	3,744	1,578
Tax withholding related to net settlement of employee share-based awards	—	(449)
Proceeds from senior term loan due 2028	—	300,000
Proceeds from revolving credit facility	90,000	25,000
Principal payments on revolving credit facility	—	(25,000)
Principal payments on senior term loan due 2025	—	(385,000)
Principal payments on senior term loan due 2028	(3,750)	(1,875)
Principal payments on finance leases	(794)	(651)
Repurchase of common stock	(31,274)	(3,275)
Dividends paid	—	(9)
Debt issuance costs paid	—	(4,513)
Net cash provided by (used in) financing activities	57,926	(94,194)
Net decrease in cash and cash equivalents	(47,922)	(15,158)
Cash and cash equivalents at beginning of period	114,987	102,728
Cash and cash equivalents at end of period	$ 67,065	$ 87,570

See Notes to Condensed Consolidated Financial Statements

GROCERY OUTLET HOLDING CORP.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1. Organization and Summary of Significant Accounting Policies

Description of Business — Based in Emeryville, California, and incorporated in Delaware in 2014, Grocery Outlet Holding Corp. (together with its wholly owned subsidiaries, collectively, "Grocery Outlet," "we," or the "Company") is a high-growth, extreme value retailer of quality, name-brand consumables and fresh products sold primarily through a network of independently operated stores. As of June 29, 2024, we had 524 stores throughout California, Washington, Oregon, Pennsylvania, Tennessee, Idaho, Nevada, North Carolina, Maryland, New Jersey, Georgia, Ohio, Alabama, Delaware, Kentucky and Virginia.

Basis of Presentation — The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and the applicable rules and regulations of the United States ("U.S.") Securities and Exchange Commission for interim reporting. Certain information and note disclosures included in our annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 30, 2023 (the "2023 Form 10-K"). The condensed consolidated balance sheet as of December 30, 2023 included herein has been derived from those audited consolidated financial statements.

Our unaudited condensed consolidated financial statements include the accounts of Grocery Outlet Holding Corp. and its wholly owned subsidiaries. All intercompany balances and transactions were eliminated. In the opinion of management, these condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the results for the periods presented. The interim results of operations and cash flows are not necessarily indicative of those results and cash flows expected for any future interim or annual period.

Use of Estimates — The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results can differ from these estimates depending upon certain risks and uncertainties. Changes in these estimates are recorded when known. We consider our accounting policy relating to long-lived asset impairment to be a significant accounting policy that involves management's estimates and judgments.

Segment Reporting — We manage our business as one operating segment. In addition, all of our sales were made to customers located in the U.S. and all property and equipment is located in the U.S.

Merchandise Inventories — Merchandise inventories are valued at the lower of cost or net realizable value. Cost is primarily determined by the weighted-average cost method for warehouse inventories and the retail inventory method for store inventories. We provide for estimated inventory losses between physical inventory counts based on historical averages. This provision is adjusted periodically to reflect the actual shrink results of the physical inventory counts.

Leases — We determine if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use assets, current lease liabilities, and long-term lease liabilities in our condensed consolidated balance sheets. Finance leases are included in other assets, current lease liabilities, and long-term lease liabilities in our condensed consolidated balance sheets. Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease over the same term. Right-of-use assets and liabilities are recognized at commencement date based on the present value of the lease payments over the lease term, reduced by landlord incentives. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate, which is estimated to approximate the interest rate on a collateralized basis with similar terms and payments based on the information available at the commencement date, to determine the present value of our lease payments. Lease term is defined as the non-cancelable period of the lease plus any options to extend or terminate the lease when it is reasonably certain that we will exercise the option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term while finance lease payments are charged to interest expense and depreciation and amortization expense over the lease term. Leases with an initial term of 12 months or less are not recorded on the balance sheet; lease expense for these short-term leases is recognized on a straight-line basis over the lease term.

We generally lease retail facilities for store locations, distribution centers, office space and equipment and account for these leases as operating leases. We account for one retail store lease and certain equipment leases as finance leases. Lease and non-lease components are accounted for separately. We sublease certain real estate to unrelated third parties under non-cancelable leases and the sublease portfolio consists of operating leases for retail stores.

Fair Value Measurements — Fair value is defined as the exchange price, or exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value of financial instruments is categorized based upon the level of judgment associated with the inputs used to measure their fair values. Fair value is measured using inputs from the three levels of the fair value hierarchy, which are described as follows:

Level 1 — Quoted prices in active markets for identical assets or liabilities

Level 2 — Quoted prices for similar assets and liabilities in active markets or inputs that are observable

Level 3 — Unobservable inputs in which there is little or no market data, which requires us to develop our own assumptions when pricing the financial instruments, such as cash flow modeling assumptions

The assets' or liabilities' fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The fair value framework requires that we maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

There were no assets or liabilities measured at fair value on a recurring or non-recurring basis as of June 29, 2024 or December 30, 2023. Generally, assets are recorded at fair value on a non-recurring basis as a result of impairment charges. There were no transfers of assets or liabilities between levels within the fair value hierarchy during the 26 weeks ended June 29, 2024.

Our financial assets and liabilities are carried at cost, which generally approximates their fair value, as described below:

Cash and cash equivalents, independent operator ("IO") receivables, other accounts receivable and accounts payable — The carrying value of such financial instruments approximates their fair value due to factors such as their short-term nature, their variable interest rates or the effect of the related allowance for expected credit losses.

Independent operator notes (net) — The carrying value of such financial instruments approximates their fair value due to the effect of the related allowance for expected credit losses.

The following table sets forth by level within the fair value hierarchy the carrying amounts and estimated fair values of our significant financial liabilities that are not recorded at fair value on the condensed consolidated balance sheets (amounts in thousands):

	June 29, 2024		December 30, 2023	
	Carrying Amount [1]	Estimated Fair Value [2]	Carrying Amount [1]	Estimated Fair Value [2]
Financial Liabilities:				
Senior term loan (Level 2)	$ 289,180	$ 290,625	$ 292,732	$ 294,375
Revolving credit facility (Level 2)	$ 90,000	$ 90,000	$ —	$ —

(1) The carrying amounts of the senior term loan as of June 29, 2024 and December 30, 2023 were net of debt issuance costs of $1.4 million and $1.6 million, respectively.

(2) The estimated fair value of our current senior term loan and revolving credit facility borrowings under the 2023 Credit Agreement, as defined in Note 3, was deemed to approximate the carrying value, excluding unamortized debt issuance costs, because the interest rate is variable with short reset periods and is reflective of the current market rate.

Revenue Recognition

Net Sales — We recognize revenue from the sale of products at the point of sale, net of any taxes or deposits collected and remitted to governmental authorities. For e-commerce related sales in which a third-party provides home delivery service, revenue is recognized upon delivery to the customer. Our performance obligations are satisfied upon the transfer of goods to the customer, at the point of sale, and payment from customers is also due at the time of sale. Discounts provided to customers by us are recognized at the time of sale as a reduction in net sales as the products are sold. Discounts provided by IOs are not recognized as a reduction in net sales as these are provided solely by the IO who bears the incremental costs arising from the discount. We do not accept manufacturer coupons.

We do not have any material contract assets or receivables from contracts with customers, any revenue recognized in the current year from performance obligations satisfied in previous periods, any material performance obligations other than our gift card deferred revenue liability, or any material costs to obtain or fulfill a contract as of June 29, 2024 and December 30, 2023.

Gift Cards — We record a deferred revenue liability when a Grocery Outlet gift card is sold. Revenue related to gift cards is recognized as the gift cards are redeemed, which is when we have satisfied our performance obligation. While gift cards are generally redeemed within 12 months, some are never fully redeemed. We reduce the liability and recognize revenue for the unused portion of the gift cards ("breakage") under the proportional method, where recognition of breakage income is based upon the historical run-off rate of unredeemed gift cards. Our gift card deferred revenue liability was $2.0 million and $3.2 million as of June 29, 2024 and December 30, 2023, respectively. Breakage amounts were immaterial for the 13 and 26 weeks ended June 29, 2024 and July 1, 2023.

Disaggregated Revenues — The following table presents net sales revenue by type of product for the periods indicated (amounts in thousands):

	13 Weeks Ended		26 Weeks Ended	
	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Perishable [(1)]	$ 424,180	$ 359,770	$ 804,445	$ 705,609
Non-perishable [(2)]	704,340	650,485	1,361,019	1,270,113
Total net sales	$ 1,128,520	$ 1,010,255	$ 2,165,464	$ 1,975,722

(1) Perishable departments include dairy and deli; produce and floral; and fresh meat and seafood.

(2) Non-perishable departments include non-perishable grocery; general merchandise; health and beauty care; frozen foods; and beer and wine.

Variable Interest Entities — In accordance with the variable interest entities sub-section of Accounting Standards Codification ("ASC") Topic 810, *Consolidation*, we assess at each reporting period whether we, or any consolidated entity, are considered the primary beneficiary of a variable interest entity ("VIE") and therefore required to consolidate the financial results of the VIE in our condensed consolidated financial statements. Determining whether to consolidate a VIE may require judgment in assessing (i) whether an entity is a VIE, and (ii) if a reporting entity is a VIE's primary beneficiary. A reporting entity is determined to be a VIE's primary beneficiary if it has the power to direct the activities that most significantly impact a VIE's economic performance and the obligation to absorb losses or rights to receive benefits that could potentially be significant to a VIE.

We had 481, 466 and 445 stores operated by IOs as of June 29, 2024, December 30, 2023 and July 1, 2023, respectively. We have agreements in place with each IO. The IO orders merchandise exclusively from us which is provided to the IO on consignment. Under the Independent Operator Agreement (the "Operator Agreement"), the IO selects a majority of merchandise that we consign to the IO, which the IO chooses from our merchandise order guide according to the IO's knowledge and experience with local customer purchasing trends, preferences, historical sales and similar factors. The Operator Agreement gives the IO discretion to adjust our initial prices if the overall effect of all price changes at any time comports with the reputation of our Grocery Outlet retail stores for selling quality, name-brand consumables and fresh products and other merchandise at extreme discounts. The IO is required to furnish initial working capital and to acquire certain store and safety assets. The IO is also required to hire, train and employ a properly trained workforce sufficient in number to enable the IO to fulfill its obligations under the Operator Agreement. Additionally, the IO is responsible for expenses required for business operations, including all labor costs, utilities, credit card processing fees, supplies, taxes, fines, levies and other expenses. Either party may terminate the Operator Agreement without cause upon 75 days' notice.

As consignor of all merchandise to each IO, the aggregate net sales proceeds from merchandise sales belongs to us. Net sales related to IO stores were $1.07 billion and $997.2 million for the 13 weeks ended June 29, 2024 and July 1, 2023, respectively, and $2.10 billion and $1.95 billion for the 26 weeks ended June 29, 2024 and July 1, 2023, respectively. We, in turn, pay each IO a commission based on a share of the gross profit of the store. Inventories and related net sales proceeds are our property, and we are responsible for store rent and related occupancy costs. IO commissions are expensed and included in selling, general and administrative expenses. IO commissions were $167.0 million and $158.2 million for the 13 weeks ended June 29, 2024 and July 1, 2023, respectively, and $327.8 million and $303.4 million for the 26 weeks ended June 29, 2024 and July 1, 2023, respectively. IO commissions of $16.0 million and $21.7 million were included in accrued and other current liabilities as of June 29, 2024 and December 30, 2023, respectively.

An IO may fund its initial store investment from existing capital, a third-party loan or most commonly through a loan from us, as further discussed in Note 2. As collateral for IO obligations and performance, the Operator Agreement grants us the security interests in the assets owned by each IO related to the respective store. Since the total investment at risk associated with each IO is not sufficient to permit each IO to finance its activities without additional subordinated financial support, each IO is a VIE that we have a variable interest in. To determine if we are the primary beneficiary of a VIE, we evaluate whether we have (i) the power to direct the activities that most significantly impact the IO's economic performance and (ii) the obligation to absorb losses or the right to receive benefits of the IO that could potentially be significant to the IO. Our evaluation includes identification of significant activities and an assessment of the IO's ability to direct those activities.

Activities that most significantly impact the IO's economic performance relate to sales and labor. Sales activities that significantly impact the IO's economic performance include determining what merchandise the IO will order and sell and the price of such merchandise, both of which the IO controls. The IO is also responsible for all of its own labor. Labor activities that significantly impact the IO's economic performance include hiring, training, supervising, directing, compensating (including wages, salaries and employee benefits) and terminating all of the employees of the IO, activities which the IO controls. Accordingly, the IO has the power to direct the activities that most significantly impact the IO's economic performance. Furthermore, the mutual termination rights associated with the Operator Agreement illustrate the lack of ultimate control over the IO. Therefore, we are not the primary beneficiary of these VIEs.

Our maximum exposure, in accordance with ASC Topic 810, to the IOs is generally limited to the IO notes and IO receivables due from these entities, which was $59.5 million and $59.2 million as of June 29, 2024 and December 30, 2023, respectively. See Note 2 for additional information.

Recently Adopted Accounting Standards

No recently adopted accounting pronouncements had a material effect on our condensed consolidated financial statements.

Recently Issued Accounting Pronouncements

Accounting Standards Update ("ASU") No. 2023-07 — In November 2023, the Financial Accounting Standards Board ("FASB") issued ASU No. 2023-07, Segment Reporting (Topic 280) ("ASU 2023-07"). ASU 2023-07 expands public entities' segment disclosures by requiring disclosure of significant segment expenses that are regularly provided to the chief operating decision maker and included within each reported measure of segment profit or loss, an amount and description of its composition for other segment items, and interim disclosures of a reportable segment's profit or loss and assets. All disclosure requirements of ASU 2023-07 are required for entities with a single reportable segment. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024. We will adopt ASU 2023-07 upon the effective date and are currently evaluating the impact on our consolidated financial statements and disclosures.

ASU No. 2023-09 — In December 2023, the FASB issued ASU No. 2023-09, Income Taxes (Topic 740) ("ASU 2023-09"). ASU 2023-09 requires public entities to disclose additional information in specified categories with respect to the reconciliation of the effective tax rate to the statutory rate (the rate reconciliation) for federal, state, and foreign income taxes. It also requires greater detail about individual reconciling items in the rate reconciliation to the extent the impact of those items exceeds a specified threshold. In addition to new disclosures associated with the rate reconciliation, the ASU requires information pertaining to taxes paid (net of refunds received) to be disaggregated for federal, state, and foreign taxes and further disaggregated for specific jurisdictions to the extent the related amounts exceed a quantitative threshold. ASU 2023-09 is effective for fiscal years beginning after December 15, 2024. We will adopt ASU 2023-09 upon the effective date and are currently evaluating the impact on our consolidated financial statements and disclosures.

Note 2. Independent Operator Notes and Independent Operator Receivables

The amounts included in IO notes and IO receivables consist primarily of funds we loaned to IOs, net of estimated uncollectible amounts. IO notes, which are payable on demand and have no maturity date, typically bear interest at rates between 5.50% and 9.95%. Accrued interest receivable on IO notes is included within the "independent operator receivables and current portion of independent operator notes, net of allowance" line item on the condensed consolidated balance sheets and was $2.3 million and $1.8 million as of June 29, 2024 and December 30, 2023, respectively. There were no IO notes that were past due or on a non-accrual status due to delinquency as of June 29, 2024 or December 30, 2023. Notes and receivables from our IOs participating in our Temporary Commission Adjustment Program ("TCAP"), as defined below, are not considered to be past due or on a non-accrual status due to delinquency and are excluded from such measures.

IO notes and IO receivables are financial assets which are measured and carried at amortized cost. An allowance for expected credit losses is deducted from (for expected losses) or added to (for expected recoveries) the amortized cost basis of these assets to arrive at the net carrying amount expected to be collected for such assets.

The allowance is estimated using an expected loss framework, which includes information about past events, current conditions, and reasonable and supportable forecasts that impact the collectibility of the reported amounts of the assets over their lifetime. The allowance is evaluated on a collective basis for assets with shared risk characteristics and credit quality indicators. The primary shared risk characteristic and credit quality indicator pools that we use as a basis for collective evaluation include:

- TCAP — Includes the notes and receivables from IOs with stores that have been open for more than 18 months that are participating in our TCAP as of the end of each reporting period. TCAP allows us to provide a greater commission to participating IOs who require assistance in meeting their working capital needs for various reasons, such as new or increased competition or differences in IO skills and experience.
- Non-TCAP — Includes the notes and receivables from IOs with stores that have been open for more than 18 months that are not participating in TCAP as of the end of each reporting period.
- New store — Includes the notes and receivables from IOs with stores that have been open for less than 18 months as of the end of each reporting period, and may or may not be participating in TCAP.

Assets without such shared risk characteristics or credit quality indicators, such as assets with unique circumstances or with delinquencies and historical losses in excess of their TCAP, non-TCAP or new store peers are evaluated on an individual basis.

Amounts due from IOs and the related allowances as of June 29, 2024 and December 30, 2023 consisted of the following (amounts in thousands):

		Allowance				
	Gross	Current Portion	Long-term Portion	Net	Current Portion	Long-term Portion
June 29, 2024						
Independent operator notes	$ 43,508	$ (632)	$ (10,602)	$ 32,274	$ 1,599	$ 30,675
Independent operator receivables	15,974	(4,746)	(584)	10,644	10,644	—
Total	$ 59,482	$ (5,378)	$ (11,186)	$ 42,918	$ 12,243	$ 30,675

		Allowance				
	Gross	Current Portion	Long-term Portion	Net	Current Portion	Long-term Portion
December 30, 2023						
Independent operator notes	$ 41,123	$ (754)	$ (10,435)	$ 29,934	$ 1,800	$ 28,134
Independent operator receivables	18,105	(4,338)	(624)	13,143	13,143	—
Total	$ 59,228	$ (5,092)	$ (11,059)	$ 43,077	$ 14,943	$ 28,134

A summary of activity in the IO notes and IO receivables allowance was as follows (amounts in thousands):

	13 Weeks Ended		26 Weeks Ended	
	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Beginning balance	$ 16,007	$ 15,957	$ 16,151	$ 14,747
Provision for IO notes and IO receivables reserves	1,338	762	1,891	2,110
Write-off of uncollectible IO notes and IO receivables	(781)	(324)	(1,478)	(462)
Ending Balance	$ 16,564	$ 16,395	$ 16,564	$ 16,395

The following table presents the outstanding gross balance of IO notes by fiscal year of origination and credit quality indicator as of June 29, 2024 (amounts in thousands):

	Fiscal Year of Origination						
Credit Quality Indicator	**2024 (YTD)**	**2023**	**2022**	**2021**	**2020**	**Prior**	**Total**
TCAP	$ 1,093	$ 2,899	$ 6,037	$ 2,379	$ 1,702	$ 1,392	$ 15,502
Non-TCAP	2,279	4,008	5,032	4,149	2,349	2,288	20,105
New store	3,880	4,021	—	—	—	—	7,901
Total	$ 7,252	$ 10,928	$ 11,069	$ 6,528	$ 4,051	$ 3,680	$ 43,508

TCAP IO Notes

Notes of IOs participating in our TCAP represented 50.4% and 51.6% of total IO note balances as of June 29, 2024 and December 30, 2023, respectively.

A total of $0.7 million of IO notes were added into our TCAP during the 13 weeks ended June 29, 2024. The weighted average contractual interest rate of such IO notes during that period was reduced from 9.95% and, as of June 29, 2024, was 5.50%. In addition, $2.2 million of IO notes were transferred from TCAP to Non-TCAP during the 13 weeks ended June 29, 2024.

A total of $1.9 million of IO notes were added into our TCAP during the 26 weeks ended June 29, 2024. The weighted average contractual interest rate of such IO notes during that period was reduced from 9.95% and, as of June 29, 2024, was 5.50%. In addition, $2.4 million of IO notes were transferred from TCAP to Non-TCAP during the 26 weeks ended June 29, 2024.

Note 3. Long-term Debt

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

	June 29, 2024	December 30, 2023
2023 Credit Agreement:		
Senior term loan due 2028	$ 290,625	$ 294,375
Revolving credit facility	90,000	—
Long-term debt, gross	380,625	294,375
Less: Unamortized debt issuance costs	(1,445)	(1,643)
Long-term debt, less unamortized debt issuance costs	379,180	292,732
Less: Current portion	(5,625)	(5,625)
Long-term debt, net	$ 373,555	$ 287,107

2023 Credit Agreement

We are party to a credit agreement, dated February 21, 2023 (the "2023 Credit Agreement"), with Bank of America, N.A., as administrative agent and collateral agent, and a syndicate of lenders that consists of (i) a senior secured term loan facility (the "senior term loan") and (ii) a senior secured revolving credit facility (the "revolving credit facility" and, together with the senior term loan, the "credit facilities") in an aggregate principal amount of $400.0 million. The revolving credit facility includes sub-commitments for $50.0 million letters of credit and $25.0 million of swingline loans.

Borrowings under the 2023 Credit Agreement bear interest at a rate equal to, at our option, either (a) the base rate, which is defined as a fluctuating rate per annum equal to the greatest of (i) the federal funds rate then in effect, plus 0.50%, (ii) the prime rate then in effect and (iii) a specified Term SOFR (as defined in the 2023 Credit Agreement) rate plus 1.00%, subject to the interest rate floors set forth therein, plus an applicable margin ranging from 0.75% to 1.75% based on our Total Net Leverage Ratio (as defined in the 2023 Credit Agreement); and (b) an adjusted Term SOFR rate determined on the basis of a one, three or six month interest period, plus 0.10%, subject to the interest rate floors set forth therein, plus an applicable margin ranging from 1.75% to 2.75% based on our Total Net Leverage Ratio. As of June 29, 2024, interest on borrowings under the credit facilities was based on one-month Term SOFR with an applicable margin of 2.00%.

The 2023 Credit Agreement permits us to add incremental term loan facilities, increase any existing term loan facility, increase revolving commitments, and/or add incremental replacement revolving credit facility tranches. The aggregate principal amount of such incremental facilities are limited to (a) an amount not in excess of the sum of the greater of $200.0 million and 100% of Consolidated EBITDA (as defined in the 2023 Credit Agreement), subject to certain limitations, plus (b) voluntary prepayments of any term loan facility, voluntary permanent reductions of the commitments for the revolving credit facility and voluntary prepayments of indebtedness secured by liens on the collateral securing the credit facilities, subject to certain exceptions, plus (c) an amount such that (assuming that the full amount of any such incremental revolving increase and/or incremental replacement revolving credit facility was drawn, and after giving effect to any appropriate pro forma adjustment events) we would be in compliance, on a pro forma basis (but excluding the cash proceeds of such incurrence), with a Total Net Leverage Ratio of 3.00 to 1.00.

Our obligations under the 2023 Credit Agreement are unconditionally guaranteed by the Company's wholly owned restricted subsidiaries, subject to certain exceptions. All obligations under the 2023 Credit Agreement, and the guarantee of such obligations, are secured, subject to permitted liens and other exceptions, by substantially all of the Company's assets and those of each subsidiary guarantor.

The 2023 Credit Agreement requires us to make scheduled amortization payments of the senior term loan. We may voluntarily prepay the credit facilities, in whole or in part, at any time without premium or penalty, subject to reimbursement of the lenders' breakage and redeployment costs in applicable cases.

Senior Term Loan due 2028

The senior term loan under the 2023 Credit Agreement matures on February 21, 2028 and had an interest rate of 7.44% as of June 29, 2024.

Revolving Credit Facility

As of June 29, 2024 we had $4.5 million of outstanding letters of credit and $305.5 million of remaining borrowing capacity available under the revolving credit facility, which matures on February 21, 2028. The interest rate on the revolving credit facility was 7.44% as of June 29, 2024. The aggregate outstanding principal balance under the revolving credit facility was $90.0 million and zero as of June 29, 2024 and December 30, 2023, respectively.

We are required to pay a quarterly commitment fee ranging from 0.15% to 0.30% on the daily unused amount of the commitment under the revolving credit facility based upon our Total Net Leverage Ratio. We are also required to pay fronting fees and other customary fees for letters of credit issued under the revolving credit facility.

Debt Covenants

The 2023 Credit Agreement contains certain customary representations and warranties, subject to limitations and exceptions, and affirmative and customary covenants. The 2023 Credit Agreement contains certain covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to: pay dividends or distributions, repurchase equity, prepay junior debt and make certain investments; incur additional debt or issue certain disqualified stock and preferred stock; incur liens on assets; merge or consolidate with another company or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its assets; enter into transactions with affiliates; and allow to exist certain restrictions on the ability of our subsidiaries to pay dividends or make other payments to the borrower. The 2023 Credit Agreement also contains financial performance covenants requiring us to satisfy a maximum total net leverage ratio test and a minimum interest coverage ratio test as of the last day of each fiscal quarter. The maximum total net leverage ratio test requires us to be in compliance with a Total Net Leverage Ratio no greater than 3.50 to 1.00 as of the last day of each test period ending prior to the test period ending on or about December 31, 2025, and no greater than 3.25 to 1.00 as of the last day of each test period ending thereafter, subject to certain adjustments set forth in the 2023 Credit Agreement. The minimum interest coverage ratio test requires us to be in compliance with a Consolidated Interest Coverage Ratio (as defined in the 2023 Credit Agreement) of no less than 1.75 to 1.00 as of the last day of each test period.

As of June 29, 2024, we were in compliance with all applicable financial covenant requirements for the 2023 Credit Agreement.

Schedule of Principal Maturities

Principal maturities of debt as of June 29, 2024 are as follows (amounts in thousands):

Remainder of fiscal 2024	$ 1,875
Fiscal 2025	15,000
Fiscal 2026	15,000
Fiscal 2027	15,000
Fiscal 2028	333,750
Thereafter	—
Total	$ 380,625

Interest Expense, Net

Interest expense, net, consisted of the following (amounts in thousands):

	13 Weeks Ended		26 Weeks Ended	
	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Interest on loans	$ 7,089	$ 5,867	$ 12,767	$ 12,974
Amortization of debt issuance costs and debt discounts	227	227	455	628
Interest on finance leases	84	78	179	150
Other	24	—	24	—
Interest income	(1,524)	(1,406)	(4,016)	(3,067)
Capitalized interest	(341)	—	(674)	—
Interest expense, net	$ 5,559	$ 4,766	$ 8,735	$ 10,685

Loss on Debt Extinguishment and Modification

Loss on debt extinguishment and modification consisted of the following (amounts in thousands):

	13 Weeks Ended		26 Weeks Ended	
	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Write off of debt issuance costs	$ —	$ —	$ —	$ 4,518
Write off of debt discounts	—	—	—	578
Debt modification costs	—	—	—	244
Loss on debt extinguishment and modification	$ —	$ —	$ —	$ 5,340

Note 4. Stockholders' Equity

Share Repurchase Program

In November 2021, our Board of Directors approved a share repurchase program. This program, effective November 5, 2021 and without an expiration date, authorizes us to repurchase up to $100.0 million of our outstanding common stock utilizing a variety of methods including open-market purchases, accelerated share repurchase programs, privately negotiated transactions, structured repurchase transactions and under a Rule 10b5-1 plan (which would permit shares to be repurchased when we might otherwise be precluded from doing so under securities laws). Any repurchased shares are constructively retired and returned to an unissued status.

During the 13 weeks ended June 29, 2024, we repurchased 1,104,726 shares of common stock totaling $25.0 million at an average price of $22.66 per share in open-market transactions pursuant to a Rule 10b5-1 plan. During the 26 weeks ended June 29, 2024, we repurchased 1,305,529 shares of common stock totaling $30.4 million at an average price of $23.25 per share in open-market transactions pursuant to a Rule 10b5-1 plan.

During the 13 weeks ended July 1, 2023, we did not repurchase any shares of common stock under the share repurchase program. During the 26 weeks ended July 1, 2023, we repurchased 122,862 shares of common stock totaling $3.3 million at an average price of $26.66 per share in open-market transactions pursuant to a Rule 10b5-1 plan.

As of June 29, 2024, we had $59.4 million of repurchase authority remaining under the share repurchase program.

Note 5. Share-based Awards

For a discussion of our share-based incentive plans, refer to Note 8 of our 2023 Form 10-K.

Share-based Award Activity

The following table summarizes stock option activity under all equity incentive plans during the 26 weeks ended June 29, 2024:

	Time-Based Stock Options		Performance-Based Stock Options	
	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Options outstanding as of December 30, 2023	2,091,523	$ 12.97	227,605	$ 6.62
Exercised	(474,341)	7.35	(67,775)	3.81
Options outstanding as of June 29, 2024	1,617,182	$ 14.62	159,830	$ 7.82
Options vested and exercisable as of June 29, 2024	1,617,182	$ 14.62	159,830	$ 7.82

The following table summarizes restricted stock unit ("RSU") activity under all equity incentive plans during the 26 weeks ended June 29, 2024:

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested balance as of December 30, 2023	857,820	$ 28.82
Granted	654,434	25.34
Vested	(404,581)	29.69
Forfeitures	(78,822)	26.97
Unvested balance as of June 29, 2024	1,028,851	$ 26.41

The following table summarizes performance-based restricted stock unit ("PSU") activity under the Grocery Outlet Holding Corp. 2019 Incentive Plan during the 26 weeks ended June 29, 2024:

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested balance as of December 30, 2023	1,753,989	$ 29.50
Granted (1)	559,861	25.79
Adjustment for expected performance achievement (2)	121,531	27.29
Vested	(301,392)	35.45
Forfeitures	(149,324)	27.48
Unvested balance as of June 29, 2024 (3)	1,984,665	$ 27.57

(1) Represents initial grant of PSUs based on performance target level achievement of 100%.

(2) Represents the year-to-date adjustment to previously granted PSUs based on performance expectations as of June 29, 2024.

(3) An additional 552,008 PSUs could potentially be included if the maximum performance level of 200% is reached for all PSUs outstanding as of June 29, 2024.

Share-based Compensation Expense

We recognize compensation expense for stock options, RSUs and PSUs by amortizing the grant date fair value on a straight-line basis over the expected vesting period to the extent we determine the vesting of the grant is probable. We recognize share-based award forfeitures in the period such forfeitures occur.

Share-based compensation expense consisted of the following (amounts in thousands):

	13 Weeks Ended		26 Weeks Ended	
	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Time-based stock options	$ 2	$ 314	$ 11	$ 722
RSUs	3,326	2,695	6,562	5,190
PSUs	3,673	8,287	8,570	12,060
Dividends [1]	—	9	—	9
Share-based compensation expense	$ 7,001	$ 11,305	$ 15,143	$ 17,981

(1) Represents cash dividends paid upon vesting of share-based awards as a result of dividends declared in connection with a recapitalization that occurred in fiscal 2018.

Note 6. Income Taxes

Our income tax expense and effective income tax rate were as follows (amounts in thousands, except percentages):

	13 Weeks Ended		26 Weeks Ended	
	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Income tax expense	$ 6,545	$ 7,244	$ 4,957	$ 15,083
Effective income tax rate	31.9 %	22.8 %	27.6 %	28.3 %

Our tax provision for interim periods is determined using an estimated annual effective tax rate, adjusted for discrete events arising in each respective fiscal quarter. During each interim period, we update the estimated annual effective tax rate. Our effective income tax rate for the 13 and 26 weeks ended June 29, 2024 was higher than the combined U.S. federal and state statutory income tax rate primarily due to non-deductible executive compensation under Internal Revenue Code Section 162(m). The increase in our effective income tax rate for the 13 weeks ended June 29, 2024 compared to the 13 weeks ended July 1, 2023 was primarily driven by lower excess tax benefits related to the exercise of stock options. The decrease in our effective income tax rate for the 26 weeks ended June 29, 2024 compared to the 26 weeks ended July 1, 2023 was primarily driven by excess tax benefits related to share-based compensation having a larger impact on the effective tax rate for the 26 weeks ended June 29, 2024 due to decreased pretax book income.

Our policy is to recognize interest and penalties associated with uncertain tax positions as part of the income tax provision in our condensed consolidated statements of operations and comprehensive income and include accrued interest and penalties with the related income tax liability on our condensed consolidated balance sheets. To date, we have not recognized any interest and penalties, nor have we accrued for or made payments for interest and penalties. We had no uncertain tax positions as of June 29, 2024 and December 30, 2023, respectively, and do not anticipate having any material uncertain tax positions within the next 12 months.

Note 7. Related Party Transactions

Related Party Leases

As of June 29, 2024 and July 1, 2023, we leased 14 store locations and one warehouse location from entities in which Eric Lindberg, Jr., Chairman of our Board of Directors, or his family, had a direct or indirect financial interest. As of June 29, 2024, the right-of-use assets and lease liabilities related to these properties was $38.9 million and $43.9 million, respectively. As of December 30, 2023, the right-of-use assets and lease liabilities related to these properties was $42.6 million and $47.6 million, respectively. These related parties received aggregate lease payments from us of $1.9 million and $1.7 million for the 13 weeks ended June 29, 2024 and July 1, 2023, respectively, and $3.7 million and $3.4 million for the 26 weeks ended June 29, 2024 and July 1, 2023, respectively.

Independent Operator Notes and Independent Operator Receivables

We offer interest-bearing notes to IOs and the gross amount of IO operating notes and IO receivables due was $59.5 million and $59.2 million as of June 29, 2024 and December 30, 2023, respectively. See Note 2 for additional information.

Note 8. Commitments and Contingencies

We are involved from time to time in claims, proceedings and litigation arising in the normal course of business. We establish an accrual for legal proceedings if and when those matters reach a stage where they present loss contingencies that are both probable and reasonably estimable. In such cases, there may be a possible exposure to loss in excess of any amounts accrued. We monitor those matters for developments that would affect the likelihood of a loss and the accrued amount, if any, thereof, and adjust the amount as appropriate. If the loss contingency at issue is not both probable and reasonably estimable, we do not establish an accrual, but will continue to monitor the matter for developments that will make the loss contingency both probable and reasonably estimable. If it is at least a reasonable possibility that a material loss will occur, we will provide disclosure regarding the contingency. Management believes that we do not have any pending litigation that, separately or in the aggregate, would have a material adverse effect on our results of operations, financial condition or cash flows.

Note 9. Earnings Per Share

The following table sets forth the calculation of basic and diluted earnings per share (amounts in thousands, except per share data):

	13 Weeks Ended		26 Weeks Ended	
	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Numerator				
Net income and comprehensive income	$ 14,001	$ 24,471	$ 12,976	$ 38,191
Denominator				
Weighted-average shares outstanding – basic	99,542	98,515	99,531	98,218
Effect of dilutive options	759	1,991	948	2,056
Effect of dilutive RSUs and PSUs [1]	68	133	274	330
Weighted-average shares outstanding – diluted	100,369	100,639	100,753	100,604
Earnings per share:				
Basic	$ 0.14	$ 0.25	$ 0.13	$ 0.39
Diluted	$ 0.14	$ 0.24	$ 0.13	$ 0.38

(1) We are required to include in diluted weighted-average shares outstanding contingently issuable shares that would be issued assuming the end of our reporting period was the end of the relevant PSU award contingency period.

The following weighted-average common share equivalents were excluded from the calculation of diluted earnings per share because their effect would have been anti-dilutive (amounts in thousands):

	13 Weeks Ended		26 Weeks Ended	
	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
RSUs	818	21	617	58

Note 10. Business Combination

Acquisition of United Grocery Outlet

On February 14, 2024, Grocery Outlet Inc., our wholly owned subsidiary, entered into a Stock Purchase Agreement with BBGO Acquisition, Inc., a Delaware corporation ("Holdings"), specified parties therein that beneficially owned Holdings, and Southvest Fund VII, L.P., a Delaware limited partnership, to acquire all of the issued and outstanding capital stock of Holdings (the "Transaction"). On April 1, 2024, the Transaction was completed for the total purchase consideration of $62.8 million, including $2.0 million of cash and cash equivalents on hand, subject to post-closing adjustments, and was funded with cash on hand.

Holdings is the owner of all of the issued and outstanding capital stock of The Bargain Barn, Inc., a Tennessee corporation doing business as United Grocery Outlet ("United Grocery Outlet"). United Grocery Outlet operated 40 discount grocery stores across six states in the southeastern United States as of April 1, 2024. The acquisition provides us with the opportunity to scale in a new region as well as a platform for future potential expansion in the Southeast.

We accounted for the acquisition as a business combination using the acquisition method of accounting, which requires, among other things, that we allocate the purchase consideration to the identifiable assets acquired and liabilities assumed based on their acquisition-date fair values. The fair values of the acquired assets and assumed liabilities recorded on our condensed consolidated financial statements may be subject to adjustment pending completion of final valuation. These fair value estimates will be reevaluated and adjusted, if needed, during the measurement period of up to one year from the acquisition date, and recorded as adjustments to goodwill.

The following table summarizes the preliminary purchase price allocation recorded for acquired assets and assumed liabilities at the acquisition date (amounts in thousands):

Assets		
Cash and cash equivalents	$	2,003
Other accounts receivable		148
Merchandise inventories		14,208
Prepaid expenses and other current assets		2,828
Property and equipment, net		6,950
Operating lease right-of-use assets		35,266
Goodwill		28,889
Other assets		422
Total assets acquired		90,714
Liabilities		
Trade accounts payable		3,090
Accrued and other current liabilities		434
Accrued compensation		2,693
Current lease liabilities		2,581
Income and other taxes payable		742
Deferred income tax liabilities, net		476
Long-term lease liabilities		17,921
Total liabilities assumed		27,937
Total net assets acquired	$	62,777

The goodwill recognized reflects the expected future benefits from certain synergies and intangible assets that do not qualify for separate recognition. The goodwill will not be deductible for income tax purposes.

During the 26 weeks ended June 29, 2024, we recognized $7.6 million in acquisition and integration costs related to due diligence, legal, other consulting and retention bonus expenses. Such costs were included within selling, general and administrative expenses on the condensed consolidated statements of operations and comprehensive income.

Pro forma results are not presented as the impact of this acquisition is not material to our condensed consolidated financial results.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of our financial condition and results of operations in conjunction with the unaudited condensed consolidated financial statements and related notes thereto included elsewhere in this report, and the audited consolidated financial statements and related notes thereto and management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the fiscal year ended December 30, 2023 ("2023 Form 10-K"). This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in other sections of this report. See "Special Note Regarding Forward-Looking Statements" in this report.

We operate on a fiscal year that ends on the Saturday closest to December 31st each year. Fiscal 2023 ended December 30, 2023. References to the second quarter of fiscal 2024 and the second quarter of fiscal 2023 refer to the 13 weeks ended June 29, 2024 and July 1, 2023, respectively.

As used in this report, references to "Grocery Outlet," "the Company," "the registrant," "we," "us" and "our," refer to Grocery Outlet Holding Corp. and its consolidated subsidiaries unless otherwise indicated or the context requires otherwise.

Overview

We are a high-growth, extreme value retailer of quality, name-brand consumables and fresh products sold primarily through a network of independently operated stores. Our flexible buying model allows us to offer quality, name-brand opportunistic products at prices generally 40% to 70% below those of conventional retailers. Our stores are primarily run by entrepreneurial independent operators ("IOs") who create a neighborhood feel through personalized customer service and a localized product offering. As of June 29, 2024, we had 524 stores in California, Washington, Oregon, Pennsylvania, Tennessee, Idaho, Nevada, North Carolina, Maryland, New Jersey, Georgia, Ohio, Alabama, Delaware, Kentucky and Virginia.

Macroeconomic Conditions and Recent Developments

Over the past several years, and to a lesser extent recently, our business has been and continues to be impacted by macroeconomic conditions including supply chain and labor challenges, inflation and subsequent disinflation, and changes in consumer behavior, and our IOs have been impacted by staffing challenges and increased labor costs and utility costs within their businesses. Furthermore, planned construction and opening of new stores has been, and may continue to be, negatively impacted due to both increased lead times to acquire materials, obtain permits and licenses, hook up utilities as well as higher construction and development related costs. Additionally, we have recently experienced increases in promotional and pricing activities from key competitors, putting further pressure on our relative value. In turn, we have been actively negotiating costs and adjusting prices to sharpen our value proposition. The extent of the continuing impact of these factors on our operational and financial performance will depend on many factors, including certain factors outside of our control.

Our new store growth efforts for fiscal 2024 and beyond are focused on organic growth and new real estate opportunities that align with our long-term geographic expansion and store growth strategies. Complementary growth opportunities may include expanding strategic relationships with large property owners, evaluating acquisitions of opportunistic real estate that become available through consolidation in the retail sector, and exploring strategic regional acquisitions of operating businesses. On April, 1 2024, we acquired United Grocery Outlet, which included 40 stores in six adjacent states we did not operate in as of such date (Tennessee, North Carolina, Georgia, Alabama, Kentucky and Virginia) and a company-operated distribution center. Our near-term integration focus is expanding the assortment, investing in store refreshes and new fixtures and introducing some of our marketing programs to the Southeast region. In addition to the newly acquired United Grocery Outlet stores, we plan to open approximately 22 to 24 stores in fiscal 2024, for a planned total of 62 to 64 net new stores in fiscal 2024. Excluding the United Grocery Outlet transaction, we opened 17 new stores and closed one store in the first half of fiscal 2024.

In late August 2023, we replaced components of our enterprise resource planning system, including our financial ledger, inventory management platform and product data warehouse system. The implementation of these system upgrades resulted in disruption to our business operations, including ordering and inventory disruptions, as well as payment processing, which adversely impacted our results of operations in fiscal 2023 as well as the first half of fiscal 2024, as more fully described below in "Comparison of the 13 and 26 weeks ended June 29, 2024 and July 1, 2023." We have since improved the data visibility to help us manage and forecast the business and we do not expect any further disruptions that would result in material negative impacts on our results of operations in the second half of fiscal 2024.

Beginning in the third quarter of fiscal 2024, we will be introducing our private label program to stores. In addition to providing better value and inventory consistency for our customers, our private label products are expected to deliver better margin for us and our IOs. We currently anticipate introducing approximately 100 new private-label SKUs by the end of fiscal 2024.

Key Factors and Measures We Use to Evaluate Our Business

We consider a variety of financial and operating measures in assessing the performance of our business. The key generally accepted accounting principles ("GAAP") financial measures we use are net sales, gross profit and gross margin, selling, general and administrative expenses ("SG&A") and operating income. The key operational metrics and non-GAAP financial measures we use are number of new stores, comparable store sales, EBITDA, adjusted EBITDA, adjusted net income and adjusted earnings per share.

Second Quarter of Fiscal 2024 Overview

Key financial and operating performance results for the second quarter of fiscal 2024 compared to the second quarter of fiscal 2023 were as follows:

- Net sales increased 11.7% to $1.13 billion from $1.01 billion in the second quarter of fiscal 2023.
- Comparable store sales increased by 2.9%, driven by a 5.1% increase in the number of transactions, partially offset by a 2.1% decrease in average transaction size.
- In addition to the 40 stores acquired as part of the United Grocery Outlet acquisition on April 1, 2024, we opened 11 new stores and closed one store, ending the second quarter of fiscal 2024 with 524 stores in 16 states.
- Gross margin decreased by 140 basis points to 30.9%, compared to gross margin of 32.3% in the second quarter of fiscal 2023. As previously disclosed, we experienced disruptions as a result of the implementation of new technology platforms in late August 2023. Such disruptions are estimated to have negatively impacted gross margin by 100 basis points in the second quarter of fiscal 2024 and 150 basis points in the first half of fiscal 2024.
- SG&A expenses increased by 11.4% to $323.1 million, or 28.6% of net sales. This included $3.8 million of commission support we elected to provide our operators in connection with our system upgrades in the second quarter of fiscal 2024 and totaled $16.2 million in the first half of fiscal 2024.
- Net income was $14.0 million, or $0.14 per diluted share, compared to net income of $24.5 million, or $0.24 per diluted share, in the second quarter of fiscal 2023.
- Adjusted EBITDA(1) decreased 3.7% to $67.9 million compared to $70.5 million in the second quarter of fiscal 2023.
- Adjusted net income(1) decreased 21.4% to $25.1 million, or $0.25 per adjusted diluted share(1), compared to $31.9 million, or $0.32 per adjusted diluted share, in the second quarter of fiscal 2023.

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(1) Adjusted EBITDA, adjusted net income and adjusted diluted earnings per share are non-GAAP financial measures, which exclude the impact of certain special items. Please note that our non-GAAP financial measures should be considered as a supplement to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. See the "Operating Metrics and Non-GAAP Financial Measures" section below for additional information about these items, including their definitions, how the non-GAAP measures provide useful information to investors and how management utilizes them, and reconciliations of the non-GAAP measures and the most directly comparable GAAP measures.

Key Components of Results of Operations

Net Sales

We recognize revenues from the sale of products at the point of sale, net of any taxes or deposits collected and remitted to governmental authorities. Discounts provided to customers by us are recognized at the time of sale as a reduction in net sales as the products are sold. Discounts that are funded solely by IOs are not recognized as a reduction in net sales as the IO bears the incidental costs arising from the discount. We do not accept manufacturer coupons. Net sales consist of net sales from comparable stores, described below under "Operating Metrics and Non-GAAP Financial Measures - Comparable Store Sales," and non-comparable stores. Growth of our net sales is generally driven by expansion of our store base in existing and new markets as well as comparable store sales growth. Net sales are impacted by the spending habits of our customers, product mix and supply, as well as promotional and competitive activities. Our ever-changing selection of offerings across diverse product categories supports growth in net sales by attracting new customers and encouraging repeat visits from our existing customers. The spending habits of our customers are affected by changes in macroeconomic conditions, governmental benefit programs such as the Supplemental Nutrition Assistance Program and discretionary income. Our customers' discretionary income is impacted by wages, fuel and other cost-of-living increases including food-at-home inflation, as well as consumer trends and preferences, which fluctuate depending on the environment. Because we offer a broad selection of merchandise at extreme values, historically our business has benefited from periods of economic uncertainty.

Cost of Sales, Gross Profit and Gross Margin

Cost of sales includes, among other things, merchandise costs, inventory markdowns, inventory losses, transportation costs and distribution and warehousing costs, including depreciation. Gross profit is equal to our net sales less our cost of sales. Gross margin is gross profit as a percentage of our net sales. Gross margin is a measure used by management to indicate whether we are selling merchandise at an appropriate gross profit. Gross margin is impacted by product mix and availability, as some products generally provide higher gross margins, and by our merchandise costs, which can vary. Gross margin is also impacted by the costs of distributing and transporting product to our stores, which can vary. Our gross profit is variable in nature and generally follows changes in net sales. While our disciplined buying approach has produced consistent gross margins throughout economic cycles, which we believe has helped to mitigate adverse impacts on gross profit and results of operations, changes in consumer demand as a result of macroeconomic conditions, including inflationary cost increases for goods, labor and transportation, supply chain constraints and changes in discretionary income, have resulted and could continue to result in higher variability to our gross margins. The components of our cost of sales, as well as our gross profit and gross margin, may not be comparable to the same or similar measures of our competitors and other retailers.

Selling, General and Administrative Expenses

SG&A are comprised of both store-related expenses and corporate expenses. Our store-related expenses include commissions paid to IOs, occupancy and our portion of maintenance costs, depreciation and amortization of store-related assets and the cost of opening new IO stores. Company-operated store-related expenses also include payroll, benefits, supplies and utilities. Corporate expenses include payroll and benefits for corporate and field support, share-based compensation, marketing and advertising, insurance and professional services, depreciation and amortization of corporate assets and operator recruiting and training costs. We continue to closely manage our expenses and monitor SG&A as a percentage of net sales. SG&A generally increases as we grow our store base and invest in our corporate infrastructure. SG&A related to commissions paid to IOs are variable in nature and generally increase as gross profits rise and decrease as gross profits decline. We expect that our SG&A will continue to increase in future periods as we continue to grow our net sales and gross profits. The components of our SG&A may not be comparable to the components of similar measures of our competitors and other retailers.

Operating Income

Operating income is gross profit less SG&A. Operating income excludes interest expense, net, loss on debt extinguishment and modification and income tax expense. We use operating income as an indicator of the productivity of our business and our ability to manage expenses.

Results of Operations

The following tables summarize key components of our results of operations both in dollars and as a percentage of net sales (amounts in thousands, except for percentages):

	13 Weeks Ended		26 Weeks Ended	
	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Net sales	$ 1,128,520	$ 1,010,255	$ 2,165,464	$ 1,975,722
Cost of sales	779,280	683,685	1,512,279	1,348,609
Gross profit	349,240	326,570	653,185	627,113
Selling, general and administrative expenses	323,135	290,089	626,517	557,814
Operating income	26,105	36,481	26,668	69,299
Other expenses:				
Interest expense, net	5,559	4,766	8,735	10,685
Loss on debt extinguishment and modification	—	—	—	5,340
Total other expenses	5,559	4,766	8,735	16,025
Income before income taxes	20,546	31,715	17,933	53,274
Income tax expense	6,545	7,244	4,957	15,083
Net income and comprehensive income	$ 14,001	$ 24,471	$ 12,976	$ 38,191

	13 Weeks Ended		26 Weeks Ended	
	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Percentage of net sales (1)				
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	69.1 %	67.7 %	69.8 %	68.3 %
Gross profit	30.9 %	32.3 %	30.2 %	31.7 %
Selling, general and administrative expenses	28.6 %	28.7 %	28.9 %	28.2 %
Operating income	2.3 %	3.6 %	1.2 %	3.5 %
Other expenses:				
Interest expense, net	0.5 %	0.5 %	0.4 %	0.5 %
Loss on debt extinguishment and modification	— %	— %	— %	0.3 %
Total other expenses	0.5 %	0.5 %	0.4 %	0.8 %
Income before income taxes	1.8 %	3.1 %	0.8 %	2.7 %
Income tax expense	0.6 %	0.7 %	0.2 %	0.8 %
Net income and comprehensive income	1.2 %	2.4 %	0.6 %	1.9 %

(1) Components may not sum to totals due to rounding.

Operating Metrics and Non-GAAP Financial Measures

Number of New Stores

The number of new stores reflects the number of stores opened or acquired during a particular reporting period. Newly opened stores require an initial capital investment from us for store build-outs, fixtures and equipment that we amortize over time as well as cash required for inventory and pre-opening expenses and typically the issuance of IO notes to support IO startup costs. Certain newly acquired stores may require refreshes and new fixtures.

We expect new store growth to be a very significant and critical driver of our net sales growth over the long term. We lease substantially all of our store locations. Our initial lease terms on stores are typically ten years with options to renew for two or three successive five-year periods.

Comparable Store Sales

We use comparable store sales as an operating metric to measure performance of a store during the current reporting period against the performance of the same store in the corresponding period of the previous year. Comparable store sales are impacted by the same factors that impact net sales.

Comparable store sales consists of net sales from our stores beginning on the first day of the fourteenth full fiscal month following a store's opening, which is when we believe comparability is achieved, or the thirteenth full fiscal month following a store's acquisition. Included in our comparable store definition are those stores that have been remodeled, expanded, or relocated in their existing location or respective trade areas. Excluded from our comparable store definition are those stores that have been temporarily closed for an extended period, those that have had their business materially disrupted for both planned projects as well as due to unforeseen circumstances, permanent store closures and dispositions. When applicable, as was the case with fiscal 2020 and will be the case with fiscal 2025, we exclude the net sales in the non-comparable week of a 53-week year from the same store sales calculation after comparing the current and prior year weekly periods that are most closely aligned.

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

EBITDA, Adjusted EBITDA, Adjusted Net Income and Adjusted Earnings Per Share

EBITDA, adjusted EBITDA, adjusted net income and adjusted earnings per share are non-GAAP financial measures that are supplemental key metrics used by management and our Board of Directors to assess our financial performance. EBITDA, adjusted EBITDA, adjusted net income and adjusted earnings per share are also frequently used by analysts, investors and other interested parties to evaluate us and other companies in our industry. Management believes it is useful to investors and analysts to evaluate these non-GAAP measures on the same basis as management uses to evaluate our operating results. We use these non-GAAP measures to supplement GAAP measures of performance to evaluate the effectiveness of our business strategies, to make budgeting decisions and to compare our performance against that of other peer companies using similar measures. In addition, we use adjusted EBITDA to supplement GAAP measures of performance to evaluate our performance in connection with compensation decisions. We believe that excluding items from operating income, net income and earnings per diluted share that may not be indicative of, or are unrelated to, our core operating results, and that may vary in frequency or magnitude, enhances the comparability of our results and provides additional information for analyzing trends in our business.

We define EBITDA as net income before net interest expense, income taxes and depreciation and amortization expenses. Adjusted EBITDA represents EBITDA adjusted to exclude share-based compensation expense, loss on debt extinguishment and modification, asset impairment and gain or loss on disposition, acquisition and integration costs, costs related to the amortization of inventory purchase accounting asset step-ups and certain other expenses that may not be indicative of, or are unrelated to, our core operating results, and that may vary in frequency or magnitude. Adjusted net income represents net income adjusted for the previously mentioned adjusted EBITDA adjustments, further adjusted for the amortization of property and equipment purchase accounting asset step-ups and deferred financing costs, tax adjustment to normalize the effective tax rate, and tax effect of total adjustments. Basic adjusted earnings per share is calculated using adjusted net income, as defined above, and basic weighted average shares outstanding. Diluted adjusted earnings per share is calculated using adjusted net income, as defined above, and diluted weighted average shares outstanding. These non-GAAP measures may not be comparable to similar measures reported by other companies and have limitations as analytical tools, and you should not consider them in isolation or as a substitute for analysis of our results as reported under GAAP. We address the limitations of the non-GAAP measures through the use of various GAAP measures. In the future, we will incur expenses or charges such as those added back to calculate adjusted EBITDA or adjusted net income. Our presentation of these non-GAAP measures should not be construed as an inference that our future results will be unaffected by the adjustments we have used to derive such non-GAAP measures.

The following table summarizes key operating metrics and non-GAAP financial measures for the periods presented (amounts in thousands, except for percentages and store counts):

	13 Weeks Ended		26 Weeks Ended	
	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Other Financial and Operations Data				
Number of new stores [1]	51	4	57	7
Number of stores open at end of period	524	447	524	447
Comparable store sales increase [2]	2.9 %	9.2 %	3.4 %	10.6 %
EBITDA [3]	$ 52,650	$ 57,601	$ 78,102	$ 105,754
Adjusted EBITDA [3]	$ 67,878	$ 70,519	$ 107,273	$ 133,597
Adjusted net income [3]	$ 25,095	$ 31,919	$ 33,904	$ 58,943

(1) Includes addition of 40 stores from acquisition of United Grocery Outlet.

(2) Comparable store sales consist of net sales from our stores beginning on the first day of the fourteenth full fiscal month following the store's opening, which is when we believe comparability is achieved, or the thirteenth full fiscal month following the store's acquisition.

(3) See "GAAP to Non-GAAP Reconciliations" section below for the applicable reconciliations.

GAAP to Non-GAAP Reconciliations

The following tables provide a reconciliation from our GAAP net income to EBITDA and adjusted EBITDA, GAAP net income to adjusted net income, and our GAAP earnings per share to adjusted earnings per share for the periods presented (amounts in thousands, except per share data):

	13 Weeks Ended		26 Weeks Ended	
	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Net income	$ 14,001	$ 24,471	$ 12,976	$ 38,191
Interest expense, net	5,559	4,766	8,735	10,685
Income tax expense	6,545	7,244	4,957	15,083
Depreciation and amortization expenses	26,545	21,120	51,434	41,795
EBITDA	52,650	57,601	78,102	105,754
Share-based compensation expenses (1)	7,001	11,305	15,143	17,981
Loss on debt extinguishment and modification (2)	—	—	—	5,340
Asset impairment and gain or loss on disposition (3)	381	236	745	343
Acquisition and integration costs (4)	4,937	—	7,586	—
Amortization of purchase accounting assets (5)	839	—	839	—
Other (6)	2,070	1,377	4,858	4,179
Adjusted EBITDA	$ 67,878	$ 70,519	$ 107,273	$ 133,597

	13 Weeks Ended		26 Weeks Ended	
	June 29, 2024	July 1, 2023	June 29, 2024	July 1, 2023
Net income	$ 14,001	$ 24,471	$ 12,976	$ 38,191
Share-based compensation expenses (1)	7,001	11,305	15,143	17,981
Loss on debt extinguishment and modification (2)	—	—	—	5,340
Asset impairment and gain or loss on disposition (3)	381	236	745	343
Acquisition and integration costs (4)	4,937	—	7,586	—
Amortization of purchase accounting assets and deferred financing costs (5)	2,228	1,424	3,550	2,991
Other (6)	2,070	1,377	4,858	4,179
Tax adjustment to normalize effective tax rate (7)	86	(2,448)	(708)	(856)
Tax effect of total adjustments (8)	(5,609)	(4,446)	(10,246)	(9,226)
Adjusted net income	$ 25,095	$ 31,919	$ 33,904	$ 58,943
GAAP earnings per share				
Basic	$ 0.14	$ 0.25	$ 0.13	$ 0.39
Diluted	$ 0.14	$ 0.24	$ 0.13	$ 0.38
Adjusted earnings per share				
Basic	$ 0.25	$ 0.32	$ 0.34	$ 0.60
Diluted	$ 0.25	$ 0.32	$ 0.34	$ 0.59
Weighted average shares outstanding				
Basic	99,542	98,515	99,531	98,218
Diluted	100,369	100,639	100,753	100,604

(1) Includes non-cash share-based compensation expense and cash dividends paid on vested share-based awards as a result of dividends declared in connection with a recapitalization that occurred in fiscal 2018.

(2) Represents the write-off of debt issuance costs and debt discounts as well as debt modification costs related to refinancing and/or repayment of our credit facilities. See Note 3 to the condensed consolidated financial statements for additional information.

(3) Represents asset impairment charges and gains or losses on dispositions of assets.

(4) Represents costs related to the acquisition and integration of United Grocery Outlet, including due diligence, legal, other consulting and retention bonus expenses.

(5) For purposes of determining adjusted EBITDA, this line represents the incremental amortization of inventory step-ups resulting from purchase price accounting related to acquisitions. For purposes of determine adjusted net income, in addition to the previously noted items, this line also represents the incremental amortization of property and equipment step-ups from acquisitions, as well as the amortization of debt issuance costs, as these items are already included in the adjusted EBITDA reconciliation within the depreciation and amortization expenses and interest income, net, respectively.

(6) Represents other non-recurring, non-cash or non-operational items, such as technology upgrade implementation costs, certain personnel-related costs, costs related to employer payroll taxes associated with equity awards, store closing costs, legal settlements and other legal expenses, strategic project costs and miscellaneous costs.

(7) Represents adjustments to normalize the effective tax rate for the impact of unusual or infrequent tax items that we do not consider in our evaluation of ongoing performance, including excess tax expenses or benefits related to stock option exercises and vesting of restricted stock units ("RSUs") and performance-based restricted stock units ("PSUs") that are recorded in earnings as discrete items in the reporting period in which they occur.

(8) Represents the tax effect of the total adjustments. We calculate the tax effect of the total adjustments on a discrete basis excluding any non-recurring and unusual tax items.

Comparison of the 13 and 26 weeks ended June 29, 2024 and July 1, 2023 (amounts in thousands, except percentages)

Net Sales

	13 Weeks Ended				26 Weeks Ended			
	June 29, 2024	**July 1, 2023**	**$ Change**	**% Change**	**June 29, 2024**	**July 1, 2023**	**$ Change**	**% Change**
Net sales	$ 1,128,520	$ 1,010,255	$ 118,265	11.7 %	$ 2,165,464	$ 1,975,722	$ 189,742	9.6 %

The increase in net sales for the 13 and 26 weeks ended June 29, 2024 compared to the same periods in fiscal 2023 was primarily attributable to an increase in comparable store sales as well as non-comparable store net sales growth primarily from the 77 net new stores acquired or opened over the last 12 months.

Comparable store sales increased 2.9% for the 13 weeks ended June 29, 2024 and 3.4% for the 26 weeks ended June 29, 2024 compared to the same periods in fiscal 2023. The increase in comparable store sales for the 13 weeks ended June 29, 2024 was driven by a 5.1% increase in the number of transactions, partially offset by a 2.1% decrease in average transaction size. The increase in comparable store sales for the 26 weeks ended June 29, 2024 was driven by a 6.0% increase in the number of transactions, partially offset by a 2.5% decrease in average transaction size.

Cost of Sales

	13 Weeks Ended				26 Weeks Ended			
	June 29, 2024	**July 1, 2023**	**$ Change**	**% Change**	**June 29, 2024**	**July 1, 2023**	**$ Change**	**% Change**
Cost of sales	$ 779,280	$ 683,685	$ 95,595	14.0 %	$ 1,512,279	$ 1,348,609	$ 163,670	12.1 %
% of net sales	69.1 %	67.7 %			69.8 %	68.3 %		

The increase in cost of sales for the 13 and 26 weeks ended June 29, 2024 compared to the same periods in fiscal 2023 was primarily the result of an increase in comparable store sales combined with non-comparable net sales from 77 net new stores acquired or opened over the last 12 months as well as by impacts related to our system upgrades.

Cost as a percentage of net sales increased for the 13 and 26 weeks ended June 29, 2024 compared to the same periods in fiscal 2023 primarily due to inventory management impacts related to our system upgrades, as certain tools we used to manage the business on our legacy system took longer to rebuild, which impacted data visibility.

Gross Profit and Gross Margin

	13 Weeks Ended				26 Weeks Ended			
	June 29, 2024	July 1, 2023	$ Change	% Change	June 29, 2024	July 1, 2023	$ Change	% Change
Gross profit	$ 349,240	$ 326,570	$ 22,670	6.9 %	$ 653,185	$ 627,113	$ 26,072	4.2 %
Gross margin	30.9 %	32.3 %			30.2 %	31.7 %		

The increase in gross profit for the 13 and 26 weeks ended June 29, 2024 compared to the same periods in fiscal 2023 was primarily the result of an increase in comparable store sales combined with non-comparable sales from 77 net new stores acquired or opened over the last 12 months, partially offset by impacts related to our system upgrades.

Gross margin decreased for the 13 and 26 weeks ended June 29, 2024 compared to the same periods in fiscal 2023 primarily due to inventory management impacts related to our system upgrades, as certain tools we used to manage the business on our legacy system took longer to rebuild, which impacted data visibility.

Selling, General and Administrative Expenses

	13 Weeks Ended				26 Weeks Ended			
	June 29, 2024	July 1, 2023	$ Change	% Change	June 29, 2024	July 1, 2023	$ Change	% Change
SG&A	$ 323,135	$ 290,089	$ 33,046	11.4 %	$ 626,517	$ 557,814	$ 68,703	12.3 %
% of net sales	28.6 %	28.7 %			28.9 %	28.2 %		

The increase in SG&A for the 13 weeks ended June 29, 2024 compared to the same period in fiscal 2023 was driven by $27.9 million in higher store-related expenses and $5.1 million in higher corporate-related expenses. Store-related expenses primarily increased as a result of higher commission payments to IOs, reflecting gross profit growth together with $3.8 million of incremental support we elected to provide our IOs in connection with our system upgrades, additional personnel costs from the Company-operated stores that were acquired in the United Grocery Outlet transaction, as well as higher store occupancy costs due to 77 net new stores acquired or opened over the last 12 months. Corporate-related expenses increased largely due to United Grocery Outlet acquisition related costs and increased professional service costs to support our system upgrades and support the continued growth of the business, partially offset by lower share-based compensation expenses.

The increase in SG&A for the 26 weeks ended June 29, 2024 compared to the same period in fiscal 2023 was driven by $50.6 million in higher store-related expenses and $18.1 million in higher corporate-related expenses. Store-related expenses primarily increased as a result of higher commission payments to IOs, reflecting gross profit growth together with $16.2 million of incremental support we elected to provide to our IOs in connection with our system upgrades, as well as higher store occupancy costs due to 77 net new stores acquired or opened over the last 12 months and additional personnel costs from the Company-operated stores that were acquired in the United Grocery Outlet transaction. Corporate-related expenses increased largely due to increased professional service costs to support our system upgrades and support the continued growth of the business, higher marketing expenses, and United Grocery Outlet acquisition related costs.

As a percentage of net sales, SG&A decreased slightly for the 13 weeks ended June 29, 2024 and increased for the 26 weeks ended June 29, 2024 compared to the same periods in fiscal 2023 primarily due to the aforementioned factors.

Interest Expense, Net

	13 Weeks Ended				26 Weeks Ended			
	June 29, 2024	July 1, 2023	$ Change	% Change	June 29, 2024	July 1, 2023	$ Change	% Change
Interest expense, net	$ 5,559	$ 4,766	$ 793	16.6 %	$ 8,735	$ 10,685	$ (1,950)	(18.2)%
% of net sales	0.5 %	0.5 %			0.4 %	0.5 %		

The increase in net interest expense for the 13 weeks ended June 29, 2024 compared to the same period in fiscal 2023 was primarily driven by higher average principal debt outstanding during the 13 weeks ended June 29, 2024, due largely to support share repurchases and other cash outlays, after the acquisition of United Grocery Outlet.

The decrease in net interest expense for the 26 weeks ended June 29, 2024 compared to the same period in fiscal 2023 was primarily driven by increased interest income from higher interest rates on our cash and cash equivalents and IO notes combined with the capitalization of $0.7 million of interest.

See Note 3 to the condensed consolidated financial statements for additional information.

Loss on Debt Extinguishment and Modification

	13 Weeks Ended				26 Weeks Ended			
	June 29, 2024	July 1, 2023	$ Change	% Change	June 29, 2024	July 1, 2023	$ Change	% Change
Loss on debt extinguishment and modification	$ —	$ —	$ —	— %	$ —	$ 5,340	$ (5,340)	(100.0)%
% of net sales	— %	— %			— %	0.3 %		

During the 26 weeks ended July 1, 2023, we recorded a $5.3 million loss on debt extinguishment related to the payoff of $385.0 million of principal on the senior term loan outstanding under our prior credit facilities.

Income Tax Expense

	13 Weeks Ended				26 Weeks Ended			
	June 29, 2024	July 1, 2023	$ Change	% Change	June 29, 2024	July 1, 2023	$ Change	% Change
Income tax expense	$ 6,545	$ 7,244	$ (699)	(9.6)%	$ 4,957	$ 15,083	$ (10,126)	(67.1)%
% of net sales	0.6 %	0.7 %			0.2 %	0.8 %		
Effective tax rate	31.9 %	22.8 %			27.6 %	28.3 %		

The decrease in income tax expense for the 13 and 26 weeks ended June 29, 2024, compared to the same periods in fiscal 2023 was primarily due to lower pretax book income.

The increase in our effective income tax rate for the 13 weeks ended June 29, 2024 compared to the 13 weeks ended July 1, 2023 was primarily driven by lower excess tax benefits related to the exercise of stock options. The decrease in our effective income tax rate for the 26 weeks ended June 29, 2024 compared to the 26 weeks ended July 1, 2023 was primarily driven by excess tax benefits related to share-based compensation having a larger impact on the effective tax rate for the 26 weeks ended June 29, 2024 due to decreased pretax book income.

Net Income

	13 Weeks Ended				26 Weeks Ended			
	June 29, 2024	July 1, 2023	$ Change	% Change	June 29, 2024	July 1, 2023	$ Change	% Change
Net income	$ 14,001	$ 24,471	$ (10,470)	(42.8)%	$ 12,976	$ 38,191	$ (25,215)	(66.0)%
% of net sales	1.2 %	2.4 %			0.6 %	1.9 %		

As a result of the foregoing factors, net income decreased for the 13 and 26 weeks ended June 29, 2024 compared to the same periods in fiscal 2023.

Adjusted EBITDA

	13 Weeks Ended				26 Weeks Ended			
	June 29, 2024	July 1, 2023	$ Change	% Change	June 29, 2024	July 1, 2023	$ Change	% Change
Adjusted EBITDA	$ 67,878	$ 70,519	$ (2,641)	(3.7)%	$ 107,273	$ 133,597	$ (26,324)	(19.7)%

The decrease in adjusted EBITDA for the 13 and 26 weeks ended June 29, 2024 compared to the same period in fiscal 2023 was primarily due to the reduction in gross margin and the increase in SG&A related expenses, as discussed above.

Adjusted Net Income

	13 Weeks Ended				26 Weeks Ended			
	June 29, 2024	July 1, 2023	$ Change	% Change	June 29, 2024	July 1, 2023	$ Change	% Change
Adjusted net income	$ 25,095	$ 31,919	$ (6,824)	(21.4)%	$ 33,904	$ 58,943	$ (25,039)	(42.5)%

The decrease in adjusted net income for the 13 and 26 weeks ended June 29, 2024 compared to the same period in fiscal 2023 was primarily due to the reduction in gross margin and the increase in SG&A related expenses, as discussed above.

Liquidity and Capital Resources

Sources of Liquidity

Based on our current operations and new store growth plans, we expect to satisfy our short-term and long-term cash requirements through a combination of our existing cash and cash equivalents position, funds generated from operating activities, and the borrowing capacity available in the revolving credit facility under our credit agreement, dated as of February 21, 2023 (the "2023 Credit Agreement"). If cash generated from our operations and borrowings under the revolving credit facility are not sufficient or available to meet our liquidity requirements, then we will be required to obtain additional equity or debt financing in the future. There can be no assurance equity or debt financing will be available to us when we need it or, if available, the terms will be satisfactory to us and not dilutive to our then-current stockholders. Additionally, we may seek to take advantage of market opportunities to refinance our existing debt instruments with new debt instruments at interest rates, maturities and terms we deem attractive.

As of June 29, 2024, we had cash and cash equivalents of $67.1 million, which consisted primarily of cash held in checking and money market accounts with financial institutions. In addition, we have a revolving credit facility with $400.0 million in borrowing capacity under the 2023 Credit Agreement. As of June 29, 2024, we had $90.0 million outstanding under the revolving credit facility and $4.5 million of outstanding standby letters of credit, resulting in $305.5 million of remaining borrowing capacity available under this revolving credit facility. During the 26 weeks ended June 29, 2024, $90.0 million was borrowed under this revolving credit facility to support share repurchases and other cash outlays, after the acquisition of United Grocery Outlet.

The senior secured credit facilities of the 2023 Credit Agreement permit us to add incremental term loan facilities, increase any existing term loan facility, increase revolving commitments, and/or add incremental replacement revolving credit facility tranches. The aggregate principal amount of such incremental facilities are limited to (a) an amount not in excess of the sum of the greater of $200.0 million and 100% of Consolidated EBITDA (as defined in the 2023 Credit Agreement), subject to certain limitations, plus (b) voluntary prepayments of any term loan facility, voluntary permanent reductions of the commitments for the revolving credit facility and voluntary prepayments of indebtedness secured by liens on the collateral securing the credit facilities, subject to certain exceptions, plus (c) an amount such that (assuming that the full amount of any such incremental revolving increase and/or incremental replacement revolving credit facility was drawn, and after giving effect to any appropriate pro forma adjustment events) we would be in compliance, on a pro forma basis (but excluding the cash proceeds of such incurrence), with a Total Net Leverage Ratio (as defined in the 2023 Credit Agreement) of 3.00 to 1.00.

We may also, from time to time, at our sole discretion, prepay or retire all or a portion of our outstanding debt.

Material Cash Requirements

Other than the information noted below, there has been no material change in our material cash requirements since the end of fiscal 2023. See our 2023 Form 10-K for additional information.

Capital Expenditures

Capital expenditures include purchases of capital assets such as property and equipment as well as intangible assets and licenses. Capital expenditures for the 26 weeks ended June 29, 2024, before the impact of tenant improvement allowances, were $91.7 million, and, net of tenant improvement allowances, were $86.7 million. We currently expect total capital expenditures, net of tenant improvement allowances, to be approximately $200.0 million for fiscal 2024, which includes new store growth, upgrades to our existing fleet including United Grocery Outlet store capital improvements, as well as ongoing investments in technology, supply chain and infrastructure.

Debt Obligations

The 2023 Credit Agreement requires us to make scheduled quarterly amortization payments of the senior term loan. Such payments total $46.9 million over the remaining term of the senior term loan, with $1.9 million payable over the remainder of fiscal 2024. The remaining senior term loan principal balance and any outstanding revolving credit facility balance will become due in February 2028 at maturity. See Note 3 to our condensed consolidated financial statements for additional information.

Acquisition of United Grocery Outlet

On April 1, 2024, Grocery Outlet Inc., our wholly owned subsidiary, acquired BBGO Acquisition, Inc., a holding company that owns all of the outstanding capital stock of The Bargain Barn Inc., which does business as United Grocery Outlet. The acquisition was completed for the total purchase consideration of $62.8 million, including $2.0 million of cash and cash equivalents on hand, subject to post-closing adjustments, and was funded with cash on hand. See Note 10 to our condensed consolidated financial statements for additional information.

Debt Covenants

The 2023 Credit Agreement contains certain customary representations and warranties, subject to limitations and exceptions, and affirmative and customary covenants. The 2023 Credit Agreement contains certain covenants that, among other things, limit the our ability and the ability of our restricted subsidiaries to: pay dividends or distributions, repurchase equity, prepay junior debt and make certain investments; incur additional debt or issue certain disqualified stock and preferred stock; incur liens on assets; merge or consolidate with another company or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its assets; enter into transactions with affiliates; and allow to exist certain restrictions on the ability of our subsidiaries to pay dividends or make other payments to the borrower. The 2023 Credit Agreement also contains financial performance covenants requiring us to satisfy a maximum total net leverage ratio test and a minimum interest coverage ratio test as of the last day of each fiscal quarter. The maximum total net leverage ratio test requires us to be in compliance with a Total Net Leverage Ratio no greater than 3.50 to 1.00 as of the last day of each test period ending prior to the test period ending on or about December 31, 2025, and no greater than 3.25 to 1.00 as of the last day of each test period ending thereafter, subject to certain adjustments set forth in the 2023 Credit Agreement. The minimum interest coverage ratio test requires us to be in compliance with a Consolidated Interest Coverage Ratio (as defined in the 2023 Credit Agreement) of no less than 1.75 to 1.00 as of the last day of each test period.

As of June 29, 2024, we were in compliance with all applicable financial covenant requirements for the 2023 Credit Agreement.

Cash Flows

The following table summarizes our cash flows for the periods presented (amounts in thousands, except percentages):

	26 Weeks Ended			
	June 29, 2024	July 1, 2023	$ Change	% Change
Net cash provided by operating activities	$ 49,438	$ 157,120	$ (107,682)	(68.5)%
Net cash used in investing activities	(155,286)	(78,084)	(77,202)	98.9 %
Net cash provided by (used in) financing activities	57,926	(94,194)	152,120	161.5 %
Net decrease in cash and cash equivalents	$ (47,922)	$ (15,158)	$ (32,764)	216.1 %

Cash Provided by Operating Activities

Net cash provided by operating activities was $49.4 million for the 26 weeks ended June 29, 2024 compared to $157.1 million for the same period in fiscal 2023. The decrease in net cash provided by operating activities of $107.7 million for the 26 weeks ended June 29, 2024 compared to the same period in fiscal 2023 was primarily driven by changes in accounts payable and accrued expenses combined with lower net income and changes in merchandise inventory levels.

Cash Used in Investing Activities

Net cash used in investing activities was $155.3 million for the 26 weeks ended June 29, 2024 compared to $78.1 million for the same period in fiscal 2023. The increase in net cash used in investing activities of $77.2 million for the 26 weeks ended June 29, 2024 compared to the same period in fiscal 2023 was primarily due to increased spending on property and equipment due to higher store count and construction related to future stores combined with the acquisition of United Grocery Outlet in April 2024.

Cash Used in Financing Activities

Net cash provided by financing activities of $57.9 million for the 26 weeks ended June 29, 2024 was primarily due to the borrowing of $90.0 million on our revolving credit facility under the 2023 Credit Agreement and $3.8 million in proceeds from the exercise of stock options, partially offset by the repurchase of $31.3 million of our common stock and $3.8 million in scheduled principal payments on the senior term loan under the 2023 Credit Agreement. Net cash used in financing activities of $94.2 million for the 26 weeks ended July 1, 2023 was primarily due to the payoff of $385.0 million of principal on the prior senior term loan outstanding under our prior first lien credit facility, repayment of the $25.0 million of principal on our revolving credit facility, $4.5 million in debt issuance costs paid and the repurchase of $3.3 million worth of common stock, partially offset by $325.0 million in proceeds from the 2023 Credit Agreement.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with GAAP and the applicable rules and regulations of the SEC for interim reporting. The preparation of our condensed consolidated financial statements requires us to make judgments and estimates that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our judgments and estimates are based on historical experience and other factors believed to be reasonable under the circumstances. With respect to critical accounting policies, even a relatively minor variance between actual and expected results can potentially have a materially favorable or unfavorable impact on subsequent results of operations.

There have been no material changes to our critical accounting policies and estimates during the 26 weeks ended June 29, 2024 from those disclosed in our 2023 Form 10-K.

Recent Accounting Pronouncements

Refer to Note 1 to the condensed consolidated financial statements included elsewhere in this report.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Our operating results are subject to market risk from interest rate fluctuations on our credit facilities, which bear variable interest rates. As of June 29, 2024, our outstanding borrowings included $290.6 million from the senior term loan and $90.0 million from the revolving credit facility under the 2023 Credit Agreement. As of June 29, 2024, the interest rate on these borrowings was 7.44% (See Note 3 to our condensed consolidated financial statements for additional information). Based on the outstanding balance and interest rate of the senior term loan as of June 29, 2024, a hypothetical 10% relative increase or decrease in the interest rate would cause an increase or decrease in interest expense, excluding the capitalization of interest, of approximately $2.8 million over the next 12 months.

We do not use derivative financial instruments for speculative or trading purposes, but this does not preclude our adoption of specific hedging strategies in the future.

Impact of Inflation

Our results of operations and financial condition are presented based on historical cost. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, we have experienced over the last several years varying levels of inflation and subsequent disinflation, resulting in part from various supply disruptions, increased shipping and transportation costs, increased commodity costs, increased labor costs in the supply chain, increased materials costs to develop new stores, increased SG&A related to personnel, travel, and other operational costs and other disruptions caused by the recent macroeconomic environment. Similarly, our IOs have been impacted by staffing challenges and increased labor costs and utility costs within their businesses. Furthermore, our results of operations and financial condition may be materially impacted by inflation in the future.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management including our Chief Executive Officer and Interim Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of the end of the period covered by this report. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Interim Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Based on that evaluation, our Chief Executive Officer and Interim Chief Financial Officer have concluded our disclosure controls and procedures were not effective as of June 29, 2024 due to the material weakness in our internal control over financial reporting, as of December 30, 2023. A "material weakness" is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement in annual or interim financial statements will not be prevented or detected on a timely basis.

Material Weakness and Remediation Plan

The identified material weakness in internal control over financial reporting as of December 30, 2023 related to deficiencies in the design and operating effectiveness of certain information technology general computer controls ("ITGC's"). In particular, the replacement of components of our enterprise resource planning system in late August 2023 led to a significant increase in the volume of transactions across user access, program change management, and IT operations for which our existing controls for such matters were not designed to address. Further, certain of the Company's related business controls that are dependent upon the affected ITGC's were also deemed ineffective as of December 30, 2023.

We have taken, and continue to take, steps to remediate the control deficiencies contributing to the material weakness described above. Management has redesigned controls and implemented additional training for user access, program change management, and IT operations controls. Our remediation progress has also included hiring additional internal and external resources. We anticipate the remediation will be completed during the fiscal year ending December 28, 2024, after the applicable controls have operated for a sufficient period of time and management has concluded through testing that the controls are operating effectively.

We did not identify any material misstatements to the condensed consolidated financial statements as of and for the fiscal quarter ended June 29, 2024 because of these control deficiencies. However, the pervasive impact of these control deficiencies to the Company's internal control over financial reporting creates a reasonable possibility that a material misstatement to the condensed consolidated financial statements would not be prevented or detected on a timely basis.

For further information regarding the identified material weakness, see Part I, Item 1A. "Risk Factors" and Part II, Item 9A. "Controls and Procedures" in our 2023 Form 10-K.

Changes in Internal Control over Financial Reporting

On April 1, 2024, Grocery Outlet Inc., our wholly owned subsidiary, acquired BBGO Acquisition, Inc., a holding company that owns all of the outstanding capital stock of The Bargain Barn Inc., which does business as United Grocery Outlet. (See Note 10 to our condensed consolidated financial statements for additional information). We are currently integrating United Grocery Outlet into our internal control framework and processes and, pursuant to the Securities and Exchange Commission's guidance that an assessment of a recently acquired business may be omitted from the scope of an assessment in the year of acquisition, the scope of our assessment of the effectiveness of our internal control over financial reporting as of December 28, 2024 will not include United Grocery Outlet.

Other than the remediation efforts and changes identified above, during the three months ended, June 29, 2024, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls

In designing and evaluating the disclosure controls and procedures and internal control over financial reporting, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are party to claims, proceedings and litigation that arise in the ordinary course of our business. Management believes that we do not have any pending litigation that, separately or in the aggregate, would have a material adverse effect on our results of operations, financial condition or cash flows. Further, no material legal proceedings were terminated, settled or otherwise resolved during the 13 weeks ended June 29, 2024.

SEC regulations require us to disclose information about certain environmental proceedings if we reasonably believe that such proceedings may result in monetary sanctions above a stated threshold. Pursuant to SEC regulations, we use a threshold of $1.0 million for purposes of determining whether disclosure of any such proceedings is required.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, our business, financial condition and operating results can be affected by a number of factors, whether currently known or unknown, including but not limited to those described in Part I, Item 1A of our 2023 Form 10-K under the heading "Risk Factors," any one or more of which could, directly or indirectly, cause our actual financial condition and operating results to vary materially from past, or from anticipated future, financial condition and operating results. Any of these factors, in whole or in part, could materially and adversely affect our business, financial condition, operating results and stock price. There have been no material changes to our risk factors since the 2023 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table sets forth information on our share repurchase program activity of our common stock for the 13 weeks ended June 29, 2024 (amounts in thousands, except share and per share data):

Period	Total Number of Shares Purchased	Average Price Paid Per Share [1]	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [2]	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [2]
March 31, 2024 - April 27, 2024	206,725	$ 26.74	206,725	$ 78,909
April 28, 2024 - May 25, 2024	898,001	21.72	898,001	59,431
May 26, 2024 - June 29, 2024	—	—	—	59,431
Total second quarter of fiscal 2024	1,104,726	$ 22.66	1,104,726	

(1) Includes commissions for the shares of our common stock repurchased under the share repurchase programs.

(2) In November 2021, our Board of Directors approved a share repurchase program. This program, effective November 5, 2021 and without an expiration date, authorizes us to repurchase, from time to time and at prices the Company deems appropriate, up to $100.0 million of our outstanding common stock utilizing a variety of methods including open market purchases, accelerated share repurchase programs, privately negotiated transactions, structured repurchase transactions and repurchases under a Rule 10b5-1 plan (which would permit shares to be repurchased when the Company might otherwise be precluded from doing so under securities laws). In addition to the Company's discretion, such repurchases are subject to, among other things, market conditions, applicable legal requirements and debt covenants. The shares purchased were made in open-market transactions pursuant to a Rule 10b5-1 plan.

Item 3. Default Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosure

Not applicable.

Item 5. Other Information

Rule 10b5-1 Trading Plans - Directors and Section 16 Officers

The following table describes contracts, instructions or written plans for the sale or purchase of our securities adopted by our directors and Officers (as such term is defined under Section 16 of the Exchange Act) during the 13 weeks ended June 29, 2024, which is intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) of the Exchange Act, referred to as Rule 10b5-1 trading plan:

Name and Position	Date of Adoption of Rule 10b5-1 Trading Plan	Scheduled Expiration of Rule 10b5-1 Trading Plan [1]	Aggregate Number of Securities to be Purchased or Sold
Andrea R. Bortner EVP, Chief Human Resources Officer	6/7/2024	5/30/2025	Up to 9,272 shares of our common stock

(1) A trading plan may also expire on such earlier date as all transactions under the trading plan are completed.

During the 13 weeks ended June 29, 2024, none of our directors and Officers (i) adopted a contract, instruction or written plan for the purchase or sale of our securities in any "non-Rule 10b5-1 trading arrangement" or (ii) terminated a contract, instruction or written plan for the purchase or sale of our securities that was a Rule 10b5-1 trading plan or in any "non-Rule 10b5-1 trading arrangement."

Item 6. Exhibits

Exhibit No.	Exhibit	Incorporated by Reference Form	File No.	Filing Date	Exhibit No.
3.1	Restated Certificate of Incorporation of Grocery Outlet Holding Corp.	8-K	001-38950	6/10/2022	3.1
3.2	Amended and Restated Bylaws of Grocery Outlet Holding Corp.	8-K	001-38950	4/8/2022	3.1
10.1†*	Non-Employee Director Compensation Policy (as amended June 3, 2024)				
31.1*	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
31.2*	Certification of Principal Financial Officer and Principal Accounting Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
32.1**	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
32.2**	Certification of Principal Financial Officer and Principal Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				
101.SCH	Inline XBRL Taxonomy Extension Schema Document				
101.CAL	Inline XBRL Extension Calculation Linkbase Document				
101.DEF	Inline XBRL Extension Definition Linkbase Document				
101.LAB	Inline XBRL Extension Label Linkbase Document				
101.PRE	Inline XBRL Extension Presentation Linkbase Document				
104	Cover Page Interactive Data File - the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document and included as Exhibit 101.				

† Management contract or compensatory plan or arrangement.

* Filed herewith.

** Furnished herewith. The certifications attached as Exhibit 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q are deemed furnished and not filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Grocery Outlet Holding Corp. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

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.

			Grocery Outlet Holding Corp.
Date:	August 7, 2024	By:	/s/ Lindsay E. Gray
			Lindsay E. Gray Interim Chief Financial Officer and Senior Vice President, Accounting (Principal Financial Officer and Principal Accounting Officer)

Exhibit 10.1

GROCERY OUTLET HOLDING CORP.
NON-EMPLOYEE DIRECTOR COMPENSATION POLICY
(as amended June 3, 2024)

Cash Compensation

Each non-employee director of Grocery Outlet Holding Corp. (the "Company," "we," or "our) is entitled to receive an annual cash retainer of $75,000, any non-employee director serving as Lead Independent Director of our board of directors is entitled to receive an additional annual cash retainer of $50,000 for such service and any non-employee director serving as chairperson of our board of directors is entitled to receive an additional annual cash retainer of $150,000 for such service. In addition, each non-employee director is entitled to receive additional annual cash retainers as shown in the following table, as applicable.

	Member	**Chair**
Audit and Risk Committee	$15,000	$25,000
Compensation Committee	$10,000	$25,000
Nominating and Corporate Governance Committee	$10,000	$20,000

The annual retainers are earned on a quarterly basis based on a calendar quarter.

Equity Compensation

Each non-employee director will be granted an annual restricted stock unit ("RSU") award with respect to a number of shares of our common stock having a grant date fair market value of $150,000 (rounded up to the next whole share). Non-employee directors who are appointed to the Board between the customary equity award grant dates generally receive a prorated RSU grant. Subject to the non-employee director's continued service with us on the applicable vesting date, the annual RSU awards will generally vest in full over twelve months or in full upon a Change in Control (as defined in the applicable award agreement). Upon vesting, each RSU will be settled for one share of our common stock within 30 days of the date on which the relevant vesting date occurs. The number of shares underlying the annual RSU grant is calculated by dividing $150,000 by the fair market value of our common stock (which is the closing price of a share of our common stock on Nasdaq) on the grant date.

Director Deferral Program

From time to time, non-employee directors may be given the opportunity to participate in a compensation deferral plan sponsored by the Company. In accordance with the Grocery Outlet Holding Corp. Directors Deferral Plan (the "Deferral Plan"), non-employee directors may elect to defer all of their annual cash compensation and/or all of the Company shares issued upon settlement of their annual RSU award, in each case, in the form of deferred stock units ("DSUs") credited to an account maintained by us. The number of DSUs credited in respect of annual cash compensation is determined by dividing the dollar amount of the deferred cash compensation by the fair market value of a share of our common stock on the date the cash compensation otherwise would have been paid to the director. DSUs are awarded from, and remain subject to the terms of, the 2019 Incentive Plan.

Each DSU represents the right to receive a number of shares of our common stock equal to the number of DSUs initially credited to the director's account plus the number of DSUs credited as a result of any dividend equivalent rights (to which DSUs initially credited to a director's account are entitled). Directors may elect that settlement of DSUs be made or commence on (i) the first business day in a year following the year for which the deferral is made, (ii) following termination of service on the Board or (iii) the earlier of (i) or (ii). Directors may elect that DSUs are settled in a single one-time distribution or in a series of up to 15 annual installments. In addition, DSU accounts will be settled upon a Change in Control (as defined in the 2019 Incentive Plan) or upon a director's death. Notwithstanding the foregoing, with respect to Mr. Read only, he will forfeit the right to settlement of his DSUs to the extent that the DSUs otherwise would be settled upon a Change in Control that occurred prior to a specified date.

Expense Reimbursement

Each non-employee director will be reimbursed for reasonable out-of-pocket travel expenses incurred in connection with attendance at Board and committee meetings and other Board related activities in accordance with our plans or policies as in effect from time to time.

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert J. Sheedy, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Grocery Outlet Holding Corp.;

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

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

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

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

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

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

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

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

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

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

Date: August 7, 2024

By: /s/ Robert J. Sheedy, Jr.
Robert J. Sheedy, Jr.
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER AND PRINCIPAL ACCOUNTING OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Lindsay E. Gray, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Grocery Outlet Holding Corp.;

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

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

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

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

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

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

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

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

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

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

Date: August 7, 2024

By: /s/ Lindsay E. Gray
Lindsay E. Gray
Interim Chief Financial Officer and
Senior Vice President, Accounting
(Principal Financial Officer and Principal
Accounting Officer)

Exhibit 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER 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 Grocery Outlet Holding Corp. (the "Company") on Form 10-Q for the period ended June 29, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert J. Sheedy, Jr., certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: August 7, 2024

By: /s/ Robert J. Sheedy, Jr.
Robert J. Sheedy, Jr.
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER AND PRINCIPAL ACCOUNTING OFFICER 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 Grocery Outlet Holding Corp. (the "Company") on Form 10-Q for the period ended June 29, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lindsay E. Gray, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: August 7, 2024

By: /s/ Lindsay E. Gray
Lindsay E. Gray
Interim Chief Financial Officer and
Senior Vice President, Accounting
(Principal Financial Officer and Principal
Accounting Officer)