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 September 26, 2020
OR

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

For the transition period from to
Commission File Number: 001-38950

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

Delaware	**47-1874201**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
5650 Hollis Street, Emeryville, California	**94608**
(Address of principal executive offices)	**(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 November 6, 2020, the registrant had 94,151,015 shares of common stock outstanding.

GROCERY OUTLET HOLDING CORP.
FORM 10-Q

TABLE OF CONTENTS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q ("Form 10-Q" or "report") and the documents incorporated by reference herein constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained in this report and the documents incorporated by reference herein other than statements of historical fact, including statements regarding our future operating results and financial position, our business strategy and plans, business trends, and our objectives for future operations, may constitute forward-looking statements. 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. We have based these forward-looking statements on our current expectations and projections about future events and trends that we believe may affect our financial condition, operating results, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described under the headings "Item 1A. Risk Factors," and "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report or as described in the other documents and reports we file with the U.S. Securities and Exchange Commission (the "SEC"). 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. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the future events and trends discussed in this report may not occur and actual results could differ materially and adversely from those anticipated or implied by the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. The events and circumstances reflected in the forward-looking statements may not be achieved or occur. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activities, performance or achievements. These forward-looking statements should not be relied upon as representing our views as of any date subsequent to the date of this report. 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, www.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, a part of this report.

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)

	September 26, 2020	December 28, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 59,082	$ 28,101
Independent operator receivables and current portion of independent operator notes, net of allowance $1,156 and $1,283	6,122	7,003
Other accounts receivable, net of allowance $32 and $19	5,724	2,849
Merchandise inventories	252,777	219,420
Prepaid expenses and other current assets	20,958	13,453
Total current assets	344,663	270,826
Independent operator notes, net of allowance $8,360 and $9,088	25,763	20,331
Property and equipment, net	399,159	356,614
Operating lease right-of-use assets	819,227	734,327
Intangible assets, net	46,747	47,792
Goodwill	747,943	747,943
Deferred income tax assets, net	2,976	—
Other assets	7,788	7,696
Total assets	$ 2,394,266	$ 2,185,529
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade accounts payable	$ 90,191	$ 119,217
Accrued expenses	33,303	31,363
Accrued compensation	21,650	14,915
Current portion of long-term debt	68	246
Current lease liabilities	45,793	38,245
Income and other taxes payable	4,973	4,641
Total current liabilities	195,978	208,627
Long-term debt, net	448,613	447,743
Deferred income tax liabilities, net	—	16,020
Long-term lease liabilities	860,849	767,755
Total liabilities	1,505,440	1,440,145
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Voting common stock, par value $0.001 per share, 500,000,000 shares authorized; 93,904,922 and 89,005,062 shares issued and outstanding, respectively	94	89
Series A preferred stock, par value $0.001 per share, 50,000,000 shares authorized; no shares issued and outstanding	—	—
Additional paid-in capital	777,831	717,282
Retained earnings	110,901	28,013
Total stockholders' equity	888,826	745,384
Total liabilities and stockholders' equity	$ 2,394,266	$ 2,185,529

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		39 Weeks Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Net sales	$ 764,082	$ 652,540	$ 2,327,819	$ 1,904,100
Cost of sales	525,899	451,453	1,598,859	1,317,276
Gross profit	238,183	201,087	728,960	586,824
Operating expenses:				
Selling, general and administrative	189,880	161,047	574,813	471,542
Depreciation and amortization	14,131	13,200	40,291	38,090
Share-based compensation	3,857	2,892	34,309	25,853
Total operating expenses	207,868	177,139	649,413	535,485
Income from operations	30,315	23,948	79,547	51,339
Other expenses:				
Interest expense, net	4,833	7,342	15,937	39,232
Debt extinguishment and modification costs	—	472	198	5,634
Total other expenses	4,833	7,814	16,135	44,866
Income before income taxes	25,482	16,134	63,412	6,473
Income tax expense (benefit)	(14,992)	3,689	(19,037)	886
Net income and comprehensive income	$ 40,474	$ 12,445	$ 82,449	$ 5,587
Basic earnings per share	$ 0.44	$ 0.14	$ 0.91	$ 0.07
Diluted earnings per share	$ 0.41	$ 0.13	$ 0.84	$ 0.07
Weighted average shares outstanding:				
Basic	92,489	88,345	90,929	75,778
Diluted	99,266	93,183	98,033	78,602

See Notes to Condensed Consolidated Financial Statements

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

	Voting Common		Nonvoting Common		Preferred		Additional	Retained	Stockholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-In Capital	Earnings	Equity
Balance as of December 28, 2019	89,005,062	$ 89	—	$ —	—	$ —	$ 717,282	$ 28,013	$ 745,384
Cumulative effect of accounting change								439	439
Exercise and vesting of share-based awards	902,132	1					6,032		6,033
Share-based compensation expense							20,277		20,277
Dividends paid							(147)		(147)
Net income and comprehensive income								12,642	12,642
Balance as of March 28, 2020	89,907,194	90	—	—	—	—	743,444	41,094	784,628
Exercise and vesting of share-based awards	1,511,079	1					9,844		9,845
Tax paid on behalf of employees related to net settlement of share-based awards							(483)		(483)
Share-based compensation expense							10,175		10,175
Dividends paid							(97)		(97)
Net income and comprehensive income								29,333	29,333
Balance as of June 27, 2020	91,418,273	$ 91	—	$ —	—	$ —	$ 762,883	$ 70,427	$ 833,401
Exercise and vesting of share-based awards	2,486,649	3					11,252		11,255
Share-based compensation expense							3,857		3,857
Dividends paid							(161)		(161)
Net income and comprehensive income								40,474	40,474
Balance as of September 26, 2020	93,904,922	$ 94	—	$ —	—	$ —	$ 777,831	$ 110,901	$ 888,826

See Notes to Condensed Consolidated Financial Statements

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

	Voting Common		Nonvoting Common		Preferred		Additional Paid-In Capital	Retained Earnings	Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance as of December 29, 2018	67,435,288	$ 67	1,038,413	$ 1	1	$ —	$ 287,457	$ 12,426	$ 299,951
Cumulative effect of accounting change								169	169
Exercise and vesting of share-based awards	42,438	—					—		—
Share-based compensation expense							211		211
Dividends paid								(254)	(254)
Net income and comprehensive income								3,774	3,774
Balance as of March 30, 2019	67,477,726	$ 67	1,038,413	$ 1	1	$ —	$ 287,668	$ 16,115	$ 303,851
Exercise and vesting of share-based awards			30,000	—			314		314
Issuance of common stock upon initial public offering, net of issuance costs	19,765,625	20					400,468		400,488
Conversion of nonvoting to voting common shares	1,068,413	1	(1,068,413)	(1)					—
Redemption of preferred shares					(1)	—			—
Share-based compensation expense							22,750		22,750
Dividends paid								(83)	(83)
Net income (loss) and comprehensive income (loss)								(10,632)	(10,632)
Balance as of June 29, 2019	88,311,764	$ 88	—	$ —	—	$ —	$ 711,200	$ 5,400	$ 716,688
Exercise and vesting of share-based awards	60,370	—					(1,021)		(1,021)
Deferred offering costs							(84)		(84)
Share-based compensation expense							2,892		2,892
Dividends paid								(42)	(42)
Net income and comprehensive income								12,445	12,445
Balance as of September 28, 2019	88,372,134	$ 88	—	$ —	—	$ —	$ 712,987	$ 17,803	$ 730,878

See Notes to Condensed Consolidated Financial Statements

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

	39 Weeks Ended	
	September 26, 2020	September 28, 2019
Cash flows from operating activities:		
Net income	$ 82,449	$ 5,587
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property and equipment	36,772	32,307
Amortization of intangible and other assets	5,481	7,481
Amortization of debt issuance costs and discounts	1,771	1,962
Debt extinguishment and modification costs	198	5,634
Share-based compensation	34,309	25,853
Provision for accounts receivable	321	2,373
Deferred income taxes	(18,996)	789
Other	1,421	500
Changes in operating assets and liabilities:		
Independent operator and other accounts receivable	(3,809)	2,813
Merchandise inventories	(33,357)	(8,114)
Prepaid expenses and other current assets	(7,505)	(4,271)
Income and other taxes payable	332	584
Trade accounts payable, accrued compensation and other accrued expenses	(15,545)	25,378
Changes in operating lease assets and liabilities, net	15,419	5,614
Net cash provided by operating activities	99,261	104,490
Cash flows from investing activities:		
Advances to independent operators	(8,715)	(9,362)
Repayments of advances from independent operators	5,216	3,107
Purchases of property and equipment	(85,847)	(71,424)
Proceeds from sales of assets	265	680
Intangible assets and licenses	(3,826)	(2,934)
Net cash used in investing activities	(92,907)	(79,933)
Cash flows from financing activities:		
Proceeds from initial public offering, net of underwriting discounts paid	—	407,666
Proceeds from exercise of share-based compensation awards	27,133	970
Proceeds from revolving credit facility loan	90,000	—
Principal payments on revolving credit facility loan	(90,000)	—
Payments related to net settlement of share-based compensation awards	(483)	(1,677)
Other direct costs paid related to the initial public offering	—	(7,058)
Principal payments on term loans	(188)	(399,813)
Principal payments on other borrowings	(729)	(619)
Dividends paid	(405)	(379)
Debt issuance costs paid	(701)	(690)
Net cash provided by (used in) financing activities	24,627	(1,600)
Net increase in cash and cash equivalents	30,981	22,957
Cash and cash equivalents at beginning of period	28,101	21,063
Cash and cash equivalents at end of period	$ 59,082	$ 44,020

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 our 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 through a network of independently operated stores. As of September 26, 2020, we had 372 stores in California, Washington, Oregon, Pennsylvania, Idaho and Nevada.

Initial Public Offering — In June 2019, we completed an initial public offering ("IPO") of 19,765,625 shares of our common stock at a public offering price of $22.00 per share for net proceeds of $407.7 million, after deducting underwriting discounts and commissions of $27.1 million and offering costs of $7.2 million. The shares of common stock sold in the IPO and the net proceeds from the IPO included the full exercise of the underwriters' option to purchase additional shares.

Our Amended and Restated Certificate of Incorporation (the "Charter") became effective in connection with the completion of the IPO on June 24, 2019. The Charter, among other things, provided that all of our outstanding shares of nonvoting common stock were automatically converted into shares of voting common stock on a one-for-one basis and that our authorized capital stock consisted of 500,000,000 shares of common stock, and 50,000,000 shares of preferred stock, par value $0.001 per share. Our bylaws were also amended and restated as of June 24, 2019. Additionally, upon the closing of the IPO, we redeemed all of our outstanding preferred stock for a total of $1.00.

On June 24, 2019, we used the net proceeds from the IPO to repay $150.0 million in principal on the outstanding term loan under our second lien credit agreement, dated as of October 22, 2018 (as amended, the "Second Lien Credit Agreement"), as well as accrued and unpaid interest as of that date of $3.6 million, and terminated the Second Lien Credit Agreement. In addition, using the remainder of net proceeds, together with excess cash on hand, we prepaid a portion of our outstanding senior secured term loan under our First Lien Credit Agreement totaling $248.0 million plus accrued interest of $3.8 million. See Note 4 for additional information.

Secondary Public Offerings — On October 8, 2019, certain of our selling stockholders completed a secondary public offering of shares of our common stock. We did not receive any of the proceeds from the sale of these shares by the selling stockholders. We incurred related offering costs of $1.1 million and received $3.2 million in cash (excluding withholding taxes) in connection with the exercise of 451,470 options by certain stockholders participating in this secondary public offering.

On February 3, 2020, certain of our selling stockholders completed an additional secondary public offering of shares of our common stock. We did not receive any of the proceeds from the sale of these shares by the selling stockholders. We incurred related offering costs of $1.1 million which we recognized in selling, general and administrative expenses during the first quarter of fiscal 2020. We received $1.4 million in cash (excluding withholding taxes) in connection with the exercise of 191,470 options by certain stockholders participating in this secondary public offering.

On April 27, 2020, certain of our selling stockholders completed another secondary public offering of shares of our common stock. We did not receive any of the proceeds from the sale of these shares by the selling stockholders. We incurred related offering costs of $1.0 million which we recognized in selling, general and administrative expenses during the second quarter of fiscal 2020. We received $1.6 million in cash (excluding withholding taxes) in connection with the exercise of 269,000 options by certain stockholders participating in this secondary public offering.

On May 28, 2020, the stockholder affiliated with our former private equity sponsor, Hellman and Friedman LLC, distributed the remainder of its holdings representing 9.6 million shares of our common stock to its equity holders. We did not receive any proceeds or incur any material costs related to this distribution.

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 U.S. Securities and Exchange Commission (the "SEC") 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 28, 2019 filed with the SEC on March 25, 2020. The condensed consolidated balance sheet as of December 28, 2019 included herein has been derived from those audited consolidated financial statements.

The accompanying unaudited condensed consolidated financial statements include the accounts of Grocery Outlet Holding Corp. and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated. In the opinion of our management, these condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of our financial position, results of operations, cash flows and stockholders' equity for the interim 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. Certain prior period amounts in the condensed consolidated statements of cash flows have been reclassified to conform to the current period presentation. The reclassification of these items had no impact on net income, earnings per share, or retained earnings in the current or prior period.

Use of Estimates — The preparation of 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, and changes in these estimates are recorded when known.

Segment Reporting — We manage our business as one operating segment. All of our sales were made to customers located in the United States and all property and equipment is located in the United States.

Merchandise Inventories — Merchandise inventories are valued at the lower of cost or net realizable value. Cost is 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 on the condensed consolidated balance sheets. Finance leases are included in other assets, current lease liabilities, and long-term lease liabilities on 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. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. Amortization of finance lease right-of-use assets, interest expense on finance lease liabilities and operating and financing cash flows for finance leases is immaterial.

We have lease agreements with retail facilities for store locations, distribution centers, office space and equipment with lease and non-lease components, which are accounted for separately. Leases with an initial term of 12 months or less are not recorded on the balance sheet; lease expense for these leases is recognized on a straight-line basis over the lease term. The short-term lease expense is reflective of the short-term lease commitments on a go forward basis. 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 basis as of September 26, 2020 or December 28, 2019. There were no transfers of assets or liabilities between levels within the fair value hierarchy as of September 26, 2020 or December 28, 2019.

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

Cash and cash equivalents, independent operator 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 or their variable interest rates.

Independent operator notes receivable (net) — The carrying value of such financial instruments approximates their fair value.

Notes payable and term loans — The carrying value of such financial instruments generally approximates their fair value since the stated interest rates approximates market rates for loans with similar terms for borrowers with similar credit profiles. However, in accordance with Accounting Standards Codification ("ASC") Topic 825, Financial Instruments, the estimated fair values of our term loans as of September 26, 2020 and December 28, 2019 are set forth below.

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 (in thousands):

	September 26, 2020		December 28, 2019	
	Carrying Amount (1)	Estimated Fair Value (2)	Carrying Amount (1)	Estimated Fair Value (2)
Financial Liabilities:				
Term Loans (Level 2)	$ 458,688	$ 448,500	$ 458,682	$ 466,515

(1) The carrying amounts as of September 26, 2020 and December 28, 2019 are net of unamortized debt discounts of $1.3 million and $1.5 million, respectively.

(2) The estimated fair value of our term loans was determined based on the average quoted bid-ask prices for the term loans in an over-the-counter market on the last trading day of the periods presented.

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. 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 sales as the products are sold. Discounts provided by independent operators are not recognized as a reduction in sales as these are provided solely by the independent operator 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 performance obligations, or any material costs to obtain or fulfill a contract as of September 26, 2020 and December 28, 2019.

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 as of September 26, 2020 and December 28, 2019. Breakage amounts were immaterial for the 13 and 39 weeks ended September 26, 2020 and September 28, 2019.

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

	13 Weeks Ended		39 Weeks Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Perishable [(1)]	$ 258,923	$ 223,329	$ 788,190	$ 651,758
Non-perishable [(2)]	505,159	429,211	1,539,629	1,252,342
Total sales	$ 764,082	$ 652,540	$ 2,327,819	$ 1,904,100

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

(2) Non-perishable departments include 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 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 it. 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 367, 342 and 332 stores operated by independent operators as of September 26, 2020, December 28, 2019 and September 28, 2019, respectively. We had agreements in place with each independent operator. The independent operator orders its merchandise exclusively from us which is provided to the independent operator on consignment. Under the independent operator agreement, the independent operator may select a majority of merchandise that we consign to the independent operator, which the independent operator chooses from our merchandise order guide according to the independent operator’s knowledge and experience with local customer purchasing trends, preferences, historical sales and similar factors. The independent operator agreement gives the independent operator 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. Independent operators are required to furnish initial working capital and to acquire certain store and safety assets. The independent operator is required to hire, train and employ a properly trained workforce sufficient in number to enable the independent operator to fulfill its obligations under the independent operator agreement. The independent operator 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 independent operator agreement without cause upon 75 days’ notice.

As consignor of all merchandise to each independent operator, the aggregate net sales proceeds from merchandise sales belongs to us. Sales related to independent operator stores were $750.5 million and $638.8 million for the 13 weeks ended September 26, 2020 and September 28, 2019, respectively, and $2.28 billion and $1.86 billion for the 39 weeks ended September 26, 2020 and September 28, 2019, respectively. We, in turn, pay independent operators a commission based on a share of the gross profit of the store. Inventories and related sales proceeds are our property, and we are responsible for store rent and related occupancy costs. Independent operator commissions were expensed and included in selling, general and administrative expenses. Independent operator commissions were $114.2 million and $98.2 million for the 13 weeks ended September 26, 2020 and September 28, 2019, respectively, and $351.1 million and $285.2 million for the 39 weeks ended September 26, 2020 and September 28, 2019, respectively. Independent operator commissions of $7.9 million and $6.1 million were included in accrued expenses as of September 26, 2020 and December 28, 2019, respectively.

Independent operators may fund their 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 independent operator obligations and performance, the operator agreements grant us the security interests in the assets owned by the independent operator. The total investment at risk associated with each independent operator is not sufficient to permit each independent operator to finance its activities without additional subordinated financial support and, as a result, the independent operators are VIEs which we have variable interests in. To determine if we are the primary beneficiary of these VIEs, we evaluate whether we have (i) the power to direct the activities that most significantly impact the independent operator’s economic performance and (ii) the obligation to absorb losses or the right to receive benefits of the independent operator that could potentially be significant to the independent operator. Our evaluation includes identification of significant activities and an assessment of its ability to direct those activities.

Activities that most significantly impact the independent operator economic performance relate to sales and labor. Sales activities that significantly impact the independent operators’ economic performance include determining what merchandise the independent operator will order and sell and the price of such merchandise, both of which the independent operator controls. The independent operator is also responsible for all of their own labor. Labor activities that significantly impact the independent operator’s economic performance include hiring, training, supervising, directing, compensating (including wages, salaries and employee benefits) and terminating all of the employees of the independent operator, activities which the independent operator controls. Accordingly, the independent operator has the power to direct the activities that most significantly impact the independent operator’s economic performance. Furthermore, the mutual termination rights associated with the operator agreements do not give the Company power over the independent operator.

Our maximum exposure to the independent operators is generally limited to the gross operator notes and receivables due from these entities, which was $41.4 million and $37.7 million as of September 26, 2020 and December 28, 2019, respectively. See Note 2 for additional information.

Recently Adopted Accounting Standards

ASU No. 2016-13 — In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13, which was further updated and clarified by the FASB through issuance of additional related ASUs, amends the guidance surrounding measurement and recognition of credit losses on financial assets measured at amortized cost, including trade receivables and debt securities, by requiring recognition of an allowance for credit losses expected to be incurred over an asset's lifetime based on relevant information about past events, current conditions, and reasonable and supportable forecasts impacting the financial asset's ultimate collectability. This "expected loss" model will likely result in earlier recognition of credit losses than the previous "as incurred" model, under which losses were recognized only upon an occurrence of an event that gave rise to the incurrence of a probable loss. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and is to be adopted on a modified retrospective basis. We adopted ASU 2016-13 on December 29, 2019. The adoption of ASU 2016-13 resulted in a $0.4 million cumulative-effect adjustment to the opening balance of retained earnings. The adoption of the new standard did not have a material impact on our condensed consolidated statements of operations and comprehensive income or condensed consolidated statements of cash flows. See Note 2 for additional information.

ASU No. 2018-15 — In August 2018, the FASB issued ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* ("ASU 2018-15"). ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ASU 2018-15 is effective retrospectively for fiscal years and interim periods within those years beginning after December 15, 2019. We adopted ASU 2018-15 on December 29, 2019. The adoption of ASU 2018-15 did not have a material impact on our condensed consolidated financial statements.

Recently Issued Accounting Pronouncements

ASU No. 2019-12 — In December 2019, the FASB issued ASU No. 2019-12, *Simplifying the Accounting for Income Taxes* ("ASU 2019-12"). ASU 2019-12 simplifies accounting guidance for certain tax matters including franchise taxes, certain transactions that result in a step-up in tax basis of goodwill, and enacted changes in tax laws in interim periods. In addition, it eliminates a company's need to evaluate certain exceptions relating to the incremental approach for intra-period tax allocation, accounting for basis differences when there are ownership changes in foreign investments, and interim period income tax accounting for year-to-date losses that exceed anticipated losses. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. We will adopt ASU 2019-12 beginning in the first quarter of fiscal 2021. We do not expect the adoption of ASU 2019-12 to have a material impact on our consolidated financial statements.

Note 2. Independent Operator Notes and Receivables

The amounts included in independent operator notes and accounts receivable consist primarily of funds we loaned to independent operators, net of estimated uncollectible amounts. Independent operator notes are payable on demand and typically bear interest at rates between 3.00% and 9.95%. Accrued interest receivable on independent operator 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 $0.3 million and $0.5 million as of September 26, 2020 and December 28, 2019, respectively. There were no independent operator notes that were past due or on a non-accrual status due to delinquency as of September 26, 2020 or December 28, 2019. TCAP notes and receivables, 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.

Independent operator notes and 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 of independent operators with stores that have been open for more than 18 months that are participating in our Temporary Commission Adjustment Program (“TCAP”) as of the end of each reporting period. TCAP allows us to provide a greater commission to participating independent operators who require assistance in meeting their working capital needs for various reasons, such as new or increased competition or differences in independent operator skills and experience. For independent operators participating in TCAP, we lower the interest rate and delay repayment obligations on their outstanding notes.
- Non-TCAP — Includes the notes and receivables of independent operators 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 of independent operators with stores that have been open for less than 18 months as of the end of each reporting period.

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 independent operators and the related allowances as of September 26, 2020 and December 28, 2019 consisted of the following (in thousands):

		Allowance				
	Gross	Current Portion	Long-term Portion	Net	Current Portion	Long-term Portion
September 26, 2020						
Independent operator notes	$ 36,994	$ (629)	$ (8,360)	$ 28,005	$ 2,242	$ 25,763
Independent operator receivables	4,407	(527)	—	3,880	3,880	—
Total	$ 41,401	$ (1,156)	$ (8,360)	$ 31,885	$ 6,122	$ 25,763

		Allowance				
	Gross	Current Portion	Long-term Portion	Net	Current Portion	Long-term Portion
December 28, 2019						
Independent operator notes	$ 31,952	$ (678)	$ (9,088)	$ 22,186	$ 1,855	$ 20,331
Independent operator receivables	5,753	(605)	—	5,148	5,148	—
Total	$ 37,705	$ (1,283)	$ (9,088)	$ 27,334	$ 7,003	$ 20,331

A summary of activity in the independent operator notes and receivable allowance was as follows (in thousands):

	13 Weeks Ended		39 Weeks Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Beginning balance	$ 9,178	$ 10,655	$ 10,371	$ 9,067
Provision for independent operator notes and receivables	384	311	311	2,519
Cumulative effect of accounting change	—	—	(439)	—
Write-off of provision for independent operator notes and receivables	(46)	(497)	(727)	(1,117)
Ending Balance	$ 9,516	$ 10,469	$ 9,516	$ 10,469

The following table presents the amortized cost basis of independent operator notes by year of origination and credit quality indicator as of September 26, 2020 (in thousands):

Credit Quality Indicator	2020 (YTD)	2019	2018	2017	2016	Prior	Total
TCAP	$ 1,246	$ 1,065	$ 926	$ 105	$ 194	$ —	$ 3,536
Non-TCAP	3,097	6,269	6,686	2,652	1,044	291	20,039
New store	7,649	5,770	—	—	—	—	13,419
Total	$ 11,992	$ 13,104	$ 7,612	$ 2,757	$ 1,238	$ 291	$ 36,994

Note 3. Leases

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 right-of-use assets and lease liabilities are recognized at the lease commencement date based on the present value of the lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on information available at the lease commencement date to determine the present value of lease payments. 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.

Leases for 15 of our store locations and one warehouse location are controlled by related parties. As of September 26, 2020, the right-of-use assets and lease liabilities related to these properties were $40.5 million and $44.9 million, respectively. As of September 26, 2020, we had executed leases for 32 store locations that we had not yet taken possession of with total undiscounted future lease payments of $176.9 million with lease terms through 2037.

Our lease terms may include options to extend the lease when we are reasonably certain that we will exercise such options. Based upon our initial investment in store leasehold improvements, we utilize an initial reasonably certain lease life of 15 years. Most leases include one or more options to renew, with renewal terms that can extend the lease term from five to 15 years or more. Our leases do not include any material residual value guarantees or material restrictive covenants. We also have non-cancelable subleases with unrelated third parties with future minimum rental receipts as of September 26, 2020 totaling $4.5 million ending in various years through 2028 which have not been deducted from the future minimum lease payments.

The balance sheet classification of our right-of-use lease assets and lease liabilities as of September 26, 2020 was as follows (in thousands):

Leases	Classification	
Assets:		
Operating lease assets	Operating lease right-of-use assets	$ 819,227
Finance lease assets	Other assets	6,189
Total leased assets		$ 825,416
Liabilities:		
Current		
Operating	Current lease liabilities	$ 44,863
Finance	Current lease liabilities	930
Noncurrent		
Operating	Long-term lease liabilities	855,498
Finance	Long-term lease liabilities	5,351
Total lease liabilities		$ 906,642

The components of lease expense were as follows (in thousands):

		13 Weeks Ended		39 Weeks Ended	
Lease Cost	Classification	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Operating lease cost	Selling, general and administrative expenses	$ 28,470	$ 24,211	$ 82,553	$ 71,085
Finance lease cost:					
Amortization of right-of-use assets	Depreciation and amortization	263	173	710	520
Interest on leased liabilities	Interest expense, net	98	68	285	192
Sublease income	Other income	(186)	(299)	(742)	(949)
Net lease cost		$ 28,645	$ 24,153	$ 82,806	$ 70,848

Short-term lease expense and variable lease payments recorded in operating expenses for the 13 and 39 weeks ended September 26, 2020 and September 28, 2019 were immaterial.

Maturities of lease liabilities as of September 26, 2020 were as follows (in thousands):

	Operating Leases	Finance Leases	Total
Remainder of fiscal 2020	$ 26,476	$ 318	$ 26,794
Fiscal 2021	109,137	1,279	110,416
Fiscal 2022	109,837	1,226	111,063
Fiscal 2023	109,681	1,124	110,805
Fiscal 2024	108,911	1,058	109,969
Thereafter	894,505	2,690	897,195
Total lease payments	1,358,547	7,695	1,366,242
Less: Imputed interest	(458,187)	(1,413)	(459,600)
Present value of lease liabilities	$ 900,360	$ 6,282	$ 906,642

The weighted-average lease term and discount rate as of September 26, 2020 were as follows:

Weighted-average remaining lease term:	
Operating leases	12.2 years
Finance leases	6.9 years
Weighted-average discount rate:	
Operating leases	7.03 %
Finance leases	5.82 %

Note 4. Long-term Debt

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

	September 26, 2020	December 28, 2019
First Lien Credit Agreement:		
Term loan	$ 460,000	$ 460,188
Notes payable	68	246
Long-term debt, gross	460,068	460,434
Less: Unamortized debt discounts and debt issuance costs	(11,387)	(12,445)
Long-term debt, less unamortized debt discounts and debt issuance costs	448,681	447,989
Less: Current portion	(68)	(246)
Long-term debt, net	$ 448,613	$ 447,743

First Lien Credit Agreement

On October 22, 2018, GOBP Holdings, Inc ("GOBP Holdings"), our wholly owned subsidiary, together with another of our wholly owned subsidiaries, entered into a first lien credit agreement (the "First Lien Credit Agreement") with a syndicate of lenders for a $725.0 million senior term loan and a revolving credit facility for an amount up to $100.0 million, with a sub-commitment for a $35.0 million letter of credit and a sub-commitment for $20.0 million of swingline loans. Borrowings under the First Lien Credit Agreement are secured by substantially all the assets of the borrower subsidiary and its guarantors. The term loan proceeds were primarily used for retiring our prior first lien credit agreement and paying cash dividends related to our 2018 recapitalization. As of September 26, 2020, we had standby letters of credit outstanding totaling $3.5 million under the First Lien Credit Agreement.

Term Loans

The First Lien Credit Agreement permits voluntary prepayment on borrowings without premium or penalty. In connection with the closing of our IPO, we prepaid $248.0 million of principal and $3.8 million of interest on the outstanding term loan under the First Lien Credit Agreement on June 24, 2019 and elected to apply the prepayment against the remaining principal installments in the direct order of maturity. No further principal payment on the term loan will be due until the maturity date of this term loan. The terms of the First Lien Credit Agreement include mandatory prepayment requirements on the term loan if certain conditions are met (as described in the First Lien Credit Agreement).

First Incremental Agreement — On July 23, 2019, GOBP Holdings together with another of our wholly owned subsidiaries entered into an incremental agreement (the "First Incremental Agreement") to amend the First Lien Credit Agreement. The First Incremental Agreement refinanced the term loan outstanding under the First Lien Credit Agreement with a replacement $475.2 million senior secured term loan (the "First Replacement Term Loan") with an applicable margin of 3.50% or 3.25% for Eurodollar loans and 2.50% or 2.25% for base rate loans, in each case depending on the public corporate family rating of GOBP Holdings. The First Replacement Term Loan matured on October 22, 2025, which was the same maturity date as the prior term loan under the First Lien Credit Agreement. We wrote off debt issuance costs of $0.3 million and incurred debt modification costs of $0.2 million during the third quarter of fiscal 2019 in connection with this refinance. On October 23, 2019, we prepaid $15.0 million of principal on the First Replacement Term Loan.

Second Incremental Agreement — On January 24, 2020, GOBP Holdings together with another of our wholly owned subsidiaries, entered into a second incremental agreement (the "Second Incremental Agreement") which amended the First Incremental Agreement. The Second Incremental Agreement refinanced the First Replacement Term loan under the First Incremental Agreement with a replacement $460.0 million senior secured term loan (the "Second Replacement Term Loan") with an applicable margin of 2.75% for Eurodollar loans and 1.75% for base rate loans, in each case depending on the public corporate family rating of GOBP Holdings, and made certain other corresponding technical changes and updates to the First Incremental Agreement. The interest rate on the Second Replacement Term Loan was 2.90% as of September 26, 2020. The Second Replacement Term Loan matures on October 22, 2025, which is the same maturity date as prior term loans under the First Lien Credit Agreement and First Incremental Agreement. We wrote off debt issuance costs of $0.1 million and incurred debt modification costs of $0.1 million during the first quarter of fiscal 2020 in connection with this refinance.

Other than as described above, the Second Replacement Term Loan has the same terms as provided under the original First Lien Credit Agreement and the First Incremental Agreement. Additionally, the parties to the Second Incremental Agreement continue to have the same obligations set forth in the original First Lien Credit Agreement and the First Incremental Agreement (collectively, the "First Lien Credit Agreement").

Revolving Credit Facility

We are required to pay a quarterly commitment fee ranging from 0.25% to 0.50% on the daily unused amount of the commitment under the revolving credit facility based upon the leverage ratio defined in the agreement and certain criteria specified in the agreement. We are also required to pay fronting fees and other customary fees for letters of credit issued under the revolving credit facility. On March 19, 2020, we borrowed $90.0 million under the revolving credit facility of our First Lien Credit Agreement (the "Revolving Credit Facility Loan"), the proceeds of which were to be used as reserve funding for working capital needs as a precautionary measure in light of the economic uncertainty surrounding the COVID-19 pandemic. On May 26, 2020, we repaid the Revolving Credit Facility Loan in full. As of September 26, 2020, we had $96.5 million of borrowing capacity available under the revolving credit facility.

Debt Covenants

The First Lien Credit Agreement contains certain customary representations and warranties, subject to limitations and exceptions, and affirmative and customary covenants. The First Lien Credit Agreement has the ability to restrict us from entering into certain types of transactions and making certain types of payments including dividends and stock repurchase and other similar distributions, with certain exceptions. Additionally, the revolving credit facility under our First Lien Credit Agreement is subject to a first lien secured leverage ratio (as defined in the First Lien Credit Agreement) of 7.00 to 1.00.

As of September 26, 2020, we were in compliance with all applicable financial covenant requirements for our First Lien Credit Agreement.

Schedule of Principal Maturities

Principal maturities of debt as of September 26, 2020 were as follows (in thousands):

Remainder of fiscal 2020	$ 68
Fiscal 2021	—
Fiscal 2022	—
Fiscal 2023	—
Fiscal 2024	—
Thereafter	460,000
Total	$ 460,068

Interest Expense

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

	13 Weeks Ended		39 Weeks Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Interest on loans	$ 4,533	$ 7,220	$ 15,321	$ 38,476
Amortization of debt issuance costs	564	533	1,684	1,828
Interest on finance leases	98	68	285	192
Other	12	—	25	7
Interest income	(374)	(479)	(1,378)	(1,271)
Interest expense, net	$ 4,833	$ 7,342	$ 15,937	$ 39,232

Debt Extinguishment and Modification Costs

Debt extinguishment and modification costs consisted of following (in thousands):

	13 Weeks Ended		39 Weeks Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Write off of debt issuance costs	$ —	$ 322	$ 74	$ 4,110
Debt modification costs	—	150	124	150
Write off of loan discounts	—	—	—	1,374
Debt extinguishment and modification costs	$ —	$ 472	$ 198	$ 5,634

Note 5. Share-based Awards

Share-based Incentive Plans

The Globe Holding Corp. 2014 Stock Incentive Plan (the "2014 Plan") became effective on October 21, 2014. Under the 2014 Plan, we granted stock options and restricted stock units ("RSUs") to purchase shares of our common stock. Effective as of June 19, 2019, we terminated the 2014 Plan and as a result no further equity awards may be issued under the 2014 Plan. Any outstanding awards granted under the 2014 Plan will remain subject to the terms of the 2014 Plan and the applicable equity award agreements.

On June 4, 2019, our board of directors and stockholders approved the Grocery Outlet Holding Corp. 2019 Incentive Plan (the "2019 Plan"). A total of 4,597,862 shares of common stock were reserved for issuance under the 2019 Plan at that time. In addition, on the first day of each fiscal year beginning in fiscal 2020 and ending in fiscal 2029, the 2019 Plan provides for an annual automatic increase of the shares reserved for issuance in an amount equal to the positive difference between (i) 4% of the outstanding common stock on the last day of the immediately preceding fiscal year and (ii) the plan share reserve on the last day of the immediately preceding fiscal year, or a lesser number as determined by our board of directors. As of September 26, 2020, there were a total of 5,057,940 shares of common stock reserved for issuance under the 2019 Plan, which includes 460,078 shares added effective December 29, 2019 per the above noted automatic increase. As of September 26, 2020, there were 3,074,684 shares available for issuance under the 2019 Plan.

On April 28, 2020, the Compensation Committee approved a long-term incentive program (the "LTIP") under the 2019 Plan consisting of time-based restricted stock units ("RSUs") and performance-based restricted stock units ("PSUs"). RSUs granted under the LTIP generally vest over three years. Half of the total PSUs granted under the LTIP will vest upon the achievement of certain revenue-based performance targets ("Tranche I PSUs") and half will vest upon the achievement of certain adjusted EBITDA-based performance targets ("Tranche II PSUs") as determined by the Compensation Committee following the last day of the three-year performance period from December 29, 2019 to December 31, 2022. The number of PSUs ultimately earned will equal the number of Tranche I and Tranche II PSUs granted multiplied by the applicable percentage of actual revenue and adjusted-EBITDA performance target levels achieved, and can range from 0% to 200% of the number of PSUs granted based on the following performance levels and percentages: below minimum (0%); minimum (50%); target (100%); maximum (200%); above maximum (200%). Actual performance achievement percentages that fall between the minimum and target performance levels and the target and maximum performance levels will be determined using linear interpolation.

Fair Value Determination

The fair value of stock option, RSU and PSU awards is determined as of the grant date. For time-based stock options, a Black-Scholes valuation model is utilized to estimate the fair value of the awards. For performance-based stock options, a Monte Carlo simulation approach implemented in a risk-neutral framework is utilized to estimate the fair value of the awards. For RSUs and PSUs, the closing price of our common stock as reported on the grant date is utilized to estimate the fair value of the awards.

We determine the input assumptions for the Black-Scholes stock option valuation model as follows:

- Expected term — The expected term represents the period that a stock option award is expected to be outstanding. We have limited historical exercise data from which to derive expected term input assumptions. Consequently, we calculate expected term using the SEC simplified method whereby the expected term of a stock option award is equal to the average of the award's contractual term and vesting term.
- Volatility — We have limited historical data from which to derive stock price volatility input assumptions. Consequently, we estimate stock price volatility for our common stock by taking the average historic price volatility for industry peers based on daily price observations over a period equivalent to the expected term of the stock option award. Industry peers consist of several public companies in our industry which are of similar size, complexity and stage of development.
- Risk-free interest rate — The risk-free interest rate is based on the U.S. Treasury yield curve in effective on a stock option award's grant date for U.S Treasury securities with maturities that approximate the expected term of the stock option award.
- Dividend yield — Dividend yield is assumed to be zero as we have not paid and do not expect to pay cash dividends on our common shares issued subsequent to our IPO.

Grant Activity

The following table summarizes our stock option activity under all equity incentive plans during the 39 weeks ended September 26, 2020:

	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 28, 2019	6,243,667	$	10.57	5,777,121	$	4.57
Granted	—		—	—		—
Exercised	(1,837,303)		7.32	(2,977,972)		4.59
Forfeitures	(51,624)		20.60	(13,071)		16.47
Options outstanding as of September 26, 2020	4,354,740	$	11.83	2,786,078	$	4.50
Options vested and expected to vest as of September 26, 2020	4,354,740	$	11.83	2,786,078	$	4.50
Options exercisable as of September 26, 2020	2,736,211	$	7.34	2,786,078	$	4.50

The following table summarizes our RSU activity under all equity incentive plans during the 39 weeks ended September 26, 2020:

	Number of Shares		Weighted-Average Grant Date Fair Value
Unvested balance as of December 28, 2019	190,872	$	22.89
Granted	276,654		37.05
Vested	(92,986)		21.80
Forfeitures	(10,551)		31.60
Unvested balance as of September 26, 2020	363,989	$	33.68

The following table summarizes our PSU activity under the 2019 Plan during the 39 weeks ended September 26, 2020:

	Number of Shares		Weighted-Average Grant Date Fair Value
Unvested balance as of December 28, 2019	—	$	—
Granted (1)	272,640		36.90
Adjustment for expected performance achievement (2)	135,909		36.90
Vested	—		—
Forfeitures	(823)		36.88
Unvested balance as of September 26, 2020	407,726	$	36.90

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

(2) Represents the adjustment to previously granted PSUs based on current performance expectations. An additional 135,909 PSUs could potentially be included if the maximum performance level is reached.

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.

Time-Based Stock Options

We did not record compensation expense for time-based stock option grants prior to the closing of our IPO because such time-based options were subject to a post-termination repurchase right by us until certain contingent events such as involuntary termination, a change in control, or an initial public offering occurred, and such contingent events were not deemed probable during any interim or fiscal period prior to our IPO. As a result of this repurchase right feature, other than in limited circumstances, stock issued upon the exercise of these options could be repurchased at our discretion at the lower of fair value or the applicable exercise price. The repurchase right feature lapsed upon the closing of our IPO on June 24, 2019 (the "IPO closing date"). Subsequent to the IPO closing date, we recognized share-based compensation expense for prior service completed as of the IPO closing date and began recognizing the remaining unamortized share-based compensation expense related to these outstanding time-based stock options over the remaining service period.

During the 13 weeks ended September 26, 2020 and September 28, 2019, we recognized $0.7 million and $1.9 million, respectively, of share-based compensation expense for time-based stock options. During the 39 weeks ended September 26, 2020 and September 28, 2019, we recognized $2.2 million and $24.4 million, respectively, of share-based compensation expense for time-based stock options. Unamortized compensation cost related to unvested time-based stock options was $7.5 million as of September 26, 2020, $6.5 million of which relates to time-based stock options granted at the time of our IPO. The $7.5 million of unamortized compensation cost is expected to be amortized over a weighted average period of approximately 2.74 years.

Performance-Based Stock Options

We did not record compensation expense for performance-based stock options during the 13 and 39 weeks ended September 28, 2019 because the performance criteria of such awards had not been achieved and the ultimate vesting of the awards was not considered probable as of September 28, 2019. On February 3, 2020 and April 27, 2020, certain selling stockholders completed secondary public offerings of shares of our common stock. In conjunction with these secondary offerings, certain performance criteria were achieved resulting in the vesting of 4.1 million and 1.7 million performance-based stock options, respectively, and the recognition of $18.5 million and $7.6 million, respectively, of share-based compensation expense associated with the vesting of these performance-based stock options. As of September 26, 2020, all outstanding performance-based stock options are fully vested and fully expensed.

Time-Based Restricted Stock Units

During the 13 weeks ended September 26, 2020 and September 28, 2019, we recognized $1.3 million and $0.9 million, respectively, of share-based compensation expense for RSUs held by employees and non-employee directors. During the 39 weeks ended September 26, 2020 and September 28, 2019, we recognized $3.5 million and $1.2 million, respectively, of share-based compensation expense for RSUs held by employees and non-employee directors. Unamortized compensation cost related to unvested RSUs was $9.8 million as of September 26, 2020, which is expected to be amortized over a weighted average period of approximately 2.45 years.

Performance-Based Restricted Stock Units

During the 13 and 39 weeks ended September 26, 2020 we recognized $1.7 million and $2.1 million, respectively, of share-based compensation expense for PSUs, which represents the expense associated with the expected level of performance achievement as of September 26, 2020. There were no such amounts recognized in the comparable prior year periods as PSUs only began being granted during fiscal 2020. Unamortized compensation cost related to the expected level of achievement of unvested PSUs was $12.9 million as of September 26, 2020, which is expected to be amortized over a weighted average period of approximately 2.25 years.

Dividends

For time-based stock options and RSUs that were outstanding on the dividend dates of June 23, 2016 and October 22, 2018 and that are expected to vest during fiscal 2020 and beyond, we intend to make dividend payments as these time-based stock options and RSUs vest. Pursuant to the 2014 Plan, if we are unable to make those payments, we may instead elect to reduce the per share exercise price of each such time-based stock option by an amount equal to the dividend amount in lieu of making the applicable dividend payment. As such, our dividends are not considered declared and payable and are not accrued as a liability in our condensed consolidated balance sheets as of September 26, 2020. We paid an immaterial amount of cash dividends on vested time-based stock options and RSUs during the 13 and 39 weeks ended September 26, 2020 and September 28, 2019, respectively, which was included in share-based compensation expense for those respective periods. Unamortized compensation cost related to future dividend payments on unvested time-based stock options and RSU share-based awards was approximately $0.5 million as of September 26, 2020.

Note 6. Income Taxes

Our income tax expense (benefit) and effective income tax rate were as follows (dollars in thousands):

	13 Weeks Ended		39 Weeks Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Income tax expense (benefit)	$ (14,992)	$ 3,689	$ (19,037)	$ 886
Effective income tax rate	(58.8)%	22.9 %	(30.0)%	13.7 %

The decrease in our effective income tax rate for the 13 and 39 weeks ended September 26, 2020 compared to the corresponding periods in fiscal 2019 was primarily due to excess tax benefits related to the exercise of stock options and vesting of employee restricted stock units. Our effective income tax rate for the 13 and 39 weeks ended September 26, 2020 and 39 weeks ended September 28, 2019 is lower than the U.S. statutory income tax rate of 21% primarily due to excess tax benefits related to the exercise of stock options and the vesting of employee restricted stock units. Our effective income tax rate for the 13 weeks ended September 28, 2019 is higher than the U.S. statutory income tax rate of 21% primarily due to state income taxes and permanently nondeductible expenses.

Based on our current assessment of future taxable income, including available tax planning opportunities, we anticipate that it is more likely than not that we will generate sufficient taxable income to realize all of our material deferred tax assets. As such, we did not record a valuation allowance against these material deferred tax assets as of September 26, 2020 and December 29, 2019.

Our policy is to include interest and penalties associated with uncertain tax positions within income tax expense 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 in our condensed consolidated statements of operations and comprehensive income, nor have we accrued for or made payments for interest and penalties. As of September 26, 2020 and December 28, 2019, we had no uncertain tax positions and do not anticipate any changes to our uncertain tax positions within the next 12 months.

Note 7. Related Party Transactions

Related Party Leases

We leased property from entities affiliated with certain of our non-controlling stockholders for 15 store locations and one warehouse location as of September 26, 2020 and for 16 store locations and one warehouse location as of September 28, 2019. These entities received aggregate lease payments from us of $1.5 million for each of the 13 weeks ended September 26, 2020 and September 28, 2019, and $4.5 million and $4.6 million for the 39 weeks ended September 26, 2020 and September 28, 2019, respectively.

During April 2020, we entered into an aircraft dry lease agreement (the “aircraft lease”) with an entity controlled by our Chief Executive Officer, Mr. Lindberg, to lease a Pilatus PC-12 aircraft. We believe that this agreement provides us better access to visit our stores, many of which are in remote areas or are not easily accessible by car or regular commercial airline service, and to visit prospective real estate sites. The aircraft lease gives us the ability to use the aircraft in the course of our operations on an as-needed, non-exclusive basis. The aircraft lease provides that we pay an hourly lease rate and we bear all direct operating costs associated with our use of the aircraft, and the lessor bears all fixed costs (e.g. maintenance, hangar, insurance). Mr. Lindberg, to the extent that he operates the aircraft for his personal use, will bear all costs associated with his operation of the aircraft. We believe that the terms of the aircraft lease are no less favorable than could be obtained from an unrelated third party and we believe that the foregoing arrangement, including related direct operating costs, insurance and crew costs, will reduce our average hourly cost for use of private aircraft, which previously had been primarily conducted through charter arrangements. Operating lease costs related to the aircraft lease are included in selling, general and administrative expenses, and were immaterial for the 13 and 39 weeks ended September 26, 2020 and September 28, 2019.

Independent Operator Notes and Receivables

We offer interest-bearing notes to independent operators and the gross operating notes and receivables due from these entities was $41.4 million and $37.7 million as of September 26, 2020 and December 28, 2019, 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 do not believe the impact of such litigation will have a material adverse effect on our condensed consolidated financial statements taken as a whole.

Note 9. Earnings Per Share

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

	13 Weeks Ended		39 Weeks Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Numerator				
Net income and comprehensive income	$ 40,474	$ 12,445	$ 82,449	$ 5,587
Denominator				
Weighted-average shares outstanding — basic	92,489	88,345	90,929	75,778
Effect of dilutive stock options	6,666	4,737	7,022	2,788
Effect of dilutive RSUs	111	101	82	36
Weighted-average shares outstanding — diluted [(1)]	99,266	93,183	98,033	78,602
Earnings per share :				
Basic	$ 0.44	$ 0.14	$ 0.91	$ 0.07
Diluted	$ 0.41	$ 0.13	$ 0.84	$ 0.07

(1) The diluted weighted-average shares outstanding for the 13 and 39 weeks ended September 28, 2019 did not include performance-based stock options because the requisite performance criteria of such stock options had not been achieved as of that date.

On February 3, 2020, in conjunction with a secondary offering, certain performance criteria were achieved resulting in the vesting of 4.1 million performance-based stock options, and accordingly, these vested performance-based stock options are included in the diluted weighted-average shares outstanding for the 13 and 39 weeks ended September 26, 2020.

On April 27, 2020 in conjunction with an additional secondary offering, certain performance criteria were achieved resulting in the vesting of the remaining 1.7 million unvested performance-based stock options, and accordingly, these vested performance-based stock options are included in the diluted weighted-average shares outstanding for the 13 and 39 weeks ended September 26, 2020. See Note 5 for additional information.

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

	13 Weeks Ended		39 Weeks Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Stock options	—	—	—	200
RSUs	—	—	1	17
Total	—	—	1	217

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 28, 2019 filed with the U.S. Securities and Exchange Commission (the "SEC") on March 25, 2020. 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.

We operate on a fiscal year that ends on the Saturday closest to December 31st each year. References to the third quarter of fiscal 2020 and the third quarter of fiscal 2019 refer to the 13 weeks ended September 26, 2020 and September 28, 2019, 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 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. Entrepreneurial independent operators ("IOs") run our stores and create a neighborhood feel through personalized customer service and a localized product offering. This differentiated approach has driven 16 consecutive years of positive comparable store sales growth. As of September 26, 2020, we had 372 stores in California, Washington, Oregon, Pennsylvania, Idaho and Nevada.

Initial Public Offering

On June 24, 2019, we completed our initial public offering ("IPO") of 19,765,625 shares of our common stock at a public offering price of $22.00 per share for net proceeds of $407.7 million, after deducting underwriting discounts and commissions of $27.1 million. We incurred related offering costs of $7.2 million, which we recognized as a charge to additional paid-in capital. The shares of common stock sold in the IPO and the net proceeds from the IPO included the full exercise of the underwriters' option to purchase additional shares.

In connection with the closing of our IPO, we repaid in full the $150.0 million outstanding principal amount and $3.6 million accrued interest on our second lien term loan and terminated the related loan agreement. Additionally, using the remainder of the net proceeds, together with excess cash on hand, we prepaid a portion of the term loan outstanding under our first lien credit agreement, dated as of October 22, 2018 (as amended, the "First Lien Credit Agreement") totaling $248.0 million and $3.8 million of accrued interest. On October 23, 2019, we prepaid an additional $15.0 million of principal on the term loan outstanding under our First Lien Credit Agreement.

Secondary Public Offerings

On October 8, 2019, certain of our selling stockholders completed a secondary public offering of shares of our common stock. We did not receive any of the proceeds from the sale of these shares by the selling stockholders. We incurred related offering costs of $1.1 million which we recognized in selling, general and administrative expenses during fiscal 2019. We received $3.2 million in cash (excluding withholding taxes) in connection with the exercise of 451,470 options by certain stockholders participating in this secondary public offering.

On February 3, 2020, certain of our selling stockholders completed an additional secondary public offering of shares of our common stock. We did not receive any of the proceeds from the sale of these shares by the selling stockholders. We incurred related offering costs of $1.1 million which we recognized in selling, general and administrative expenses during the first quarter of fiscal 2020. We received $1.4 million in cash (excluding withholding taxes) in connection with the exercise of 191,470 options by certain stockholders participating in this secondary public offering.

On April 27, 2020, certain of our selling stockholders completed a third secondary public offering of shares of our common stock. We did not receive any of the proceeds from the sale of these shares by the selling stockholders. We incurred related offering costs of $1.0 million which we recognized in selling, general and administrative expenses during the second quarter of fiscal 2020. We received $1.6 million in cash (excluding withholding taxes) in connection with the exercise of 269,000 options by certain stockholders participating in this secondary public offering.

On May 28, 2020, the stockholder affiliated with our former private equity sponsor, Hellman and Friedman LLC, distributed the remainder of its holdings representing 9.6 million shares of our common stock to its equity holders. We did not receive any proceeds or incur any material costs related to this distribution.

COVID-19

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus, COVID-19, a global pandemic and recommended containment and mitigation measures worldwide. As a result, many states, including states where we have significant operations, declared a state of emergency, closed schools and non-essential businesses and enacted limitations on the number of people allowed to gather at one time in the same space. As of the date of this filing, grocery stores are considered essential businesses in states and counties that have enacted requirements that residents leave their homes only for essential business (“shelter in place requirements”) and are able to continue operating. As COVID-19 has continued to spread and the situation has continued to evolve, there has been a surge of positive COVID-19 cases around the country during, and subsequent to, the third quarter of fiscal 2020 as shelter in place requirements have lapsed and other businesses have begun to reopen.

We expect that our IOs may face staffing challenges as long as school and childcare closures and COVID-19-related concerns exist. In addition, since the start of the pandemic certain inventory items such as water, beans and bread as well as key cleaning supplies and protective equipment have at times been, and may in the future again be, in short supply. These factors could impact the ability of stores to operate normal hours of operation or have sufficient inventory at all times which may disrupt our business and negatively impact our financial results. Further, planned construction and opening of new stores have been and may continue to be negatively impacted due to shelter in place requirements and the closure of government offices in certain areas. During the 39 weeks ended September 26, 2020, from time to time we had to temporarily close certain stores for cleaning after persons at those locations tested positive for COVID-19. In the event that an employee, IO, or IO employee tests positive for COVID-19, we may have to again temporarily close a store, office or distribution center for cleaning and/or quarantine one or more employees which could negatively impact our financial results. We have incurred, and expect to continue to incur, cleaning and safety costs, costs for protective equipment and supplies, and higher personnel expenses. In addition, we have incurred, and expect to continue to incur, additional expenses as a result of certain increased costs related to our IOs. For example, we are paying a portion of the costs of protective equipment and cleaning supplies for our IOs as well as reducing interest rates on outstanding IO note balances. We cannot reasonably estimate the length or severity of this pandemic, but it could have a material adverse impact on our consolidated financial position, consolidated results of operations, and consolidated cash flows in fiscal 2020. See “Item 1A. Risk Factors—Major health epidemics, such as the outbreak caused by a coronavirus (COVID-19), and other outbreaks could disrupt and adversely affect our operations, financial condition and business” for additional information.

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 GAAP 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 measures we use are number of new stores, comparable store sales, EBITDA, adjusted EBITDA and non-GAAP adjusted net income.

Third Quarter of Fiscal 2020 Overview

Key financial and operating performance results for the third quarter of fiscal 2020 were as follows:

- Net sales increased by 17.1% to $764.1 million from $652.5 million in the third quarter of fiscal 2019; comparable store sales increased by 9.1% compared to a 5.8% increase in the same period last year.
- We opened 10 new stores and closed zero, ending the third quarter of fiscal 2020 with 372 stores in six states.
- Net income increased 225.2% to $40.5 million, or $0.41 per diluted share, compared to net income of $12.4 million, or $0.13 per diluted share, in the third quarter of fiscal 2019.
- Adjusted EBITDA(1) increased 25.1% to $55.3 million compared to $44.2 million in the third quarter of fiscal 2019.
- Non-GAAP adjusted net income(1) increased 141.8% to $49.9 million, or $0.50 per non-GAAP diluted share, compared to $20.6 million, or $0.22 per non-GAAP diluted share, in the third quarter of fiscal 2019.

(1) Adjusted EBITDA, non-GAAP adjusted net income and non-GAAP adjusted diluted earnings per share are non-GAAP financial measures and should be considered as a supplement to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. See GAAP to non-GAAP reconciliations in the “Operating Metrics and Non-GAAP Financial Measures” section below for additional information.

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 sales as the products are sold. Discounts that are funded solely by IOs are not recognized as a reduction in sales as the IO bears the incidental costs arising from the discount. We do not accept manufacturer coupons. Sales consist of sales from comparable stores and non-comparable stores, described below under “Comparable Store Sales.” Growth of our sales is generally driven by expansion of our store base in existing and new markets as well as comparable store sales growth. Sales are impacted by the spending habits of our customers, product mix and availability, as well as promotional and competitive activities. Our ever-changing selection of offerings across diverse product categories supports growth in sales by attracting new customers and encouraging repeat visits from our existing customers. The spending habits of our customers are subject to changes in macroeconomic conditions, such as those experienced beginning in March 2020 due to the COVID-19 pandemic, and changes in discretionary income. Our customers’ discretionary income is primarily 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 we have 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 and transportation, distribution and warehousing costs, including depreciation. Gross profit is equal to our sales less our cost of sales. Gross margin is gross profit as a percentage of our 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 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, rapid changes in consumer demand like we experienced at the beginning of the COVID-19 pandemic could result in unexpected changes to our gross margins. The components of our cost of sales may not be comparable to the components of cost of sales or similar measures of our competitors and other retailers. As a result, our gross profit and gross margin may not be comparable to similar data made available by our competitors and other retailers.

Selling, General and Administrative Expenses

SG&A expenses are comprised of both store-related expenses and corporate expenses. Store-related expenses include commissions paid to IOs, occupancy and shared maintenance costs, Company-operated store expenses, including payroll, benefits, supplies and utilities and the cost of opening new IO stores. Corporate expenses include payroll and benefits for corporate and field support, marketing and advertising, insurance and professional services and recruiting and training costs associated with our Aspiring Operators in Training program. SG&A generally increases as we grow our store base and invest in our corporate infrastructure. SG&A expenses related to commissions paid to IOs are variable in nature and generally increase as gross profits rise and decrease as gross profits decline. The remainder of our expenses are primarily fixed in nature. We continue to closely manage our expenses and monitor SG&A as a percentage of sales. The components of our SG&A may not be comparable to the components of similar measures of other retailers. We expect that our SG&A will continue to increase in future periods as we continue to grow our sales revenue.

Operating Income

Operating income is gross profit less SG&A, depreciation and amortization and share-based compensation. Operating income excludes interest expense, net, debt extinguishment and modification costs 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 sales (amounts in thousands, except for percentages):

	13 Weeks Ended		39 Weeks Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Net sales	$ 764,082	$ 652,540	$ 2,327,819	$ 1,904,100
Cost of sales	525,899	451,453	1,598,859	1,317,276
Gross profit	238,183	201,087	728,960	586,824
Operating expenses:				
Selling, general and administrative	189,880	161,047	574,813	471,542
Depreciation and amortization	14,131	13,200	40,291	38,090
Share-based compensation	3,857	2,892	34,309	25,853
Total operating expenses	207,868	177,139	649,413	535,485
Income from operations	30,315	23,948	79,547	51,339
Other expenses:				
Interest expense, net	4,833	7,342	15,937	39,232
Debt extinguishment and modification costs	—	472	198	5,634
Total other expenses	4,833	7,814	16,135	44,866
Income before income taxes	25,482	16,134	63,412	6,473
Income tax expense (benefit)	(14,992)	3,689	(19,037)	886
Net income and comprehensive income	$ 40,474	$ 12,445	$ 82,449	$ 5,587

	13 Weeks Ended		39 Weeks Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Percentage of Sales [(1)]				
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	68.8 %	69.2 %	68.7 %	69.2 %
Gross profit	31.2 %	30.8 %	31.3 %	30.8 %
Operating expenses:				
Selling, general and administrative	24.9 %	24.7 %	24.7 %	24.8 %
Depreciation and amortization	1.8 %	2.0 %	1.7 %	2.0 %
Share-based compensation	0.5 %	0.4 %	1.5 %	1.4 %
Total operating expenses	27.2 %	27.1 %	27.9 %	28.1 %
Income from operations	4.0 %	3.7 %	3.4 %	2.7 %
Other expenses:				
Interest expense, net	0.6 %	1.1 %	0.7 %	2.1 %
Debt extinguishment and modification costs	— %	0.1 %	— %	0.3 %
Total other expenses	0.6 %	1.2 %	0.7 %	2.4 %
Income before income taxes	3.3 %	2.5 %	2.7 %	0.3 %
Income tax expense (benefit)	(2.0)%	0.6 %	(0.8)%	— %
Net income and comprehensive income	5.3 %	1.9 %	3.5 %	0.3 %

(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 during a particular reporting period. New stores require an initial capital investment in the store build-outs, fixtures and equipment which we amortize over time as well as cash required for inventory and pre-opening expenses.

We expect new store growth to be the primary driver of our 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 sales.

Comparable store sales consists of 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. 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 closed for an extended period as well as any planned store closures or dispositions. When applicable, as it will be in fiscal 2020, we exclude the sales in the non-comparable week of a 53-week year from the same store sales calculation.

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

EBITDA, Adjusted EBITDA and Non-GAAP Adjusted Net Income

EBITDA, adjusted EBITDA and non-GAAP adjusted net income are key metrics used by management and our board of directors to assess our financial performance. EBITDA, adjusted EBITDA and non-GAAP adjusted net income are also frequently used by analysts, investors and other interested parties to evaluate companies in our industry. We use EBITDA, adjusted EBITDA and non-GAAP adjusted net income 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 EBITDA to supplement GAAP measures of performance to evaluate our performance in connection with compensation decisions. 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 believe that excluding items from operating income, net income and net income 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 a better baseline 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, purchase accounting inventory adjustments, debt extinguishment and modification costs, non-cash rent, asset impairment and gain or loss on disposition, new store pre-opening expenses, dead rent for acquired leases, provision for accounts receivable reserves and certain other expenses. Non-GAAP adjusted net income represents net income adjusted for the previously mentioned EBITDA adjustments, further adjusted for costs related to amortization of purchase accounting assets and deferred financing costs and tax effect of total adjustments. EBITDA, adjusted EBITDA and non-GAAP adjusted net income are non-GAAP measures and may not be comparable to similar measures reported by other companies. EBITDA, adjusted EBITDA and non-GAAP adjusted net income 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 may incur expenses or charges such as those added back to calculate adjusted EBITDA or non-GAAP adjusted net income. Our presentation of adjusted EBITDA and non-GAAP adjusted net income should not be construed as an inference that our future results will be unaffected by the adjustments we have used to derive our non-GAAP measures.

The following table summarizes key operating metrics and non-GAAP components of our results of operations (amounts in thousands, except for percentages and store counts):

	13 Weeks Ended		39 Weeks Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Other Financial and Operations Data				
Number of new stores	10	8	27	24
Number of stores open at end of period	372	337	372	337
Comparable store sales growth (1)	9.1 %	5.8 %	14.3 %	5.3 %
EBITDA (2)	$ 45,111	$ 37,258	$ 121,602	$ 85,492
Adjusted EBITDA (2)	$ 55,277	$ 44,176	$ 172,948	$ 128,306
Non-GAAP adjusted net income (2)	$ 49,913	$ 20,639	$ 125,771	$ 45,047

(1) Comparable store sales consist of 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.

(2) See "GAAP to Non-GAAP Reconciliations" section below for a reconciliation from our net income to EBITDA and adjusted EBITDA, net income to non-GAAP adjusted net income, and GAAP to non-GAAP earnings per share for the periods presented.

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 non-GAAP adjusted net income, and our GAAP to non-GAAP earnings per share:

	13 Weeks Ended		39 Weeks Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Net income	$ 40,474	$ 12,445	$ 82,449	$ 5,587
Interest expense, net	4,833	7,342	15,937	39,232
Income tax expense (benefit)	(14,992)	3,689	(19,037)	886
Depreciation and amortization expenses (a)	14,796	13,782	42,253	39,787
EBITDA	45,111	37,258	121,602	85,492
Share-based compensation expenses (b)	3,857	2,892	34,309	25,853
Debt extinguishment and modification costs (c)	—	472	198	5,634
Non-cash rent (d)	2,675	1,629	7,648	5,307
Asset impairment and gain or loss on disposition (e)	205	85	1,158	500
New store pre-opening expenses (f)	502	294	1,245	1,036
Provision for accounts receivable reserves (g)	372	309	321	2,373
Other (h)	2,555	1,237	6,467	2,111
Adjusted EBITDA	$ 55,277	$ 44,176	$ 172,948	$ 128,306

	13 Weeks Ended		39 Weeks Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Net income	$ 40,474	$ 12,445	$ 82,449	$ 5,587
Share-based compensation expenses (b)	3,857	2,892	34,309	25,853
Debt extinguishment and modification costs (c)	—	472	198	5,634
Non-cash rent (d)	2,675	1,629	7,648	5,307
Asset impairment and gain or loss on disposition (e)	205	85	1,158	500
New store pre-opening expenses (f)	502	294	1,245	1,036
Provision for accounts receivable reserves (g)	372	309	321	2,373
Other (h)	2,555	1,237	6,467	2,111
Amortization of purchase accounting assets and deferred financing costs (i)	2,943	3,705	8,823	11,456
Tax effect of total adjustments (j)	(3,670)	(2,429)	(16,847)	(14,810)
Non-GAAP adjusted net income	$ 49,913	$ 20,639	$ 125,771	$ 45,047
GAAP earnings per share				
Basic	$ 0.44	$ 0.14	$ 0.91	$ 0.07
Diluted	$ 0.41	$ 0.13	$ 0.84	$ 0.07
Non-GAAP adjusted earnings per share				
Basic	$ 0.54	$ 0.23	$ 1.38	$ 0.59
Diluted	$ 0.50	$ 0.22	$ 1.28	$ 0.57
GAAP weighted average shares outstanding				
Basic	92,489	88,345	90,929	75,778
Diluted	99,266	93,183	98,033	78,602
Non-GAAP weighted average shares outstanding				
Basic	92,489	88,345	90,929	75,778
Diluted	99,266	93,183	98,033	78,602

(a) Includes depreciation related to our distribution centers which is included within the cost of sales line item in our condensed consolidated statements of operations and comprehensive income. See Note 1 to the condensed consolidated financial statements for additional information about the components of cost of sales.

(b) Includes non-cash share-based compensation expense and immaterial cash dividends paid on vested share-based awards for cash dividends declared in connection with our recapitalizations in fiscal 2018 and 2016. See “Share-based Compensation Expense” in the “Comparison of the 13 and 39 weeks ended September 26, 2020 and September 28, 2019” section below for additional information.

(c) Represents the write-off of debt issuance costs and debt discounts related to the repricing and/or repayment of our credit facilities. See Note 4 to the condensed consolidated financial statements for additional information.

(d) Consists of the non-cash portion of rent expense, which represents the difference between our straight-line rent expense recognized under GAAP and cash rent payments. The adjustment can vary depending on the average age of our lease portfolio, which has been impacted by our significant growth in recent years.

(e) Represents impairment charges with respect to planned store closures and gains or losses on dispositions of assets in connection with store transitions to new IOs.

(f) Includes marketing, occupancy and other expenses incurred in connection with store grand openings, including costs that will be the IO’s responsibility after store opening.

(g) Represents non-cash changes in reserves related to our IO notes and accounts receivable. The 39 weeks ended September 26, 2020 reflects the adoption of ASU 2016-13. See Note 2 to the condensed consolidated financial statements for additional information.

(h) Other non-recurring, non-cash or discrete items, such as transaction related costs including costs related to employer payroll taxes associated with equity awards, secondary offerings, store closing costs, personnel-related costs, legal expenses, strategic project costs, and miscellaneous costs.

(i) Represents the amortization of debt issuance costs and incremental amortization of an asset step-up resulting from purchase price accounting related to our acquisition in 2014 by an investment fund affiliated with Hellman & Friedman LLC, which included trademarks, customer lists, and below-market leases.

(j) Represents the tax effect of the total adjustments. Because of the increased impact of discrete items on our effective tax rate including the excess tax benefits from the exercise of stock options and vesting of RSU share-based awards, beginning in the fourth quarter of fiscal 2019, we changed our methodology to calculate the tax effect of the total adjustments on a discrete basis excluding any non-recurring and unusual tax items. Prior to the fourth quarter of fiscal 2019, the methodology we used was to calculate the tax effect of the total adjustments using our quarterly effective tax rate.

Comparison of the 13 and 39 weeks ended September 26, 2020 and September 28, 2019 (dollars in thousands)

Net Sales

	13 Weeks Ended				39 Weeks Ended			
	September 26, 2020	September 28, 2019	$ Change	% Change	September 26, 2020	September 28, 2019	$ Change	% Change
Net sales	$ 764,082	$ 652,540	$ 111,542	17.1 %	$ 2,327,819	$ 1,904,100	$ 423,719	22.3 %

The increase in net sales for the 13 and 39 weeks ended September 26, 2020 compared to the same periods in fiscal 2019 was primarily attributable to an increase in comparable store sales, as well as non-comparable store sales growth attributable to the net 35 new stores opened over the last 12 months.

Comparable store sales increased 9.1% for the 13 weeks ended September 26, 2020 and 14.3% for the 39 weeks ended September 26, 2020 compared to the same periods in fiscal 2019. Comparable store sales growth was driven by increases in average transaction size partially offset by traffic declines, as customer shopping behaviors changed in response to COVID-19.

Cost of Sales

	13 Weeks Ended				39 Weeks Ended			
	September 26, 2020	September 28, 2019	$ Change	% Change	September 26, 2020	September 28, 2019	$ Change	% Change
Cost of sales	$ 525,899	$ 451,453	$ 74,446	16.5 %	$ 1,598,859	$ 1,317,276	$ 281,583	21.4 %
% of net sales	68.8 %	69.2 %			68.7 %	69.2 %		

The increase in cost of sales for the 13 and 39 weeks ended September 26, 2020 compared to the same periods in fiscal 2019 was primarily the result of new store growth and an increase in comparable store sales.

Costs as a percentage of sales decreased due in large part to reduced product markdowns and throwaways resulting from faster inventory turnover as well as lower freight expense to stores. We expect that cost of sales will increase for the remainder of the year as a result of commodity cost pressures, moderating inventory turnover and seasonal product mix impacts.

Gross Profit and Gross Margin

	13 Weeks Ended				39 Weeks Ended			
	September 26, 2020	September 28, 2019	$ Change	% Change	September 26, 2020	September 28, 2019	$ Change	% Change
Gross profit	$ 238,183	$ 201,087	$ 37,096	18.4 %	$ 728,960	$ 586,824	$ 142,136	24.2 %
Gross margin	31.2 %	30.8 %			31.3 %	30.8 %		

The increase in gross profit for the 13 and 39 weeks ended September 26, 2020 compared to the same periods in fiscal 2019 was primarily the result of new store growth and an increase in comparable store sales. Our gross margin increased modestly for the 13 and 39 weeks ended September 26, 2020 compared to the same period in fiscal 2019 primarily due to lower cost of sales as a percentage of sales as discussed previously.

Selling, General and Administrative Expenses ("SG&A")

	13 Weeks Ended				39 Weeks Ended			
	September 26, 2020	September 28, 2019	$ Change	% Change	September 26, 2020	September 28, 2019	$ Change	% Change
SG&A	$ 189,880	$ 161,047	$ 28,833	17.9 %	$ 574,813	$ 471,542	$ 103,271	21.9 %
% of net sales	24.9 %	24.7 %			24.7 %	24.8 %		

The increase in SG&A for the 13 and 39 weeks ended September 26, 2020 compared to the same periods in fiscal 2019 was primarily driven by increased selling expenses related to higher sales volume. These increased expenses consisted primarily of variable commission payments to IOs, store occupancy and maintenance costs, as well as investments in general and administrative infrastructure to support the growth of our business. SG&A has also increased as a result of incremental costs associated with COVID-19 such as cleaning and safety costs, costs for protective equipment and supplies, and higher personnel expense in addition to costs to comply with public company requirements and expenses associated with our secondary offerings.

As a percentage of sales, SG&A increased slightly for the 13 weeks ended September 26, 2020 compared to the same period in fiscal 2019 due to the factors noted above while it remained relatively flat for the 39 weeks ended September 26, 2020 as compared to the same period in fiscal 2019.

Depreciation and Amortization Expense

	13 Weeks Ended				39 Weeks Ended			
	September 26, 2020	September 28, 2019	$ Change	% Change	September 26, 2020	September 28, 2019	$ Change	% Change
Depreciation and amortization	$ 14,131	$ 13,200	$ 931	7.1 %	$ 40,291	$ 38,090	$ 2,201	5.8 %
% of net sales	1.8 %	2.0 %			1.7 %	2.0 %		

The increase in depreciation and amortization expenses for the 13 and 39 weeks ended September 26, 2020 compared to the same periods in fiscal 2019 is primarily driven by new store growth and other capital investments.

Share-based Compensation Expense

	13 Weeks Ended				39 Weeks Ended			
	September 26, 2020	September 28, 2019	$ Change	% Change	September 26, 2020	September 28, 2019	$ Change	% Change
Share-based compensation	$ 3,857	$ 2,892	$ 965	33.4 %	$ 34,309	$ 25,853	$ 8,456	32.7 %
% of net sales	0.5 %	0.4 %			1.5 %	1.4 %		

The increase in share-based compensation expenses for the 13 weeks ended September 26, 2020 compared to the same period in fiscal 2019 was primarily driven by adjustments to reflect current performance expectations related to previously granted PSUs. For the 39 weeks ended September 26, 2020, share-based compensation expenses were primarily comprised of $26.1 million in expense related to 5.8 million performance-based stock options that vested in conjunction with the closing of the February 3, 2020 and April 27, 2020 secondary offerings. For the 39 weeks ended September 28, 2019, share-based compensation expenses were driven largely by $23.7 million in expense related to time-based options granted prior to the IPO on June 24, 2019. See Note 5 to the condensed consolidated financial statements for additional information.

Interest Expense, Net

	13 Weeks Ended				39 Weeks Ended			
	September 26, 2020	September 28, 2019	$ Change	% Change	September 26, 2020	September 28, 2019	$ Change	% Change
Interest expense, net	$ 4,833	$ 7,342	$ (2,509)	(34.2)%	$ 15,937	$ 39,232	$ (23,295)	(59.4)%
% of net sales	0.6 %	1.1 %			0.7 %	2.1 %		

The decrease in net interest expense for the 13 and 39 weeks ended September 26, 2020 compared to the same periods in fiscal 2019 was primarily driven by lower total borrowings under our First Lien Credit Agreement and the repayment in full of our Second Lien Credit Agreement in June 2019. See Note 4 to the condensed consolidated financial statements for additional information.

Debt Extinguishment and Modification Costs

	13 Weeks Ended				39 Weeks Ended			
	September 26, 2020	September 28, 2019	$ Change	% Change	September 26, 2020	September 28, 2019	$ Change	% Change
Debt extinguishment and modification costs	$ —	472	$ (472)	(100.0)%	$ 198	5,634	$ (5,436)	(96.5)%
% of net sales	0.0 %	0.1 %			0.0 %	0.3 %		

During the 39 weeks ended September 26, 2020, we wrote off $0.1 million of debt issuance costs and incurred $0.1 million of debt modification costs related to the repricing and amendment of our First Lien Credit Agreement. During the 13 weeks ended September 28, 2019 we wrote off approximately $0.3 million of debt issuance costs and incurred $0.2 million of debt modification costs related to the repricing and amendment of our First Lien Credit Agreement. During the 39 weeks ended September 28, 2019, we wrote off $4.1 million of debt issuance costs and $1.4 million of unamortized loan discounts and incurred $0.2 million of debt modification costs related to the repayment in full of our Second Lien Term Loan and termination of the related loan agreement. See Note 4 to the condensed consolidated financial statements for additional information.

Income Tax Expense (Benefit)

	13 Weeks Ended				39 Weeks Ended			
	September 26, 2020	September 28, 2019	$ Change	% Change	September 26, 2020	September 28, 2019	$ Change	% Change
Income tax expense (benefit)	$ (14,992)	$ 3,689	$ (18,681)	(506.4)%	$ (19,037)	$ 886	$ (19,923)	(2,248.6)%
% of net sales	(2.0)%	0.6 %			(0.8)%	— %		
Effective tax rate	(58.8)%	22.9 %			(30.0)%	13.7 %		

During the 13 and 39 weeks ended September 26, 2020, we recorded a net income tax benefit of $15.0 million and $19.0 million, respectively, compared to a net income tax expense of $3.7 million and $0.9 million for the 13 and 39 weeks ended September 28, 2019, respectively. This change was primarily the result of excess tax benefits in the current year related to the exercise of stock options and vesting of employee restricted stock units. Such excess tax benefits totaled $21.9 million and $36.5 million for the 13 and 39 weeks ended September 26, 2020, respectively.

Net Income

	13 Weeks Ended				39 Weeks Ended			
	September 26, 2020	September 28, 2019	$ Change	% Change	September 26, 2020	September 28, 2019	$ Change	% Change
Net income	$ 40,474	$ 12,445	$ 28,029	225.2 %	$ 82,449	$ 5,587	$ 76,862	1,375.7 %
% of net sales	5.3 %	1.9 %			3.5 %	0.3 %		

As a result of the foregoing factors, including the excess tax benefits described above, net income increased substantially for the 13 and 39 weeks ended September 26, 2020 compared to the same periods in fiscal 2019.

Adjusted EBITDA

	13 Weeks Ended				39 Weeks Ended			
	September 26, 2020	September 28, 2019	$ Change	% Change	September 26, 2020	September 28, 2019	$ Change	% Change
Adjusted EBITDA	$ 55,277	$ 44,176	$ 11,101	25.1 %	$ 172,948	$ 128,306	$ 44,642	34.8 %

The increase in adjusted EBITDA for the 13 and 39 weeks ended September 26, 2020 compared to the same periods in fiscal 2019 was primarily due to the increase in net sales, which was primarily driven by an increase in comparable store sales of 9.1% for the 13 weeks ended September 26, 2020 and 14.3% for the 39 weeks ended September 26, 2020 compared to the same periods in fiscal 2019, along with an increase in store count compared to the same periods in fiscal 2019. Additionally, gross margin rate increased modestly for the 13 and 39 weeks ended compared to the same period in fiscal 2019 as discussed above.

Non-GAAP Adjusted Net Income

	13 Weeks Ended				39 Weeks Ended			
	September 26, 2020	September 28, 2019	$ Change	% Change	September 26, 2020	September 28, 2019	$ Change	% Change
Non-GAAP adjusted net income	$ 49,913	$ 20,639	$ 29,274	141.8 %	$ 125,771	$ 45,047	$ 80,724	179.2 %

The increase in non-GAAP adjusted net income for the 13 and 39 weeks ended September 26, 2020 compared to the same periods in fiscal 2019 was primarily due to an increase in net sales, which was primarily driven by an increase in comparable store sales of 9.1% for the 13 weeks ended September 26, 2020 and 14.3% for the 39 weeks ended September 26, 2020, along with an increase in store count compared to the same period in fiscal 2019. In addition, non-GAAP adjusted net income benefited from lower net interest expense and excess tax benefits related to the exercise of stock options and vesting of employee restricted stock units for the 13 and 39 weeks ended compared to the same periods in fiscal 2019 as discussed above.

Liquidity and Capital Resources

Sources of Liquidity

As of September 26, 2020, we had cash and cash equivalents of $59.1 million, which consisted principally of cash held in checking and money market accounts with financial institutions. Our liquidity requirements arise primarily from our working capital needs, capital expenditures and debt service requirements. We funded our liquidity requirements through cash generated from our operations, cash received from the initial public offering of our common stock and borrowings and availability under our First Lien Credit Agreement.

Public Offerings

On June 24, 2019, we completed an initial public offering ("IPO") of 19,765,625 shares of our common stock at a public offering price of $22.00 per share for net proceeds of $407.7 million, after deducting underwriting discounts and commissions of $27.1 million and offering costs of $7.2 million. The shares of common stock sold in the IPO and the net proceeds from the IPO included the full exercise of the underwriters' option to purchase additional shares.

On October 8, 2019, certain of our selling stockholders completed a secondary public offering of shares of our common stock. We did not receive any of the proceeds from the sale of these shares by the selling stockholders. We incurred related offering costs of $1.1 million and received $3.2 million in cash (excluding withholding taxes) in connection with the exercise of 451,470 options by certain stockholders participating in this secondary public offering.

On February 3, 2020, certain of our selling stockholders completed an additional secondary public offering of shares of our common stock. We did not receive any of the proceeds from the sale of these shares by the selling stockholders. We incurred related offering costs of $1.1 million and received $1.4 million in cash (excluding withholding taxes) in connection with the exercise of 191,470 options by certain stockholders participating in this secondary public offering.

On April 27, 2020, certain of our selling stockholders completed a third secondary public offering of shares of our common stock. We did not receive any of the proceeds from the sale of these shares by the selling stockholders. We incurred related offering costs of $1.0 million and received $1.6 million in cash (excluding withholding taxes) in connection with the exercise of 269,000 options by certain stockholders participating in this secondary public offering.

The terms of our credit agreements permit voluntary prepayment without premium or penalty. In connection with the closing of our IPO, we used the net proceeds from the IPO to repay the outstanding $150.0 million in principal on the term loan under our second lien credit agreement, dated as of October 22, 2018 (as amended, the "Second Lien Credit Agreement"), as well as accrued and unpaid interest as of that date of $3.6 million, and terminated the Second Lien Credit Agreement. In addition, using the remainder of net proceeds, together with excess cash on hand, we prepaid a portion of our outstanding senior secured term loan under our First Lien Credit Agreement (as defined below) totaling $248.0 million plus accrued interest of $3.8 million.

First Lien Credit Agreement

First Incremental Agreement — On July 23, 2019, we entered into an incremental agreement (the "First Incremental Agreement") to amend the First Lien Credit Agreement. The First Incremental Agreement refinanced the term loan outstanding under the First Lien Credit Agreement with a replacement $475.2 million senior secured term loan (the "First Replacement Term Loan") with an applicable margin of 3.50% or 3.25% for Eurodollar loans and 2.50% or 2.25% for base rate loans. The First Replacement Term Loan matured on October 22, 2025, which was the same maturity date as the prior term loan under the First Lien Credit Agreement. On October 23, 2019, we prepaid $15.0 million of principal on the First Replacement Term Loan.

Second Incremental Agreement — On January 24, 2020, we entered into a second incremental agreement (the "Second Incremental Agreement") which amended the First Incremental Agreement. The Second Incremental Agreement refinanced the First Replacement Term loan under the First Incremental Agreement with a replacement $460.0 million senior secured term loan (the "Second Replacement Term Loan") with an applicable margin of 2.75% for Eurodollar loans and 1.75% for base rate loans, and made certain other technical changes and updates to the First Incremental Agreement. The interest rate on the Second Replacement Term Loan was 2.90% as of September 26, 2020. The Second Replacement Term Loan matures on October 22, 2025, which is the same maturity date as prior term loans under the original First Lien Credit Agreement and First Incremental Agreement.

Other than as described above, the Second Replacement Term Loan has the same terms as provided under the original First Lien Credit Agreement and the First Incremental Agreement. Additionally, the parties to the Second Incremental Agreement continue to have the same obligations set forth in the original First Lien Credit Agreement and the First Incremental Agreement (collectively, the "First Lien Credit Agreement").

Revolving Credit Facility — On March 19, 2020, we borrowed $90.0 million under the revolving credit facility of our First Lien Credit Agreement (the "Revolving Credit Facility Loan"), the proceeds of which were to be used as reserve funding for working capital needs as a precautionary measure in light of the economic uncertainty surrounding the COVID-19 pandemic. On May 26, 2020, we repaid the Revolving Credit Facility Loan in full. As of September 26, 2020, we had $96.5 million of borrowing capacity available under the revolving credit facility.

Debt Covenant Requirements — The First Lien Credit Agreement contains certain customary representations and warranties, subject to limitations and exceptions, and affirmative and customary covenants. The First Lien Credit Agreement has the ability to restrict us from entering into certain types of transactions and making certain types of payments including dividends and stock repurchase and other similar distributions, with certain exceptions. Additionally, the revolving credit facility under our First Lien Credit Agreement is subject to a first lien secured leverage ratio (as defined in the First Lien Credit Agreement) of 7:00 to 1:00.

As of September 26, 2020, we were in compliance with all applicable financial covenant requirements for our First Lien Credit Agreement.

Liquidity Requirements

Our primary working capital requirements are for the purchase of inventory, payroll, rent, issuance of IO notes, other store facilities costs, distribution costs and general and administrative costs. Our working capital requirements fluctuate during the year, driven primarily by the timing of inventory fluctuations, new store openings and capital spending.

Our capital expenditures are primarily related to new store openings, ongoing store maintenance and improvements, expenditures related to our distribution centers and infrastructure-related investments, including investments related to upgrading and maintaining our information technology systems and corporate offices. We expect to fund capital expenditures through cash generated from our operations.

Based on our new store growth plans, we believe our existing cash and cash equivalents position, cash generated from our operations, and borrowings under our revolving credit facility will be adequate to finance our working capital requirements, planned capital expenditures and debt service over the next 12 months. If cash generated from our operations and borrowings under our 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. We may also, from time to time, in our sole discretion, purchase or retire all or a portion of our existing debt instruments through privately negotiated or open market transactions.

Cash Flows

The following table sets forth a summary our cash flows for the periods presented (in thousands, except percentages):

	39 Weeks Ended			
	September 26, 2020	September 28, 2019	$ Change	% Change
Net cash provided by operating activities	$ 99,261	$ 104,490	$ (5,229)	(5)%
Net cash used in investing activities	$ (92,907)	$ (79,933)	$ (12,974)	16 %
Net cash provided by (used in) financing activities	$ 24,627	$ (1,600)	$ 26,227	1,639 %
Net increase in cash and cash equivalents	$ 30,981	$ 22,957	$ 8,024	35 %

Cash Provided by Operating Activities

Net cash provided by operating activities was $99.3 million for the 39 weeks ended September 26, 2020, compared to $104.5 million for the same period in fiscal 2019. The decrease in net cash provided by operating activities for the 39 weeks ended September 26, 2020 compared to the same period in fiscal 2019 was primarily the result of a reduction in working capital largely driven by an increase in merchandise inventory and decrease in trade accounts payable, partially offset by increased net sales driven by comparable store sales and new store growth.

Cash Used in Investing Activities

Net cash used in investing activities was $92.9 million for the 39 weeks ended September 26, 2020 compared to $79.9 million for the same period in fiscal 2019. The increase in net cash used in investing activities of $13.0 million for the 39 weeks ended September 26, 2020 compared to the same period in fiscal 2019 was primarily related to capital expenditures including the construction of newly opened stores and stores under development, partially offset by higher repayments of advances from IOs. We had 27 new store openings and one store relocation in the 39 weeks ended September 26, 2020 compared to 24 new store openings and one store relocation in same period of fiscal 2019.

Cash Provided by (Used in) Financing Activities

Net cash provided by financing activities was $24.6 million for the 39 weeks ended September 26, 2020 compared to $1.6 million net cash used in financing activities for the same period in fiscal 2019. The increase in net cash provided by financing activities was primarily due to proceeds received from the exercise of share-based awards. This increase was partially offset by net proceeds from our IPO offset in part by the repayment of outstanding debt during the 39 weeks ended September 28, 2019.

Off-Balance Sheet Arrangements

As of September 26, 2020, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

Contractual Obligations

There have been no material changes to our contractual obligations during the 39 weeks ended September 26, 2020 from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 28, 2019 filed with the U.S. Securities and Exchange Commission (the "SEC") on March 25, 2020, except for the addition of operating lease right-of-use assets as discussed in Note 3 to the condensed consolidated financial statements included elsewhere in this report..

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and the applicable rules and regulations of the SEC for interim reporting. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

There have been no material changes to our critical accounting policies and estimates during the 39 weeks ended September 26, 2020 from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 28, 2019 filed with the SEC on March 25, 2020, except for the adoption of ASU 2016-13 as discussed in Note 1 to the condensed consolidated financial statements included elsewhere in this report.

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 September 26, 2020, our outstanding credit facilities included a $460.0 million term loan (the "Second Replacement Term Loan"). As of September 26, 2020, the interest rate on the Second Replacement Term Loan was 2.90% (See Note 4 to the condensed consolidated financial statements for additional information). Based on the outstanding balance and interest rate of our Second Replacement Term Loan as of September 26, 2020, a hypothetical 10% relative increase or decrease in the effective interest rate would cause an increase or decrease in interest expense of approximately $1.3 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.

Item 4. Control Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of the end of the period covered by this report. Our disclosure controls 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 Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective to accomplish their objectives at a reasonable assurance level as of September 26, 2020.

Changes in Internal Control over Financial Reporting

During the quarter ended September 26, 2020, there was no change in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting despite the fact that most of our corporate employees are working remotely due to the COVID-19 pandemic. We are continually monitoring and assessing the impact of the COVID-19 situation on our internal controls in order to ensure their continued design and operating effectiveness.

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 may be party to litigation that arises 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 financial condition, results of operations or cash flows.

Item 1A. Risk Factors

Except as described below, there have been no substantive changes or additions to the risk factors previously disclosed in our prospectus filed with the U.S. Securities and Exchange Commission (the "SEC") on April 23, 2020, and any documents incorporated by reference therein, and our Quarterly Report on Form 10-Q filed with the SEC on August 11, 2020 that we believe are material to our business, financial condition, results of operations, cash flows or growth prospects.

Major health epidemics, such as the outbreak caused by a coronavirus (COVID-19), and other outbreaks could disrupt and adversely affect our operations, financial condition and business.

The United States and other countries have experienced, and may experience in the future, major health epidemics related to viruses or other pathogens. For example, the outbreak of COVID-19, a novel coronavirus, has been declared a global pandemic, and has continued to worsen in many parts of the United States. As a result, most states where we have a significant number of stores have at various times during the pandemic declared a state of emergency, closed schools and non-essential businesses and enacted limitations on the number of people allowed to gather at one time in the same space. As COVID-19 has continued to spread and the situation has continued to evolve, there has been an increase in positive COVID-19 cases around the country during, and subsequent to, the second quarter of fiscal 2020 as shelter in place requirements have lapsed and other businesses have begun to reopen. We expect that our IOs may face staffing challenges so long as school and child care closures and COVID-19-related concerns exist.

In addition, since the start of the pandemic, certain inventory items such as water, beans and bread as well as key cleaning supplies and protective equipment have, at times been, and may in the future again be, in short supply. Supply for inventory, including opportunistic inventory, has been, and may in the future again be, negatively impacted at times when overall demand for inventory is increased, which could negatively impact our margin. These factors could impact the ability of stores to operate normal hours of operation or have sufficient inventory at all times which may disrupt our business and negatively impact our financial results. Furthermore, we and our IOs have incurred, and may continue to incur, additional expenditures in connection with the spread of COVID-19 and legislation that has passed or may be passed in response to COVID-19, including but not limited to costs for supplies, additional employee benefits and/or premium pay, which may negatively affect our financial results. Further, for example, in the first quarter of fiscal 2020, California enacted by executive order changes to the state's worker compensation standards providing that employees who have to work outside of the home and who contract COVID-19 are presumed to have a workplace injury covered by the worker's compensation system. Our planned construction and opening of new stores have been and may continue to be negatively impacted due to state or county shelter in place requirements and the closure of government offices in certain areas which could negatively impact our financial results. A significant subset of our corporate employee population remains in a remote work environment in an effort to mitigate the spread of COVID-19, which may exacerbate certain risks to our business, including an increased risk of phishing and other cybersecurity attacks. In the event that an employee, IO, or IO employee tests positive for COVID-19, we have had to, and may in the future have to, temporarily close one or more stores, offices or distribution centers for cleaning and/or quarantine one or more employees, which could negatively impact our financial results. Outbreaks of COVID-19 among employees of any of our suppliers, vendors, third party distributors or service providers may disrupt or limit product supply and vendor services which could have a negative impact on our financial results. In addition, if one of more of our employees, IOs, IOs' employees or customers becomes ill from COVID-19 and attributes their exposure to such illness to us or one of our stores, we and/or our IOs could be subject to allegations of failure to adequately mitigate the risk of such exposure. Such allegations could harm our reputation and sales and expose us to the risks of litigation and liability. Many states are now increasing enforcement and COVID-19 compliance efforts through state OSHA or public health inspections. Such enforcement efforts could result in citations, additional requirements or temporary store closures which could negatively impact our financial results.

Due to the extraordinary impact of the outbreak of COVID-19 on our operations, including, without limitation, on customer behavior and inventory supply and the other factors discussed above, our operating results and performance during calendar year 2020 may not be meaningful indicators of future results. These impacts and the uncertainty surrounding the outbreak also make it more challenging for us to estimate future performance of the business and develop growth strategies for the future. The rapid development and fluidity of this situation precludes any prediction as to the adverse impact to us of COVID-19. We are continuing to monitor the spread of COVID-19 and related risks. The magnitude and duration of the pandemic and its impact on our business, results of operations, financial position, and cash flows are uncertain as this continues to evolve globally.

These epidemics, or the perception that such epidemics may occur, may cause people to avoid gathering in public places, which may adversely affect our customer traffic, our ability and that of our IOs to adequately staff our stores and operations, and our ability to transport product on a timely basis. Further, outbreaks of pathogens, such as COVID-19, may also impact our ability to access and ship product from impacted locations. To the extent that a pathogen is food-borne, or perceived to be food-borne, future outbreaks may adversely affect the price and availability of certain food products and cause our customers to eat less of such product.

Additionally, a prolonged widespread epidemic, or the perception that such an epidemic may occur, could adversely impact global economies and financial markets resulting in an economic downturn that may impact demand for our products. For example, during the COVID-19 pandemic, the United States has seen a significant increase in unemployment claims and other indications of a significant economic slowdown related to the COVID-19 pandemic. Such impacts could adversely affect our operations, profitability, cash flows and financial results. To the extent the COVID-19 pandemic adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described in the Risk Factors section of our prospectus filed with the SEC on April 23, 2020, which are incorporated by reference herein, such as those relating to our substantial level of indebtedness, our need to generate sufficient cash flows to service our indebtedness and our ability to comply with the covenants contained in the agreements that govern our indebtedness.

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

None.

Item 3. Default Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosure

Not applicable.

Item 5. Other Information

Directors Deferral Plan

On November 6, 2020, the Compensation Committee (the “Committee”) of the Board of Directors (the “Board”) of the Company approved the Grocery Outlet Holding Corp. Directors Deferral Plan (the “Plan”). All current directors who are not employees of the Company are eligible to participate in the Plan.

Under the terms of the Plan, the Company’s 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 restricted stock unit award, in each case, in the form of deferred stock units (“DSUs”) credited to an account maintained by the Company. 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 the Company’s common stock on the date the cash compensation would otherwise have been paid to the director. DSUs are awarded from, and remain subject to the terms of, the Grocery Outlet Holding Corp. 2019 Incentive Plan (the “Incentive Plan”).

Each DSU represents the right to receive a number of shares of Company 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 be 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 Incentive Plan) or upon a director’s death. Notwithstanding the foregoing, with respect to S. Macgregor Read only, Mr. Read will forfeit the right to settlement of his DSUs to the extent that the DSUs would otherwise be settled upon a Change in Control that occurs prior to a specified date.

The Compensation Committee will administer the Plan. The Plan or any deferral may be amended, suspended, discontinued by the Committee at any time in the Committee’s discretion; provided, that no amendment, suspension or discontinuance will reduce any director’s accrued benefit, except as required to comply with applicable law. The Committee may terminate the Plan at any time, as long as the termination complies with applicable tax and other requirements.

The foregoing summary description of the Plan does not purport to be complete and is qualified in its entirety by reference to the full text of the Plan, a copy of which is filed herewith as Exhibit 10.1 and incorporated herein by reference.

Executive Severance Plan

On November 9, 2020, the Committee adopted the Grocery Outlet Holding Corp. Executive Severance Plan (the “Severance Plan”) to provide severance benefits to certain eligible employees of the Company and its affiliates who experience a termination of employment under the conditions described in the Severance Plan. Eligible employees under the Severance Plan include all of the Company’s named executive officers, other than the Company’s current Chief Executive Officer, Eric Lindberg. The Severance Plan is effective as of November 9, 2020.

Non-Change-in-Control Severance. Under the terms of the Severance Plan, if a participant at the executive vice president level or senior vice president level experiences a termination by the Company without cause (as defined in the Incentive Plan) or by the participant for good reason (as defined in the Severance Plan), either of which is referred to as a “covered termination,” not in connection with a Change in Control (as defined in the Incentive Plan), the Company will provide the participant with the following severance payments and benefits, subject to his or her continued compliance with a restrictive covenant agreement and the execution and non-revocation of a release of claims. The severance payments and benefits provided to our named executive officers are as follows:

- an amount equal to 1.0 times the sum of the participant's annual base salary and target annual bonus, payable in accordance with the Company's normal payroll practice over 12 months, and
- subject to the participant's timely election under COBRA, payment, or reimbursement for, the difference between the COBRA premium and the premium paid by active Company employees for the same coverage for 12 months.

Change-in-Control Severance. Under the terms of the Severance Plan, if a participant at the executive vice president or senior vice president level experiences a covered termination within 18 months following a Change in Control, the Company will provide the participant with the following severance payments and benefits, subject to his or her continued compliance with a restrictive covenant agreement and the execution and non-revocation of a release of claims. The payments and benefits provided to our named executive officers are as follows:

- an amount equal to 1.5x times the sum of the participant's annual base salary and target annual bonus, in each case, payable in a lump sum within 60 days following termination of employment, and
- subject to the participant's timely election under COBRA, payment, or reimbursement for, the difference between the COBRA premium and the premium paid by active Company employees for the same coverage for 18 months.

Eligible employees who receive severance benefits under the Severance Plan will be bound by certain restrictive covenants in favor of the Company, including confidentiality, non-disparagement and non-solicitation covenants.

The Severance Plan provides that if payments and benefits provided to the participant would constitute an "excess parachute payment" for purposes of Section 280G of the tax code, the participant will either have his or her payments and benefits reduced to the highest amount that could be paid without triggering Section 280G or receive the after-tax amount of his or her payment and benefits, whichever results in the greater after-tax benefit, taking into account the excise tax imposed under Section 4999 of the tax code and any applicable federal, state and local taxes.

The Severance Plan may be amended, terminated or discontinued in whole or in part, at any time and from time to time at the discretion of the Board or the Committee; provided, however, that no adverse amendment, termination or discontinuance may be made without the consent of a participant who has undergone a covered termination prior to the effective date of any such adverse amendment, termination or discontinuance. In addition, following a Change in Control, the Severance Plan may not be amended, terminated or discontinued in whole or in part, at any time prior to the second anniversary of the date of such change in control without the written consent of an affected participant.

The foregoing description of the Severance Plan does not purport to be complete and is qualified in its entirety by reference to the full text of the Severance Plan, which is attached hereto as Exhibit 10.2 and incorporated herein by reference.

Item 6. Exhibits

		Incorporated by Reference			
Exhibit No.	Exhibit	Form	File No.	Filing Date	Exhibit No.
3.1	Amended and Restated Certificate of Incorporation of Grocery Outlet Holding Corp.	S-8	333-232318	6/24/2019	4.1
3.2	Amended and Restated Bylaws of Grocery Outlet Holding Corp.	S-8	333-232318	6/24/2019	4.2
10.1†*	Grocery Outlet Holding Corp. Directors Deferral Plan				
10.2†*	Grocery Outlet Holding Corp. Executive Severance Plan				
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 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 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.				

† 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.

SIGNATURES

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:	November 10, 2020	By:	/s/ Charles Bracher
			Charles Bracher Chief Financial Officer (Principal Financial Officer)
			Grocery Outlet Holding Corp.
Date:	November 10, 2020	By:	/s/ Lindsay Gray
			Lindsay Gray Vice President and Corporate Controller (Principal Accounting Officer)

GROCERY OUTLET HOLDING CORP.
DIRECTORS DEFERRAL PLAN

1. **Purpose**. The purpose of the Grocery Outlet Holding Corp. Directors Deferral Plan (the "Plan") is to attract and retain the services of experienced individuals to serve on the Board by providing them with opportunities to defer income taxes on certain compensation.

2. **Definitions**. Unless otherwise defined in the Plan, capitalized terms used in the Plan shall have the meanings assigned to them in the Incentive Plan.

(a) "Annual Cash Compensation" means, with respect to any Eligible Director, the director compensation otherwise payable in cash to such Eligible Director for services rendered during the calendar year, including cash compensation attributable to any annual retainer, committee chair fees, additional fees, meeting fees or other cash compensation.

(b) "Deferral Account" means a notional bookkeeping account maintained for each Participant reflecting deferrals made under the Plan.

(c) "Deferred Stock Unit" means an unsecured promise to deliver one share of Common Stock on the applicable settlement date of such unit.

(d) "Dividend Equivalent Rights" means any dividend equivalent rights granted in connection with any Restricted Stock Unit pursuant to Section 13(c)(iii) of the Incentive Plan.

(e) "Election Form" means the form of election established for the purpose of making deferrals under the Plan that is executed by such Participant and filed with the Company.

(f) "Eligible Director" means each member of the Board who is not an employee of the Company or any other member of the Company Group.

(g) "Incentive Plan" means the Grocery Outlet Holding Corp. 2019 Incentive Plan, as may be amended from time to time.

(h) "Participant" means each such Eligible Director who makes a deferral under the Plan.

3. **Eligibility**. Unless otherwise determined by the Committee, each Eligible Director shall be entitled to participate in the Plan.

4. **Administration**.

(a) The Plan shall be administered by the Committee. Subject to the terms of the Plan and applicable law, the Committee shall have full power and authority to: (i) designate Eligible Directors for participation; (ii) determine the terms and conditions of any deferral made under the Plan; (iii) interpret and administer the Plan and any instrument or agreement relating to, or deferral made under, the Plan; (iv) establish, amend, suspend or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (v) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan. To the extent legally permitted, the Committee may, in its discretion, delegate to one or more officers of the Company any or all authority and responsibility to act with respect to administrative matters with respect to the Plan. The determination of the Committee on all matters within its authority relating to the Plan shall be final, conclusive and binding upon all parties, including the Company, its shareholders and the Participants.

(b) Notwithstanding anything to the contrary contained in the Plan, the Board may, in its sole discretion, at any time and from time to time, administer the Plan. In any such case, the Board shall have all the authority granted to the Committee under the Plan.

5. **Deferrals under the Plan**.

(a) Deferral Elections.

(i) An Eligible Director may elect to defer receipt of all of (A) Annual Cash Compensation and/or (B) any shares of Common Stock issuable upon vesting of any Restricted Stock Unit granted to such Eligible Director; *provided*, *however*, that no such election shall be permitted with respect to any Deferred Stock Units credited as a result of an election to defer Annual Cash Compensation under this Section 5(a) or Deferred Stock Units credited in connection with any Dividend Equivalent Rights.

(ii) A Participant's deferral election shall be made pursuant to an Election Form. Each Election Form will remain in effect until superseded or revoked pursuant to this Section 5. The Election Form will require a Participant to specify:

(A) whether a Participant is electing to defer receipt of all of (A) Annual Cash Compensation and/or (B) shares of Common Stock issuable upon vesting of any Restricted Stock Unit into a Participant's Deferral Account under the Plan; and

(B) the time at which amounts to be credited to such Participant's Deferral Account in connection with any Election Form will be distributed.

(iii) An Election Form relating to Annual Cash Compensation and/or Restricted Stock Units must be completed prior to the beginning of the calendar year to which such Annual Cash Compensation is otherwise payable or such Restricted Stock Units may be granted, as applicable. Notwithstanding the foregoing, an Election Form filed by a Participant within 30 days after such Participant first becomes an Eligible Director may apply to Annual Cash Compensation or Restricted Stock Units that relate to services performed following the date on which such Participant executes such Election Form.

(b) A Participant who has an Election Form on file with the Company may execute and file with the Company a subsequent Election Form at any time. Such subsequent Election Form shall apply to any Annual Cash Compensation and/or Restricted Stock Units paid or granted to such Participant following the end of the year in which such subsequent Election Form is executed. A Participant may also revoke an Election Form at any time by providing written notice to the General Counsel of the Company. Such revocation shall apply to any Annual Cash Compensation and/or Restricted Stock Units paid or granted to such Participant following the end of the year in which such notice is provided.

(c) A Participant may elect to redefer the issuance of shares of Common Stock upon distribution from such Participant's Deferral Account to a time following the time specified on the applicable Election Form; *provided*, that any such redeferral (i) will not take effect for at least 12 months after the date on which the redeferral election is made; (ii) must defer the distribution for at least five years from the date the original distribution would have otherwise been made; and (iii) must be made at least 12 months before the date the distribution would have otherwise been made. Any redeferral election that does not satisfy the applicable foregoing requirements will be invalid, null, and void, and the payment schedule set forth in such previous Election Form shall control. Such redeferral election shall be made in the form of a document established for such purpose by the Committee that is executed by such Participant and filed with the General Counsel of the Company.

6. **Deferral Accounts**.

(a) The Company shall maintain a Deferral Account on behalf of each Participant and shall make additions to and subtractions from such Deferral Account as provided herein. Sub-accounts may be created to reflect deferrals under the Plan relating to any calendar year and to reflect the type of deferral (i.e., deferrals in respect of Annual Cash Compensation and Restricted Stock Units).

(b) All Annual Cash Compensation that has been deferred under the Plan pursuant to an Election Form ("Deferred Cash Amounts") shall be credited to the Participant's Deferral Account and shall be deemed to be invested in that number of Deferred Stock Units equal to the quotient obtained by dividing (i) the dollar amount of such Deferred Cash Amounts by (ii) the Fair Market Value on the date the Deferred Cash Amounts then being credited to the Deferral Account would otherwise have been paid to the Participant. All shares of Common Stock issuable upon vesting of any Restricted Stock Unit that have been deferred under the Plan pursuant to an Election Form shall be credited to the Participant's Deferral Account as a number of Deferred Stock Units equal to the number of shares of Common Stock so deferred.

(c) Deferred Stock Units credited to a Participant's Deferral Account shall be entitled to Dividend Equivalent Rights.

(d) Deferred Stock Units credited to a Participant's Deferral Account, including those credited in connection with Dividend Equivalent Rights, shall be awarded from and remain subject to the terms of the Incentive Plan, including, without limitation, Section 11 thereof in connection with any Adjustment Event.

7. **Timing and Form of Distribution**.

(a) Subject to this Section 7, at the time specified on the applicable Election Form, the Participant shall receive a number of shares of Common Stock equal to the number of Deferred Stock Units initially credited to the Participant's Deferral Account in connection with such Election Form plus the number of Deferred Stock Units credited in respect of such initially credited Deferred Stock Units as a result of any Dividend Equivalent Rights, and the Company shall debit the Participant's Deferral Account accordingly.

(b) The Committee, in its sole discretion, may accelerate the distribution of all or a portion of a Participant's Deferral Account if such Participant experiences an unforeseeable emergency or hardship, provided that such distribution complies with Section 409A of the Code.

(c) Except as otherwise provided in a Participant's Election Form, and notwithstanding anything contained in the Plan to the contrary, the entirety of a Participant's Deferral Account shall be distributed in accordance with subsection (a) above upon a Change in Control or such Participant's death.

8. **General Provisions Applicable to Deferrals**.

(a) Except as may be permitted by the Committee, (i) no deferral and no right under such deferral shall be assignable, alienable, saleable or transferable by a Participant otherwise than by will or pursuant to Section 8(b) and (ii) during a Participant's lifetime, each deferral, and each right under such deferral, shall be exercisable only by such Participant or, if permissible under applicable law, by such Participant's guardian or legal representative. The provisions of this Section 8(a) shall not apply to any deferral that has been distributed to a Participant.

(b) A Participant may make a written designation of beneficiary or beneficiaries to receive all or part of the distributions under this Plan in the event of death at such times prescribed by the Committee by using forms and following procedures approved or accepted by the Committee for that purpose. Any shares of Common Stock that become payable upon death, and as to which a designation of beneficiary is not in effect, will be distributed to the Participant's estate.

(c) Following distribution of shares of Common Stock, the Participant will be the beneficial owner of the net shares of Common Stock issued and will be entitled to all rights of ownership.

9. **Amendments and Termination**.

(a) The Committee, in its sole discretion, may amend, suspend or discontinue the Plan or any deferral at any time; *provided*, that no such amendment, suspension or discontinuance shall reduce the accrued benefit of any Participant except to the extent necessary to comply with applicable law. The Committee further has the right, without a Participant's consent, to amend or modify the terms of the Plan and such Participant's deferral to the extent that the Committee deems it necessary to avoid adverse or unintended tax consequences to such Participant under federal, state or local income tax laws.

(b) The Committee, in its sole discretion, may terminate the Plan at any time, as long as such termination complies with then applicable tax and other requirements.

(c) Such other changes to deferrals shall be permitted and honored under the Plan to the extent authorized by the Committee and consistent with Section 409A of the Code.

10. **Miscellaneous**.

(a) No Eligible Director or other person shall have any claim to be entitled to make a deferral under the Plan, and there is no obligation for uniformity of treatment of Participants or beneficiaries under the Plan. The terms and conditions of deferrals under the Plan need not be the same with respect to each Participant.

(b) The opportunity to make a deferral under the Plan shall not be construed as giving a Participant the right to be retained in the service of the Committee or the Company. A Participant's deferral under the Plan is not intended to confer any rights on such Participant except as set forth in the Plan and the applicable Election Form.

(c) Nothing contained in the Plan shall prevent the Company from adopting or continuing in effect other or additional compensation arrangements, and such arrangements may be either generally applicable or applicable only in specific cases.

(d) If any provision of the Plan or any Election Form is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction, or as to any person or deferral, or would disqualify the Plan or any deferral under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or such Election Form, such provision shall be stricken as to such jurisdiction, person or deferral, and the remainder of the Plan and such Election Form shall remain in full force and effect.

11. **Effective Date of the Plan**. The Plan shall be effective as of the date on which the Plan is adopted by the Board.

12. **Unfunded Status of the Plan**. The Plan is unfunded. The Plan, together with the applicable Election Form, shall represent at all times an unfunded and unsecured contractual obligation of the Company. Each Participant and beneficiary will be an unsecured creditor of the Company with respect to all obligations owed to them under the Plan. No Participant or beneficiary will have any interest in any fund or in any specific asset of the Company of any kind, nor shall such Participant or beneficiary or any other person have any right to receive any payment or distribution under the Plan except as, and to the extent, expressly provided in the Plan and the applicable Election Form. Any reserve or other asset that the Company may establish or acquire to assure itself of the funds to provide payments required under the Plan shall not serve in any way as security to any Participant or beneficiary for the Company's performance under the Plan.

13. **Section 409A of the Code**. With respect to deferrals that are subject to Section 409A of the Code, the Plan is intended to comply with the requirements of Section 409A of the Code, and the provisions of the Plan and any Election Form shall be interpreted in a manner that satisfies the requirements of Section 409A of the Code, and the Plan shall be operated accordingly. If any provision of the Plan or any term or condition of any Election Form would otherwise frustrate or conflict with this intent, the provision, term or condition will be interpreted and deemed amended so as to avoid this conflict. Notwithstanding anything in the Plan to the

contrary, distributions may only be made under the Plan upon an event and in a manner permitted by Section 409A of the Code, and all payments to be made upon termination of a Participant's service from the Board under this Plan may only be made upon a "separation from service" under Section 409A of the Code. If any Participant is a "specified employee" under section 409A of the Code (as determined by the Committee) and if the Participant's distribution under the Plan is to commence, or be paid upon, separation from service, payment of the distribution shall be delayed for a period of six months after the Participant's separation date, if required pursuant to Section 409A of the Code. If payment is delayed, the accumulated postponed amount shall be paid within 10 days after the end of the six-month period following the date on which the Participant separates from service.

14. **Governing Law**. The Plan shall be governed by and construed in accordance with the internal laws of the State of Delaware applicable to contracts made and performed wholly within the State of Delaware, without giving effect to the conflict of laws provisions thereof.

GROCERY OUTLET HOLDING CORP.
EXECUTIVE SEVERANCE PLAN

Plan Document/Summary Plan Description

Grocery Outlet Holding Corp. (the "Company") has adopted the Grocery Outlet Holding Corp. Executive Severance Plan (the "Plan") for the benefit of certain employees of the Company and its subsidiaries (hereinafter referred to as the "Company Group"), on the terms and conditions hereinafter stated, effective as of the Effective Date.

1. **Definitions**. Capitalized terms not otherwise defined herein will have the meaning ascribed to such terms in the Incentive Plan.

(a) "Accrued Obligations" means (i) all accrued but unpaid Base Salary through the date of a Covered Termination, (ii) any unpaid or unreimbursed expenses incurred in accordance with the policies of the Employer, and (iii) any benefits provided under the employee benefit plans and programs of the Company Group in which the Participant participates immediately prior to, and is due upon or continues after, a termination of employment, including rights with respect to Company equity (or equity derivatives) in accordance with the applicable plan and other documents governing the terms of such equity (or equity derivatives).

(b) "Annual Bonus Program" means the annual cash incentive bonus program in which the Participant participates as of the date of such Participant's Covered Termination.

(c) "Asset Sale" means a Change in Control resulting from the sale, transfer, or other disposition of all or substantially all of the assets of the Company to any Person that is not an Affiliate of the Company.

(d) "Base Salary" means the Participant's then current annual base salary rate immediately prior to his or her Covered Termination (or, if higher, the annual base salary immediately prior to an event that constitutes Good Reason hereunder), and determined without regard to any salary deferrals under any deferred compensation or cafeteria plans or programs of the Company Group in which the Participant participates.

(e) "Board" means the Board of Directors of the Company.

(f) "Cash Severance Amount" means, with respect to any Participant, the "Cash Severance Amount," as set forth on Appendix A or Appendix B, in each case, as attached hereto, as applicable, based on such Participant's level.

(g) "Change in Control Covered Termination" means a Covered Termination occurring within the Protection Period applicable to a Participant.

(h) "Clawback Policy" means any clawback, forfeiture or other similar policy adopted by the Board or Committee from time to time.

(i) "COBRA" means the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, and the rules, regulations or other interpretive guidance promulgated thereunder, as well as any successor laws in replacement thereof.

(j) "Code" means the Internal Revenue Code of 1986, as amended, and the rules, regulations or other interpretative guidance promulgated thereunder, as well as any successor laws in replacement thereof.

(k) "Committee" means the Compensation Committee of the Board.

(l) "Continuation Period" means, with respect to any Participant, the period set forth on Appendix A or Appendix B, in each case, as attached hereto, as applicable, based on such Participant's level.

(m) "Covered Termination" means a Participant's termination of employment with the Employer by the Employer without Cause or by the Participant for Good Reason; *provided*, *however*, that no such termination shall be considered a Covered Termination if such Participant's employment with the Employer is terminated:

(i) by reason of a transfer to the employ of another member of the Company Group,

(ii) upon the expiration of a leave of absence by reason of his or her failure to return to work at such time unless, at such time, there is not an available position for which such Participant is qualified, or

(iii) in connection with an Asset Sale if either (A) in connection with such Asset Sale such Participant was offered employment (x) within a 50-mile radius of such Participant's current work site for a comparable position with the purchaser or an Affiliate thereof in an Asset Sale, (y) with the same or greater Base Salary, and (z) with comparable annual bonus and equity compensation opportunity, and the Participant fails to accept such employment offer, or (B) notwithstanding the comparable terms and conditions of employment being available, such Participant voluntarily elected not to participate in the selection process for employment with the purchaser or an Affiliate thereof in an Asset Sale except, in either case, as may otherwise be specifically provided in any written sale, divestiture or other agreement executed by the Company.

(n) "Effective Date" means November 9, 2020.

(o) "Eligible Employee" means each non-union, salaried, full-time employee of the Company Group with the title of Vice President or above. Eligible Employees shall, in no event, include: (i) independent contractors, (ii) temporary employees, (iii) individuals treated other than as employees for federal income and employment tax purposes at the time such individual performs services, (iv) employees who are regularly scheduled to work less than 20 hours per week, (v) individuals who the Company designates as "non-benefits eligible," and (vi) individuals specifically identified by the Committee to be ineligible to participate in the Plan.

(p) "Employer" means, with respect to any Participant, Grocery Outlet Inc., a Subsidiary of the Company, or, if applicable, another member of the Company Group by which such Participant is employed.

(q) "Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules, regulations or other interpretive guidance promulgated thereunder, as well as any successor laws in replacement thereof.

(r) "Good Reason" shall, in the case of any Participant who is party to an agreement between such Participant and the Employer that contains a definition of "Good Reason," mean and refer to the definition set forth in such agreement and, in the case of any other Participant, shall mean (i) a material diminution in the Participant's Base Salary or cash bonus opportunity under the Annual Bonus Program; (ii) any material diminution in the Participant's duties or responsibilities; *provided*, that in no event will any diminution in duties or responsibilities resulting from the Company no longer being publicly held constitute Good Reason hereunder; or (iii) the relocation of the Participant's principal work location by more than 50 miles; *provided*, that none of these events shall constitute Good Reason unless the Company (or Employer, as applicable) fails to cure such event within 30 days after receipt from the Participant of written notice of the event which constitutes Good Reason; *provided*, *further*, that Good Reason shall cease to exist for an event on the 60th day following the later of its occurrence or the Participant's knowledge thereof, unless the Participant has given the Company written notice thereof prior to such date.

(s) "Incentive Plan" means the Company's 2019 Incentive Plan, as amended from time to time (or any successor plan thereto adopted by the Company for the purpose of providing equity and other incentive compensation to the employees and other service providers of the Company or its Affiliates).

(t) "Non-Interference Agreement" shall mean the Confidentiality, Non-Interference, and Invention Assignment Agreement attached hereto as Exhibit A.

(u) "Other Severance Arrangements" means any plans, policies, guidelines, arrangements, agreements, letters and/or other communication, whether formal or informal, written or oral sponsored by the Company or any of its Affiliates and/or entered into by any representative of the Company or any of its Affiliates that might otherwise provide severance benefits upon a Covered Termination.

(v) "Participant" means an Eligible Employee who is designated as a Participant by the Committee, subject to the requirements of Section 2. For purposes hereof, the Committee shall be permitted to designate groups of Eligible Employees by job title as Participants without the need to identify any individual Participant by name.

(w) "Person" means any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act).

(x) "Protection Period" with respect to any Participant, the period following a Change in Control set forth on Appendix B as attached hereto based on such Participant's level.

(y) "Release Agreement" means a release of claims in the form customarily provided by the Company Group to terminated employees, pursuant to which a Participant may be required to (i) acknowledge the receipt of the severance payment and other benefits, and (ii) release the Company and its Affiliates (including the Employer and its Affiliates) and other Persons designated by the Company from any liability arising from his or her employment or termination thereof (other than with respect to the Participant's rights under the Plan).

(z) "Target Bonus" means the Participant's target annual bonus under the Annual Bonus Program.

(aa) "Welfare Continuation" means, subject to the Participant's timely election under COBRA to continue health care coverage under the Company's group health plans, the Company will pay an amount equal to the difference between the full monthly COBRA premium for the Participant's continued group health plan coverage and the current monthly premium the Participant would have paid as an active employee for such coverage as currently taxable compensation in substantially equal monthly installments over the Continuation Period.

2. **Eligibility**.

Except as otherwise provided under the Plan, each Participant is eligible to receive severance pay and severance benefits under the Plan if such Participant:

(a) remains in the employ of the Employer through the date of a Covered Termination,

(b) fulfills the normal responsibilities of such Participant's position, including, but not limited to, meeting regular attendance, specific transitional activities, workload and other standards of the Employer, and

(c) executes and submits a Non-Interference Agreement in connection with, and no later than 30 days following, becoming a Participant under the Plan.

3. **Termination of Employment**.

(a) Payments on Covered Termination. If a Participant undergoes a Covered Termination, in addition to any Accrued Obligations, subject to such Participant's execution, delivery to the Company, and non-revocation of a Release Agreement, as contemplated in subsection (d) below, and continued compliance with the Non-Interference Agreement, such Participant shall be entitled to the following payments and benefits:

(i) a cash payment equal to the applicable Cash Severance Amount, payable in accordance with the Employer's normal payroll practice over the Continuation Period set forth in Appendix A following the date of the Participant's Covered Termination, and

(ii) Welfare Continuation during the Continuation Period set forth in Appendix A.

(b) Payments on Change in Control Covered Termination. If a Participant undergoes a Change in Control Covered Termination, in addition to any Accrued Obligations, subject to such Participant's execution, delivery to the Company, and non-revocation of a Release Agreement, as contemplated in subsection (d) below, and continued compliance with the Non-Interference Agreement, such Participant shall be entitled to the following payments and benefits in lieu of the payments and benefits set forth in Section 3(a):

(i) a lump-sum cash payment equal to the applicable Cash Severance Amount, payable within 60 days following the date of the Participant's Change in Control Event Covered Termination, and

(ii) Welfare Continuation during the Continuation Period set forth in Appendix B.

Payments and benefits described under subsections (a) and (b) may be made by the Company or any other member of the Company Group, as determined by the Company in its sole discretion, including, without limitation, the Employer.

(c) Other Termination Events. If a Participant's employment is terminated for any reason other than pursuant to a Covered Termination or a Change in Control Covered Termination, such Participant shall not be entitled to the payment of any severance or other benefits under the Plan.

(d) Release Agreement. Notwithstanding any provision herein to the contrary, the payment of any amount or provision of any benefit pursuant to this Section 3 (other than the Accrued Obligations) shall be conditioned upon a Participant's execution, delivery to the Company, and non-revocation of the Release Agreement (and the expiration of any revocation period contained in such Release Agreement) within 60 days following the date of a Covered Termination. If a Participant fails to execute the Release Agreement in such a timely manner so as to permit any revocation period to expire prior to the end of such 60-day period, or timely revokes his or her acceptance of such release following its execution, such Participant shall not be entitled to payment of any severance and other benefits under the Plan. Further, to the extent that any of the payments hereunder constitute "nonqualified deferred compensation" for purposes of Section 409A of the Code, any payment of any amount or provision of any benefit otherwise scheduled to occur prior to the 60th day following the date of such Covered Termination, but for the condition of executing the Release Agreement as set forth herein, shall not be made until the first regularly scheduled payroll date following such 60th day, after which any remaining payments shall thereafter be provided to the Participant according to the applicable schedule set forth herein.

(e) Clawback/Forfeiture. Notwithstanding any provision herein to the contrary, the payment of any amount or provision of any benefit pursuant to subsections (a) or (b) above (other than the Accrued Obligations) shall be conditioned upon and subject to the Clawback Policy.

4. **Termination or Amendment of the Plan**.

The Plan may be amended, terminated or discontinued in whole or in part, at any time and from time to time at the discretion of the Board or the Committee; *provided*, *however*, that no such amendment, termination or discontinuance shall, without a Participant's consent, adversely affect any Participant that has undergone a Covered Termination prior to the effective date of any such amendment, termination or discontinuance; *provided*, *further*, that following a Change in Control, the Plan may not be amended, terminated or discontinued in whole or in part, at any time prior to the second anniversary of the date of such Change in Control without the written consent of an affected Participant.

5. **Limitation of Certain Payments**.

In the event that any payments and/or benefits due to a Participant under the Plan and/or any other arrangements are determined by the Company to constitute "excess parachute payments" as defined under Section 280G of the Code, any cash severance payable under the Plan shall be reduced by the minimum amount necessary, subject to the last sentence of this paragraph, such that the present value of such parachute payments is below 300% of such Participant's "base amount" (as defined under Section 280G of the Code), and by accepting participation in the Plan, each Participant agrees to waive his or her rights to any "parachute payments" (as defined under Section 280G of the Code) sufficient to reduce such parachute payments to below such threshold; *provided*, *however*, in no event shall such cash severance be reduced below zero. Notwithstanding the foregoing, no payments or benefits shall be reduced under this Section 5 unless (a) the net amount of such payments and benefits, as so reduced (and after subtracting the net amount of federal, state and local income taxes on such reduced payments and after taking into account the phase out of itemized deductions and personal exemptions attributable to such reduced payments and benefits), is greater than or equal to (b) the net amount of such payments without such reduction (but after subtracting the net amount of federal, state and local income taxes on such payments and benefits and the amount of excise tax imposed under Section 4999 of the Code as to which such Participant would be subject in respect of such unreduced payments and benefits and after taking into account the phase out of itemized deductions and personal exemptions attributable to such unreduced payments). Notwithstanding the foregoing, to the extent a Participant is entitled to any reimbursement or gross-up payment with respect to any tax imposed under Section 4999 of the Code, such reimbursement or gross-up payment shall be taken into account before any payments and/or benefits due to such Participant under the Plan and/or any other arrangements are reduced. For purposes hereof, (i) the order in which any amounts are deemed to be reduced, if applicable, is (A) cash payments, (B) other non-cash forms of benefits, and (C) equity-based payments and acceleration of vesting, and (ii) within any such category of payments and benefits (that is, (i)(A), (i)(B) or (i)(C) above), (I) a reduction shall occur first with respect to amounts that are not "deferred compensation" within the meaning of Section 409A of the Code and then with respect to amounts that are and (II) to the extent that any such amounts are to be made over time (e.g., in installments, etc.), then the amounts shall be reduced in reverse chronological order.

6. **Miscellaneous**.

(a) No Right to Continued Employment. Nothing contained in the Plan shall confer upon any Participant any right to continue in the employ of any member of the Company Group nor interfere in any way with the right of the Company to terminate his or her employment, with or without Cause.

(b) Taxes. Severance and other payments and benefits under the Plan will be subject to all required federal, state and local taxes and may be affected by any legally required withholdings. Payments under the Plan are not deemed "compensation" for purposes of the retirement plans, savings plans, and incentive plans of the Company Group. Accordingly, no deductions will be taken for any retirement and savings plan and such plans will not accrue any benefits attributable to payments under the Plan.

(c) Set Off; Mitigation. The Company's obligation to pay the Participant the amounts provided and to make the arrangements provided hereunder shall not be subject to set-off, counterclaim, or recoupment of amounts owed by the Participant to the Company or its Affiliates. The Participant shall not be required to mitigate the amount of any payment provided pursuant to the Plan by seeking other employment or otherwise, and the amount of any payment provided for pursuant to the Plan shall not be reduced by any compensation earned as a result of the Participant's other employment or otherwise.

(d) Incorporated Documents. Appendix C to the Plan is hereby incorporated by reference into the Plan.

(e) Plan Not Funded. Amounts payable under the Plan shall be payable from the general assets of the Company, and no special or separate reserve, fund or deposit shall be made to assure payment of such amounts. No Participant, beneficiary or other Person shall have any right, title or interest in any fund or in any specific asset of the Company by reason of participation hereunder. Neither the provisions of the Plan, nor the creation or adoption of the Plan, nor any action taken pursuant to the provisions of the Plan shall create, or be construed to create, a trust of any kind or a fiduciary relationship between the Company and any Participant, beneficiary or other Person. To the extent that a Participant, beneficiary or other Person acquires a right to receive payment under the Plan, such right shall be no greater than the right of any unsecured general creditor of the Company. Notwithstanding the foregoing, the Company shall have the right to implement or set aside funds in a grantor trust, subject to the claims of the Company's creditors or otherwise, to discharge its obligations under the Plan.

(f) Non-Transferability of Benefits and Interests. All amounts payable under the Plan are non-transferable, and no amount payable under the Plan shall be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge. This Section 6(c) shall not apply to an assignment of a contingency or payment due (i) after the death of a Participant to the deceased Participant's legal representative or beneficiary, or (ii) after the disability of a Participant to the disabled Participant's personal representative.

(g) Discretion of Company, Board and Committee. Any decision made or action taken by, or inaction of, the Company, the Board, the Committee or the Claims Administrator (as defined in Appendix C attached hereto) arising out of or in connection with the creation, amendment, construction, administration, interpretation and effect of the Plan that is within its authority hereunder or applicable law shall be within the absolute discretion of such entity and shall be conclusive and binding upon all Persons. In the case of any conflict, the decision made or action taken by, or inaction of, the Claims Administrator will control. However, with respect to the authorized officers and senior executives, as designated by the Board in its resolutions, any decision made or action taken by, or inaction of, the Committee controls.

(h) Indemnification. Neither the Board nor the Committee, any employee of the Company, nor any Person acting at the direction thereof (each such Person an "Affected Person"), shall have any liability to any Person (including without limitation, any Participant), for any act, omission, interpretation, construction or determination made in connection with the Plan (or any payment made under the Plan). Each Affected Person shall be indemnified and held harmless by the Company against and from any loss, cost, liability or expense (including attorneys' fees) that may be imposed upon or incurred by such Affected Person in connection with or resulting from any action, suit or proceeding to which such Affected Person may be a party or in which such Affected Person may be involved by reason of any action taken or omitted to be taken under the Plan and against and from any and all amounts paid by such Affected Person, with the Company's approval, in settlement thereof, or paid by such Affected Person in satisfaction of any judgment in any such action, suit or proceeding against such Affected Person; *provided*, that the Company shall have the right, at its own expense, to assume and defend any such action, suit or proceeding and, once the Company gives notice of its intent to assume the defense, the Company shall have sole control over such defense with counsel of the Company's choice. The foregoing right of indemnification shall not be available to an Affected Person to the extent that a court of competent jurisdiction in a final judgment or other final adjudication, in either case, not subject to further appeal, determines that the acts or omissions of such Affected Person giving rise to the indemnification claim resulted from such Affected Person's bad faith, fraud or willful wrongful act or omission. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which Affected Persons may be entitled under the Company's organizational documents, as a matter of law, or otherwise, or any other power that the Company may have to indemnify such Person or hold them harmless.

(i) Specified Employees; Section 409A. Notwithstanding anything herein to the contrary, if (i) at the time of a Participant's Covered Termination, such Participant is a "specified employee" as defined in Section 409A of the Code, and the deferral of the commencement of any payments or benefits otherwise payable hereunder as a result of such termination of employment is necessary in order to prevent the imposition of any accelerated or additional tax under Section 409A of the Code, then the commencement of the payment of any such payments or benefits hereunder will be deferred (without any increase or decrease in such payments or benefits ultimately paid or provided to the Participant) until the date that is six months following such Participant's Covered Termination (or the earliest date that is permitted under Section 409A of the Code), and (ii) any other payments of money or other benefits due to the Participant hereunder would cause the application of an accelerated or additional tax under Section 409A of the Code, such payments or other benefits shall be deferred if deferral will make such payment or other benefits compliant under Section 409A of the Code, or otherwise such payment or other benefits shall be restructured, to the extent possible, in a manner, determined by or at the direction of the Committee, that does not cause such an accelerated or additional tax or result in additional cost to the Company. The Company shall consult with its legal counsel and tax advisors in good faith regarding the implementation of this Section 6(f); *provided*, *however*, that none of the Company any other member of the Company Group, or any of their respective employees or representatives, shall have any liability to the Participant with respect thereto. Notwithstanding any provision of the Plan to the contrary, if any benefit provided under the Plan is subject to the provisions of Section 409A of the Code, the provisions of the Plan will be administered, interpreted and construed in a manner necessary to comply with Section 409A of the Code or an exception thereto. Notwithstanding any provision of the Plan to the contrary, in no event shall the Company (or its employees, officers or directors) have any liability to any Participant (or any other Person) due to the failure of the Plan to satisfy the requirements of Section 409A of the Code or any other applicable law. It is intended that each payment provided under this Plan shall be a separate "payment" for purposes of Section 409A of the Code.

(j) No Duplication; Treatment of Other Severance Arrangements. In no event shall any Participant receive the severance benefits provided for herein in addition to severance benefits provided for under any Other Severance Arrangement; *provided*, that if such Participant is covered by any Other Severance Arrangement, such Participant shall be entitled to any amount due and payable under the Plan that is greater than and in addition to the amount due and payable under the Other Severance Arrangment.

(k) Governing Law. All questions pertaining to the construction, regulation, validity and effect of the provisions of the Plan shall be determined in accordance with the laws of Delaware.

(l) Notice. Any notice or other communication required or which may be given pursuant to the Plan shall be in writing and shall be deemed to have been duly given when delivered by hand or overnight courier or two days after it has been mailed by United States express or registered mail, return receipt requested, postage prepaid, addressed to the Company at the address set forth below, or to the Participant at his or her most recent address on file with the Company.

Grocery Outlet Holding Corp.
5650 Hollis Street
Emeryville, CA 94608
c/o Chief Administrative Officer and/or General Counsel

(m) Captions. Captions and headings are given to the sections and subsections of the Plan solely as a convenience to facilitate reference. Such captions and headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

(n) Successors. The Plan shall inure to the benefit of and be binding upon the Company and its successors.

Appendix A

Payments on Covered Termination

Participant	Continuation Period	Cash Severance Amount
Vice President (VP)	9 months	0.75 times the Participant’s Base Salary (i.e. an amount equal to 9 months of the Participant’s Base Salary)
Senior Vice President (SVP) and Executive Vice President (EVP)	12 months	1.0 times the Participant’s (i) Base Salary and (ii) Target Bonus

Appendix B

Payments on Change in Control Covered Termination

Participant	Protection Period	Continuation Period	Cash Severance Amount
Vice President (VP)	12 months	12 months	1.0 times the Participant’s Base Salary
Senior Vice President (SVP) and Executive Vice President (EVP)	18 months	18 months	1.5 times the sum of the Participant’s (i) Base Salary and (ii) Target Bonus

Appendix C

Incorporated Documents

1. **Introduction**. The Plan is not intended to be an "employee pension benefit plan" or "pension plan" within the meaning of Section 3(2) of the Employee Retirement Income Security Act of 1974 (as amended, and the rules, regulations or other interpretive guidance promulgated thereunder, as well as any successor laws in replacement thereof, "ERISA"). Rather, the Plan is intended to be a "welfare benefit plan" within the meaning of Section 3(1) of ERISA and to meet the descriptive requirements of a plan constituting a "severance pay plan" within the meaning of regulations published by the Secretary of Labor at Title 29, Code of Federal Regulations, Section 2510.3-2(b). Accordingly, any benefits paid pursuant to the terms of the Plan are not deferred compensation for purposes of ERISA, and no Participant shall have a vested right to such benefits. To the extent applicable, it is intended that portions of the Plan either comply with or be exempt from the provisions of Section 409A of the Code. The Plan shall be administered in a manner consistent with this intent and any provision that would cause the Plan to fail to either constitute a welfare benefit plan under ERISA or comply with or be exempt from Section 409A of the Code, as the case may be, shall have no force and effect. The Plan, together with its Appendices, serves as both the plan document as required under Section 402 of ERISA as well as a summary plan description as required under Section 104(b) of ERISA. Terms not otherwise defined herein shall have the meaning ascribed to such terms in the Plan.

2. **Claims Procedures**.

(a) Processing Claims. If an individual is not selected for participation in the Plan or does not satisfy the conditions for eligibility in the Plan, he or she is not entitled to benefits and/or payments under the Plan. A claim for benefits under the Plan must be filed in writing within 90 days following the date that of the event giving rise to such individual's claim. If an individual fails to act within the 90-day limit, the individual loses the right to have his or her claim reviewed.

(b) Decision. The processing of claims for benefits and payments under the Plan will be carried out as quickly as possible. If an individual's claim for benefits under the Plan is denied, the individual will receive a written notice of such denial within 90 days of receipt of such individual's claim. In special cases, an additional 90 days may be needed and such individual will be notified in this case within such initial 90-day period. The extension notice will indicate the special circumstances requiring an extension of time and the date by which the Claims Administrator expects to render the benefit determination. For purposes of this Appendix C, "Claims Administrator" means the Committee or such other individual or group of individuals as may be appointed as the claims administrator under the Plan by the Committee from time to time.

(c) Any written notice denying an individual's claim for benefits under the Plan will include:

(i) specific reason or reasons as to why the claim was denied,

(ii) clear reference to the Plan provisions upon which the denial is based,

(iii) a description of any additional material or information to further support the claim, and the reasons why these are necessary, and

(iv) a description of the Plan's review procedures and the time limits applicable to such procedures, including a statement of the individual's right to bring a civil action under Section 502(a) of ERISA following an adverse benefit determination on review.

(d) Request for Review of Denial of Benefits. The individual or his or her authorized representative may request a review of his or her claim by giving written notice to the Claims Administrator. Each individual has the right to have representation, review pertinent documents, and present written issues and comments. An individual shall be provided, upon request and free of charge, reasonable access to, and copies of, all pertinent documents, records, and other information relevant to such individual's claims for benefits. An individual's request must be made not later than 60 days after he or she receives the notice of denial. If an individual fails to act within the 60-day limit, the individual loses the right to have his or her claim reviewed.

(e) Decision on Review. Upon receipt of a request for review from an individual, the Claims Administrator shall make a full and fair evaluation of the denied claim and may require additional documents necessary for such a review. The Claims Administrator shall make a decision within 60 days from receipt of the individual's request. Such decision will take into account all comments, documents, records, and other information submitted by such individual relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. In special cases, an additional 60 days may be needed and such individual will be notified in this case within such initial 60-day period. The extension notice will indicate the special circumstances requiring an extension of time and the date by which the Claims Administrator expects to render the benefit determination. In no event shall the decision be made more than 120 days after receipt of the individual's request for review. The decision on the review shall be in writing and shall include specific reasons for the decision. The final decision of the Claims Administrator shall be conclusive and binding upon all parties having or claiming to have an interest in the matter being reviewed. Any written notice denying an individual's appeal for benefits under the Plan will include:

(i) specific reason or reasons as to why the appeal was denied,

(ii) clear reference to the Plan provisions upon which the denial is based,

(iii) a statement that the individual is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant to the individual's appeal for benefits, and

(iv) a statement describing any voluntary appeals procedures offered by the Plan and the individual's right to obtain the information about such procedures, and a statement of the individual's right to bring a civil action under Section 502(a) of ERISA.

(f) In Case of Clerical Error. If any information regarding an individual is incorrect, and the error affects his or her benefits, the correct information will determine the extent, if any, of the individual's benefits under the Plan.

(g) Legal or Equitable Action. No legal or equitable action for benefits under the Plan or to enforce an individual's rights under the Plan may be brought unless the individual or the individual's authorized representative has followed the Plan's claims, review and appeal procedures set forth in this Section 2 of Appendix C and the benefits requested by the individual have been denied in whole or in part, or there is any other adverse benefit determination by the Claims Administrator. No action at law or in equity in any court or agency to recover benefits under the Plan, to enforce the individual's rights under the Plan, or against the Company or the Committee may be brought at all unless such action is brought no later than the earlier of the end of the applicable limitations period under applicable law (including, but not limited to, ERISA, if applicable) or 12 months after the date the Claims Administrator makes its final decision in the individual's claim or appeal.

3. **Administrative Information About the Policy**.

Name of Plan	Grocery Outlet Holding Corp. Executive Severance Plan
Plan Number	502
Plan Sponsor	Grocery Outlet Holding Corp. 5650 Hollis Street Emeryville, CA 94608 Tel: (510) 845-1999
Employer Identification Number	47-1873201
Plan Administrator	Compensation Committee of the Plan Sponsor
Agent for Service of Legal Process	Corporate Agent for Service of Process
Plan Year	January 1 through December 31
Plan Type	Welfare benefit plan providing severance benefits
Source of Contributions	General assets of the Company

4. **Statement of ERISA Rights**. Participants are entitled to certain rights and protections under ERISA. ERISA provides that Participants under the Plan shall be entitled to:

(a) Receive Information About the Plan and Benefits.

(i) examine, without charge, at the office of the Plan Administrator (as defined in Section 3 of this Appendix C) and at other specified locations, all documents governing the Plan and a copy of the latest annual report (Form 5500 Series) filed by the Plan with the U.S. Department of Labor and available at the Public Disclosure Room of the Employee Benefits Security Administration,

(ii) obtain, upon written request to the Plan Administrator, copies of documents governing the operation of the Plan and copies of the latest annual report (Form 5500 Series) and updated summary plan description. The Plan Administrator may make a reasonable charge for the copies, and

(iii) receive a summary of the Plan's annual financial report, if any is required to be prepared by ERISA. The Plan Administrator is required by law to furnish each Participant with a copy of any summary annual report.

(b) Prudent Actions by Plan Fiduciaries. In addition to creating rights for participants, ERISA imposes duties upon the people who are responsible for the operation of the Plan. The people who operate the Plan, called "fiduciaries" of the Plan, have a duty to do so prudently and in the interest of Participants and beneficiaries. No one, including the Employer or any other Person, may fire an individual or otherwise discriminate against an individual in any way to prevent such individual from obtaining a benefit or exercising such individual's rights under ERISA.

(c) Enforce Participant Rights. If a Participant's claim is denied or ignored, in whole or in part, such Participant has a right to know why this was done, to obtain copies of documents relating to the decision without charge, and to appeal any denial, all within certain time schedules, as set forth in Section 2 of this Appendix C. Under ERISA, there are steps Participants can take to enforce the above rights. For instance, if a Participant requests a copy of Plan documents or the latest annual report from the Plan Administrator and does not receive them within 30 days, such Participant may file suit in Federal court. In such a case, the court may require the Plan Administrator to provide the materials and pay such Participant up to $110 a day until such Participant receives the materials, unless the materials were not sent because of reasons beyond the control of the Plan Administrator. If a Participant has a claim for benefits which is denied or ignored, in whole or in part, such Participant may file suit in a state or Federal court. If it should happen that Plan fiduciaries misuse the Plan's money, or if a Participant is discriminated against for asserting such Participant's rights, such Participant may seek assistance from the U.S. Department of Labor, or such Participant may file suit in a Federal court. The court will decide who should pay court costs and legal fees. If the Participant is successful, the court may order the person such Participant sued to pay these costs and fees. If the Participant loses, the court may order such Participant to pay these costs and fees, for example, if it finds such Participant's claim is frivolous. However, no legal or equitable action may be commenced or maintained against the Plan prior to the exhaustion of the Plan's claims, review and appeals process described in Section 2 of this Appendix C.

(d) Assistance with Participant Questions. If a Participant has questions about the Plan, such Participant should contact the Plan Administrator. If a Participant has questions about this Appendix C or about such Participant's rights under ERISA, such Participant should contact the nearest office of the Employee Benefits Security Administration, U.S. Department of Labor, listed in your telephone directory or the Division of Technical Assistance and Inquiries, Employee Benefits Security Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, D.C. 20210. A Participant may also obtain certain publications about such Participant's rights and responsibilities under ERISA by calling the publications hotline of the Employee Benefits Security Administration at 1-866-444-3272.

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Eric J. Lindberg, 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)) 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. 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

   c. 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: November 10, 2020

By: /s/ Eric J. Lindberg, Jr.
Eric J. Lindberg, Jr.
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

**PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Charles Bracher, 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)) 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. 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

   c. 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: November 10, 2020

By: /s/ Charles Bracher
Charles Bracher
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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

In connection with the Quarterly Report of Grocery Outlet Holding Corp. (the "Company") on Form 10-Q for the period ended September 26, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eric J. Lindberg, 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: November 10, 2020

By: /s/ Eric J. Lindberg, Jr.
Eric J. Lindberg, Jr.
Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

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

In connection with the Quarterly Report of Grocery Outlet Holding Corp. (the “Company”) on Form 10-Q for the period ended September 26, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Charles Bracher, 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: November 10, 2020

By: /s/ Charles Bracher
Charles Bracher
Chief Financial Officer
(Principal Financial Officer)