

**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 April 1, 2023
OR

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

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



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

Delaware
(State or other jurisdiction of
incorporation or organization)

5650 Hollis Street, Emeryville, California
(Address of principal executive offices)

(510) 845-1999

(Registrant's telephone number, including area code)

47-1874201
(I.R.S. Employer
Identification No.)

94608
(Zip 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 | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

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

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

As of May 4, 2023, the registrant had 98,286,452 shares of common stock outstanding.

**GROCERY OUTLET HOLDING CORP.
FORM 10-Q**

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q ("Form 10-Q" or "report") constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained in this report other than statements of historical fact may constitute forward-looking statements, including statements regarding our future operating results and financial position, our business strategy and plans, business and market trends, our objectives for future operations, macroeconomic and geopolitical conditions, and the sufficiency of our cash balances, working capital and cash generated from operating, investing and financing activities for our future liquidity and capital resource needs. Words such as "anticipate," "believe," "estimate," "expect," "intend," "may," "outlook," "plan," "project," "seek," "will," and similar expressions, are intended to identify such forward-looking statements. These forward-looking statements are subject to a number of risks, uncertainties and assumptions that may cause actual results to differ materially from those expressed or implied by any forward-looking statements we make, including those described under the headings "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022, and as described in other subsequent reports we file with the United States ("U.S.") Securities and Exchange Commission (the "SEC"), including this report. We encourage you to read this report and our other filings with the SEC carefully. Moreover, we operate in a very competitive and rapidly changing environment and new risks emerge from time to time.

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

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

Website Disclosure

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

| | April 1, 2023 | December 31, 2022 |
|-------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 82,115 | \$ 102,728 |
| Independent operator receivables and current portion of independent operator notes, net of allowance \$5,273 and \$2,238 | 8,693 | 10,805 |
| Other accounts receivable, net of allowance \$28 and \$7 | 4,277 | 4,368 |
| Merchandise inventories | 316,397 | 334,319 |
| Prepaid expenses and other current assets | 15,725 | 15,137 |
| Total current assets | 427,207 | 467,357 |
| Independent operator notes and receivables, net of allowance \$10,684 and \$12,509 | 24,914 | 22,535 |
| Property and equipment, net | 574,225 | 560,746 |
| Operating lease right-of-use assets | 917,175 | 902,163 |
| Intangible assets, net | 68,713 | 63,993 |
| Goodwill | 747,943 | 747,943 |
| Other assets | 9,504 | 7,667 |
| Total assets | <u>\$ 2,769,681</u> | <u>\$ 2,772,404</u> |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Trade accounts payable | \$ 158,618 | \$ 137,631 |
| Accrued and other current liabilities | 55,586 | 53,213 |
| Accrued compensation | 13,249 | 27,194 |
| Current portion of long-term debt | 5,625 | — |
| Current lease liabilities | 58,754 | 54,586 |
| Income and other taxes payable | 9,107 | 7,890 |
| Total current liabilities | 300,939 | 280,514 |
| Long-term debt, net | 317,436 | 379,650 |
| Deferred income tax liabilities, net | 25,912 | 19,782 |
| Long-term lease liabilities | 996,427 | 980,759 |
| Other long-term liabilities | 1,428 | 1,485 |
| Total liabilities | 1,642,142 | 1,662,190 |
| Commitments and contingencies (Note 8) | | |
| Stockholders' equity: | | |
| Common stock, par value \$0.001 per share, 500,000,000 shares authorized; 98,285,804 and 97,674,356 shares issued and outstanding, respectively | 98 | 98 |
| Series A preferred stock, par value \$0.001 per share, 50,000,000 shares authorized; no shares issued and outstanding | — | — |
| Additional paid-in capital | 851,194 | 847,589 |
| Retained earnings | 276,247 | 262,527 |
| Total stockholders' equity | 1,127,539 | 1,110,214 |
| Total liabilities and stockholders' equity | <u>\$ 2,769,681</u> | <u>\$ 2,772,404</u> |

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 | |
|----------------------------------------------|------------------|------------------|
| | April 1, 2023 | April 2, 2022 |
| Net sales | \$ 965,467 | \$ 831,427 |
| Cost of sales | 664,924 | 580,538 |
| Gross profit | 300,543 | 250,889 |
| Selling, general and administrative expenses | 267,725 | 231,461 |
| Income from operations | 32,818 | 19,428 |
| Other expenses: | | |
| Interest expense, net | 5,919 | 3,682 |
| Loss on debt extinguishment and modification | 5,340 | — |
| Total other expenses | 11,259 | 3,682 |
| Income before income taxes | 21,559 | 15,746 |
| Income tax expense | 7,839 | 4,172 |
| Net income and comprehensive income | \$ 13,720 | \$ 11,574 |
| Basic earnings per share | \$ 0.14 | \$ 0.12 |
| Diluted earnings per share | \$ 0.14 | \$ 0.12 |
| Weighted average shares outstanding: | | |
| Basic | 97,920 | 96,148 |
| Diluted | 100,569 | 99,434 |

See Notes to Condensed Consolidated Financial Statements

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

| | Common Stock | | Additional Paid-In Capital | Retained Earnings | Stockholders' Equity |
|--------------------------------------------|-------------------|--------------|-------------------------------|----------------------|-------------------------|
| | Shares | Amount | | | |
| Balance as of December 31, 2022 | 97,674,356 | \$ 98 | \$ 847,589 | \$ 262,527 | \$ 1,110,214 |
| Exercise and vesting of share-based awards | 734,310 | — | 204 | — | 204 |
| Share-based compensation expense | — | — | 6,676 | — | 6,676 |
| Repurchase of common stock | (122,862) | — | (3,275) | — | (3,275) |
| Net income and comprehensive income | — | — | — | 13,720 | 13,720 |
| Balance as of April 1, 2023 | <u>98,285,804</u> | <u>\$ 98</u> | <u>\$ 851,194</u> | <u>\$ 276,247</u> | <u>\$ 1,127,539</u> |

See Notes to Condensed Consolidated Financial Statements

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

| | Common Stock | | Additional Paid-In Capital | Retained Earnings | Stockholders' Equity |
|--------------------------------------------|-------------------|--------------|-------------------------------|----------------------|-------------------------|
| | Shares | Amount | | | |
| Balance as of January 1, 2022 | 96,144,433 | \$ 96 | \$ 811,701 | \$ 197,475 | \$ 1,009,272 |
| Exercise and vesting of share-based awards | 276,473 | — | 887 | — | 887 |
| Share-based compensation expense | — | — | 5,795 | — | 5,795 |
| Repurchase of common stock | (139,718) | — | (3,451) | — | (3,451) |
| Dividends paid | — | — | (7) | — | (7) |
| Net income and comprehensive income | — | — | — | 11,574 | 11,574 |
| Balance as of April 2, 2022 | <u>96,281,188</u> | <u>\$ 96</u> | <u>\$ 814,925</u> | <u>\$ 209,049</u> | <u>\$ 1,024,070</u> |

See Notes to Condensed Consolidated Financial Statements

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

| | 13 Weeks Ended | |
|-----------------------------------------------------------------------------------|------------------|------------------|
| | April 1, 2023 | April 2, 2022 |
| Cash flows from operating activities: | | |
| Net income | \$ 13,720 | \$ 11,574 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation of property and equipment | 18,309 | 17,120 |
| Amortization of intangible and other assets | 2,366 | 1,870 |
| Amortization of debt issuance costs and debt discounts | 401 | 628 |
| Non-cash rent | 1,144 | 1,936 |
| Loss on debt extinguishment and modification | 5,340 | — |
| Share-based compensation | 6,676 | 5,795 |
| Provision for accounts receivable reserves | 1,369 | 1,233 |
| Deferred income taxes | 6,130 | 4,056 |
| Other | 105 | 362 |
| Changes in operating assets and liabilities: | | |
| Independent operator and other accounts receivable | (2,008) | (1,752) |
| Merchandise inventories | 17,922 | (21,892) |
| Prepaid expenses and other assets | (397) | 2,620 |
| Income and other taxes payable | 1,217 | 265 |
| Trade accounts payable, accrued compensation and other liabilities | 11,343 | 9,340 |
| Operating lease liabilities | 3,995 | 3,174 |
| Net cash provided by operating activities | 87,632 | 36,329 |
| Cash flows from investing activities: | | |
| Advances to independent operators | (1,547) | (2,402) |
| Repayments of advances from independent operators | 2,010 | 1,667 |
| Purchases of property and equipment | (32,894) | (32,109) |
| Proceeds from sales of assets | 20 | 29 |
| Investments in intangible assets and licenses | (7,936) | (2,707) |
| Net cash used in investing activities | (40,347) | (35,522) |
| Cash flows from financing activities: | | |
| Proceeds from exercise of stock options | 204 | 887 |
| Proceeds from senior term loan due 2028 | 300,000 | — |
| Proceeds from revolving credit facility | 25,000 | — |
| Principal payments on senior term loan due 2025 | (385,000) | — |
| Principal payments on finance leases | (320) | (325) |
| Repurchase of common stock | (3,275) | (3,451) |
| Dividends paid | — | (7) |
| Debt issuance costs paid | (4,507) | — |
| Net cash used in financing activities | (67,898) | (2,896) |
| Net decrease in cash and cash equivalents | (20,613) | (2,089) |
| Cash and cash equivalents at beginning of period | 102,728 | 140,085 |
| Cash and cash equivalents at end of period | \$ 82,115 | \$ 137,996 |

See Notes to Condensed Consolidated Financial Statements

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

Note 1. Organization and Summary of Significant Accounting Policies

Description of Business — Based in Emeryville, California, and incorporated in Delaware in 2014, Grocery Outlet Holding Corp. (together with its wholly owned subsidiaries, collectively, "Grocery Outlet," "we," or the "Company") is a high-growth, extreme value retailer of quality, name-brand consumables and fresh products sold through a network of independently operated stores. As of April 1, 2023, we had 444 stores throughout California, Washington, Oregon, Pennsylvania, Idaho, Nevada, Maryland and New Jersey.

Basis of Presentation — The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and the applicable rules and regulations of the United States ("U.S.") Securities and Exchange Commission (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 31, 2022 (the "2022 Form 10-K"). The condensed consolidated balance sheet as of December 31, 2022 included herein has been derived from those audited consolidated financial statements.

Our unaudited condensed consolidated financial statements include the accounts of Grocery Outlet Holding Corp. and its wholly owned subsidiaries. All intercompany balances and transactions were eliminated. In the opinion of management, these condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the results for the periods presented. The interim results of operations and cash flows are not necessarily indicative of those results and cash flows expected for any future interim or annual period. Certain prior period amounts in the condensed consolidated statements of operations and comprehensive income have been reclassified to conform to the current period presentation. Specifically, in order to enhance the comparability of our results with our peers, depreciation and amortization expenses and share-based compensation expenses are now included in selling, general and administrative expenses. The reclassification of these items had no impact on net income, earnings per share, or retained earnings in the current or prior periods.

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

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

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

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

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

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

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

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

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

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

There were no assets or liabilities measured at fair value on a recurring or non-recurring basis as of April 1, 2023 or December 31, 2022. Generally, assets are recorded at fair value on a non-recurring basis as a result of impairment charges. There were no transfers of assets or liabilities between levels within the fair value hierarchy during the 13 weeks ended April 1, 2023.

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

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

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

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

| | April 1, 2023 | | December 31, 2022 | |
|---------------------------------------|--------------------------------|-------------------------------------|--------------------------------|-------------------------------------|
| | Carrying Amount ⁽¹⁾ | Estimated Fair Value ⁽²⁾ | Carrying Amount ⁽¹⁾ | Estimated Fair Value ⁽³⁾ |
| Financial Liabilities: | | | | |
| Senior term loans (Level 2) | \$ 298,061 | \$ 300,000 | \$ 379,650 | \$ 383,075 |
| Revolving credit facilities (Level 2) | \$ 25,000 | \$ 25,000 | \$ — | \$ — |

(1) The carrying amounts of our senior term loans as of April 1, 2023 and December 31, 2022 are net of unamortized debt discounts of zero and \$0.6 million, respectively, and debt issuance costs of \$1.9 million and \$4.7 million, respectively.

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

(3) The estimated fair value of our prior senior term loan, as defined in Note 3, was determined based on the average quoted bid-ask prices for the prior senior term loan 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. For e-commerce related sales in which a third-party provides home delivery service, revenue is recognized upon delivery to the customer. Our performance obligations are satisfied upon the transfer of goods to the customer, at the point of sale, and payment from customers is also due at the time of sale. Discounts provided to customers by us are recognized at the time of sale as a reduction in net sales as the products are sold. Discounts provided by IOs are not recognized as a reduction in net sales as these are provided solely by the IO who bears the incremental costs arising from the discount. We do not accept manufacturer coupons.

We do not have any material contract assets or receivables from contracts with customers, any revenue recognized in the current year from performance obligations satisfied in previous periods, any material performance obligations other than our gift card deferred revenue liability, or any material costs to obtain or fulfill a contract as of April 1, 2023 and December 31, 2022.

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 \$2.9 million and \$3.6 million as of April 1, 2023 and December 31, 2022, respectively. Breakage amounts were immaterial for the 13 weeks ended April 1, 2023 and April 2, 2022.

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

| | 13 Weeks Ended | |
|-------------------------------|-------------------|-------------------|
| | April 1, 2023 | April 2, 2022 |
| Perishable ⁽¹⁾ | \$ 345,839 | \$ 300,842 |
| Non-perishable ⁽²⁾ | 619,628 | 530,585 |
| Total net sales | \$ 965,467 | \$ 831,427 |

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

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

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

We had 441, 438 and 414 stores operated by IOs as of April 1, 2023, December 31, 2022 and April 2, 2022, respectively. We have agreements in place with each IO. The IO orders merchandise exclusively from us which is provided to the IO on consignment. Under the Independent Operator Agreement (the "Operator Agreement"), the IO selects a majority of merchandise that we consign to the IO, which the IO chooses from our merchandise order guide according to the IO's knowledge and experience with local customer purchasing trends, preferences, historical sales and similar factors. The Operator Agreement gives the IO discretion to adjust our initial prices if the overall effect of all price changes at any time comports with the reputation of our Grocery Outlet retail stores for selling quality, name-brand consumables and fresh products and other merchandise at extreme discounts. The IO is required to furnish initial working capital and to acquire certain store and safety assets. The IO is also required to hire, train and employ a properly trained workforce sufficient in number to enable the IO to fulfill its obligations under the Operator Agreement. Additionally, the IO is responsible for expenses required for business operations, including all labor costs, utilities, credit card processing fees, supplies, taxes, fines, levies and other expenses. Either party may terminate the Operator Agreement without cause upon 75 days' notice.

As consignor of all merchandise to each IO, the aggregate net sales proceeds from merchandise sales belongs to us. Net sales related to IO stores were \$951.6 million and \$817.0 million for the 13 weeks ended April 1, 2023 and April 2, 2022, respectively. We, in turn, pay each IO a commission based on a share of the gross profit of the store. Inventories and related net sales proceeds are our property, and we are responsible for store rent and related occupancy costs. IO commissions are expensed and included in SG&A. IO commissions were \$145.2 million and \$122.7 million for the 13 weeks ended April 1, 2023 and April 2, 2022, respectively. IO commissions of \$8.5 million and \$6.2 million were included in accrued and other current liabilities as of April 1, 2023 and December 31, 2022, respectively.

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

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

Our maximum exposure, in accordance with ASC Topic 810, to the IOs is generally limited to the IO notes and IO receivables due from these entities, which was \$49.6 million and \$48.1 million as of April 1, 2023 and December 31, 2022, respectively. See Note 2 for additional information.

Recently Adopted Accounting Standards

Accounting Standards Update ("ASU") No. 2022-02 — In March 2022, the Financial Accounting Standards Board issued ASU No. 2022-02, Troubled Debt Restructurings and Vintage Disclosures ("ASU 2022-02"). ASU 2022-02 eliminates the accounting guidance on troubled debt restructurings for creditors in ASC Topic 310 and amends the guidance on "vintage disclosures" to require disclosure of current-period gross write-offs by year of origination. ASU 2022-02 also updates the requirements related to accounting for credit losses under ASC Topic 326 and adds enhanced disclosures for creditors with respect to loan refinancings and restructurings for borrowers experiencing financial difficulty. ASU 2022-02 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. We adopted ASU 2022-02 beginning in the first quarter of fiscal 2023. The adoption of ASU 2022-02 had no material impact on our condensed consolidated financial statements.

Recently Issued Accounting Pronouncements

No recently issued accounting pronouncements are expected to have a material effect in our condensed consolidated financial statements.

Note 2. Independent Operator Notes and Independent Operator Receivables

The amounts included in IO notes and IO receivables consist primarily of funds we loaned to IOs, net of estimated uncollectible amounts. IO notes, which are payable on demand and have no maturity date, typically bear interest at rates between 3.00% and 9.95%. Accrued interest receivable on IO notes is included within the "independent operator receivables and current portion of independent operator notes, net of allowance" line item on the condensed consolidated balance sheets and was \$1.1 million and \$0.9 million as of April 1, 2023 and December 31, 2022, respectively. There were no IO notes that were past due or on a non-accrual status due to delinquency as of April 1, 2023 or December 31, 2022.

Notes and receivables from our IOs participating in our TCAP, as defined below, are not considered to be past due or on a non-accrual status due to delinquency and are excluded from such measures.

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

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

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

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

Amounts due from IOs and the related allowances as of April 1, 2023 and December 31, 2022 consisted of the following (amounts in thousands):

| | Gross | Allowance | | Net | Current Portion | Long-term Portion |
|----------------------------------|-----------|-----------------|-------------------|-----------|-----------------|-------------------|
| | | Current Portion | Long-term Portion | | | |
| April 1, 2023 | | | | | | |
| Independent operator notes | \$ 37,467 | \$ (822) | \$ (9,905) | \$ 26,740 | \$ 1,826 | \$ 24,914 |
| Independent operator receivables | 12,097 | (4,451) | (779) | 6,867 | 6,867 | — |
| Total | \$ 49,564 | \$ (5,273) | \$ (10,684) | \$ 33,607 | \$ 8,693 | \$ 24,914 |
| December 31, 2022 | | | | | | |
| Independent operator notes | \$ 37,522 | \$ (700) | \$ (12,509) | \$ 24,313 | \$ 1,778 | \$ 22,535 |
| Independent operator receivables | 10,565 | (1,538) | — | 9,027 | 9,027 | — |
| Total | \$ 48,087 | \$ (2,238) | \$ (12,509) | \$ 33,340 | \$ 10,805 | \$ 22,535 |

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

| | 13 Weeks Ended | |
|--------------------------------------------------------|----------------|---------------|
| | April 1, 2023 | April 2, 2022 |
| Beginning balance | \$ 14,747 | \$ 11,912 |
| Provision for IO notes and IO receivables reserves | 1,348 | 1,207 |
| Write-off of provision for IO notes and IO receivables | (138) | (572) |
| Ending Balance | \$ 15,957 | \$ 12,547 |

The following table presents the amortized cost basis of IO notes by year of origination and credit quality indicator as of April 1, 2023 (amounts in thousands):

| Credit Quality Indicator | 2023 (YTD) | 2022 | 2021 | 2020 | 2019 | Prior | Total |
|--------------------------|------------|-----------|----------|----------|----------|----------|-----------|
| TCAP | \$ 447 | \$ 5,147 | \$ 5,317 | \$ 2,748 | \$ 522 | \$ 958 | \$ 15,139 |
| Non-TCAP | 861 | 4,227 | 3,097 | 2,685 | 1,978 | 1,981 | 14,829 |
| New store | 1,380 | 5,357 | 762 | — | — | — | 7,499 |
| Total | \$ 2,688 | \$ 14,731 | \$ 9,176 | \$ 5,433 | \$ 2,500 | \$ 2,939 | \$ 37,467 |

TCAP IO Notes

Notes of IOs participating in our TCAP represented 51.4% and 49.7% of total IO notes balances as of April 1, 2023 and December 31, 2022, respectively.

A total of \$1.8 million of IO notes were moved into our TCAP during the 13 weeks ended April 1, 2023. The weighted average contractual interest rate of such IO notes was reduced from 9.95% to 3.00%. In addition, \$1.0 million of IO notes were transferred from TCAP to Non-TCAP during the 13 weeks ended April 1, 2023.

Note 3. Long-term Debt

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

| | April 1, 2023 | December 31, 2022 |
|-------------------------------------------------------------------------|------------------|----------------------|
| Senior term loan due 2025 | \$ — | \$ 385,000 |
| Senior term loan due 2028 | 300,000 | — |
| Revolving credit facility | 25,000 | — |
| Long-term debt, gross | 325,000 | 385,000 |
| Less: Unamortized debt issuance costs and debt discounts | (1,939) | (5,350) |
| Long-term debt, less unamortized debt discounts and debt issuance costs | 323,061 | 379,650 |
| Less: Current portion | (5,625) | — |
| Long-term debt, net | \$ 317,436 | \$ 379,650 |

2023 Credit Agreement

On February 21, 2023, we entered into a credit agreement with Bank of America, N.A., as administrative agent and collateral agent, and the other parties party thereto (the "2023 Credit Agreement"). The 2023 Credit Agreement provides for senior secured credit facilities consisting of (i) a senior secured term loan facility (the "senior term loan") in an aggregate principal amount of \$300.0 million and (ii) a senior secured revolving credit facility (the "revolving credit facility" and, together with the senior term loan, the "new credit facilities") in an aggregate principal amount of \$400.0 million. The revolving credit facility includes sub-commitments for \$50.0 million letters of credit and \$25.0 million of swingline loans. The senior term loan was borrowed in full at closing, and \$25.0 million of the revolving credit facility was borrowed at closing.

Also on February 21, 2023, we repaid all of the outstanding indebtedness under our Prior First Lien Credit Agreement, defined below, as well as fees and expenses in connection therewith. All obligations of the Company's subsidiaries under the Prior First Lien Credit Agreement were discharged as of such date. In connection with the closing of the 2023 Credit Agreement and repayment of the Prior First Lien Credit Agreement and in accordance with ASC Topic 470-50, Debt-Modifications and Extinguishments, we wrote off \$5.1 million of previously unamortized debt issuance costs and debt discounts and incurred \$0.2 million in debt modification costs, which were recorded within loss on debt extinguishment and modification for the 13 weeks ended April 1, 2023. Furthermore, a total of \$4.6 million of creditor and third-party debt issuance costs were capitalized or carried over from the prior credit facilities, as defined below, and will be amortized over the term of the new credit facilities.

Borrowings under the 2023 Credit Agreement bear interest at a rate equal to, at our option, either (a) the base rate, which is defined as a fluctuating rate per annum equal to the greatest of (i) the federal funds rate then in effect, plus 0.50%, (ii) the prime rate then in effect and (iii) a specified Term SOFR (as defined in the 2023 Credit Agreement) rate plus 1.00%, subject to the interest rate floors set forth therein, plus an applicable margin ranging from 0.75% to 1.75% based on our Total Net Leverage Ratio (as defined in the 2023 Credit Agreement); and (b) an adjusted Term SOFR rate determined

on the basis of a one, three or six month interest period, plus 0.10%, subject to the interest rate floors set forth therein, plus an applicable margin ranging from 1.75% to 2.75% based on our Total Net Leverage Ratio. As of April 1, 2023, interest on borrowings under the new credit facilities was based on one-month Term SOFR with an applicable margin of 2.25%.

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

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

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

Senior Term Loan due 2028

Our \$300.0 million senior term loan under our 2023 Credit Agreement matures on February 21, 2028 and had an interest rate of 7.11% as of April 1, 2023.

Revolving Credit Facility

As of April 1, 2023 we had \$3.5 million of outstanding letters of credit and \$371.5 million of remaining borrowing capacity available under the revolving credit facility, which matures on February 21, 2028. The interest rate on the revolving credit facility was 7.11% as of April 1, 2023. As discussed above, \$25.0 million of the revolving credit facility was borrowed at closing and remained outstanding as of April 1, 2023.

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

Prior First Lien Credit Agreement

GOBP Holdings, Inc., our wholly owned subsidiary, was the borrower under a first lien credit agreement (the "Prior First Lien Credit Agreement") with a syndicate of lenders that consisted of a \$385.0 million senior term loan (the "prior senior term loan") and a revolving credit facility (the "prior revolving credit facility" and, together with the prior senior term loan, the "prior credit facilities") for an amount up to \$100.0 million.

Prior Senior Term Loan due 2025

Our prior senior term loan under our Prior First Lien Credit Agreement had a maturity of October 22, 2025 and had an applicable margin of 2.75% for Eurodollar loans and 1.75% for base rate loans.

On April 29, 2022, we prepaid \$75.0 million of principal on the prior senior term loan outstanding under our Prior First Lien Credit Agreement. In connection with the payment, we wrote off \$1.3 million of previously unamortized debt issuance costs and debt discounts.

As discussed above, on February 21, 2023, in connection with the closing of the 2023 Credit Agreement, we repaid the remaining \$385.0 million of principal on the prior senior term loan outstanding under our Prior First Lien Credit Agreement.

Prior Revolving Credit Facility

Our prior revolving credit facility under our Prior First Lien Credit Agreement had a maturity of October 23, 2023. No amounts were outstanding under the prior revolving credit facility as of December 31, 2022 and no amounts were outstanding as of final repayment of the Prior First Lien Credit Agreement.

We were required to pay a quarterly commitment fee ranging from 0.25% to 0.50% on the daily unused amount of the commitment under the prior revolving credit facility based upon the leverage ratio defined in the agreement and certain criteria specified in the agreement. We were also required to pay fronting fees and other customary fees for letters of credit issued under the prior revolving credit facility.

Debt Covenants

The 2023 Credit Agreement contains certain customary representations and warranties, subject to limitations and exceptions, and affirmative and customary covenants. The 2023 Credit Agreement contains certain covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to: pay dividends or distributions, repurchase equity, prepay junior debt and make certain investments; incur additional debt or issue certain disqualified stock and preferred stock; incur liens on assets; merge or consolidate with another company or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its assets; enter into transactions with affiliates; and allow to exist certain restrictions on the ability of subsidiaries to pay dividends or make other payments to the borrower. The 2023 Credit Agreement also contains financial performance covenants requiring us to satisfy a maximum total net leverage ratio test and a minimum interest coverage ratio test as of the last day of each fiscal quarter ending on or after April 1, 2023. The maximum total net leverage ratio test requires us to be in compliance with a Total Net Leverage Ratio no greater than 3.50 to 1.00 as of the last day of each test period ending prior to the test period ending on or about December 31, 2025, and no greater than 3.25 to 1.00 as of the last day of each test period ending thereafter, subject to certain adjustments set forth in the 2023 Credit Agreement. The minimum interest coverage ratio test requires us to be in compliance with a Consolidated Interest Coverage Ratio (as defined in the 2023 Credit Agreement) no less than 1.75 to 1.00 as of the last day of each test period.

As of April 1, 2023, we were in compliance with all applicable financial covenant requirements for our 2023 Credit Agreement.

Schedule of Principal Maturities

Principal maturities of debt as of April 1, 2023 are as follows (amounts in thousands):

| | | |
|--------------------------|----|----------------|
| Remainder of fiscal 2023 | \$ | 3,750 |
| Fiscal 2024 | | 7,500 |
| Fiscal 2025 | | 15,000 |
| Fiscal 2026 | | 15,000 |
| Fiscal 2027 | | 15,000 |
| Thereafter | | 268,750 |
| Total | \$ | <u>325,000</u> |

Interest Expense, Net

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

| | 13 Weeks Ended | |
|--------------------------------------------------------|------------------|------------------|
| | April 1, 2023 | April 2, 2022 |
| Interest on loans | \$ 7,107 | \$ 3,531 |
| Amortization of debt issuance costs and debt discounts | 401 | 628 |
| Interest on finance leases | 72 | 90 |
| Interest income | (1,661) | (567) |
| Interest expense, net | <u>\$ 5,919</u> | <u>\$ 3,682</u> |

Loss on Debt Extinguishment and Modification

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

| | 13 Weeks Ended | |
|----------------------------------------------|------------------|------------------|
| | April 1, 2023 | April 2, 2022 |
| Write off of debt issuance costs | \$ 4,518 | \$ — |
| Write off of debt discounts | 578 | — |
| Debt modification costs | 244 | — |
| Loss on debt extinguishment and modification | <u>\$ 5,340</u> | <u>\$ —</u> |

Note 4. Stockholders' Equity

Share Repurchase Program

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

During the 13 weeks ended April 1, 2023, we repurchased 122,862 shares of common stock totaling \$3.3 million at an average price of \$26.66 per share in open-market transactions pursuant to a Rule 10b5-1 plan.

During the 13 weeks ended April 2, 2022, we repurchased 139,718 shares of common stock totaling \$3.5 million at an average price of \$24.70 per share in open-market transactions pursuant to a Rule 10b5-1 plan.

As of April 1, 2023, we had \$93.3 million of repurchase authority remaining under the share repurchase program.

Note 5. Share-based Awards

For a discussion of our share-based incentive plans, refer to Note 8 of our 2022 Form 10-K.

Share-based Award Activity

The following table summarizes stock option activity under all equity incentive plans during the 13 weeks ended April 1, 2023:

| | 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 31, 2022 | 2,562,774 | \$ 12.13 | 801,635 | \$ 4.68 |
| Exercised | (20,278) | 10.08 | — | — |
| Forfeitures | (1,577) | 22.00 | — | — |
| Options outstanding as of April 1, 2023 | <u>2,540,919</u> | \$ 12.14 | <u>801,635</u> | \$ 4.68 |
| Options vested and exercisable as of April 1, 2023 | <u>1,696,785</u> | \$ 7.46 | <u>801,635</u> | \$ 4.68 |

The following table summarizes restricted stock unit ("RSU") activity under all equity incentive plans during the 13 weeks ended April 1, 2023:

| | Number of Shares | Weighted-Average Grant Date Fair Value |
|------------------------------------------|------------------|-------------------------------------------|
| Unvested balance as of December 31, 2022 | 690,354 | \$ 31.79 |
| Granted | 439,297 | 27.29 |
| Vested | (289,969) | 32.45 |
| Forfeitures | (13,097) | 31.35 |
| Unvested balance as of April 1, 2023 | <u>826,585</u> | <u>\$ 29.17</u> |

The following table summarizes performance-based restricted stock unit ("PSU") activity under the Grocery Outlet Holding Corp. 2019 Incentive Plan during the 13 weeks ended April 1, 2023:

| | Number of Shares | Weighted-Average Grant Date Fair Value |
|----------------------------------------------------------------|------------------|-------------------------------------------|
| Unvested balance as of December 31, 2022 | 1,331,803 | \$ 32.89 |
| Granted ⁽¹⁾ | 433,241 | 27.29 |
| Adjustment for expected performance achievement ⁽²⁾ | 65,355 | 31.83 |
| Vested | (436,522) | 36.90 |
| Forfeitures | (7,097) | 31.71 |
| Unvested balance as of April 1, 2023 ⁽³⁾ | <u>1,386,780</u> | <u>\$ 29.83</u> |

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

(2) Represents the adjustment to previously granted PSUs based on performance expectations as of April 1, 2023.

(3) An additional 785,582 PSUs could potentially be included if the maximum performance level of 200% is reached for all PSUs outstanding as of April 1, 2023.

Share-based Compensation Expense

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

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

| | 13 Weeks Ended | |
|----------------------------------|------------------|------------------|
| | April 1, 2023 | April 2, 2022 |
| Time-based stock options | \$ 408 | \$ 458 |
| RSUs | 2,495 | 3,325 |
| PSUs | 3,773 | 2,005 |
| Dividends ⁽¹⁾ | — | 7 |
| Share-based compensation expense | <u>\$ 6,676</u> | <u>\$ 5,795</u> |

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

Note 6. Income Taxes

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

| | 13 Weeks Ended | |
|---------------------------|------------------|------------------|
| | April 1, 2023 | April 2, 2022 |
| Income tax expense | \$ 7,839 | \$ 4,172 |
| Effective income tax rate | 36.4 % | 26.5 % |

The Company's tax provision for interim periods is determined using an estimated annual effective tax rate, adjusted for discrete events arising in each respective quarter. During each interim period, the Company updates the estimated annual effective tax rate. Our effective income tax rate for the 13 weeks ended April 1, 2023 was higher than the combined U.S. federal and state statutory income tax rate primarily due to excess tax expense related to the vesting of RSUs and PSUs below their grant price. The increase in our effective income tax rate for the 13 weeks ended April 1, 2023 compared to the 13 weeks ended April 2, 2022 was primarily driven by the above mentioned excess tax expense related to the vesting of RSUs and PSUs below their grant price during the 13 weeks ended April 1, 2023 as compared to excess tax benefits from the exercise of stock options and vesting of RSUs during the 13 weeks ended April 2, 2022.

Our policy is to recognize interest and penalties associated with uncertain tax positions as part of the income tax provision in our condensed consolidated statements of operations and comprehensive income and include accrued interest and penalties with the related income tax liability on our condensed consolidated balance sheets. To date, we have not recognized any interest and penalties, nor have we accrued for or made payments for interest and penalties. We had no uncertain tax positions as of April 1, 2023 and December 31, 2022, respectively, and do not anticipate any changes to our uncertain tax positions within the next 12 months.

Note 7. Related Party Transactions***Related Party Leases***

As of April 1, 2023 and April 2, 2022, we leased 14 and 15 store locations, respectively, and one warehouse location from entities in which Eric Lindberg, Jr., Chairman of our Board of Directors (and formerly our Chief Executive Officer until December 31, 2022), and MacGregor Read, Jr., who served as Vice Chairman of our Board of Directors until September 1, 2022, or their respective families, had a direct or indirect financial interest. As of April 1, 2023, the right-of-use assets and lease liabilities related to these properties was \$36.7 million and \$41.1 million, respectively. As of December 31, 2022, the right-of-use assets and lease liabilities related to these properties was \$40.5 million and \$45.5 million, respectively. These related parties received aggregate lease payments from us of \$1.7 million and \$1.6 million for the 13 weeks ended April 1, 2023 and April 2, 2022, respectively.

Independent Operator Notes and Independent Operator Receivables

We offer interest-bearing notes to IOs and the gross amount of IO operating notes and IO receivables due was \$49.6 million and \$48.1 million as of April 1, 2023 and December 31, 2022, respectively. See Note 2 for additional information.

Note 8. Commitments and Contingencies

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

Note 9. Earnings Per Share

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

| | 13 Weeks Ended | |
|-------------------------------------------------|------------------|------------------|
| | April 1, 2023 | April 2, 2022 |
| Numerator | | |
| Net income and comprehensive income | \$ 13,720 | \$ 11,574 |
| Denominator | | |
| Weighted-average shares outstanding – basic | 97,920 | 96,148 |
| Effect of dilutive options | 2,122 | 2,989 |
| Effect of dilutive RSUs and PSUs ⁽¹⁾ | 527 | 297 |
| Weighted-average shares outstanding – diluted | 100,569 | 99,434 |
| Earnings per share: | | |
| Basic | \$ 0.14 | \$ 0.12 |
| Diluted | \$ 0.14 | \$ 0.12 |

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

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

| | 13 Weeks Ended | |
|------|------------------|------------------|
| | April 1, 2023 | April 2, 2022 |
| RSUs | 95 | 365 |

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 31, 2022 ("2022 Form 10-K"). This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in other sections of this report.

We operate on a fiscal year that ends on the Saturday closest to December 31st each year. References to the first quarter of fiscal 2023 and the first quarter of fiscal 2022 refer to the 13 weeks ended April 1, 2023 and April 2, 2022, 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. As of April 1, 2023, we had 444 stores in California, Washington, Oregon, Pennsylvania, Idaho, Nevada, Maryland and New Jersey.

Macroeconomic Conditions

During the first quarter of fiscal 2023, our business continued to be impacted by current macroeconomic conditions including supply chain and labor challenges, inflation, and changes in consumer behavior, and our IOs have been impacted by staffing challenges and increased labor costs and utility costs within their businesses. The extent of the continuing impact of these factors on our operational and financial performance will depend on many factors, including certain factors outside of our control.

We continue to utilize our unique buying model, our strong vendor relationships and our agile approach to inventory management to offer customers a compelling product assortment at a deep competitive value. However, like many companies in the grocery and retail sectors, we continue to experience increased product costs, which we are mitigating in part by actively managing our assortment and higher retail pricing by us and IOs. These cost increases have resulted in part from supply disruptions, increased shipping and transportation costs, increased commodity costs, increased labor costs in the supply chain and other disruptions. In addition to increased product costs, we have incurred greater selling, general and administrative expenses ("SG&A") related to personnel, travel, and other third party and operational costs due to the aforementioned factors. Further, planned construction and opening of new stores has been, and may continue to be, negatively impacted due to both increased lead times to acquire materials, obtain permits and licenses as well as higher construction and development related costs.

Key Factors and Measures We Use to Evaluate Our Business

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

First Quarter of Fiscal 2023 Overview

Key financial and operating performance results for the first quarter of fiscal 2023 compared to the first quarter of fiscal 2022 were as follows:

- Net sales increased 16.1% to \$965.5 million from \$831.4 million in the first quarter of fiscal 2022; comparable store sales increased by 12.1%.
- We opened three new stores, ending the first quarter of fiscal 2023 with 444 stores in eight states.
- Net income increased 18.5% to \$13.7 million, or \$0.14 per diluted share, compared to net income of \$11.6 million, or \$0.12 per diluted share, in the first quarter of fiscal 2022.

- Adjusted EBITDA⁽¹⁾ increased 36.9% to \$63.1 million compared to \$46.1 million in the first quarter of fiscal 2022.
- Adjusted net income⁽¹⁾ increased 40.7% to \$27.0 million, or \$0.27 per adjusted diluted share⁽¹⁾, compared to \$19.2 million, or \$0.19 per adjusted diluted share, in the first quarter of fiscal 2022.

(1) Adjusted EBITDA, adjusted net income and adjusted diluted earnings per share are non-GAAP financial measures, which exclude the impact of certain special items. Please note that our non-GAAP financial measures should be considered as a supplement to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. Beginning with the fourth quarter of fiscal 2022, we updated our definitions of adjusted EBITDA, adjusted net income and adjusted earnings per share to no longer exclude the impact of non-cash rent expense and the provision for accounts receivable reserves. The presentation for adjusted EBITDA, adjusted net income and adjusted earnings per share for the 13 weeks ended April 2, 2022 has been recast to reflect these changes. See the "Operating Metrics and Non-GAAP Financial Measures" section of our 2022 Form 10-K, for additional information. Furthermore, see the "Operating Metrics and Non-GAAP Financial Measures" section below for additional information about these items, including their definitions, how management utilizes such non-GAAP financial measures and reconciliations of the non-GAAP measures and the most directly comparable GAAP measures.

Key Components of Results of Operations

Net Sales

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

Cost of Sales, Gross Profit and Gross Margin

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

Selling, General and Administrative Expenses

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

In the first quarter of fiscal 2023, in order to enhance the comparability of our results with our peers, we updated our presentation of the condensed consolidated statements of operations and comprehensive income to include depreciation and amortization expenses and share-based compensation expenses within selling, general and administrative expenses. Prior period amounts have been reclassified to conform to 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 periods.

Operating Income

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

Results of Operations

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

| | 13 Weeks Ended | |
|----------------------------------------------|------------------|------------------|
| | April 1, 2023 | April 2, 2022 |
| Net sales | \$ 965,467 | \$ 831,427 |
| Cost of sales | 664,924 | 580,538 |
| Gross profit | 300,543 | 250,889 |
| Selling, general and administrative expenses | 267,725 | 231,461 |
| Income from operations | 32,818 | 19,428 |
| Other expenses: | | |
| Interest expense, net | 5,919 | 3,682 |
| Loss on debt extinguishment and modification | 5,340 | — |
| Total other expenses | 11,259 | 3,682 |
| Income before income taxes | 21,559 | 15,746 |
| Income tax expense | 7,839 | 4,172 |
| Net income and comprehensive income | \$ 13,720 | \$ 11,574 |

| | 13 Weeks Ended | |
|-----------------------------------------------|------------------|------------------|
| | April 1, 2023 | April 2, 2022 |
| Percentage of net sales ⁽¹⁾ | | |
| Net sales | 100.0 % | 100.0 % |
| Cost of sales | 68.9 % | 69.8 % |
| Gross profit | 31.1 % | 30.2 % |
| Selling, general and administrative expenses | 27.7 % | 27.8 % |
| Income from operations | 3.4 % | 2.3 % |
| Other expenses: | | |
| Interest expense, net | 0.6 % | 0.4 % |
| Loss on debt extinguishment and modification | 0.6 % | — % |
| Total other expenses | 1.2 % | 0.4 % |
| Income before income taxes | 2.2 % | 1.9 % |
| Income tax expense | 0.8 % | 0.5 % |
| Net income and comprehensive income | 1.4 % | 1.4 % |

(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 from us for store build-outs, fixtures and equipment that we amortize over time as well as cash required for inventory and pre-opening expenses.

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

Comparable Store Sales

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

Comparable store sales consists of net sales from our stores beginning on the first day of the fourteenth full fiscal month following 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 was the case with fiscal 2020 and will be the case with fiscal 2025, we exclude the net sales in the non-comparable week of a 53-week year from the same store sales calculation after comparing the current and prior year weekly periods that are most closely aligned.

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

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

EBITDA, adjusted EBITDA, adjusted net income and adjusted earnings per share are supplemental key metrics used by management and our Board of Directors to assess our financial performance. EBITDA, adjusted EBITDA, adjusted net income and adjusted earnings per share are also frequently used by analysts, investors and other interested parties to evaluate us and other companies in our industry. We use EBITDA, adjusted EBITDA, adjusted net income and adjusted earnings per share to supplement GAAP measures of performance to evaluate the effectiveness of our business strategies, to make budgeting decisions and to compare our performance against that of other peer companies using similar measures. In addition, we use adjusted EBITDA to supplement GAAP measures of performance to evaluate our performance in connection with compensation decisions. 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 additional information for analyzing trends in our business.

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

Beginning with the fourth quarter of fiscal 2022, we updated our definitions of adjusted EBITDA, adjusted net income and adjusted earnings per share to no longer exclude the impact of non-cash rent expense and the provision for accounts receivable reserves. The presentation for adjusted EBITDA, adjusted net income and adjusted earnings per share for the 13 weeks ended April 2, 2022 has been recast to reflect these changes.

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

| | 13 Weeks Ended | |
|------------------------------------------------|------------------|------------------|
| | April 1, 2023 | April 2, 2022 |
| Other Financial and Operations Data | | |
| Number of new stores | 3 | 4 |
| Number of stores open at end of period | 444 | 418 |
| Comparable store sales increase ⁽¹⁾ | 12.1 % | 5.2 % |
| EBITDA ⁽²⁾ | \$ 48,153 | \$ 38,418 |
| Adjusted EBITDA ⁽²⁾ | \$ 63,078 | \$ 46,081 |
| Adjusted net income ⁽²⁾ | \$ 27,024 | \$ 19,210 |

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

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

GAAP to Non-GAAP Reconciliations

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

| | 13 Weeks Ended | |
|-----------------------------------------------------------------|----------------|---------------|
| | April 1, 2023 | April 2, 2022 |
| Net income | \$ 13,720 | \$ 11,574 |
| Interest expense, net | 5,919 | 3,682 |
| Income tax expense | 7,839 | 4,172 |
| Depreciation and amortization expenses | 20,675 | 18,990 |
| EBITDA | 48,153 | 38,418 |
| Share-based compensation expenses ⁽¹⁾ | 6,676 | 5,795 |
| Loss on debt extinguishment and modification ⁽²⁾ | 5,340 | — |
| Asset impairment and gain or loss on disposition ⁽³⁾ | 107 | 363 |
| Other ⁽⁴⁾ | 2,802 | 1,505 |
| Adjusted EBITDA | \$ 63,078 | \$ 46,081 |

| | 13 Weeks Ended | |
|----------------------------------------------------------------------------------------|----------------|---------------|
| | April 1, 2023 | April 2, 2022 |
| Net income | \$ 13,720 | \$ 11,574 |
| Share-based compensation expenses ⁽¹⁾ | 6,676 | 5,795 |
| Loss on debt extinguishment and modification ⁽²⁾ | 5,340 | — |
| Asset impairment and gain or loss on disposition ⁽³⁾ | 107 | 363 |
| Other ⁽⁴⁾ | 2,802 | 1,505 |
| Amortization of purchase accounting assets and deferred financing costs ⁽⁵⁾ | 1,567 | 3,112 |
| Tax adjustment to normalize effective tax rate ⁽⁶⁾ | 1,592 | (176) |
| Tax effect of total adjustments ⁽⁷⁾ | (4,780) | (2,963) |
| Adjusted net income | \$ 27,024 | \$ 19,210 |

| | | | |
|-------------------------------------|---------|---------|--|
| GAAP earnings per share | | | |
| Basic | \$ 0.14 | \$ 0.12 | |
| Diluted | \$ 0.14 | \$ 0.12 | |
| Adjusted earnings per share | | | |
| Basic | \$ 0.28 | \$ 0.20 | |
| Diluted | \$ 0.27 | \$ 0.19 | |
| Weighted average shares outstanding | | | |
| Basic | 97,920 | 96,148 | |
| Diluted | 100,569 | 99,434 | |

(1) Includes non-cash share-based compensation expense and cash dividends paid on vested share-based awards as a result of dividends declared in connection with a recapitalization that occurred in fiscal 2018. See "Share-based Compensation Expense" in the "Comparison of the 13 weeks ended April 1, 2023 and April 2, 2022" section below for additional information.

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

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

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

- (5) 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.
- (6) Represents adjustments to normalize the effective tax rate for the impact of unusual or infrequent tax items that we do not consider in our evaluation of ongoing performance, including excess tax expenses or benefits related to stock option exercises and vesting of restricted stock units ("RSUs") that are recorded in earnings as discrete items in the reporting period in which they occur.
- (7) Represents the tax effect of the total adjustments. We calculate the tax effect of the total adjustments on a discrete basis excluding any non-recurring and unusual tax items.

Comparison of the 13 weeks ended April 1, 2023 and April 2, 2022 (amounts in thousands, except percentages)

Net Sales

| | 13 Weeks Ended | | | |
|-----------|----------------|---------------|------------|----------|
| | April 1, 2023 | April 2, 2022 | \$ Change | % Change |
| Net sales | \$ 965,467 | \$ 831,427 | \$ 134,040 | 16.1 % |

The increase in net sales for the 13 weeks ended April 1, 2023 compared to the same period in fiscal 2022 was primarily attributable to an increase in comparable store sales as well as non-comparable store net sales growth primarily from the 26 net new stores opened over the last 12 months.

Comparable store sales increased 12.1% for the 13 weeks ended April 1, 2023 compared to the same period in fiscal 2022. The increase in comparable store sales for the 13 weeks ended April 1, 2023 was driven by a 7.9% increase in the number of transactions combined with a 3.9% increase in average transaction size.

Cost of Sales

| | 13 Weeks Ended | | | |
|----------------|----------------|---------------|-----------|----------|
| | April 1, 2023 | April 2, 2022 | \$ Change | % Change |
| Cost of sales | \$ 664,924 | \$ 580,538 | \$ 84,386 | 14.5 % |
| % of net sales | 68.9 % | 69.8 % | | |

The increase in cost of sales for the 13 weeks ended April 1, 2023 compared to the same period in fiscal 2022 was primarily the result of an increase in comparable store sales combined with non-comparable net sales from 26 net new stores opened over the last 12 months.

Costs as a percentage of net sales decreased for the 13 weeks ended April 1, 2023 compared to the same period in fiscal 2022 due to higher opportunistic product mix, distribution cost leverage as a result of our higher net sales and higher retail pricing to offset product cost increases.

Gross Profit and Gross Margin

| | 13 Weeks Ended | | | |
|--------------|----------------|---------------|-----------|----------|
| | April 1, 2023 | April 2, 2022 | \$ Change | % Change |
| Gross profit | \$ 300,543 | \$ 250,889 | \$ 49,654 | 19.8 % |
| Gross margin | 31.1 % | 30.2 % | | |

The increase in gross profit for the 13 weeks ended April 1, 2023 compared to the same period in fiscal 2022 was primarily the result of an increase in comparable store sales combined with non-comparable sales from 26 net new stores opened over the last 12 months.

Gross margin increased for the 13 weeks ended April 1, 2023 compared to the same period in fiscal 2022 due to higher opportunistic product mix, distribution cost leverage as a result of our higher net sales and higher retail pricing to offset product cost increases.

Selling, General and Administrative Expenses

| | 13 Weeks Ended | | | |
|----------------|----------------|---------------|-----------|----------|
| | April 1, 2023 | April 2, 2022 | \$ Change | % Change |
| SG&A | \$ 267,725 | \$ 231,461 | \$ 36,264 | 15.7 % |
| % of net sales | 27.7 % | 27.8 % | | |

The increase in SG&A for the 13 weeks ended April 1, 2023 compared to the same period in fiscal 2022 was driven by \$27.2 million in higher store-related expenses and \$9.1 million in higher corporate-related expenses. Store-related expenses primarily increased as a result of higher commission payments to IOs, reflecting gross profit growth, as well as higher store occupancy costs due to 26 net new stores opened over the last 12 months. Corporate-related expenses increased largely due to increased personnel costs as a result of the Company's growth as well as the resumption of our annual IO conference and business travel following a COVID suspension.

As a percentage of net sales, SG&A remained relatively flat for the 13 weeks ended April 1, 2023 compared to the same period in fiscal 2022 as leverage on store-related expenses was offset by higher corporate-related expenses.

Interest Expense, Net

| | 13 Weeks Ended | | | |
|-----------------------|----------------|---------------|-----------|----------|
| | April 1, 2023 | April 2, 2022 | \$ Change | % Change |
| Interest expense, net | \$ 5,919 | \$ 3,682 | \$ 2,237 | 60.8 % |
| % of net sales | 0.6 % | 0.4 % | | |

The increase in net interest expense for the 13 weeks ended April 1, 2023 compared to the same period in fiscal 2022 was primarily driven by increases in the effective borrowing rate, partially offset by increased interest income from cash and cash equivalents as well as a decrease in principal debt outstanding over the last 12 months. See Note 3 to the condensed consolidated financial statements for additional information.

Loss on Debt Extinguishment and Modification

| | 13 Weeks Ended | | | |
|----------------------------------------------|----------------|---------------|-----------|----------|
| | April 1, 2023 | April 2, 2022 | \$ Change | % Change |
| Loss on debt extinguishment and modification | \$ 5,340 | \$ — | \$ 5,340 | N/A |
| % of net sales | 0.6 % | — % | | |

During the 13 weeks ended April 1, 2023, we recorded a \$5.3 million loss on debt extinguishment related to the payoff of \$385.0 million of principal on the senior term loan outstanding under our prior first lien credit facility. See Note 3 to the condensed consolidated financial statements for additional information.

Income Tax Expense

| | 13 Weeks Ended | | | |
|--------------------|----------------|---------------|-----------|----------|
| | April 1, 2023 | April 2, 2022 | \$ Change | % Change |
| Income tax expense | \$ 7,839 | \$ 4,172 | \$ 3,667 | 87.9 % |
| % of net sales | 0.8 % | 0.5 % | | |
| Effective tax rate | 36.4 % | 26.5 % | | |

The increase in income tax expense for the 13 weeks ended April 1, 2023 compared to the same period in fiscal 2022 was primarily due to higher pretax income combined with excess tax expense related to the vesting of RSUs and

PSUs below their grant price during the 13 weeks ended April 1, 2023 as compared to excess tax benefits from the exercise of stock options and vesting of RSUs during the same period in fiscal 2022.

Net Income

| | 13 Weeks Ended | | | |
|----------------|------------------|------------------|-----------|----------|
| | April 1, 2023 | April 2, 2022 | \$ Change | % Change |
| Net income | \$ 13,720 | \$ 11,574 | \$ 2,146 | 18.5 % |
| % of net sales | 1.4 % | 1.4 % | | |

As a result of the foregoing factors, net income increased for the 13 weeks ended April 1, 2023 compared to the same period in fiscal 2022.

Adjusted EBITDA

| | 13 Weeks Ended | | | |
|-----------------|------------------|------------------|-----------|----------|
| | April 1, 2023 | April 2, 2022 | \$ Change | % Change |
| Adjusted EBITDA | \$ 63,078 | \$ 46,081 | \$ 16,997 | 36.9 % |

The increase in adjusted EBITDA for the 13 weeks ended April 1, 2023 compared to the same period in fiscal 2022 was primarily due to an increase in comparable store sales of 12.1% for the 13 weeks ended April 1, 2023, as well as higher net sales resulting from new store growth, combined with increased gross margin.

Adjusted Net Income

| | 13 Weeks Ended | | | |
|---------------------|------------------|------------------|-----------|----------|
| | April 1, 2023 | April 2, 2022 | \$ Change | % Change |
| Adjusted net income | \$ 27,024 | \$ 19,210 | \$ 7,814 | 40.7 % |

The increase in adjusted net income for the 13 weeks ended April 1, 2023 compared to the same period in fiscal 2022 was primarily due to an increase in comparable store sales of 12.1% for the 13 weeks ended April 1, 2023, as well as higher net sales resulting from new store growth, combined with increased gross margin.

Liquidity and Capital Resources

Sources of Liquidity

Based on our current operations and new store growth plans, we expect to satisfy our short-term and long-term cash requirements through a combination of our existing cash and cash equivalents position, funds generated from operating activities, and the borrowing capacity available in the revolving credit facility under our credit agreement, dated as of February 21, 2023 (the "2023 Credit Agreement"). If cash generated from our operations and borrowings under 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.

As of April 1, 2023, we had cash and cash equivalents of \$82.1 million, which consisted primarily of cash held in checking and money market accounts with financial institutions. In addition, we have a revolving credit facility with \$400.0 million in borrowing capacity under our 2023 Credit Agreement. As of April 1, 2023, we had \$25.0 million of borrowings outstanding under the revolving credit facility and \$3.5 million of outstanding standby letters of credit, resulting in \$371.5 million of remaining borrowing capacity available under this revolving credit facility.

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

We may also, from time to time, at our sole discretion, prepay or retire all or a portion of our outstanding debt. On April 21, 2023, we repaid the \$25.0 million of principal on our revolving credit facility.

2023 Refinancing

On February 21, 2023, we entered into the 2023 Credit Agreement, which provides for senior secured credit facilities consisting of (i) a senior secured term loan facility (the "senior term loan") in an aggregate principal amount of \$300.0 million and (ii) a senior secured revolving credit facility (the "revolving credit facility" and, together with the senior term loan, the "new credit facilities") in an aggregate principal amount of \$400.0 million. The senior term loan was borrowed in full on such date, and \$25.0 million of the revolving credit facility was borrowed on such date. See Note 3 to our condensed consolidated financial statements for additional information.

Material Cash Requirements

Other than the update to debt obligation payments noted below, there has been no material change in our material cash requirements since the end of fiscal 2022. See our 2022 Form 10-K for additional information.

Capital Expenditures

Capital expenditures include purchases of capital assets such as property and equipment as well as intangible assets and licenses. Capital expenditures for the 13 weeks ended April 1, 2023, before the impact of tenant improvement allowances, were \$40.8 million, and, net of tenant improvement allowances, were \$38.5 million. We continue to expect total capital expenditures, net of tenant improvement allowances, to be approximately \$155.0 million for fiscal 2023.

Debt Obligations

The 2023 Credit Agreement requires us to make scheduled quarterly amortization payments of the senior term loan starting in June 2023. Such payments total \$56.3 million over the remaining term of the senior term loan, with \$3.8 million payable over the remainder of fiscal 2023. The remaining senior term loan principal balance will become due in February 2028 at maturity. See Note 3 to our condensed consolidated financial statements for additional information.

Debt Covenants

The 2023 Credit Agreement contains certain customary representations and warranties, subject to limitations and exceptions, and affirmative and customary covenants. The 2023 Credit Agreement contains certain covenants that, among other things, limit the our ability and the ability of our restricted subsidiaries to: pay dividends or distributions, repurchase equity, prepay junior debt and make certain investments; incur additional debt or issue certain disqualified stock and preferred stock; incur liens on assets; merge or consolidate with another company or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its assets; enter into transactions with affiliates; and allow to exist certain restrictions on the ability of subsidiaries to pay dividends or make other payments to the borrower. The 2023 Credit Agreement also contains financial performance covenants requiring us to satisfy a maximum total net leverage ratio test and a minimum interest coverage ratio test as of the last day of each fiscal quarter ending on or after April 1, 2023. The maximum total net leverage ratio test requires us to be in compliance with a Total Net Leverage Ratio no greater than 3.50 to 1.00 as of the last day of each test period ending prior to the test period ending on or about December 31, 2025, and no greater than 3.25 to 1.00 as of the last day of each test period ending thereafter, subject to certain adjustments set forth in the 2023 Credit Agreement. The minimum interest coverage ratio test requires us to be in compliance with a Consolidated Interest Coverage Ratio (as defined in the 2023 Credit Agreement) no less than 1.75 to 1.00 as of the last day of each test period.

As of April 1, 2023, we were in compliance with all applicable financial covenant requirements for our 2023 Credit Agreement.

Cash Flows

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

| | 13 Weeks Ended | | | |
|-------------------------------------------|----------------|---------------|-------------|-----------|
| | April 1, 2023 | April 2, 2022 | \$ Change | % Change |
| Net cash provided by operating activities | \$ 87,632 | \$ 36,329 | \$ 51,303 | 141.2 % |
| Net cash used in investing activities | (40,347) | (35,522) | (4,825) | 13.6 % |
| Net cash used in financing activities | (67,898) | (2,896) | (65,002) | 2,244.5 % |
| Net decrease in cash and cash equivalents | \$ (20,613) | \$ (2,089) | \$ (18,524) | 886.7 % |

Cash Provided by Operating Activities

Net cash provided by operating activities was \$87.6 million for the 13 weeks ended April 1, 2023 compared to \$36.3 million for the same period in fiscal 2022. The increase in net cash provided by operating activities of \$51.3 million for the 13 weeks ended April 1, 2023 compared to the same period in fiscal 2022 was primarily driven by decreases to merchandise inventories combined with increased net sales that were driven by comparable stores sales and new store growth.

Cash Used in Investing Activities

Net cash used in investing activities for the 13 weeks ended April 1, 2023 and April 2, 2022 was primarily for capital expenditures and loans to IOs.

Net cash used in investing activities was \$40.3 million for the 13 weeks ended April 1, 2023 compared to \$35.5 million for the same period in fiscal 2022. The increase in net cash used in investing activities of \$4.8 million for the 13 weeks ended April 1, 2023 compared to the same period in fiscal 2022 was primarily due to increased investments in computer software intangible assets, partially offset by a decrease in loans made to IOs.

Cash Used in Financing Activities

Net cash used in financing activities of \$67.9 million for the 13 weeks ended April 1, 2023 was primarily due to the payoff of \$385.0 million of principal on the prior senior term loan outstanding under our prior first lien credit facility as well as the repurchase of \$3.3 million worth of common stock, partially offset by \$325.0 million in proceeds from the issuance of the senior term loan and revolving credit facility borrowings under the 2023 Credit Agreement. Net cash used in financing activities of \$2.9 million for the 13 weeks ended April 2, 2022 was primarily due to the repurchase of \$3.5 million worth of common stock, partially offset by \$0.9 million in proceeds from the exercise of stock options.

Critical Accounting Policies and Estimates

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

There have been no material changes to our critical accounting policies and estimates during the 13 weeks ended April 1, 2023 from those disclosed in our 2022 Form 10-K.

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Our operating results are subject to market risk from interest rate fluctuations on our credit facilities, which bear variable interest rates. As of April 1, 2023, our outstanding borrowings included a \$300.0 million senior term loan and \$25.0 million in revolving credit facility borrowings under the 2023 Credit Agreement. As of April 1, 2023, the interest rate on these borrowings was 7.11% (See Note 3 to our condensed consolidated financial statements for additional information). Based on the outstanding balance and interest rate of our credit facilities as of April 1, 2023, a hypothetical 10% relative increase or decrease in the interest rate would cause an increase or decrease in interest expense of approximately \$2.3 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.

Impact of Inflation

Our results of operations and financial condition are presented based on historical cost. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, we have experienced varying levels of inflation, resulting in part from various supply disruptions, increased shipping and transportation costs, increased commodity costs, increased labor costs in the supply chain, increased SG&A related to personnel, travel, and other operational costs and other disruptions caused by the current macroeconomic environment. Similarly, our IOs have been impacted by staffing challenges and increased labor costs and utility costs within their businesses. See "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information regarding the impact that inflation had on gross margin and net income during the periods reported. Furthermore, our results of operations and financial condition may be materially impacted by inflation in the future.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of the end of the period covered by this report. Our disclosure controls 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 at a reasonable assurance level as of April 1, 2023.

Changes in Internal Control over Financial Reporting

During the quarter ended April 1, 2023, there was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls

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

PART II. OTHER INFORMATION**Item 1. Legal Proceedings**

From time to time, we 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 results of operations, financial condition or cash flows, and no material legal proceedings were terminated, settled or otherwise resolved during the 13 weeks ended April 1, 2023.

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

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, our business, financial condition and operating results can be affected by a number of factors, whether currently known or unknown, including but not limited to those described in Part I, Item 1A of our 2022 Form 10-K under the heading "Risk Factors," any one or more of which could, directly or indirectly, cause our actual financial condition and operating results to vary materially from past, or from anticipated future, financial condition and operating results. Any of these factors, in whole or in part, could materially and adversely affect our business, financial condition, operating results and stock price. There have been no material changes to our risk factors since the 2022 Form 10-K.

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

The following table sets forth information on our share repurchase program activity for the first quarter of fiscal 2023 (amounts in thousands, except share and per share data):

| Period | Total Number of Shares Purchased | Average Price Paid Per Share ⁽¹⁾ | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾ | Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾ |
|--------------------------------------|----------------------------------|---------------------------------------------|-------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|
| January 1, 2023 - January 28, 2023 | — | \$ — | — | \$ 96,552 |
| January 29, 2023 - February 25, 2023 | — | — | — | 96,552 |
| February 26, 2023 - April 1, 2023 | 122,862 | 26.66 | 122,862 | 93,281 |
| Total first quarter | 122,862 | \$ 26.66 | 122,862 | |

(1) Includes commissions for the shares repurchased under the share repurchase programs.

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

Item 3. Default Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosure

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

| Exhibit No. | Exhibit | Incorporated by Reference | | | |
|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|-----------|-------------|-------------|
| | | Form | File No. | Filing Date | Exhibit No. |
| 3.1 | Restated Certificate of Incorporation of Grocery Outlet Holding Corp. | 8-K | 001-38950 | 6/10/2022 | 3.1 |
| 3.2 | Amended and Restated Bylaws of Grocery Outlet Holding Corp. | 8-K | 001-38950 | 4/8/2022 | 3.1 |
| 10.1 | Credit Agreement, dated as of February 21, 2023, by and among Grocery Outlet Holding Corp., the Lenders and Letter of Credit Issuers from time to time party thereto, and Bank of America, N.A., as the Administrative Agent, Collateral Agent and Swingline Lender, the Lenders and Letter of Credit Issuers from time to time party thereto, and Bank of America, N.A., as the Administrative Agent, Collateral Agent and Swingline Lender. | 8-K | 001-38950 | 2/23/2023 | 10.1 |
| 10.2* | Pledge and Security Agreement, dated as of February 21, 2023, among Grocery Outlet Holding Corp., the subsidiaries of Grocery Outlet Holding Corp. from time to time party thereto and Bank of America, N.A., as Collateral Agent | | | | |
| 10.3* | Copyright Security Agreement, dated as of February 21, 2023, among Grocery Outlet Inc. and Bank of America, N.A., as Collateral Agent | | | | |
| 10.4* | Trademark Security Agreement, dated as of February 21, 2023, among Grocery Outlet Inc. and Bank of America, N.A., as Collateral Agent | | | | |
| 10.5* | Guarantee, dated as of February 21, 2023, among Grocery Outlet Holding Corp., the subsidiaries of Grocery Outlet Holding Corp. from time to time party thereto and Bank of America, N.A., as Administrative Agent and Collateral Agent | | | | |
| 10.6† | Employment Agreement, effective January 1, 2023, by and among Robert Joseph Sheedy, Jr., Grocery Outlet Inc. and Grocery Outlet Holding Corp. | 8-K | 001-38950 | 11/8/2022 | 10.1 |
| 10.7† | Restricted Stock Unit Grant And Agreement (Grocery Outlet Holding Corp. 2019 Stock Incentive Plan) (CEO Form) | 10-K | 001-38950 | 3/1/2023 | 10.34 |
| 10.8†* | 2023 Form of Performance Stock Unit Grant and Agreement (Grocery Outlet Holding Corp. 2019 Stock Incentive Plan) | | | | |
| 10.9† | Non-Employee Director Compensation Policy (as amended November 2, 2022 and as effective January 1, 2023) | 8-K | 001-38950 | 11/8/2022 | 10.2 |
| 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 and included as Exhibit 101. | | | | |

† Management contract or compensatory plan or arrangement.

* Filed herewith.

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

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.

Date: May 10, 2023

Grocery Outlet Holding Corp.
By: /s/ Charles C. Bracher
Charles C. Bracher
Chief Financial Officer
(Principal Financial Officer)

Date: May 10, 2023

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

PLEDGE AND SECURITY AGREEMENT

THIS PLEDGE AND SECURITY AGREEMENT (this “Security Agreement”) is entered into as of February 21, 2023, by and among the Grantors (as defined below) and Bank of America, N.A., in its capacity as Collateral Agent for the Secured Parties (in such capacity, together with its successors, assigns, designees and sub-agents in such capacity, the “Collateral Agent”).

PRELIMINARY STATEMENT

Reference is hereby made to that certain Credit Agreement dated as of February 21, 2023 (as amended, increased, extended, restated, amended and restated, supplemented or otherwise modified from time to time, the “Credit Agreement”), by and among Grocery Outlet Holding Corp., a Delaware corporation (the “Borrower”), the lenders from time to time party thereto (the “Lenders”), and Bank of America as the Administrative Agent, the Collateral Agent, Letter of Credit Issuer and Swingline Lender.

The Grantors are entering into this Security Agreement in order to induce the Lenders, the Swingline Lender and the Letter of Credit Issuers to enter into and extend credit to the Borrower under the Credit Agreement and to secure the Obligations, including their obligations under the Guarantee, each Secured Hedging Agreement and each Secured Cash Management Agreement.

Each Grantor will obtain benefits from the incurrence of Loans by the Borrower, the issuance of, and participations in, Letters of Credit for the account of the Borrower and its Restricted Subsidiaries and the incurrence by the Credit Parties of Hedging Obligations arising under Secured Hedging Agreements and Cash Management Obligations arising under Secured Cash Management Agreements.

ACCORDINGLY, the parties hereto agree as follows:

ARTICLE 1
DEFINITIONS

SECTION 1.01. *Terms Defined in Credit Agreement.*

- (a) All capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Credit Agreement.
- (b) The rules of construction and other interpretive provisions specified in Sections 1.2, 1.5, 1.6, 1.7, 1.8, 1.10 and 1.11 of the Credit Agreement, are incorporated by reference herein as if such Sections were set forth herein in their entirety, *mutatis mutandis*.

SECTION 1.02. *Terms Defined in UCC.* Terms defined in the UCC that are not otherwise defined in this Security Agreement or the Credit Agreement are used herein as defined in Articles 8 or 9 of the UCC, as the context may require (including as if such terms were capitalized in Article 8 or 9 of the UCC, as the context may require, the following terms: “Account,” “Chattel Paper,” “Commercial Tort Claim,” “Commodities Account,” “Deposit Accounts,” “Document,” “Electronic Chattel Paper,” “Equipment,” “Fixture,” “General Intangible,” “Goods,” “Instruments,” “Inventory,” “Investment Property,” “Letter-of-Credit Right,” “Securities Account,” “Securities Entitlement,” “Supporting Obligation,” “Tangible Chattel Paper” and “Uncertificated Security”).

SECTION 1.03. *Definitions of Certain Terms Used Herein.* As used in this Security Agreement, the following terms shall have the following meanings:

“Additional Parties” means any Successor Borrower that becomes a party hereto pursuant to Section 7.10 hereof and the Credit Agreement.

“Article” means a numbered article of this Security Agreement, unless another document is specifically referenced.

“Borrower” has the meaning set forth in the preliminary statement.

“Collateral” has the meaning set forth in Section 2.01(a).

“Contract Rights” means all rights of any Grantor under any Contract, including (a) any and all rights to receive and demand payments under such Contract, (b) any and all rights to receive and compel performance under such Contract and (c) any and all other rights, interests and claims now existing or in the future arising in connection with such Contract.

“Contracts” means all contracts between any Grantor and one or more additional parties (including any Hedging Agreement, any licensing agreement and any partnership agreement, joint venture agreement and/or limited liability company agreement).

“Control” has the meaning set forth in Article 8 of the UCC or, if applicable, in Section 9-104, 9-105, 9-106 or 9-107 of Article 9 of the UCC.

“Copyrights” shall mean all (a) copyrights, rights in works of authorship, mask works and integrated circuit designs and other rights subject to the copyright laws of the United States, or of any other country or any group of countries, including copyrights and such other rights in Software, databases, Internet web sites and the proprietary content thereof, (b) registrations, renewals, rights of reversion, extensions, supplemental registrations, recordings and applications for registration of any of the foregoing in the United States or any other country, including registrations, recordings, supplemental registrations and pending applications for registration in the U.S. Copyright Office, and (c) rights to obtain all renewals, reversions and extensions thereof.

“Credit Agreement” has the meaning set forth in the preliminary statement.

“Domain Name” means Internet domain names and associated uniform resource locator addresses.

“Excluded Property” means each of the following:

(a) any asset the grant of a security interest in which would (i) be prohibited by any enforceable anti-assignment provision set forth in any contract relating to such asset that is permitted or otherwise not prohibited by the terms of the Credit Agreement, (ii) violate the terms of any contract relating to such asset that is permitted or otherwise not prohibited by the terms of the Credit Agreement (in the case of clause (i) above, this clause (ii) and clause (iii) below, after giving effect to any applicable anti-assignment provision of the UCC or any other Applicable Laws) or (iii) trigger termination of any contract relating to such asset that is permitted or otherwise not prohibited by the terms of the Credit Agreement pursuant to any “change of control” or similar provision; it being understood that (A) the term “Excluded Property” shall not include proceeds or receivables arising out of any contract described in this clause (a) to the extent that the assignment of such proceeds or receivables is expressly deemed to be effective under the UCC or any other Applicable Laws notwithstanding the relevant prohibition, violation or termination right, (B) the exclusions referenced in clauses (a)(i), (a)(ii) and (a)(iii) above shall

not apply to the extent that the relevant contract prohibits the grant of a security interest in all or substantially all of the assets of any Grantor and (C) the exclusion set forth in this clause (a) shall only apply if the contractual prohibitions or contractual provisions that would be so violated or that would trigger any such termination under clause (a)(i), (a)(ii) or (a)(iii) above (x) existed on the Closing Date (or in the case of any contract of a Subsidiary that is acquired following the Closing Date, as of the date of such Acquisition) and were not entered into in contemplation of the Closing Date (or such Acquisition) and (y) cannot be waived unilaterally by the Borrower or any of its respective Wholly Owned Subsidiaries,

(b) Excluded Capital Stock,

(c) any intent-to-use (or similar) Trademark application prior to the filing and acceptance of a “Statement of Use” or “Amendment to Allege Use” notice and/or filing with respect thereto, but only to the extent that, and solely during the period if any in which, the grant of a security interest therein would impair the validity or enforceability of such intent-to-use Trademark applications (or the resulting Trademark registrations),

(d) any asset, the grant of a security interest in which would (i) require any governmental consent, approval, license or authorization that has not been obtained, (ii) be prohibited by Applicable Laws, except, in each case of clause (i) above and this clause (ii), to the extent such requirement or prohibition would be rendered ineffective under the UCC or any other Applicable Laws notwithstanding such requirement or prohibition; it being understood that the term “Excluded Property” shall not include proceeds or receivables arising out of any asset described in clause (d)(i) or clause (d)(ii) to the extent that the assignment of such proceeds or receivables is expressly deemed to be effective under the UCC or any other Applicable Laws notwithstanding the relevant requirement or prohibition, (iii) result in a forfeiture of any rights in such property or (iv) result in material adverse tax consequences to the Borrower or any of its Restricted Subsidiaries as reasonably determined by the Borrower in consultation with (but without the consent of) the Collateral Agent, including as a result of the operation of Section 956 of the Code,

(e) (i) any leasehold Real Property interests and (ii) any fee owned Real Property (and no landlord waivers, estoppels or collateral access letters shall be required to be delivered),

(f) any interest in any partnership, joint venture or non-Wholly Owned Subsidiary which cannot be pledged without (i) the consent of one or more third parties other than the Borrower or any of its Restricted Subsidiaries under the organizational documents (and/or shareholders’ or similar agreement) of such partnership, joint venture or non-Wholly Owned Subsidiary or (ii) giving rise to a “right of first refusal”, a “right of first offer” or a similar right permitted or otherwise not prohibited by the terms of the Credit Agreement that may be exercised by any third party other than the Borrower or any of its Restricted Subsidiaries in accordance with the organizational documents (and/or shareholders’ or similar agreement) of such partnership, joint venture or non-Wholly Owned Subsidiary,

(g) motor vehicles, aircraft, aircraft engines and other assets subject to certificates of title, (ii) letter-of-credit rights not constituting supporting obligations of other Collateral and (iii) commercial tort claims with a value (as reasonably estimated by the Borrower) of less than \$10,000,000, except, in each case of clauses (i) through (iii), to the extent a security interest therein can be perfected solely by the filing of a UCC financing statement,

(h) any “margin stock” (as defined in Regulation U),

(i) [reserved],

(j) any lease, license or other agreement or Contract or any asset subject thereto (including pursuant to a purchase money security interest, agreement governing any Financing Lease Obligations or similar arrangement) that is, in each case, permitted by the Credit Agreement to the extent that the grant of a security interest therein would violate or invalidate such lease, license or agreement or purchase money, agreement governing any Financing Lease Obligations or similar arrangement or trigger a right of termination in favor of any other party thereto (other than the Borrower or any of its Restricted Subsidiaries) after giving effect to the applicable anti-assignment provisions of the UCC or any other Applicable Laws; it being understood that the term “Excluded Property” shall not include any proceeds or receivables arising out of any asset described in this clause (j) to the extent that the assignment of such proceeds or receivables is expressly deemed to be effective under the UCC or any other Applicable Laws notwithstanding the relevant requirement or prohibition,

(k) any asset with respect to which the Collateral Agent and the Borrower have reasonably agreed that the cost, burden, difficulty or consequence (including any effect on the ability of the relevant Grantor to conduct its operations and business in the ordinary course of business) of obtaining or perfecting a security interest therein outweighs the benefit of a security interest to the relevant Secured Parties afforded thereby,

(l) [reserved],

(m) [reserved],

(n) any segregated accounts or funds, or any portion thereof, received by the Borrower or any of its Restricted Subsidiaries as agent on behalf of third parties (other than the Borrower or any Subsidiary Guarantor) in accordance with a written agreement that imposes a duty upon the Borrower or one or more of its Restricted Subsidiaries to collect and remit those funds to such third parties, and

(o) any governmental licenses or state or local franchises, charters or authorizations, to the extent a security interest in any such license, franchise, charter or authorization would be prohibited or restricted thereby (including any legally effective prohibition or restriction).

“Exhibit” refers to a specific exhibit to this Security Agreement, unless another document is specifically referenced.

“Grantors” means the Borrower, the Subsidiary Parties from time to time party hereto and, if applicable, any Additional Party from time to time party hereto.

“Intellectual Property” means, collectively, (a) all intellectual property rights worldwide, including all Copyrights, Patents, Trademarks, Trade Secrets, Domain Names, Licenses and Software, (b) all registrations and applications for the registration or issuance of any of the foregoing, (c) rights to obtain all renewals, reversions and extensions thereof, and all rights to claim priority therefrom (d) all rights to sue or otherwise recover for any past, present and future infringement, misappropriation, dilution or other violations thereof, (e) all Proceeds of the foregoing, including, without limitation, license fees, royalties, income, payments, claims, damages and proceeds of suit now or hereafter due and/or payable with respect thereto, and (f) all other rights of any kind accruing thereunder or pertaining thereto throughout the world.

“Intellectual Property Collateral” means the Intellectual Property included in the Collateral.

“Intellectual Property Security Agreement” means an Intellectual Property Security Agreement substantially in the form of Exhibit B to this Security Agreement.

“Intercreditor Agreement” means any Equal Priority Intercreditor Agreement, any Junior Priority Intercreditor Agreement or any other Customary Intercreditor Agreement, as applicable.

“Legal Reservations” means the application of relevant Debtor Relief Laws, general principles of equity and/or principles of good faith and fair dealing.

“Lenders” has the meaning set forth in the preliminary statement.

“Licenses” means, with respect to any Grantor, all of such Grantor’s right, title, and interest in and to (a) any and all written licensing agreements or similar arrangements, whether as licensor or licensee, in (i) Patents, (ii) Copyrights, (iii) Trademarks, (iv) Trade Secrets, (v) Domain Names or (vi) Software, (b) all income, royalties, damages, claims, and payments now or hereafter due or payable under and with respect thereto, including damages and payments for past and future breaches thereof and (c) all rights to sue for past, present, and future breaches thereof.

“Material Debt Instrument” means any physical instrument evidencing any third party Indebtedness for borrowed money with an individual outstanding principal amount in excess of \$10,000,000.

“money” has the meaning set forth in Article 1 of the UCC.

“Patents” shall mean all (a) patents, statutory invention registrations, certificates of invention, industrial designs and utility models, and all pending applications of the foregoing, (b) provisionals, reissues, reexaminations, continuations, divisions, continuations-in-part, renewals or extensions thereof and (c) the inventions, discoveries and designs disclosed or claimed therein and all improvements thereto, including the right to make, use and/or sell the inventions, discoveries and designs disclosed or claimed therein.

“Perfection Certificate” means the Perfection Certificate delivered pursuant to Section 6.2(d) of the Credit Agreement.

“Perfection Requirements” means (a) the filing of appropriate financing statements with the office of the Secretary of State or other appropriate office in the state of organization or other location under Section 9-307 of the UCC of such Grantor, (b) the filing of Intellectual Property Security Agreements with the U.S. Patent and Trademark Office and/or the U.S. Copyright Office, as applicable, with respect to Registered Intellectual Property Collateral (except to the extent any of the foregoing are included in the definition of Excluded Property), (c) [reserved] and (d) the delivery to the Collateral Agent of any stock certificate or promissory note required to be delivered pursuant to the applicable Credit Documents, together with instruments of transfer executed in blank.

“Permits” means all licenses, permits, rights, orders, variances, franchises or authorizations of or from any Governmental Authority or agency.

“Permitted Liens” means Liens not prohibited pursuant to Section 10.2 of the Credit Agreement.

“Pledged Collateral” means all Pledged Stock, including all Stock Rights, all stock (or equivalent) certificates, options or rights of any nature whatsoever in respect of the Pledged Stock that may be issued or granted to, or held by, any Grantor, and all Instruments, Capital Stock and other Investment Property owned by any Grantor, whether or not physically delivered to the Collateral Agent pursuant to this Security Agreement, in each case whether now owned or hereafter acquired by such Grantor and any and all Proceeds thereof but excluding the Excluded Property.

“Pledged Stock” means, with respect to any Grantor, the Capital Stock owned by such Grantor, including the Capital Stock described in Schedule 8 to the Perfection Certificate as held by such Grantor, together with any other Capital Stock as are hereafter acquired by such Grantor but excluding the Excluded Property.

“Proceeds” has the meaning assigned in Article 9 of the UCC and, in any event, shall also include but not be limited to (a) any and all proceeds of any insurance, indemnity, warranty or guaranty payable to the Collateral Agent or any Grantor from time to time with respect to any of the Collateral, (b) any and all payments (in any form whatsoever) made or due and payable to any Grantor from time to time in connection with any requisition, confiscation, condemnation, seizure or forfeiture of all or any part of the Collateral by any Governmental Authority (or any Person acting under color of governmental authority), (c) any and all Stock Rights and (d) any and all other amounts from time to time paid or payable under or in connection with any of the Collateral.

“Receivables” means any Account, Chattel Paper, Document, Investment Property, Instrument and/or General Intangible, in each case, that is a right or claim to receive money and is included as Collateral (whether or not earned by performance).

“Registered Intellectual Property Collateral” means all Patents, Trademarks and Copyrights issued, registered or applied for at the U.S. Patent and Trademark Office or U.S. Copyright Office and all exclusive Licenses (under which any Grantor is the licensee) to Copyrights registered at the U.S. Copyright Office included in the Intellectual Property Collateral.

“Section” means a numbered section of this Security Agreement, unless another document is specifically referenced.

“Security Agreement” has the meaning set forth in the preamble.

“Security Interest” has the meaning set forth in Section 2.01(a).

“Software” means all “software,” as such term is defined in Article 9 of the NY UCC, and shall further include all source code, object code, processes, algorithms, methods, data structures, interfaces and documentation related thereto.

“Stock Rights” means all dividends, cash, options, warrants, instruments or other distributions and any other right or property which any Grantor shall receive or shall become entitled to receive for any reason whatsoever with respect to, in substitution for or in exchange for any Capital Stock constituting

Collateral, any right to receive any Capital Stock constituting Collateral and any right to receive earnings, in which such Grantor now has or hereafter acquires any right, issued by an issuer of such Capital Stock.

“Subsidiary Parties” means (a) the Subsidiaries of the Borrower party hereto on the Closing Date and (b) each Subsidiary that becomes a party to this Security Agreement after the date hereof in accordance with Section 7.10 hereof and the Credit Agreement.

“Termination Date” shall mean the date on which all Obligations (other than (i) Hedging Obligations under any Secured Hedging Agreements, (ii) Cash Management Obligations under any Secured Cash Management Agreements and (iii) any contingent obligations or other contingent indemnification obligations not then due and payable) have been paid in full, all Commitments have terminated or expired and no Letter of Credit shall be outstanding that is not Cash Collateralized or back-stopped on terms reasonably satisfactory to the Letter of Credit Issuer.

“Trademarks” shall mean all (a) trademarks, service marks, trade names, corporate names, company names, business names, fictitious business names, trade styles, trade dress, logos, slogans, other source or business identifiers, now existing or hereafter adopted or acquired, whether registered or unregistered, and all registrations, recordings and applications for registration filed in connection with the foregoing, including registrations, recordings and applications for registration in the U.S. Patent and Trademark Office or any similar offices in any State of the United States or any political subdivision thereof, and all common-law rights related thereto, (b) all goodwill associated therewith or symbolized thereby and (c) all extensions or renewals thereof.

ARTICLE 2 GRANT OF SECURITY INTEREST

SECTION 2.01. *Grant of Security Interest.*

(a) As security for the prompt and complete payment or performance, as the case may be, in full of the Obligations, each Grantor hereby pledges, collaterally assigns, mortgages, transfers and grants to the Collateral Agent, its successors and permitted assigns, for the benefit of the Secured Parties, a continuing security interest (the “Security Interest”) in all of its right in, and title and interest to and under, all of the following personal property and other assets, whether now owned by or owing to, or hereafter acquired by or arising in favor of, such Grantor, and regardless of where located (all of which are collectively referred to as the “Collateral”):

- (i) all Accounts;
- (ii) all Chattel Paper (including all Tangible Chattel Paper and all Electronic Chattel Paper);
- (iii) all Deposit Accounts;
- (iv) all Documents;
- (v) all Equipment;
- (vi) all Fixtures;

- (vii) all General Intangibles;
- (viii) all Goods;
- (ix) all Intellectual Property;
- (x) all Instruments;
- (xi) all Inventory;
- (xii) all Investment Property, Pledged Stock and other Pledged Collateral;
- (xiii) all letters of credit and Letter-of-Credit Rights;
- (xiv) all Securities Entitlements in any or all of the foregoing;
- (xv) all Commercial Tort Claims described on Schedule 1 hereto (including any supplements to Schedule 1 delivered pursuant to Section 4.04);
- (xvi) all Permits;
- (xvii) all Contracts, together with all Contract Rights arising thereunder;
- (xviii) all Supporting Obligations; and
- (xix) all accessions to, substitutions and replacements for and Proceeds and products of the foregoing, together with all books and records, customer lists, credit files, computer files, programs, printouts and other computer materials and records related thereto and any General Intangibles at any time evidencing or relating to any of the foregoing and all collateral security and guarantees given by any Person with respect to any of the foregoing.

(b) Notwithstanding the foregoing, for the avoidance of doubt, the term “Collateral” (and any component definition thereof) shall not include any Excluded Property. Notwithstanding anything to the contrary contained herein, if any personal property or asset of a Grantor constitutes Excluded Property at any time and thereafter such property or asset ceases to constitute Excluded Property (whether as a result of the ineffectiveness, lapse or termination of any restriction or condition set forth in the definition of “Excluded Property” herein or otherwise), then, if such property or asset would otherwise constitute Collateral under any of clauses (i) through (xix) of Section 2.01(a), immediately upon such cessation the Collateral shall include, and the relevant Grantor shall be deemed to have automatically granted a security interest in, all such property or asset previously constituting Excluded Property, as if such property or asset had never been Excluded Property. For the avoidance of doubt, “Excluded Property” shall not include any proceeds, products, substitutions or replacements of Excluded Property (unless such proceeds, products, substitutions or replacements would otherwise constitute Excluded Property).

ARTICLE 3 REPRESENTATIONS AND WARRANTIES

The Grantors, jointly and severally, represent and warrant to the Collateral Agent on and as of the Closing Date and on and as of the date of each Credit Event (to the extent required by Section 7.1 of the Credit Agreement), for the benefit of the Secured Parties, that:

SECTION 3.01. *Title, Perfection and Priority; Filing Collateral.*

(a) This Security Agreement creates a legal, valid and, subject to the Legal Reservations, enforceable Lien on all of the Collateral in favor of the Collateral Agent for the benefit of itself and the other Secured Parties and, upon the satisfaction of the applicable Perfection Requirements subject, as of the Closing Date, to the terms of Section 4.01, such Liens constitute perfected security interests on the Collateral securing the Obligations, to the extent perfection may be accomplished by the taking of the actions described in the Perfection Requirements.

(b) Each Grantor (i) is the owner of all of its Collateral free and clear from any Lien or other right, title or interest of any Person (other than a Permitted Lien and/or any such other right, title or interest that is permitted or not prohibited by the terms of the Credit Agreement) or (ii) has the power to transfer rights in the Collateral to the Collateral Agent.

(c) Notwithstanding anything to the contrary herein, no Grantor shall be required to perfect the Security Interests created hereby by any means other than (i) filings pursuant to the Uniform Commercial Code, (ii) filings with the U.S. Patent and Trademark Office or the U.S. Copyright Office, as applicable, with respect to the Registered Intellectual Property Collateral, (iii) in the case of Collateral that constitutes Material Debt Instruments or certificated Capital Stock, in each case, to the extent included in the Collateral and required hereunder (other than Excluded Capital Stock), delivery to the Collateral Agent to be held in its possession and (iv) in the case of Collateral that constitutes Commercial Tort Claims taking the actions specified by Section 4.04. No Grantor shall be required to and the Collateral Agent shall not be permitted to (1) (x) enter into any security agreements governed under foreign law or (y) complete any filings or take any other actions in any foreign jurisdiction or required by foreign law to create any security interest in Collateral located or titled outside the United States or to perfect or make enforceable any Security Interest in any foreign jurisdiction or required by foreign law, (2) take actions to perfect by Control with respect to any assets requiring perfection through control agreements, including Deposit Accounts, Securities Accounts and Commodities Accounts and it is further agreed that no blocked account agreement, deposit account control agreement or similar agreement will be required for any Deposit Account, Securities Account or Commodities Account other than as specified in Section 4.02, or (3) take any perfection actions with respect to (x) Letter of Credit Rights, except to the extent constituting Supporting Obligations of other Collateral as to which perfection is accomplished by the filing of a Uniform Commercial Code financing statement or equivalent (it being understood that no actions shall be required to perfect a security interest in Letter of Credit Rights, other than the filing of a Uniform Commercial Code financing statement or equivalent) and (y) motor vehicles and other assets subject to certificates of title.

SECTION 3.02. *Intellectual Property.* Upon (i) filing of appropriate financing statements with the Secretary of State (or equivalent office) of the state of organization of such Grantor and the filing of the Intellectual Property Security Agreements with and recording by the U.S. Patent and Trademark Office and (ii) filing of the Intellectual Property Security Agreements with and recording by the U.S. Copyright Office, as applicable, the Collateral Agent shall have a fully perfected security interest on the Registered Intellectual Property Collateral, under the UCC and the laws of the United States for the benefit of the Secured Parties, and such perfected security interests shall be enforceable as such as against any and all creditors of and purchasers from the Grantors, subject to the Legal Reservations. No Grantor shall be required to complete any filings or take any other action with respect to the perfection of the security interests created hereby in any jurisdiction outside of the United States.

SECTION 3.03. *Pledged Stock.* (i) All Pledged Stock has been duly authorized and validly issued (to the extent such concepts are relevant with respect to such Pledged Stock) by the issuer thereof and is fully paid and non-assessable, (ii) as of the Closing Date, each Grantor is the direct owner,

beneficially and of record, of the Pledged Stock described in Schedule 8 to the Perfection Certificate as held by such Grantor and (iii) as of the Closing Date, each Grantor holds the Pledged Stock described in Schedule 8 to the Perfection Certificate as held by such Grantor free and clear of all Liens (other than Permitted Liens).

SECTION 3.04. *Perfection Certificate.* The Perfection Certificate has been duly prepared, completed and executed and the certifications set forth therein are true and correct in all material respects as of the date thereof.

ARTICLE 4 COVENANTS

From the date hereof, and thereafter until the Termination Date:

SECTION 4.01. *General.*

(a) *Authorization to File Financing Statements; Ratification.* Each Grantor hereby (i) authorizes the Collateral Agent (or its designee) to file (A) all financing statements and amendments thereto with respect to the Collateral naming such Grantor as debtor and the Collateral Agent as secured party, in form appropriate for filing under the UCC of the relevant jurisdiction and (B) filings executed by such Grantor with the U.S. Patent and Trademark Office and the U.S. Copyright Office (including any Intellectual Property Security Agreement executed by the relevant Grantor) as may be necessary or advisable for the purpose of perfecting, enforcing, maintaining or protecting the Lien of the Collateral Agent in Registered Intellectual Property Collateral contained in the Collateral and naming such Grantor as debtor and the Collateral Agent as secured party and (ii) subject to the terms of the Credit Documents (including the limitations set forth in Section 9.10 of the Credit Agreement) agrees to take such other actions as may from time to time be required under applicable law or be reasonably requested by the Collateral Agent (and authorizes the Collateral Agent (and its designee) to take any such other actions, consistent with and limited to the Perfection Requirements, which it has no obligation to take) in order to establish and maintain a valid, enforceable (subject to the Legal Reservations) and perfected security interest (with priority described in the Security Documents and Customary Intercreditor Agreements) in and subject, in the case of Pledged Collateral, to Section 4.02 hereof and Section 9.10 of the Credit Agreement, Control of the Collateral. Each Grantor shall pay any applicable filing fees, recordation fees and related reasonable expenses relating to its Collateral in accordance with Section 13.5(a) of the Credit Agreement. Any financing statement filed by the Collateral Agent (or its designee) may be filed in any filing office in any applicable UCC jurisdiction and may (i) indicate the Collateral (A) as all assets of the applicable Grantor or words of similar effect, regardless of whether any particular asset comprised in the Collateral falls within the scope of Article 9 of the UCC of such jurisdiction, or (B) by any other description which reasonably approximates the description contained in this Security Agreement and (ii) contain any other information required by part 5 of Article 9 of the UCC for the sufficiency or filing office acceptance of any financing statement or amendment. Each Grantor agrees to furnish any such information to the Collateral Agent promptly upon request.

(b) *Further Assurances.* Each Grantor agrees, at its own expense, to take any and all actions reasonably necessary to defend title to the Collateral against all Persons (other than Persons holding Permitted Liens on such Collateral that have priority over the Collateral Agent's Lien) and to defend the security interest of the Collateral Agent in the Collateral and the priority thereof against any Lien that is not a Permitted Lien. Notwithstanding the foregoing, Grantor may to the extent not prohibited by the Credit Agreement, grant licenses to third parties to use Intellectual Property Collateral owned, licensed or developed by a Grantor; for the purposes of this Security Agreement, such licensing activity shall not constitute a Lien on such Intellectual Property Collateral. The Collateral Agent and each other Secured

Party understands that, to the extent not prohibited by the Credit Agreement, any such license may be exclusive to the applicable licensees, and such exclusivity provisions may limit the ability of the Collateral Agent to utilize, sell, lease or transfer the related Intellectual Property or otherwise realize value from such Intellectual Property pursuant hereto.

SECTION 4.02. *Pledged Collateral.*

(a) *Delivery of Certificated Capital Stock and Material Debt Instruments.* Each Grantor will (i) with respect to any certificated Capital Stock representing or evidencing Pledged Collateral and Material Debt Instruments described in clause (2) below, held by the Grantors on the Closing Date, subject to Section 6.2 of the Credit Agreement, deliver to the Collateral Agent for the benefit of the Secured Parties such certificated Capital Stock and Material Debt Instruments on the Closing Date, accompanied by undated instruments of transfer or assignment duly executed in blank and (ii) after the Closing Date, hold in trust for the Collateral Agent upon receipt and subject to Sections 9.11 and 9.14 of the Credit Agreement (x) if the event giving rise to the obligation under this Section 4.02(a) occurs during the first three Fiscal Quarters of any Fiscal Year, on or before the date on which financial statements are required to be delivered pursuant to Section 9.1(b) of the Credit Agreement for the Fiscal Quarter in which the relevant event occurred or (y) if the event giving rise to the obligation under this Section 4.02(a) occurs during the fourth Fiscal Quarter of any Fiscal Year, on or before the date on which financial statements are required to be delivered pursuant to Section 9.1(a) of the Credit Agreement for the Fiscal Year in which the relevant event occurred (or, in each of the cases of clauses (x) and (y), such longer period as the Collateral Agent may agree in its sole discretion) deliver to the Collateral Agent for the benefit of the Secured Parties any (1) certificated Capital Stock representing or evidencing Pledged Collateral and (2) Material Debt Instruments, in each case under clauses (1) and (2) above, constituting Collateral received after the date hereof, accompanied by undated instruments of transfer or assignment duly executed in blank.

(b) *Uncertificated Securities and Pledged Collateral.* With respect to any partnership interest or limited liability company interest or any other Capital Stock owned by any Grantor which is required to be pledged to the Collateral Agent pursuant to the terms hereof (other than a partnership interest or limited liability company interest held by a Clearing Corporation, Securities Intermediary or other financial intermediary of any kind) or any other Capital Stock which is not represented by a certificate, such Grantor shall not permit any issuer of such partnership interest, limited liability company interest or any other Capital Stock to allow such partnership interest, limited liability company interest or any other Capital Stock that is not already a Security to become a Security unless such Grantor complies with the procedures in Section 4.02(a) within the time period prescribed therein. Each Grantor which is the issuer (the “Issuer”) of any Pledged Stock which constitutes an Uncertificated Security agrees, at any time when an Event of Default exists and upon at least three (3) Business Days’ prior written notice to such Grantor from the Collateral Agent, that it will comply with instructions originated by the Collateral Agent with respect to such Uncertificated Security without further consent of the registered owner thereof. Each Grantor and each Issuer party hereto acknowledges and agrees that this Section 4.02(b) establishes the Collateral Agent’s “control” (for purposes of the UCC) of any such Uncertificated Security.

(c) *Registration in Nominee Name; Denominations.* The Collateral Agent, on behalf of the Secured Parties, shall hold certificated Pledged Collateral required to be delivered to the Collateral Agent under Section 4.02(a) in the name of the applicable Grantor, endorsed or assigned in blank or in favor of the Collateral Agent, but at any time when an Event of Default exists and is continuing and upon at least three (3) Business Days’ prior written notice to the Borrower, the Collateral Agent shall have the right (in its sole and absolute discretion) to hold the Pledged Collateral in its own name as pledgee, or in the name of its nominee (as pledgee or as sub-agent). At any time when an Event of Default exists, and upon at least three (3) Business Days’ prior written notice to the Borrower, the Collateral Agent shall have the

right to exchange the certificates representing Pledged Collateral for certificates of smaller or larger denominations for any purpose consistent with this Security Agreement.

(d) *Exercise of Rights in Pledged Collateral.* It is agreed that:

(i) without in any way limiting the foregoing and subject to clause (ii) below, each Grantor shall have the right to exercise all voting rights or other rights relating to the Pledged Collateral for any purpose that does not violate this Security Agreement, the Credit Agreement or any other Credit Document;

(ii) each Grantor will permit the Collateral Agent or its nominee, and the Collateral Agent or its nominee shall have the right, at any time when an Event of Default exists and is continuing, and upon at least three (3) Business Days' prior written notice to the Borrower, to exercise the rights and remedies provided under Section 5.01(a)(iv) (subject to the notice requirements set forth therein and Applicable Laws); and

(iii) subject to Section 5.01(a)(iv), each Grantor shall be entitled to receive and retain any and all dividends, interest, principal and other distributions paid on or distributed in respect of the Pledged Collateral; provided that any non-cash dividends or other distributions that would constitute Pledged Collateral, whether resulting from a subdivision, combination or reclassification of the outstanding Capital Stock of the issuer of any Pledged Collateral or received in exchange for Pledged Collateral or any part thereof, or in redemption thereof, or as a result of any merger, consolidation, acquisition or other exchange of assets to which such issuer may be a party or otherwise, shall, to the extent constituting Collateral, be and become part of the Pledged Collateral, and, if received by any Grantor, shall be delivered to the Collateral Agent as and to the extent required by Section 4.02(a).

(e) *Return of Pledged Collateral.* So long as no Event of Default then exists, the Collateral Agent shall promptly deliver to the applicable Grantor (without recourse and without any representation or warranty) any Pledged Collateral in its possession if requested to be delivered to the issuer or holder thereof in connection with any action or transaction that is permitted or not restricted by the Credit Agreement in accordance with Sections 12 and 13.17 of the Credit Agreement.

SECTION 4.03. *Intellectual Property.*

(a) At any time when an Event of Default exists and is continuing and upon the written request of the Collateral Agent, each Grantor will (i) use its commercially reasonable efforts to obtain all consents and approvals necessary or appropriate for the assignment to or for the benefit of the Collateral Agent of any License held by such Grantor in the United States to enable the Collateral Agent to enforce the security interests granted hereunder and (ii) to the extent required pursuant to any material License in the United States under which such Grantor is the licensee, deliver to the licensor thereunder any notice of the grant of security interest hereunder or such other notices required to be delivered thereunder in order to permit the security interest created or permitted to be created hereunder pursuant to the terms of such License.

(b) Each Grantor shall notify the Collateral Agent promptly if it knows or reasonably expects that any application for or registration of any Patent, Trademark, or

Copyright (now or hereafter existing) may become abandoned or dedicated to the public, or of any determination or development (including the institution of, or any such determination or development in, any proceeding in the U.S. Patent and Trademark Office, the U.S. Copyright Office or any court, except for routine office actions issued in the normal course of prosecution) abandoning such Grantor's ownership of any such Patent, Trademark or Copyright, its right to register the same, or to keep and maintain the same, except, in each case, to the extent the same is permitted or not restricted by the Credit Agreement or where the same, individually or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect.

(c) In the event that any Grantor files an application for the registration of any Patent, Trademark (for the avoidance of doubt, excluding any Excluded Property) or Copyright with the U.S. Patent and Trademark Office or the U.S. Copyright Office, acquires any such application or registration by purchase or assignment, enters into any License whereby it becomes the exclusive licensee of a Copyright registered at the U.S. Copyright Office, or files a Statement of Use or an Amendment to Allege Use with respect to an intent-to-use Trademark application that is accepted by the U.S. Patent and Trademark Office, in each case, after the Closing Date (and other than as a result of an application that is then subject to an Intellectual Property Security Agreement becoming registered), it shall (x) if the event giving rise to the obligation under this Section 4.03(c) occurs during the first three Fiscal Quarters of any Fiscal Year, on or before the date on which financial statements are required to be delivered pursuant to Section 9.1(b) of the Credit Agreement for the Fiscal Quarter in which the relevant event occurred or (y) if the event giving rise to the obligation under this Section 4.03(c) occurs during the fourth Fiscal Quarter of any Fiscal Year, on or before the date on which financial statements are required to be delivered pursuant to Section 9.1(a) of the Credit Agreement for the Fiscal Year in which the relevant event occurred (or, in each of the cases of clauses (x) and (y) above, such longer period as the Collateral Agent may agree in its sole discretion) notify the Collateral Agent and, promptly upon the Collateral Agent's request, execute and deliver to the Collateral Agent, at such Grantor's sole cost and expense, an Intellectual Property Security Agreement, as applicable, or other instrument as the Collateral Agent may reasonably request and require to evidence the Collateral Agent's security interest in such Registered Intellectual Property Collateral.

(d) Each Grantor shall take all actions necessary or reasonably requested by the Collateral Agent to (i) maintain and pursue each application and to obtain and maintain the registration of each Patent, Trademark, Domain Name and Copyright included in the Collateral (now or hereafter existing), including by filing applications for renewal, affidavits of use, affidavits of incontestability and, if consistent with good business judgment, by initiating opposition, interference and cancellation proceedings against third parties, (ii) maintain and protect the secrecy or confidentiality of its material Trade Secrets and (iii) otherwise protect and preserve such Grantor's rights in, and the validity or enforceability of, its Intellectual Property Collateral, in each case except where failure to do so (A) would not reasonably be expected to result in a Material Adverse Effect, or (B) is otherwise not prohibited under the Credit Agreement.

SECTION 4.04. *Commercial Tort Claims.* After the Closing Date, (x) if the event giving rise to the obligation under this Section 4.04 occurs during the first three Fiscal Quarters of any Fiscal Year, on or before the date on which financial statements are required to be delivered pursuant to Section 9.1(b) of the Credit Agreement for the Fiscal Quarter in which the relevant event occurred or (y) if the event giving rise to the obligation under this Section 4.04 occurs during the fourth Fiscal Quarter of any Fiscal Year, on or before the date on which financial statements are required to be delivered pursuant to Section 9.1(a) of the Credit Agreement for the Fiscal Year in which the relevant event occurred (or, in each of the cases of clauses (x) and (y), such longer period as the Collateral Agent may agree in its sole discretion) each relevant Grantor shall notify the Collateral Agent of any Commercial Tort Claim with an individual value (as reasonably estimated by the Borrower) in excess of \$10,000,000 acquired by it, together with an update to Schedule 1 containing a summary description thereof, and such Commercial Tort Claim (and the Proceeds thereof) shall automatically constitute Collateral, all upon the terms of this Security Agreement.

SECTION 4.05. *Insurance.* Except to the extent otherwise permitted to be retained by any Grantor or applied by any Grantor pursuant to the terms of the Credit Documents, the Collateral Agent shall, at the time when an Event of Default exists and is continuing and any proceeds of any insurance are distributed to the Secured Parties, apply such proceeds in accordance with Section 5.04 below.

SECTION 4.06. *Grantors Remain Liable.*

(a) Each Grantor (rather than the Collateral Agent or any Secured Party) shall remain liable (as between itself and any relevant counterparty) to observe and perform all the conditions and obligations to be observed and performed by it under any Contract relating to the Collateral, all in accordance with the terms and conditions thereof. Neither the Collateral Agent nor any other Secured Party shall have any obligation or liability under any Contract by reason of or arising out of this Security Agreement or the receipt by the Collateral Agent or any other Secured Party of any payment relating to such Contract pursuant hereto, nor shall the Collateral Agent or any other Secured Party be obligated in any manner to perform any of the obligations of any Grantor under or pursuant to any Contract, to make any payment, to make any inquiry as to the nature or sufficiency of any performance or to collect the payment of any amounts which may have been assigned to them or to which they may be entitled at any time or times.

(b) Each Grantor assumes all liability and responsibility in connection with the Collateral acquired by it, and the liability of such Grantor to pay the Obligations shall in no way be affected or diminished by reason of the fact that such Collateral may be lost, destroyed, stolen, damaged or for any reason whatsoever unavailable to such Grantor.

(c) Notwithstanding anything herein to the contrary, each Grantor (rather than the Collateral Agent or any Secured Party) shall remain liable under each of the Accounts to observe and perform all of the conditions and obligations to be observed and performed by it thereunder, all in accordance with the terms of any agreement giving rise to such Accounts. Neither the Collateral Agent nor any other Secured Party shall have any obligation or liability under any Account (or any agreement giving rise thereto) by reason of or arising out of this Security Agreement or the receipt by the Collateral Agent or any other Secured Party of any payment relating to such Account pursuant hereto, nor shall the Collateral Agent or any other Secured Party be obligated in any manner to perform any of the obligations of any Grantor under or pursuant to any Account (or any agreement giving rise thereto), to make any payment, to make any inquiry as to the nature or the sufficiency of any payment received by them or as to the sufficiency of any performance by any party under any Account (or any agreement giving rise thereto), to present or file any claim, to take any action to enforce any performance or to collect the payment of any amounts which may have been assigned to them or to which they may be entitled at any time or times.

SECTION 4.07. *Information Regarding Collateral.* Each Grantor agrees to give the Collateral Agent prompt (and, in any event, within 60 days of the relevant change or such longer period as the Collateral Agent may agree in its sole discretion) written notice of any change (i) in such Grantor's legal name, (ii) in such Grantor's type of organization or (iii) in such Grantor's jurisdiction of organization, in each case to the extent such information is necessary to enable the Collateral Agent to perfect or maintain the perfection of its security interest in the Collateral of the relevant Grantor, together with a certified copy of the applicable Organizational Document reflecting the relevant change.

ARTICLE 5
REMEDIES

SECTION 5.01. *Remedies.*

(a) Each Grantor agrees that, at any time when an Event of Default exists and is continuing (and upon at least three (3) Business Days' prior written notice to the Borrower in the case of any exercise of rights and remedies with respect to Collateral), the Collateral Agent may with the consent of the Required Lenders exercise any or all of the following rights and remedies (in addition to the rights and remedies existing under Applicable Laws):

(i) the rights and remedies provided in this Security Agreement, the Credit Agreement, or any other Credit Document (for the avoidance of doubt, this Section 5.01(a)(i) shall not limit or impair the exercise of any such rights and remedies with respect to matters not involving Collateral that are available under the Credit Documents whether or not an Event of Default has occurred);

(ii) the rights and remedies available to a secured party under the UCC or under any other Applicable Laws (including, without limitation, any law governing the exercise of a bank's right of setoff or bankers' Lien) when a debtor is in default under a security agreement;

(iii) enter the premises of any Grantor where any Collateral is located (through self-help and without judicial process) and to collect, receive, assemble, process, appropriate, sell, lease, assign, grant an option or options to purchase or otherwise dispose of, deliver, or realize upon, the Collateral or any part thereof in one or more parcels at one or more public or private sales (which sales may be adjourned or continued from time to time with or without notice and may take place at such Grantor's premises or elsewhere), for cash, on credit or for future delivery without assumption of any credit risk, and upon such other terms as the Collateral Agent may deem commercially reasonable and each purchaser, assignee, licensee or recipient at any such sale shall acquire the property sold, assigned or licensed absolutely free from any claim or right on the part of any Grantor, and each Grantor hereby waives, to the fullest extent permitted by law, all rights of redemption, stay and/or appraisal which it now has or may at any time in the future have under any rule of law or statute now existing or hereafter enacted;

(iv) transfer and register in its name or in the name of its nominee the whole or any part of the Pledged Collateral, to exercise the voting and all other rights as a holder with respect thereto (whereupon the voting and other rights of such Grantor described in Section 4.02(d)(i) above shall immediately cease such that the Collateral Agent shall have the sole right to exercise such voting and other rights while the relevant Event of Default exists and is continuing), to collect and receive all cash dividends, interest, principal and other distributions made thereon (it being understood that all Stock Rights received by any Grantor while the relevant Event of Default exists and is continuing shall be received in trust for the benefit of the Collateral Agent and forthwith paid over to the Collateral Agent in the same form as so received (with any necessary endorsements)) and to otherwise act with respect to the Pledged Collateral as though the Collateral Agent was the outright owner thereof; and

(v) take possession of the Collateral or any part thereof, by directing such Grantor in writing to deliver the same to the Collateral Agent at any reasonable place or places designated by the Collateral Agent, in which event such Grantor shall at its own expense:

(1) forthwith cause the same to be moved to the place or places so designated by the Collateral Agent and there delivered to the Collateral Agent;

(2) store and keep any Collateral so delivered to the Collateral Agent at such place or places pending further action by the Collateral Agent; and

(3) while the Collateral shall be so stored and kept, provide such security and maintenance services as shall be reasonably necessary to protect the same and to preserve and maintain it in good condition.

(b) Each Grantor acknowledges and agrees that compliance by the Collateral Agent, on behalf of itself and the other Secured Parties, with any Applicable Laws and the Credit Documents in connection with a disposition of the Collateral will not be considered to adversely affect the commercial reasonableness of any sale of the Collateral.

(c) The Collateral Agent shall have the right in any public sale and, to the extent permitted by Applicable Laws, in any private sale, to purchase for the benefit of the Collateral Agent and the Secured Parties, all or any part of the Collateral so sold, free of any right of equity redemption, which equity redemption each Grantor hereby expressly releases.

(d) Until the Collateral Agent is able to effect a sale, lease, transfer or other disposition of any Collateral under this Section 5.01, the Collateral Agent shall have the right to hold or use such Collateral, or any part thereof, to the extent that it deems appropriate for the purpose of preserving such Collateral or the value of such Collateral, or for any other purpose deemed reasonably appropriate by the Collateral Agent. At any time when an Event of Default exists and is continuing, and upon at least three (3) Business Days' prior written notice to the Borrower, the Collateral Agent may with the consent of the Required Lenders, if it so elects, seek the appointment of a receiver or keeper to take possession of any Collateral and to enforce any of the Collateral Agent's remedies (for the benefit of the Collateral Agent and Secured Parties), with respect to such appointment without prior notice or hearing as to such appointment.

(e) Notwithstanding the foregoing, the Collateral Agent shall not be required to (i) make any demand upon, or pursue or exhaust any of their rights or remedies against, the Grantors, any other obligor, guarantor, pledgor or any other Person with respect to the payment of the Obligations or to pursue or exhaust any of their rights or remedies with respect to any Collateral therefor or any direct or indirect guarantee thereof, (ii) marshal the Collateral or any guarantee of the Obligations or to resort to the Collateral or any such guarantee in any particular order, or (iii) effect a public sale of any Collateral.

(f) Each Grantor recognizes that the Collateral Agent may be unable to effect a public sale of any or all the Pledged Collateral and may be compelled to resort to one or more private sales thereof. Each Grantor also acknowledges that any private sale may result in prices and other terms less favorable to the seller than if such sale were a public sale and, notwithstanding such circumstances, agrees that no such private sale shall be deemed to have been made in a commercially unreasonable manner solely by virtue of such sale being private. The Collateral Agent shall be under no obligation to delay a sale of any of the Pledged Collateral for the period of time necessary to permit any Grantor or the issuer of any Pledged Collateral to register such securities for public sale under the Securities Act of 1933, as amended, or under applicable state securities requirements of law, even if any Grantor and the issuer would agree to do so.

(g) Notwithstanding the foregoing, any rights and remedies provided in this Section 5.01 shall be subject to the terms of any applicable Intercreditor Agreement then in effect.

SECTION 5.02. *Grantors' Obligations Upon Default.* Upon at least three (3) Business Days' prior written notice to the Grantor from the Collateral Agent, at any time when an Event of Default exists and is continuing, each Grantor will:

(a) at its own cost and expense (i) assemble and make available to the Collateral Agent, the Collateral and all books and records relating thereto at any place or places reasonably specified by the Collateral Agent, whether at such Grantor's premises or elsewhere, (ii) deliver all tangible evidence of its Accounts and Contract Rights (including, without limitation, all documents evidencing the Accounts and all Contracts) and such books and records to the Collateral Agent or to its representatives (copies of which evidence and books and records may be retained by such Grantor) and (iii) if the Collateral Agent so directs, legend in a form and manner reasonably satisfactory to the Collateral Agent, the Accounts and the Contracts, as well as books, records and documents (if any) of such Grantor evidencing or pertaining to such Accounts and Contracts with an appropriate reference to the fact that such Accounts and Contracts have been assigned to the Collateral Agent and that the Collateral Agent has a security interest therein; and

(b) permit the Collateral Agent and/or its representatives and/or agents, to enter, occupy and use any premises where all or any part of the Collateral, or the books and records relating thereto, or both, are located, to take possession of all or any part of the Collateral or the books and records relating thereto, or both, to remove all or any part of the Collateral or the books and records relating thereto, or both, and to conduct sales of the Collateral, without any obligation to pay any Grantor for such use and occupancy.

SECTION 5.03. *Intellectual Property Remedies.*

(a) For the purpose of enabling the Collateral Agent to exercise the rights and remedies under this Article 5 at any time when an Event of Default exists and is continuing and at such time as the Collateral Agent shall be lawfully entitled to exercise such rights and remedies and is exercising such rights and remedies pursuant to Section 11 of the Credit Agreement, each Grantor hereby grants to the Collateral Agent a power of attorney to, following notice from the Collateral Agent to the such Grantor, sign any document which may be required by the United States Patent and Trademark Office, the United States Copyright Office, domain name registrar or similar registrar in order to effect an absolute assignment of all right, title and interest in each Patent, Trademark, Domain Name and Copyright and exclusive Copyright License included in the Collateral and each application for any such registration, and record the same.

(b) For the purpose of enabling the Collateral Agent to exercise the rights and remedies under this Article 5, at any time when an Event of Default exists and is continuing, each Grantor shall, upon request by the Collateral Agent, grant to the Collateral Agent an irrevocable (until the Termination Date), nonexclusive, royalty-free (and free of any other payment obligation), worldwide license to its right to use, license or sublicense any Intellectual Property Collateral now or hereafter owned or licensed by such Grantor, wherever the same may be located, and including in such license reasonable access to all media in which any of the licensed items may be recorded or stored and (to the extent not prohibited by any applicable license and subject to any Grantor's security policies and obligations of confidentiality) to all computer software and programs used for compilation or printout thereof; provided, however, that nothing in this Section 5.03(b) shall require a Grantor to grant any license that (i) is prohibited by any Applicable Law or (ii) is prohibited by, or constitutes a breach or default under or results in the termination of or gives rise to any right of acceleration, modification or cancellation under, any License, Contractual Obligation or similar agreement giving rise to a right to use or theretofore granted with respect to such Intellectual Property Collateral, which, in the case of this clause (ii), (w) exists on the Closing Date, (x) if such agreement was entered into by a Grantor acquired after the Closing Date, exists at the time such Grantor is acquired and which agreement was not entered into in contemplation of such acquisition or (y) if such agreement was entered into by any Grantor after the Closing Date, to the extent not prohibited by the Credit Agreement; provided, further, that with respect to Trademarks, the foregoing license shall be subject to the maintenance of quality standards with respect to the goods and services on which such Trademarks are used sufficient to preserve the validity of such Trademarks. The use of the

license granted to the Collateral Agent pursuant to the preceding sentence may be exercised, at the option of the Collateral Agent (acting at the direction of the Required Lenders), only when an Event of Default exists and is continuing; provided that any license, sublicense or other transaction entered into with a third party by the Collateral Agent in accordance with this Section 5.03(b) shall be binding upon each Grantor notwithstanding any subsequent cure of the relevant Event of Default.

SECTION 5.04. *Application of Proceeds.*

(a) Except as expressly provided elsewhere in this Security Agreement or any other Credit Document, all proceeds received by the Collateral Agent in respect of any sale of, collection from or other realization upon all or any part of the Collateral, shall be applied as follows:

(i) FIRST, to the payment of that portion of the Obligations constituting fees, indemnities, expenses and other amounts (other than principal and interest) payable to each Agent in its capacity as such hereunder or under any other Credit Document;

(ii) SECOND, to payment of that portion of the Obligations constituting fees (other than principal, interest and Letter of Credit Fees), indemnities, expenses and other amounts (other than principal and interest) payable to the Lenders and the Letter of Credit Issuers arising under the Credit Documents, ratably among them in proportion to the amounts described in this clause Second payable to them;

(iii) THIRD, to the payment of that portion of the Obligations constituting accrued and unpaid Letter of Credit Fees and interest (including, but not limited to, post-petition interest), ratably among the Lenders and the Letter of Credit Issuers in proportion to the respective amounts described in this clause Third payable to them;

(iv) FOURTH, to payment of that portion of the Obligations constituting unpaid principal, any Unpaid Drawing or face amounts of the Loans, and Hedging Obligations under each Secured Hedging Agreement and Cash Management Obligations arising under Secured Cash Management Agreements and, to the Administrative Agent for the account of the applicable Letter of Credit Issuers, to Cash Collateralize that portion of the Letter of Credit Obligations comprised of the aggregate undrawn amount of Letters of Credit, in each case, ratably among the Secured Parties in proportion to the respective amounts described in this clause Fourth held by them;

(v) FIFTH, any surplus then remaining, shall be paid to the Grantors or their successors or assigns or to whomsoever may be lawfully entitled to receive the same or as a court of competent jurisdiction may direct.

Subject to Section 2.16 of the Credit Agreement, amounts used to Cash Collateralize the aggregate undrawn amount of Letters of Credit pursuant to clause Fourth above shall be applied to satisfy drawings under such Letters of Credit as they occur. If any amount remains on deposit as Cash Collateral after all Letters of Credit have either been fully drawn or expired, such remaining amount shall be applied to the other Obligations, if any, in the order set forth above and, if no Obligations remain outstanding, to the Grantors or their successors or assigns or to whomsoever may be lawfully entitled to receive the same or as a court of competent jurisdiction may direct.

Notwithstanding the foregoing, (i) no amounts received from any Grantor shall be applied to any Excluded Swap Obligation of such Grantor and (ii) after the payments pursuant to clause FIRST above, if an intercreditor agreement (including any Customary Intercreditor Agreement) has been entered into

among the holders of Obligations which provides for the application of proceeds received by the Collateral Agent in respect of any sale of, collection from or other realization upon all or any part of the Collateral, then such proceeds shall be applied pursuant to the terms of such intercreditor agreement (including any Customary Intercreditor Agreement) and in making the determination and allocations required in any intercreditor agreement the Collateral Agent may conclusively rely upon information supplied by the applicable Authorized Officers as to the amounts of unpaid principal and interest and other amounts outstanding with respect to such Obligations and the Collateral Agent shall have no liability to any of the Secured Parties for actions taken in reliance on such information.

(b) Except as otherwise provided herein or in any other Credit Document, the Collateral Agent shall have absolute discretion as to the time of the application of any such proceeds in accordance with this Section 5.04. Upon any sale of the Collateral by the Collateral Agent (including pursuant to a power of sale granted by statute or under a judicial proceeding), the receipt of the Collateral Agent or of the officer making the sale shall be a sufficient discharge to the purchaser or purchasers of the Collateral so sold and such purchaser or purchasers shall not be obligated to see to the application of any part of the purchase money paid over to the Collateral Agent or such officer or be answerable in any way for the misapplication thereof.

ARTICLE 6 ACCOUNT VERIFICATION; ATTORNEY IN FACT; PROXY

SECTION 6.01. *Account Verification.* The Collateral Agent may at any time and from time to time when an Event of Default exists and is continuing and, upon at least three (3) Business Days' prior written notice to the Borrower, in the Collateral Agent's own name, in the name of a nominee of the Collateral Agent, or in the name of any Grantor, communicate (by mail, telephone, facsimile or otherwise) with the account debtors of such Grantor, parties to Contracts with such Grantor and obligors in respect of Instruments of such Grantor to verify with such Persons, to the Collateral Agent's reasonable satisfaction, the existence, amount, terms of, and any other matter relating to, Accounts, Contracts, Instruments, Chattel Paper, payment intangibles and/or other Receivables that constitute Collateral.

SECTION 6.02. *Authorization for the Collateral Agent to Take Certain Action.*

(a) Each Grantor hereby irrevocably authorizes the Collateral Agent and appoints the Collateral Agent (and all officers, employees, agents, sub-agents and other nominees designated by the Collateral Agent) as its true and lawful attorney in fact (i) at any time and from time to time in its sole discretion to execute (to the extent necessary under the requirements of law of the applicable jurisdiction) on behalf of such Grantor as debtor and to file financing statements and Intellectual Property Security Agreements executed by such Grantor necessary or desirable in the Collateral Agent's reasonable discretion to perfect and to maintain the perfection and priority of the Collateral Agent's security interest in the Collateral; (ii) at any time when an Event of Default exists and is continuing in the discretion of the Collateral Agent with the consent of the Required Lenders (in the name of such Grantor or otherwise) and upon at least three (3) Business Days' prior written notice to the Borrower (A) to endorse and collect any cash proceeds of the Collateral and to apply the proceeds of any Collateral received by the Collateral Agent to the Obligations as provided herein or in the Credit Agreement or any other Credit Document, subject to the terms of any Intercreditor Agreement then in effect, (B) to demand payment or enforce payment of any Receivable constituting Collateral in the name of the Collateral Agent (or its nominee) or such Grantor and to endorse any check, draft and/or any other instrument for the payment of money relating to any such Receivable, (C) to sign such Grantor's name on any invoice or bill of lading relating to any Receivable constituting Collateral, any draft against any account debtor of such Grantor, and/or any assignment and/or verification of any such Receivable, (D) to exercise all of any Grantor's rights and remedies with respect to the collection of any Receivable constituting Collateral and any other Collateral,

(E) to settle, adjust, compromise, extend or renew any Receivable constituting Collateral, (F) to settle, adjust or compromise any legal proceedings brought to collect any Receivable constituting Collateral, (G) to prepare, file and sign such Grantor's name on a proof of claim in bankruptcy or similar document against any account debtor of such Grantor, (H) to prepare, file and sign such Grantor's name on any notice of Lien, assignment or satisfaction of Lien or similar document in connection with any Receivable constituting Collateral, (I) to discharge past due taxes, assessments, charges, fees or Liens on the Collateral (except for Permitted Liens), (J) to make, settle and adjust claims in respect of Collateral under policies of insurance and endorse the name of such Grantor on any check, draft, instrument or other item of payment for the proceeds of such policies of insurance, and (K) to obtain or maintain the policies of insurance of the types referred to in Sections 9.3 and 9.14 of the Credit Agreement or to pay any premium in whole or in part relating thereto; and (iii) to do all other acts and things or institute any proceedings which the Collateral Agent may reasonably deem to be necessary or advisable (pursuant to this Security Agreement and the other Credit Documents and in accordance with applicable law) to carry out the terms of this Security Agreement and to protect the interests of the Secured Parties; and, when and to the extent required pursuant to Section 13.5(a) of the Credit Agreement, such Grantor agrees to reimburse the Collateral Agent for any payment made in connection with this Section 6.02(a) or any expense (including attorneys' fees, court costs and expenses) and other changes related thereto incurred by the Collateral Agent in connection with any of the foregoing (it being understood that any such sums shall constitute additional Obligations); provided that, this authorization shall not relieve such Grantor of any of its obligations under this Security Agreement or under the Credit Agreement.

(b) All acts of such attorney or designee are hereby ratified and approved by each Grantor. The powers conferred on the Collateral Agent, for the benefit of the Collateral Agent and Secured Parties, under this Section 6.02 are solely to protect the Collateral Agent's interests in the Collateral and shall not impose any duty upon the Collateral Agent or any Secured Party to exercise any such powers.

SECTION 6.03. *PROXY*. EACH GRANTOR HEREBY IRREVOCABLY (UNTIL THE TERMINATION DATE) CONSTITUTES AND APPOINTS THE COLLATERAL AGENT AS ITS PROXY AND ATTORNEY-IN-FACT (SUBJECT TO AND AS SET FORTH IN SECTION 6.02) WITH RESPECT TO THE PLEDGED COLLATERAL, INCLUDING THE RIGHT TO VOTE SUCH PLEDGED COLLATERAL, WITH FULL POWER OF SUBSTITUTION TO DO SO. IN ADDITION TO THE RIGHT TO VOTE ANY SUCH PLEDGED COLLATERAL, THE APPOINTMENT OF THE COLLATERAL AGENT AS PROXY AND ATTORNEY-IN-FACT SHALL INCLUDE THE RIGHT TO EXERCISE ALL OTHER RIGHTS, POWERS, PRIVILEGES AND REMEDIES TO WHICH A HOLDER OF SUCH PLEDGED COLLATERAL WOULD BE ENTITLED (INCLUDING GIVING OR WITHHOLDING WRITTEN CONSENTS OF SHAREHOLDERS, CALLING SPECIAL MEETINGS OF SHAREHOLDERS AND VOTING AT SUCH MEETINGS). SUCH PROXY SHALL BE EFFECTIVE, AUTOMATICALLY AND WITHOUT THE NECESSITY OF ANY ACTION (INCLUDING ANY TRANSFER OF ANY SUCH PLEDGED COLLATERAL ON THE RECORD BOOKS OF THE ISSUER THEREOF) BY ANY PERSON (INCLUDING THE ISSUER OF SUCH PLEDGED COLLATERAL OR ANY OFFICER OR COLLATERAL AGENT THEREOF), IN EACH CASE ONLY WHEN AN EVENT OF DEFAULT EXISTS AND IS CONTINUING AND UPON AT LEAST THREE (3) BUSINESS DAYS' PRIOR WRITTEN NOTICE TO THE BORROWER.

SECTION 6.04. *NATURE OF APPOINTMENT; LIMITATION OF DUTY*. THE APPOINTMENT OF THE COLLATERAL AGENT AS PROXY AND ATTORNEY-IN-FACT IN THIS ARTICLE 6 IS COUPLED WITH AN INTEREST AND SHALL BE IRREVOCABLE UNTIL THE TERMINATION DATE. NOTWITHSTANDING ANYTHING CONTAINED HEREIN, NEITHER THE COLLATERAL AGENT, NOR ANY SECURED PARTY, NOR ANY OF THEIR RESPECTIVE AFFILIATES, OFFICERS, DIRECTORS, EMPLOYEES, COLLATERAL AGENTS OR REPRESENTATIVES SHALL HAVE ANY DUTY TO EXERCISE ANY RIGHT OR POWER

GRANTED HEREUNDER OR OTHERWISE OR TO PRESERVE THE SAME AND SHALL NOT BE LIABLE FOR ANY FAILURE TO DO SO OR FOR ANY DELAY IN DOING SO, EXCEPT TO THE EXTENT SUCH DAMAGES ARE ATTRIBUTABLE TO THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF SUCH PERSON AS FINALLY DETERMINED BY A COURT OF COMPETENT JURISDICTION IN A FINAL AND NON-APPEALABLE DECISION SUBJECT TO SECTION 7.20; PROVIDED, THAT THE FOREGOING EXCEPTION SHALL NOT BE CONSTRUED TO OBLIGATE THE COLLATERAL AGENT TO TAKE OR REFRAIN FROM TAKING ANY ACTION WITH RESPECT TO THE COLLATERAL.

ARTICLE 7
GENERAL PROVISIONS

SECTION 7.01. *Waivers.* To the maximum extent permitted by Applicable Laws, each Grantor hereby waives notice of the time and place of any judicial hearing in connection with the Collateral Agent's taking possession of the Collateral or of any public sale or the time after which any private sale or other disposition of all or any part of the Collateral may be made, including without limitation, any and all prior notice and hearing for any prejudgment remedy or remedies. To the extent such notice may not be waived under Applicable Law, any notice made shall be deemed reasonable if sent to any Grantor, addressed as set forth in Article 8, at least 10 days prior to (a) the date of any such public sale or (b) the time after which any such private disposition may be made. To the maximum extent permitted by Applicable Laws, each Grantor waives all claims, damages, and demands against the Collateral Agent arising out of the repossession, retention or sale of the Collateral, except those arising out of the bad faith, gross negligence or willful misconduct of the Collateral Agent as determined by a court of competent jurisdiction in a final and non-appealable judgment. To the extent it may lawfully do so, each Grantor absolutely and irrevocably waives and relinquishes the benefit and advantage of, and covenants not to assert against the Collateral Agent, any valuation, stay (other than an automatic stay under any applicable Debtor Relief Law), appraisal, extension, moratorium, redemption or similar law and any and all rights or defenses it may have as a surety now or hereafter existing which, but for this provision, might be applicable to the sale of any Collateral made under the judgment, order or decree of any court, or privately under the power of sale conferred by this Security Agreement, or otherwise. Except as otherwise specifically provided herein, each Grantor hereby waives presentment, demand, protest, any notice (to the maximum extent permitted by Applicable Law) of any kind or all other requirements as to the time, place and terms of sale in connection with this Security Agreement or any Collateral.

SECTION 7.02. *Limitation on Collateral Agent's Duty with Respect to the Collateral.* The Collateral Agent shall not have any obligation to clean or otherwise prepare the Collateral for sale. The Collateral Agent shall use reasonable care with respect to the Collateral in its possession; provided that the Collateral Agent shall be deemed to have exercised reasonable care in the custody and preservation of any Collateral in its possession if such Collateral is accorded treatment substantially equal to which it accords its own property. The Collateral Agent shall not have any other duty as to any Collateral in its possession or control or in the possession or control of any agent or nominee of the Collateral Agent, or any income thereon or as to the preservation of rights against prior parties or any other rights pertaining thereto. To the extent that Applicable Laws impose duties on the Collateral Agent to exercise remedies in a commercially reasonable manner, each Grantor acknowledges and agrees that it would be commercially reasonable for the Collateral Agent (a) to elect not to incur expenses to prepare Collateral for disposition or otherwise to transform raw material or work in process into finished goods or other finished products for disposition, (b) to elect not to obtain third-party consents for access to Collateral to be disposed of, or to obtain or, if not required by other law, to fail to obtain governmental or third-party consents for the collection or disposition of Collateral to be collected or disposed of, (c) to elect not to exercise collection remedies against account debtors or other Persons obligated on Collateral or to remove Liens on or any

adverse claims against Collateral, (d) to exercise collection remedies against account debtors and other Persons obligated on Collateral directly or through the use of collection agencies and other collection specialists, (e) to advertise dispositions of Collateral through publications or media of general circulation, whether or not the Collateral is of a specialized nature, (f) to contact other Persons, whether or not in the same business as any Grantor, for expressions of interest in acquiring all or any portion of such Collateral, (g) to hire one or more professional auctioneers to assist in the disposition of Collateral, whether or not the Collateral is of a specialized nature, (h) to dispose of Collateral by utilizing internet sites that provide for the auction of assets of the types included in the Collateral or that have the reasonable capacity of doing so, or that match buyers and sellers of assets, (i) to dispose of assets in wholesale rather than retail markets, (j) to disclaim disposition warranties, such as title, possession or quiet enjoyment, (k) to purchase insurance or credit enhancements to insure the Collateral Agent against risks of loss in connection with any collection or disposition of Collateral or to provide to the Collateral Agent a guaranteed return from the collection or disposition of Collateral or (l) to the extent deemed appropriate by the Collateral Agent, to obtain the services of other brokers, investment bankers, consultants and other professionals to assist the Collateral Agent in the collection or disposition of any of the Collateral. Each Grantor acknowledges that the purpose of this Section 7.02 is to provide non-exhaustive indications of what actions or omissions by the Collateral Agent would be commercially reasonable in the Collateral Agent's exercise of remedies with respect to the Collateral and that other actions or omissions by the Collateral Agent shall not be deemed commercially unreasonable solely on account of not being indicated in this Section 7.02. Without limitation upon the foregoing, nothing contained in this Section 7.02 shall be construed to grant any rights to any Grantor or to impose any duties on the Collateral Agent that would not have been granted or imposed by this Security Agreement or by applicable law in the absence of this Section 7.02.

SECTION 7.03. *[Reserved]*.

SECTION 7.04. *Collateral Agent Performance of Debtor Obligations*. Without having any obligation to do so, the Collateral Agent may, at any time when an Event of Default exists and is continuing and upon at least three (3) Business Days' prior written notice to the Borrower, perform or pay any obligation which any Grantor has agreed to perform or pay under this Security Agreement and which obligation is due and unpaid and not being contested by such Grantor in good faith, and such Grantor shall reimburse the Collateral Agent for any amounts paid by the Collateral Agent pursuant to this Section 7.04 as an Obligation payable in accordance with Section 13.5(a) of the Credit Agreement.

SECTION 7.05. *No Waiver; Amendments; Cumulative Remedies*. No delay or omission of the Collateral Agent to exercise any right or remedy granted under this Security Agreement shall impair such right or remedy or be construed to be a waiver of any Default or an acquiescence therein, and no single or partial exercise of any such right or remedy shall preclude any other or further exercise thereof or the exercise of any other right or remedy. No waiver, amendment or other variation of the terms, conditions or provisions of this Security Agreement whatsoever shall be valid unless in writing signed by the Grantors and the Collateral Agent with the concurrence or at the direction of the Lenders to the extent required under Section 13.1 of the Credit Agreement and then only to the extent in such writing specifically set forth. All rights and remedies contained in this Security Agreement or afforded by law shall be cumulative and all shall be available to the Collateral Agent until the Termination Date.

SECTION 7.06. *Limitation by Law; Severability of Provisions*. All rights, remedies and powers provided in this Security Agreement may be exercised only to the extent that the exercise thereof does not violate any Applicable Laws, and all of the provisions of this Security Agreement are intended to be subject to all applicable mandatory Applicable Laws

that may be controlling and to be limited to the extent necessary so that such provisions do not render this Security Agreement invalid, unenforceable or not entitled to be recorded or registered, in whole or in part. To the extent permitted by Applicable Laws, any provision of this Security Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions of this Security Agreement; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

SECTION 7.07. *Security Interest Absolute.* All rights of the Collateral Agent hereunder, the security interests granted hereunder and all obligations of each Grantor hereunder shall be absolute and unconditional irrespective of (a) any lack of validity or enforceability of the Credit Agreement, any other Credit Document, any agreement with respect to any of the Obligations or any other agreement or instrument relating to any of the foregoing, (b) any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to any departure from the Credit Agreement, any other Credit Document or any other agreement or instrument relating to the foregoing, (c) any exchange, release or nonperfection of any Lien on any Collateral, or any release or amendment or waiver of or consent under or departure from any guaranty, securing or guaranteeing all or any of the Obligations, (d) any bankruptcy, insolvency, reorganization, arrangement, readjustment, composition, liquidation or the like of any Grantor, (e) any exercise or non-exercise, or any waiver of, any right, remedy, power or privilege under or in respect of this Security Agreement or any other Credit Document or (f) any other circumstance that might otherwise constitute a defense available to, or a discharge of, any Grantor in respect of the Obligations or this Security Agreement (other than a termination of any Lien contemplated by Section 7.12 or the occurrence of the Termination Date).

SECTION 7.08. *Benefit of Security Agreement.* The terms and provisions of this Security Agreement shall be binding upon and inure to the benefit of each Grantor, the Collateral Agent and the Secured Parties and their respective successors and permitted assigns (including all Persons who become bound as a debtor to this Security Agreement). No sale of participations, assignments, transfers, or other dispositions of any agreement governing the Obligations or any portion thereof or interest therein shall in any manner impair the Lien granted to the Collateral Agent hereunder for the benefit of the Collateral Agent and the Secured Parties.

SECTION 7.09. *Survival of Representations.* All representations and warranties of each Grantor contained in this Security Agreement shall survive the execution and delivery of this Security Agreement until the Termination Date.

SECTION 7.10. *Additional Grantors.* Upon the execution and delivery by any Subsidiary or by Successor Borrower of an instrument in the form of Exhibit A in accordance with the Credit Agreement, such Person shall become a Subsidiary Party or Additional Party hereunder with the same force and effect as if such Person was originally named as a Grantor herein. The execution and delivery of any such instrument shall not require the consent of any other Grantor or any other Person. The rights and obligations of each Grantor hereunder shall remain in full force and effect notwithstanding the addition of any new Grantor as a party to this Security Agreement.

SECTION 7.11. *Headings.* The titles of and section headings in this Security Agreement are for convenience of reference only, and shall not govern the interpretation of any of the terms and provisions of this Security Agreement.

SECTION 7.12. *Termination or Release.*

(a) This Security Agreement shall continue in effect until the Termination Date, and the Liens granted hereunder shall automatically be released in the circumstances described in Section 13.17 of the Credit Agreement.

(b) In connection with any termination or release pursuant to Section 7.12(a), and subject to the provisions of Section 13.17 of the Credit Agreement, the Collateral Agent shall promptly execute (if applicable) and deliver to any Grantor, at such Grantor's expense, all UCC termination statements and similar documents evidencing the termination of liens that such Grantor shall reasonably request to evidence and/or effectuate such termination or release. Any execution and delivery of documents pursuant to this Section 7.12 shall be without recourse to or representation or warranty by the Collateral Agent or any Secured Party. The Borrower shall reimburse the Collateral Agent for all costs and expenses, including any fees and expenses of counsel, incurred by it in connection with any action contemplated by this Section 7.12 pursuant to and to the extent required by Section 13.5(a) of the Credit Agreement.

(c) The Collateral Agent shall have no liability whatsoever to any other Secured Party as the result of any release of Collateral by it in accordance with (or which the Collateral Agent in good faith believes to be in accordance with) the terms of this Section 7.12.

(d) At any time that a Grantor desires that the Collateral Agent take any action to acknowledge or give effect to any release of Collateral pursuant to Section 7.12(a), upon request by the Collateral Agent, such Grantor shall deliver to the Collateral Agent a certificate signed by an Authorized Officer of such Grantor (or the Borrower on behalf of such Grantor) stating that the release of the respective Collateral is permitted pursuant to such Section 7.12(a) and the terms of the Credit Agreement. At any time that any Grantor desires that a Restricted Subsidiary of such Grantor be released hereunder, it shall deliver to the Collateral Agent a certificate signed by an Authorized Officer of such Grantor (or the Borrower on behalf of such Grantor) stating that the release of the respective Grantor (and its Collateral) is permitted pursuant to such Section 7.12(a) and the terms of the Credit Agreement. The Secured Parties (by accepting the benefits hereof) hereby authorize the Collateral Agent to rely on any such certificate in performing its obligations under this Section 7.12.

SECTION 7.13. *Entire Agreement.* This Security Agreement, together with the other Credit Documents (including any Intercreditor Agreement), embodies the entire agreement and understanding between each Grantor and the Collateral Agent relating to the Collateral and supersedes all prior agreements and understandings between any Grantor and the Collateral Agent relating to the Collateral.

SECTION 7.14. **GOVERNING LAW. THIS SECURITY AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.**

SECTION 7.15. *Submission to Jurisdiction Waivers.* Each Grantor hereby irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to this Security Agreement, the other Credit Documents to which it is a party, or for recognition and enforcement of any judgment in respect thereof, to the exclusive general jurisdiction of the courts of the State of New York located in the County of New York, the courts of the United States of America for the Southern District of New York, and appellate courts from any thereof;

(b) consents that any such action or proceeding may be brought in such courts and waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(c) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to such Grantor at its address referred to in Section 13.2 of the Credit Agreement or at such other address of which the Collateral Agent shall have been notified pursuant thereto;

(d) agrees that nothing herein shall affect the right of the Collateral Agent or any other Secured Party to effect service of process in any other manner permitted by law or shall limit the right of the Collateral Agent or any other Secured Party to sue in any other jurisdiction; and

(e) waives, to the maximum extent not prohibited by law, any right it may have to claim or recover in any legal action or proceeding referred to in this Section 7.15 any special, exemplary, punitive or consequential damages.

SECTION 7.16. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS SECURITY AGREEMENT OR ANY OTHER CREDIT DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN.

SECTION 7.17. *Indemnity*. Each Grantor hereby agrees to indemnify the Indemnified Parties, as, and to the extent, set forth in Section 13.5 of the Credit Agreement.

SECTION 7.18. *Counterparts*. This Security Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Security Agreement may be in the form of an Electronic Record and may be executed using Electronic Signatures (including, without limitation, facsimile and .pdf) and shall be considered an original, and shall have the same legal effect, validity and enforceability as a paper record. For the avoidance of doubt, the authorization under this paragraph may include, without limitation, use or acceptance by the Collateral Agent of a manually signed paper Communication which has been converted into electronic form (such as scanned into PDF format), or an electronically signed Communication converted into another format, for transmission, delivery and/or retention.

SECTION 7.19. *INTERCREDITOR AGREEMENT GOVERNS*. NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, THE LIENS AND SECURITY INTERESTS GRANTED TO THE COLLATERAL AGENT FOR THE BENEFIT OF THE SECURED PARTIES PURSUANT TO THIS SECURITY AGREEMENT AND THE EXERCISE OF ANY RIGHT OR REMEDY BY THE COLLATERAL AGENT WITH RESPECT TO ANY COLLATERAL HEREUNDER ARE SUBJECT TO THE PROVISIONS OF ANY APPLICABLE INTERCREDITOR AGREEMENT. IN THE EVENT OF ANY CONFLICT BETWEEN THE PROVISIONS OF ANY APPLICABLE INTERCREDITOR AGREEMENT AND THIS SECURITY AGREEMENT, THE PROVISIONS OF SUCH INTERCREDITOR AGREEMENT SHALL GOVERN AND CONTROL. SO LONG AS AN INTERCREDITOR AGREEMENT IS OUTSTANDING, THE REQUIREMENT OF THIS SECURITY AGREEMENT OR ANY OTHER CREDIT DOCUMENT TO DELIVER COLLATERAL TO THE COLLATERAL AGENT (OR ANY REPRESENTATION OR WARRANTY HAVING THE EFFECT OF REQUIRING THE SAME) SHALL BE DEEMED SATISFIED (OR ANY SUCH REPRESENTATION OR WARRANTY SHALL BE DEEMED TRUE) BY DELIVERY OF SUCH

COLLATERAL TO THE CONTROLLING COLLATERAL AGENT (OR SUCH SIMILAR TERM AS DEFINED IN THE INTERCREDITOR AGREEMENT) AS BAILEE OF, AND BEHALF OF, THE COLLATERAL AGENT PURSUANT TO THE TERMS OF THE INTERCREDITOR AGREEMENT.

SECTION 7.20. *Waiver of Consequential Damages, Etc.* To the extent permitted by applicable law, none of the Grantors or Secured Parties shall assert, and each hereby waives, any claim against each other or any Related Party thereof, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Security Agreement or any agreement or instrument contemplated hereby, except, in the case of any claim by any Indemnified Party against any of the Grantors, to the extent such damages would otherwise be subject to indemnification pursuant to the terms of Section 7.17.

SECTION 7.21. *[Reserved]*.

SECTION 7.22. *Successors and Assigns.* Whenever in this Security Agreement any party hereto is referred to, such reference shall be deemed to include the successors and permitted assigns of such party; and all covenants, promises and agreements by or on behalf of any Grantor or the Collateral Agent in this Security Agreement shall bind and inure to the benefit of their respective successors and permitted assigns. Except in a transaction expressly permitted under the Credit Agreement, no Grantor may assign any of its rights or obligations hereunder without the written consent of the Collateral Agent.

SECTION 7.23. *Survival of Agreement.* Without limiting any provision of the Credit Agreement or Section 7.17 hereof, all covenants, agreements, indemnities, representations and warranties made by the Grantors in the Credit Documents and in the certificates or other instruments delivered in connection with or pursuant to this Security Agreement or any other Credit Document shall be considered to have been relied upon by the Lenders and shall survive the execution and delivery of the Credit Documents and the making of any Loans, regardless of any investigation made by any such Lender or on its behalf and notwithstanding that the Collateral Agent or any Lender may have had notice or knowledge of any Default or Event of Default or incorrect representation or warranty at the time any credit is extended under the Credit Agreement, and shall continue in full force and effect until the Termination Date, or with respect to any individual Grantor until such Grantor is otherwise released from its obligations under this Security Agreement in accordance with the terms hereof.

ARTICLE 8 NOTICES

SECTION 8.01. *Sending Notices.* Any notice required or permitted to be given under this Security Agreement shall be delivered in accordance with Section 13.2 of the Credit Agreement (it being understood and agreed that references in such Section to “herein,” “hereunder” and other similar terms shall be deemed to be references to this Security Agreement).

SECTION 8.02. *Change in Address for Notices.* Each of the Grantors, the Collateral Agent and the Lenders may change the address or facsimile number for service of notice upon it by a notice in writing to the other parties.

ARTICLE 9 THE COLLATERAL AGENT

Bank of America has been appointed Collateral Agent for the Lenders and the other Secured Parties hereunder pursuant to Section 12 of the Credit Agreement. It is expressly understood and agreed by the parties to this Security Agreement that any authority conferred upon the Collateral Agent

hereunder is subject to the terms of the delegation of authority made by the Lenders to the Collateral Agent pursuant to the Credit Agreement, and that the Collateral Agent has agreed to act (and any successor Collateral Agent shall act) as such hereunder only on the express conditions contained in such Section 12. Any successor Collateral Agent appointed pursuant to Section 12 of the Credit Agreement shall be entitled to all the rights, interests and benefits of the Collateral Agent hereunder.

By accepting the benefits of this Security Agreement and any other Credit Document, each Secured Party expressly acknowledges and agrees that this Security Agreement and each other Credit Document may be enforced only by the action of the Collateral Agent, and that such Secured Party shall not have any right individually to seek to enforce or to enforce this Security Agreement or to realize upon the security to be granted hereby, it being understood and agreed that such rights and remedies may be exercised by the Collateral Agent for the benefit of the Secured Parties upon the terms of this Security Agreement and the other Credit Documents.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, each Grantor and the Collateral Agent have executed this Pledge and Security Agreement as of the date first above written.

GROCERY OUTLET HOLDING CORP., a Delaware corporation,
as Borrower

By: /s/ Charles C. Bracher
Name: Charles C. Bracher
Title: Executive Vice President and Chief Financial Officer

GROCERY INTERMEDIATE CORP., a Delaware corporation,
as a Grantor

/s/ Charles C. Bracher
Name: Charles C. Bracher
Title: Executive Vice President and Chief Financial Officer

GOBP HOLDINGS, INC., a Delaware corporation,
as a Grantor

/s/ Charles C. Bracher
Name: Charles C. Bracher
Title: Executive Vice President and Chief Financial Officer

GOBP MIDCO, INC., a Delaware corporation,
as a Grantor

/s/ Charles C. Bracher
Name: Charles C. Bracher
Title: Executive Vice President and Chief Financial Officer

GROCERY OUTLET, INC., a California corporation,
as a Grantor

/s/ Charles C. Bracher
Name: Charles C. Bracher
Title: Executive Vice President and Chief Financial Officer

[Signature Page to Pledge and Security Agreement]

BANK OF AMERICA, N.A.,
as the Collateral Agent

By: /s/ Priscilla Ruffin

Name: Priscilla Ruffin

Title: AVP

[Signature Page to Pledge and Security Agreement]

COMMERCIAL TORT CLAIMS

None.

EXHIBIT A

[FORM OF] SECURITY AGREEMENT JOINDER

A. SUPPLEMENT NO. [●] dated as of [●] (this “Supplement”), to the Pledge and Security Agreement dated as of February 21, 2023 (as amended, restated, amended and restated, supplemented or otherwise modified from time to time, the “Security Agreement”), by and among Grocery Outlet Holding Corp., a Delaware corporation (the “Borrower”), the Subsidiary Parties from time to time party thereto, the Additional Parties from time to time party thereto (the foregoing, collectively, the “Grantors”) and Bank of America, N.A., in its capacity as Collateral Agent for the Secured Parties (in such capacity, together with its successors, assigns, designees and sub-agents in such capacity, the “Collateral Agent”).

B. Reference is made to the Credit Agreement dated as of February 21, 2023 (as amended, restated, amended and restated, supplemented or otherwise modified from time to time, the “Credit Agreement”), by and among, the Borrower, the lenders from time to time party thereto (the “Lenders”), Bank of America as the Administrative Agent, the Collateral Agent, Letter of Credit Issuer and Swingline Lender, and the other parties from time to time party thereto.

C. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement or the Security Agreement, as applicable.

D. The Grantors have entered into the Security Agreement in order to induce the Lenders, the Swingline Lender and the Letter of Credit Issuers to make their respective extensions of credit to the Borrower. Section 7.10 of the Security Agreement and Section 9.10 of the Credit Agreement provide that additional parties may become Subsidiary Parties or Additional Parties under the Security Agreement by executing and delivering an instrument in the form of this Supplement. **[The] [Each]** undersigned [Subsidiary] [Successor Borrower] (**[each a] [the] “New Grantor”**) is executing this Supplement in accordance with the requirements of the Credit Agreement to become a **[Subsidiary Party] [Additional Party]** under the Security Agreement in order to induce the Lenders, the Swingline Lender and the Letter of Credit Issuers to make extensions of credit and as consideration for extensions of credit previously made and to secure the Obligations, including its obligations under the Guarantee, each Secured Hedging Agreement and each Secured Cash Management Agreement.

Accordingly, the Collateral Agent and **[the] [each]** New Grantor agree as follows:

SECTION 1. In accordance with Section 7.10 of the Security Agreement, **[the] [each]** New Grantor by its signature below becomes a **[Subsidiary Party] [Additional Party]** and a Grantor under the Security Agreement with the same force and effect as if originally named therein as a Grantor, and **[the] [each]** New Grantor hereby (a) agrees to all the terms and provisions of the Security Agreement applicable to it as a **[Subsidiary Party] [Additional Party]** and Grantor thereunder and (b) makes the representations and warranties applicable to it as a Grantor under the Security Agreement, **subject to Schedule A hereto,** on and as of the date hereof. In furtherance of the foregoing, **[the] [each]** New Grantor, as security for the payment and performance in full of the Obligations, does hereby create and grant to the Collateral Agent, its successors and permitted assigns, for the benefit of the Secured Parties, their successors and permitted assigns, a security interest in and Lien on all of such New Grantor’s right, title and interest in and to the Collateral of such New Grantor. Each reference to a “Grantor” and **[“Subsidiary Party”] [“Additional Party”]** in the Security Agreement shall be deemed to include **[the] [each]** New Grantor. The Security Agreement is hereby incorporated herein by reference.

SECTION 2. **[The] [Each]** New Grantor represents and warrants to the Collateral Agent and the other Secured Parties that this Supplement has been duly authorized, executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms, subject to Applicable Laws.

SECTION 3. This Supplement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Supplement shall become effective when the Collateral Agent shall have received a counterpart of this Supplement that bears the signature of **[the] [each]** New Grantor and the Collateral Agent has executed a counterpart hereof. Delivery of an executed signature page to this Supplement by facsimile transmission or by email as a “.pdf” or “.tif” attachment shall be as effective as delivery of a manually signed counterpart of this Supplement.

SECTION 4. **[The] [Each]** New Grantor hereby represents and warrants that (a) set forth on Schedule B attached hereto is (i) the legal name of such New Grantor, (ii) the jurisdiction of incorporation or organization and chief executive office of such New Grantor, (iii) the identity or type of organization or corporate structure of such New Grantor and (iv) the Federal Taxpayer Identification Number and organizational number of such New Grantor and (b) as of the date hereof, Schedule C hereto sets forth all of the Registered Intellectual Property Collateral owned by a such New Grantor in its name, and indicates for each such item, as applicable, the application and/or registration number, date and jurisdiction of filing and/or issuance, and the identity of the current applicant or registered owner (c) Schedule D hereto sets forth all of the Commercial Tort Claims of such New Grantor with a value in excess of \$10,000,000 and (d) Schedule E hereto sets forth all of the Pledged Stock and Material Debt Instruments of such New Grantor.

SECTION 5. Except as expressly supplemented hereby, the Security Agreement shall remain in full force and effect.

SECTION 6. THIS SUPPLEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

SECTION 7. In case any one or more of the provisions contained in this Supplement is invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and in the Security Agreement shall not in any way be affected or impaired thereby (it being understood that the invalidity of a particular provision in a particular jurisdiction shall not in and of itself affect the validity of such provision in any other jurisdiction). Each of the Borrower and the Collateral Agent shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 8. All communications and notices hereunder shall be in writing and given as provided in Section 8.01 of the Security Agreement.

SECTION 9. **[The] [Each]** New Grantor agrees to reimburse the Collateral Agent for its expenses in connection with this Supplement, including the fees, other charges and disbursements of counsel in accordance with Section 13.5(a) of the Credit Agreement.

SECTION 10. This Supplement shall constitute a Credit Document, under and as defined in, the Credit Agreement.

[Signature pages follow]

IN WITNESS WHEREOF, **[each] [the]** New Grantor has duly executed this Supplement to the Security Agreement as of the day and year first above written.

[NAME OF NEW GRANTOR]

By: _____
Name:
Title:

BANK OF AMERICA, N.A.,
as Collateral Agent

By: _____
Name:
Title:

[CERTAIN EXCEPTIONS]

SCHEDULE B
TO SUPPLEMENT NO. __ TO THE
PLEDGE AND SECURITY AGREEMENT

CORPORATE INFORMATION

| Legal Name | Jurisdiction of Incorporation or Organization | Type of Organization or Corporate Structure | Federal Taxpayer Identification Number and Organizational Identification Number |
|-------------------|----------------------------------------------------------|--------------------------------------------------------|----------------------------------------------------------------------------------------------------|
| | | | |

SCHEDULE C
TO SUPPLEMENT NO. ___ TO THE
PLEDGE AND SECURITY AGREEMENT

U.S. INTELLECTUAL PROPERTY REGISTRATIONS AND APPLICATIONS

A. COPYRIGHTS

| Copyright (Work) | Reg. No. | Owner |
|------------------|----------|-------|
| | | |
| | | |

B. PATENTS AND PATENT APPLICATIONS

| Title | Application or Patent No. | Owner |
|-------|---------------------------|-------|
| | | |
| | | |

C. TRADEMARKS AND TRADEMARK APPLICATIONS

| Trademark | App. No. | Trademark No. | Owner |
|-----------|----------|---------------|-------|
| | | | |
| | | | |

D. EXCLUSIVE LICENSES WHERE A GRANTOR IS AN EXCLUSIVE LICENSEE OF REGISTERED U.S. COPYRIGHTS

| Licensor | Licensee | Title of Agreement | Effective Date |
|----------|----------|--------------------|----------------|
| | | | |

COMMERCIAL TORT CLAIMS

SCHEDULE E
TO SUPPLEMENT NO. ___ TO THE
PLEDGE AND SECURITY AGREEMENT

MATERIAL DEBT INSTRUMENTS

A-9

EXHIBIT B

[FORM OF] INTELLECTUAL PROPERTY SECURITY AGREEMENT

[PATENT/TRADEMARK/COPYRIGHT] SECURITY AGREEMENT dated as of [●] (this “Agreement”), among [●] (**[each a] [the]** “Grantor”) and Bank of America, N.A. in its capacity as Collateral Agent for the Secured Parties party to the Credit Agreement referred to below (in such capacity, together with its successors, assigns, designees and sub-agents in such capacity, the “Collateral Agent”).

WHEREAS, reference is made to (a) the Credit Agreement dated as of February 21, 2023 (as amended, restated, amended and restated, supplemented or otherwise modified from time to time, the “Credit Agreement”), by and among Grocery Outlet Holding Corp., a Delaware corporation (the “Borrower”), the lenders from time to time party thereto (the “Lenders”), Bank of America, as the Administrative Agent, the Collateral Agent, Letter of Credit Issuer and Swingline Lender, and the other parties from time to time party thereto and (b) the Pledge and Security Agreement dated as of February 21, 2023 (the “Security Agreement”), by and among the Borrower, the Subsidiary Parties from time to time party thereto, the Additional Parties from time to time party thereto and the Collateral Agent;

WHEREAS, the Lenders, the Swingline Lender and the Letter of Credit Issuers have agreed to extend credit to the Borrower subject to the terms and conditions set forth in the Credit Agreement; and

WHEREAS, **[each] [the]** Grantor is willing to execute and deliver this Agreement as consideration for such extensions of credit.

NOW, THEREFORE, for good and valuable consideration, the sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Terms. Capitalized terms used in this Agreement and not otherwise defined herein have the meanings specified in the Security Agreement or the Credit Agreement, as applicable.

SECTION 2. Grant of Security Interest. As security for the prompt and complete payment or performance, as the case may be, in full of the Obligations, **[each] [the]** Grantor hereby pledges, collaterally assigns, mortgages, transfers and grants to the Collateral Agent, its successors and permitted assigns, for the benefit of the Secured Parties, a continuing security interest (the “Security Interest”) in all of such Grantor’s right in, and title and interest to and under the following assets, whether now owned by or owing to, or hereafter acquired by or arising in favor of such Grantor, but excluding any Excluded Property (the “Collateral”):

[all (a) copyrights, rights in works of authorship, mask works and integrated circuit designs and other rights subject to the copyright laws of the United States, or of any other country or any group of countries, including copyrights and other rights in Software, data, databases, Internet web sites and the proprietary content thereof, (b) registrations, renewals, rights of reversion, extensions, supplemental registrations, recordings and applications for registration of any of the foregoing, including the registrations in the U.S. Copyright Office listed on Schedule I hereto, (c) rights to obtain all renewals, reversions and extensions thereof, (d) all rights to sue or otherwise recover for any past, present and future infringement or other violation thereof, (e) all Proceeds of the foregoing, including, without limitation, license fees, royalties, income, payments, claims, damages and proceeds of suit now or hereafter due and/or payable with respect thereto, and (f) all other rights of any kind accruing thereunder or pertaining thereto throughout the world.]

[all (a) patents, statutory invention registrations, certificates of invention, industrial designs and utility models, and all pending applications of the foregoing, including the patents and patent applications in the U.S. Patent and Trademark Office listed on Schedule I hereto, (b) provisionals, reissues, reexaminations, continuations, divisions, continuations-in-part, renewals or extensions thereof, (c) the inventions, discoveries and designs claimed therein, (d) rights to sue or otherwise recover for any past, present and future infringement or other violation thereof, (e) all Proceeds of the foregoing, including, without limitation, license fees, royalties, income, payments, claims, damages, proceeds of suit and other payments now or hereafter due and/or payable with respect thereto, and (f) all other rights accruing thereunder or pertaining thereto throughout the world.]

[all (a) trademarks, service marks, trade names, corporate names, company names, business names, fictitious business names, trade styles, trade dress, logos, slogans, other source or business identifiers, now existing or hereafter adopted or acquired, whether registered or unregistered, and all registrations, recordings and applications for registration filed in connection with the foregoing, including the registrations and applications for registration in the U.S. Patent and Trademark Office listed on Schedule I hereto, (b) all goodwill associated therewith or symbolized thereby, (c) all extensions or renewals thereof, (d) all rights to sue or otherwise recover for any past, present and future infringement, dilution, or other violation thereof, (e) all Proceeds of the foregoing, including, without limitation, license fees, royalties, income, payments, claims, damages, proceeds of suit and other payments now or hereafter due and/or payable with respect thereto, and (f) all other rights of any kind accruing thereunder or pertaining thereto throughout the world (but excluding, for the avoidance of doubt, any intent-to-use application prior to the filing and acceptance of a “Statement of Use” or “Amendment to Allege Use” notice and/or filing with respect thereto but only to the extent that, and solely during the period if any in which, the grant of a security interest therein would impair the validity or enforceability of such intent-to-use trademark applications (or the resulting trademark registrations)).]

SECTION 3. Security Agreement. The Security Interest granted to the Collateral Agent herein is granted in furtherance, and not in limitation, of the security interests granted to the Collateral Agent pursuant to the Security Agreement. Each Grantor hereby acknowledges and affirms that the rights and remedies of the Collateral Agent with respect to the Collateral are more fully set forth in the Security Agreement, the terms and provisions of which are hereby incorporated herein by reference as if fully set forth herein. In the event of any conflict between the terms of this Agreement and the Security Agreement, the terms of the Security Agreement shall govern.

SECTION 4. Counterparts. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original but all of which when taken together shall constitute a single contract. Delivery of an executed signature page to this Agreement by facsimile or other electronic transmission shall be effective as delivery of a manually signed counterpart of this Agreement.

SECTION 5. GOVERNING LAW. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

SECTION 6. INTERCREDITOR AGREEMENT GOVERNS. NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, THE LIENS AND SECURITY INTERESTS GRANTED TO THE COLLATERAL AGENT FOR THE BENEFIT OF THE SECURED PARTIES PURSUANT TO THIS AGREEMENT AND THE EXERCISE OF ANY RIGHT OR REMEDY BY THE COLLATERAL AGENT WITH RESPECT TO ANY COLLATERAL HEREUNDER ARE SUBJECT TO THE PROVISIONS OF ANY APPLICABLE INTERCREDITOR AGREEMENT. IN

THE EVENT OF ANY CONFLICT BETWEEN THE PROVISIONS OF ANY APPLICABLE INTERCREDITOR AGREEMENT AND THIS AGREEMENT, THE PROVISIONS OF SUCH INTERCREDITOR AGREEMENT SHALL GOVERN AND CONTROL. SO LONG AS AN INTERCREDITOR AGREEMENT IS OUTSTANDING, THE REQUIREMENT OF THIS AGREEMENT OR ANY OTHER CREDIT DOCUMENT TO DELIVER COLLATERAL TO THE COLLATERAL AGENT (OR ANY REPRESENTATION OR WARRANTY HAVING THE EFFECT OF REQUIRING THE SAME) SHALL BE DEEMED SATISFIED (OR ANY SUCH REPRESENTATION OR WARRANTY SHALL BE DEEMED TRUE BY DELIVERY OF SUCH COLLATERAL TO THE CONTROLLING COLLATERAL AGENT (OR SUCH SIMILAR TERM AS DEFINED IN THE INTERCREDITOR AGREEMENT) AS BAILEE OF, AND BEHALF OF, THE COLLATERAL AGENT PURSUANT TO THE TERMS OF THE INTERCREDITOR AGREEMENT).

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

[•]

By: _____

Name:

Title:

BANK OF AMERICA, N.A.,
as Collateral Agent

By: _____

Name:

Title:

B-4

SCHEDULE I

B-5

INTELLECTUAL PROPERTY SECURITY AGREEMENT

COPYRIGHT SECURITY AGREEMENT dated as of February 21, 2023 (this "Agreement"), among Grocery Outlet Inc., a California corporation (the "Grantor") and Bank of America, N.A. in its capacity as Collateral Agent for the Secured Parties party to the Credit Agreement referred to below (in such capacity, together with its successors, assigns, designees and sub-agents in such capacity, the "Collateral Agent").

WHEREAS, reference is made to (a) the Credit Agreement dated as of February 21, 2023 (as amended, increased, extended, restated, amended and restated, supplemented or otherwise modified from time to time, the "Credit Agreement"), by and among Grocery Outlet Holding Corp., a Delaware corporation (the "Borrower"), the lenders from time to time party thereto (the "Lenders"), Bank of America, as the Administrative Agent, the Collateral Agent, Letter of Credit Issuer and Swingline Lender, and the other parties from time to time party thereto and (b) the Pledge and Security Agreement dated as of February 21, 2023 (the "Security Agreement"), by and among the Borrower, the Grantor, the other Subsidiary Parties as defined therein) from time to time party thereto, the Additional Parties (as defined therein) from time to time party thereto and the Collateral Agent;

WHEREAS, the Lenders, the Swingline Lender and the Letter of Credit Issuers have agreed to extend credit to the Borrower subject to the terms and conditions set forth in the Credit Agreement; and

WHEREAS, the Grantor is willing to execute and deliver this Agreement as consideration for such extensions of credit.

NOW, THEREFORE, for good and valuable consideration, the sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Terms. Capitalized terms used in this Agreement and not otherwise defined herein have the meanings specified in the Security Agreement or the Credit Agreement, as applicable.

SECTION 2. Grant of Security Interest. As security for the prompt and complete payment or performance, as the case may be, in full of the Obligations, the Grantor hereby pledges, collaterally assigns, mortgages, transfers and grants to the Collateral Agent, its successors and permitted assigns, for the benefit of the Secured Parties, a continuing security interest (the "Security Interest") in all of such Grantor's right in, and title and interest to and under the following assets, whether now owned by or owing to, or hereafter acquired by or arising in favor of such Grantor, but excluding any Excluded Property (the "Collateral"):

all (a) copyrights, rights in works of authorship, mask works and integrated circuit designs and other rights subject to the copyright laws of the United States, or of any other country or any group of countries, including copyrights and other rights in Software, data, databases, Internet web sites and the proprietary content thereof, (b) registrations, renewals, rights of reversion, extensions, supplemental registrations, recordings and applications for registration of any of the foregoing, including the registrations in the U.S. Copyright Office listed on Schedule I hereto, (c) rights to obtain all renewals, reversions and extensions thereof, (d) all rights to sue or otherwise recover for any past, present and future infringement or other violation thereof, (e) all Proceeds of the foregoing, including, without limitation, license fees, royalties, income, payments, claims, damages and proceeds of suit now or hereafter due and/or payable with respect thereto, and (f) all other rights of any kind accruing thereunder or pertaining thereto throughout the world.

SECTION 3. Security Agreement. The Security Interest granted to the Collateral Agent herein is granted in furtherance, and not in limitation, of the security interests granted to the Collateral Agent pursuant to the Security Agreement. Each Grantor hereby acknowledges and affirms that the rights and remedies of the Collateral Agent with respect to the Collateral are more fully set forth in the Security Agreement, the terms and provisions of which are hereby incorporated herein by reference as if fully set forth herein. In the event of any conflict between the terms of this Agreement and the Security Agreement, the terms of the Security Agreement shall govern.

SECTION 4. Counterparts. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original but all of which when taken together shall constitute a single contract. Delivery of an executed signature page to this Agreement by facsimile or other electronic transmission shall be effective as delivery of a manually signed counterpart of this Agreement.

SECTION 5. GOVERNING LAW. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

SECTION 6. *INTERCREDITOR AGREEMENT GOVERNS*. NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, THE LIENS AND SECURITY INTERESTS GRANTED TO THE COLLATERAL AGENT FOR THE BENEFIT OF THE SECURED PARTIES PURSUANT TO THIS AGREEMENT AND THE EXERCISE OF ANY RIGHT OR REMEDY BY THE COLLATERAL AGENT WITH RESPECT TO ANY COLLATERAL HEREUNDER ARE SUBJECT TO THE PROVISIONS OF ANY APPLICABLE INTERCREDITOR AGREEMENT. IN THE EVENT OF ANY CONFLICT BETWEEN THE PROVISIONS OF ANY APPLICABLE INTERCREDITOR AGREEMENT AND THIS AGREEMENT, THE PROVISIONS OF SUCH INTERCREDITOR AGREEMENT SHALL GOVERN AND CONTROL. SO LONG AS AN INTERCREDITOR AGREEMENT IS OUTSTANDING, THE REQUIREMENT OF THIS AGREEMENT OR ANY OTHER CREDIT DOCUMENT TO DELIVER COLLATERAL TO THE COLLATERAL AGENT (OR ANY REPRESENTATION OR WARRANTY HAVING THE EFFECT OF REQUIRING THE SAME) SHALL BE DEEMED SATISFIED (OR ANY SUCH REPRESENTATION OR WARRANTY SHALL BE DEEMED TRUE BY DELIVERY OF SUCH COLLATERAL TO THE CONTROLLING COLLATERAL AGENT (OR SUCH SIMILAR TERM AS DEFINED IN THE INTERCREDITOR AGREEMENT) AS BAILEE OF, AND BEHALF OF, THE COLLATERAL AGENT PURSUANT TO THE TERMS OF THE INTERCREDITOR AGREEMENT).

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

GROCERY OUTLET INC., a California corporation as Grantor

By: /s/ Charles C. Bracher

Name: Charles C. Bracher

Title: Executive Vice President and Chief Financial Officer

BANK OF AMERICA, N.A.,

as Collateral Agent

By: /s/ Priscilla Ruffin

Name: Priscilla Ruffin

Title: AVP

[SIGNATURE PAGE TO COPYRIGHT SECURITY AGREEMENT]

SCHEDULE I

U.S. Copyright Registrations

Copyright Registrations

| Title | Reg. No. | Reg. Date |
|-----------------------------------|-----------------|------------------|
| Ben Saven (Frugal Friends) | VA0001816784 | 04/13/2012 |
| Doug (Frugal Friends) | VA0001816783 | 04/13/2012 |
| Lois Prices (Frugal Friends) | VA0001816782 | 04/13/2012 |
| Tammy Underspend (Frugal Friends) | VA0001816786 | 04/13/2012 |
| WOW! Bottleneck. | VA0001795425 | 11/24/2010 |

INTELLECTUAL PROPERTY SECURITY AGREEMENT

TRADEMARK SECURITY AGREEMENT dated as of February 21, 2023 (this "Agreement"), among Grocery Outlet Inc., a California corporation (the "Grantor") and Bank of America, N.A. in its capacity as Collateral Agent for the Secured Parties party to the Credit Agreement referred to below (in such capacity, together with its successors, assigns, designees and sub-agents in such capacity, the "Collateral Agent").

WHEREAS, reference is made to (a) the Credit Agreement dated as of February 21, 2023 (as amended, increased, extended restated, amended and restated, supplemented or otherwise modified from time to time, the "Credit Agreement"), by and among Grocery Outlet Holding Corp., a Delaware corporation (the "Borrower"), the lenders from time to time party thereto (the "Lenders"), Bank of America, as the Administrative Agent, the Collateral Agent, Letter of Credit Issuer and Swingline Lender, and the other parties from time to time party thereto and (b) the Pledge and Security Agreement dated as of February 21, 2023 (the "Security Agreement"), by and among the Borrower, the Grantor, the other Subsidiary Parties (as defined therein) from time to time party thereto, the Additional Parties (as defined therein) from time to time party thereto and the Collateral Agent;

WHEREAS, the Lenders, the Swingline Lender and the Letter of Credit Issuers have agreed to extend credit to the Borrower subject to the terms and conditions set forth in the Credit Agreement; and

WHEREAS, the Grantor is willing to execute and deliver this Agreement as consideration for such extensions of credit.

NOW, THEREFORE, for good and valuable consideration, the sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Terms. Capitalized terms used in this Agreement and not otherwise defined herein have the meanings specified in the Security Agreement or the Credit Agreement, as applicable.

SECTION 2. Grant of Security Interest. As security for the prompt and complete payment or performance, as the case may be, in full of the Obligations, the Grantor hereby pledges, collaterally assigns, mortgages, transfers and grants to the Collateral Agent, its successors and permitted assigns, for the benefit of the Secured Parties, a continuing security interest (the "Security Interest") in all of such Grantor's right in, and title and interest to and under the following assets, whether now owned by or owing to, or hereafter acquired by or arising in favor of such Grantor, but excluding any Excluded Property (the "Collateral"):

all (a) trademarks, service marks, trade names, corporate names, company names, business names, fictitious business names, trade styles, trade dress, logos, slogans, other source or business identifiers, now existing or hereafter adopted or acquired, whether registered or unregistered, and all registrations, recordings and applications for registration filed in connection with the foregoing, including the registrations and applications for registration in the U.S. Patent and Trademark Office listed on Schedule I hereto, (b) all goodwill associated therewith or symbolized thereby, (c) all extensions or renewals thereof, (d) all rights to sue or otherwise recover for any past, present and future infringement, dilution, or other violation thereof, (e) all Proceeds of the foregoing, including, without limitation, license fees, royalties, income, payments, claims, damages, proceeds of suit and other payments now or hereafter due and/or payable with respect thereto, and (f) all other rights of any kind accruing thereunder or pertaining thereto throughout the world (but excluding, for the avoidance of doubt, any intent-to-use application prior to the filing and acceptance of a "Statement of Use" or "Amendment to Allege Use" notice and/or filing with respect thereto but only to the extent that, and solely during the period if any in which, the grant of a security interest therein would impair the

validity or enforceability of such intent-to-use trademark applications (or the resulting trademark registrations)).

SECTION 3. Security Agreement. The Security Interest granted to the Collateral Agent herein is granted in furtherance, and not in limitation, of the security interests granted to the Collateral Agent pursuant to the Security Agreement. Each Grantor hereby acknowledges and affirms that the rights and remedies of the Collateral Agent with respect to the Collateral are more fully set forth in the Security Agreement, the terms and provisions of which are hereby incorporated herein by reference as if fully set forth herein. In the event of any conflict between the terms of this Agreement and the Security Agreement, the terms of the Security Agreement shall govern.

SECTION 4. Counterparts. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original but all of which when taken together shall constitute a single contract. Delivery of an executed signature page to this Agreement by facsimile or other electronic transmission shall be effective as delivery of a manually signed counterpart of this Agreement.

SECTION 5. GOVERNING LAW. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

SECTION 6. INTERCREDITOR AGREEMENT GOVERNS. NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, THE LIENS AND SECURITY INTERESTS GRANTED TO THE COLLATERAL AGENT FOR THE BENEFIT OF THE SECURED PARTIES PURSUANT TO THIS AGREEMENT AND THE EXERCISE OF ANY RIGHT OR REMEDY BY THE COLLATERAL AGENT WITH RESPECT TO ANY COLLATERAL HEREUNDER ARE SUBJECT TO THE PROVISIONS OF ANY APPLICABLE INTERCREDITOR AGREEMENT. IN THE EVENT OF ANY CONFLICT BETWEEN THE PROVISIONS OF ANY APPLICABLE INTERCREDITOR AGREEMENT AND THIS AGREEMENT, THE PROVISIONS OF SUCH INTERCREDITOR AGREEMENT SHALL GOVERN AND CONTROL. SO LONG AS AN INTERCREDITOR AGREEMENT IS OUTSTANDING, THE REQUIREMENT OF THIS AGREEMENT OR ANY OTHER CREDIT DOCUMENT TO DELIVER COLLATERAL TO THE COLLATERAL AGENT (OR ANY REPRESENTATION OR WARRANTY HAVING THE EFFECT OF REQUIRING THE SAME) SHALL BE DEEMED SATISFIED (OR ANY SUCH REPRESENTATION OR WARRANTY SHALL BE DEEMED TRUE BY DELIVERY OF SUCH COLLATERAL TO THE CONTROLLING COLLATERAL AGENT (OR SUCH SIMILAR TERM AS DEFINED IN THE INTERCREDITOR AGREEMENT) AS BAILEE OF, AND BEHALF OF, THE COLLATERAL AGENT PURSUANT TO THE TERMS OF THE INTERCREDITOR AGREEMENT).

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

GROCERY OUTLET INC., a California corporation as Grantor

By: /s/ Charles C. Bracher

Name: Charles C. Bracher

Title: Executive Vice President and Chief Financial Officer

BANK OF AMERICA, N.A.,

as Collateral Agent

By: /s/ Priscilla Ruffin

Name: Priscilla Ruffin

Title: AVP

[SIGNATURE PAGE TO COPYRIGHT SECURITY AGREEMENT]

SCHEDULE I

U.S. Trademark Registrations and Applications

Trademark Registrations

| Mark | Reg. No. | Reg. Date |
|---------------------------------------------------------|-----------------|------------------|
| WOW! (Stylized) | 6834292 | 08/30/2022 |
| HARVEST DAY | 6691997 | 04/05/2022 |
| LOW CARB FOR NOT A LOT OF COIN | 6679895 | 03/22/2022 |
| SEE YOU LATER SUPER SAVER | 6464373 | 08/24/2021 |
| SO FRESH YOU'LL FEEL LIKE SINGING GUARANTEED | 6464372 | 08/24/2021 |
| WELCOME TO BARGAIN BLISS | 6464371 | 08/24/2021 |
| GET MORE PIZZA FOR LESS DOUGH | 6464370 | 08/24/2021 |
| GET MORE KALE FOR LESS CABBAGE | 6464369 | 08/24/2021 |
| FEELS LIKE FALLING IN LOVE ON EVERY AISLE | 6456156 | 08/17/2021 |
| THE SAVINGS ARE REAL, THE FEELING IS PURE BLISS | 6449249 | 08/10/2021 |
| MORE FROMAGE FOR LESS CHEESE | 6449248 | 08/10/2021 |
| THOSE AREN'T ANGELS SINGING. THAT'S YOUR WALLET. | 6449247 | 08/10/2021 |
| HARVEST DAY | 6380520 | 06/08/2021 |
| HOLLIS ST. COFFEE | 6247724 | 01/12/2021 |
| BARGAIN BLISS | 6240333 | 01/05/2021 |
| HIP HIP SYRAH | 6081066 | 06/16/2020 |
| NOSH NATURAL ORGANIC SPECIALTY HEALTHY and Design | 6077840 | 06/16/2020 |
| NOSH and Design | 6077839 | 06/16/2020 |
| WESTSIDE BAKEHOUSE | 5956990 | 01/07/2020 |
| GROCERY OUTLET BARGAIN MARKET and Design | 5920283 | 11/26/2019 |
| GROCERY OUTLET BARGAIN MARKET and Design | 5766564 | 06/04/2019 |
| HARVEST DAY | 5619256 | 11/27/2018 |
| WOW! SAVE 50% OR MORE and Design | 5372725 | 01/09/2018 |
| HARVEST DAY | 5325344 | 10/31/2017 |
| BARGAINOMICS | 5313378 | 10/17/2017 |
| WOW! | 5306956 | 10/10/2017 |
| WOW! and Design | 5218984 | 06/06/2017 |
| NOSH NATURAL - ORGANIC - SPECIALTY - HEALTHY and Design | 5093914 | 12/06/2016 |
| NOSH and Design | 5093913 | 12/06/2016 |
| NOSH | 5067165 | 10/25/2016 |
| GROCERY OUTLET BARGAIN MARKET | 4888093 | 01/19/2016 |
| GO and Design | 4769584 | 07/07/2015 |
| GROCERY OUTLET BARGAIN MARKET and Design | 4479224 | 02/04/2014 |
| TAMMY UNDERSPEND | 4249977 | 11/27/2012 |
| LOIS PRICES | 4249976 | 11/27/2012 |

| | | |
|------------------------------------------|---------|------------|
| DOUG | 4249975 | 11/27/2012 |
| BEN SAVEN | 4249974 | 11/27/2012 |
| NOSH | 4247576 | 11/20/2012 |
| FRUGAL FRIENDS | 4245918 | 11/20/2012 |
| BIG BRANDS. LITTLE PRICES. | 4190431 | 08/14/2012 |
| INDEPENDENCE FROM HUNGER | 4135088 | 05/01/2012 |
| INDEPENDENCE FROM HUNGER | 4135086 | 05/01/2012 |
| LADY LEE | 3779585 | 04/20/2010 |
| CANNED FOODS GROCERY OUTLETS | 3701241 | 10/27/2009 |
| GROCERY OUTLET BARGAIN MARKET | 3604714 | 04/07/2009 |
| BARGAINS ON BRANDS YOU TRUST! | 2964247 | 06/28/2005 |
| GROCERY OUTLET BARGAINS ONLY! and Design | 2775580 | 10/21/2003 |
| GROCERY OUTLET BARGAINS ONLY! | 2715156 | 05/13/2003 |

Trademark Application

| Mark | Appl. No. | Filing Date |
|---------------|------------------|--------------------|
| THE WOW CROUD | 90389548 | 12/17/2020 |

GUARANTEE

GUARANTEE, dated as of February 21, 2023 (this "Guarantee"), made among **GROCERY OUTLET HOLDING CORP.**, a Delaware corporation (the "Borrower"), each of the subsidiaries of the Borrower listed on Annex A hereto or that becomes a party hereto pursuant to Section 21 hereof (each such subsidiary, individually, a "Subsidiary Guarantor" and, collectively, the "Subsidiary Guarantors"; and together with the Borrower, other than with respect to its own obligations, collectively, the "Guarantors"), and **BANK OF AMERICA, N.A.**, as Administrative Agent and Collateral Agent for the Secured Parties (as defined in the Credit Agreement) (in such capacities, together with its successors, assigns, designees and sub-agents in such capacities, the "Agent").

WITNESSETH:

WHEREAS, (a) the Borrower is a party to that certain Credit Agreement, dated as of the date hereof (as the same may be amended, increased, extended, restated, supplemented, amended and restated or otherwise modified from time to time, the "Credit Agreement"), with the several Lenders and Letter of Credit Issuers from time to time party thereto and Bank of America, N.A., as the Administrative Agent, the Collateral Agent and Swingline Lender, pursuant to which the Lenders have severally agreed to make Loans to the Borrower and the Letter of Credit Issuers have agreed to issue letters of credit for the account of the Borrower upon the terms and subject to the conditions set forth therein, (b) one or more Hedge Banks may from time to time enter into Secured Hedging Agreements with any Credit Party or any Restricted Subsidiary and (c) one or more Cash Management Banks may from time to time provide Cash Management Services pursuant to Secured Cash Management Agreements to any Credit Party or any Restricted Subsidiary (clauses (a), (b), and (c) collectively, the "Extensions of Credit");

WHEREAS, each Subsidiary Guarantor is a Subsidiary of the Borrower;

WHEREAS, the proceeds of the Extensions of Credit will be used in part to pay the Existing Debt Refinancing and/or Transaction Expenses and for other general corporate purposes of the Borrower and its subsidiaries;

WHEREAS, each Guarantor acknowledges that it will derive a substantial direct and indirect benefit from the making of the Extensions of Credit; and

WHEREAS, it is a condition precedent to the obligations of the Lenders, Swingline Lender and the Letter of Credit Issuers to make their respective Extensions of Credit to the Borrower under the Credit Agreement that the Guarantors shall have executed and delivered this Guarantee to the Agent for the benefit of the Secured Parties.

NOW, THEREFORE, in consideration of the premises and to induce the Agent and the Lenders, the Swingline Lender and the Letter of Credit Issuers to enter into the Credit Agreement and to induce the Lenders, the Swingline Lender and the Letter of Credit Issuers to make their respective Extensions of Credit to the Borrower under the Credit Agreement, to induce one or more Hedge Banks to enter into Secured Hedging Agreements with any Credit Party or any Restricted Subsidiary and to induce one or more Cash Management Banks pursuant to Secured Cash Management Agreements to provide Cash Management Services to any Credit Party or any Restricted Subsidiary and the Guarantors, as applicable, hereby agree with the Agent, for the benefit of the Secured Parties, as follows:

1. Defined Terms.

(a) Unless otherwise defined herein, terms defined in the Credit Agreement and used herein (including terms used in the preamble and recitals hereto) shall have the meanings given to them in the Credit Agreement. Furthermore, unless otherwise defined herein or in the Credit Agreement, terms defined in the Security Agreement and used herein shall have the meanings assigned to them in the Security Agreement.

(b) The rules of construction and other interpretive provisions specified in Sections 1.2, 1.5, 1.6, 1.7, 1.8, 1.10 and 1.11 of the Credit Agreement shall apply to this Guarantee, including terms defined in the preamble and recitals hereto.

(c) As used herein, the term “Termination Date” shall have the meaning assigned to such term in the Security Agreement.

2. Guarantee.

(a) Subject to the provisions of Section 2(b) of this Guarantee, each of the Guarantors hereby jointly and severally, unconditionally and irrevocably, guarantees, as primary obligor and not merely as surety, to the Agent for the benefit of the Secured Parties, the prompt and complete payment (and not of collection) and performance when due (whether at the stated maturity, by acceleration or otherwise) of the Obligations (other than, in the case of the Borrower, in respect of its own obligations), whether currently existing or hereafter incurred. In furtherance of the foregoing and not in limitation of any other right that the Agent or any other Secured Party has at law or in equity against any Guarantor by virtue hereof, upon the failure of the Borrower or any other Credit Party to pay any Obligation when and as the same shall become due (whether at the stated maturity, by acceleration or otherwise), each Guarantor hereby promises to and will forthwith pay, or cause to be paid, to the Agent for distribution to the applicable Secured Parties the amount of such unpaid Obligation. Upon payment by any Guarantor of any sums to the Agent as provided above, all rights of such Guarantor against the Borrower or any other Guarantor arising as a result thereof by way of right of subrogation, contribution, reimbursement, indemnity or otherwise shall in all respects be subject to Sections 3 and 5 hereof.

(b) Anything herein or in any other Credit Document to the contrary notwithstanding, the maximum liability of each Subsidiary Guarantor hereunder and under the other Credit Documents shall in no event exceed the amount that can be guaranteed by such Subsidiary Guarantor under Applicable Laws relating to the insolvency of debtors.

(c) To the extent the Borrower would be required to do so pursuant to Section 13.5 of the Credit Agreement (whether or not then in effect), each Guarantor further agrees to pay any and all reasonable and documented and invoiced out-of-pocket costs and expenses (including the reasonable fees, disbursements and other charges of one firm of counsel to the Agent, and, to the extent necessary, a single firm of local counsel in each appropriate local jurisdiction (which may include a single special counsel acting in multiple jurisdictions) or otherwise retained with the Borrower’s consent (such consent not to be unreasonably withheld or delayed) that may be paid or incurred by the Agent or any other Secured Party in enforcing or preserving any rights with respect to, or collecting, any or all of the Obligations and/or enforcing any rights with respect to, or collecting against, such Guarantor under this Guarantee.

(d) Each Guarantor agrees that the Obligations may at any time and from time to time exceed the amount of the liability of such Guarantor hereunder without impairing this Guarantee or affecting the rights and remedies of the Agent or any other Secured Party hereunder.

(e) No payment or payments made by the Borrower, any Guarantor, any other guarantor or any other Person or received or collected by the Agent or any other Secured Party from the Borrower, any Guarantor, any other guarantor or any other Person by virtue of any action or proceeding or any set-off or appropriation or application at any time or from time to time in reduction of or in payment of the Obligations shall be deemed to modify, reduce, release or otherwise affect the liability of any Guarantor hereunder, which shall, notwithstanding any such payment or payments other than payments made by such Guarantor in respect of the Obligations or payments received or collected from such Guarantor in respect of the Obligations, remain liable for the Obligations up to the maximum liability of such Guarantor hereunder until the Termination Date.

(f) Each Guarantor agrees that whenever, at any time, or from time to time, it shall make any payment to the Agent or any other Secured Party on account of its liability hereunder, it will notify the Agent in writing that such payment is made under this Guarantee for such purpose.

(g) Each Guarantor assumes all responsibility for being and keeping itself informed of the Borrower's and each other Credit Party's financial condition and assets, and of all other circumstances bearing upon the risk of nonpayment of the Obligations and the nature, scope and extent of the risks that such Guarantor assumes and incurs hereunder, and agrees that none of the Agent or the other Secured Parties will have any duty to advise such Guarantor of information known to it or any of them regarding such circumstances or risks.

(h) The Borrower, unconditionally and irrevocably, with respect to each other Guarantor (other than with respect to any Guarantor, any Excluded Swap Obligations of such Guarantor), guarantees such Guarantor's guarantee of any Hedging Agreement entered into by a Hedge Bank. The obligations of the Borrower under this Section 2(h) shall remain in full force and effect until the discharge of the Obligations in accordance with the Credit Documents or other document executed and delivered in connection therewith. The Borrower intends that this Section 2(h) constitute, and this Section 2(h) shall be deemed to constitute, a guarantee or other agreement for the benefit of each other Guarantor for all purposes of section 1a(18)(A)(v)(II) of the Commodity Exchange Act.

3. Right of Contribution. Each Guarantor hereby agrees that to the extent a Guarantor shall have paid more than its proportionate share of any payment made hereunder, such Guarantor shall be entitled to seek and receive contribution from and against any other Guarantor hereunder that has not paid its proportionate share of such payment. Each Guarantor's right of contribution shall be subject to the terms and conditions of Section 5 hereof. The provisions of this Section 3 shall in no respect limit the obligations and liabilities of any Guarantor to the Agent and the other Secured Parties, and each Guarantor shall remain liable to the Agent and the other Secured Parties for the full amount guaranteed by such Guarantor hereunder.

4. Right of Set-off. In addition to any rights and remedies of the Secured Parties provided by Applicable Law, each Guarantor hereby irrevocably authorizes each Secured Party at any time and from time to time following the occurrence and during the continuance of an Event of Default without notice to such Guarantor or any other Guarantor, any such notice being expressly waived by each Guarantor, upon any amount becoming due and payable by such Guarantor hereunder (whether at stated maturity, by acceleration or otherwise) to set-off and appropriate and apply against such amount any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other credits, indebtedness or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by such Secured Party to or for the credit or the account of such Guarantor. Each Secured Party shall notify such Guarantor and the Agent promptly of any such set-off and the appropriation and application made by such Secured Party; provided that the failure to give such notice shall not affect the validity of such set-off and appropriation and application.

5. No Subrogation. Notwithstanding any payment or payments made by any of the Guarantors hereunder or any set-off or appropriation and application of funds of any of the Guarantors by the Agent or any other Secured Party, no Guarantor shall be entitled to be subrogated to any of the rights of the Agent or any other Secured Party against the Borrower or any other Guarantor or any collateral security or guarantee or right of offset held by the Agent or any other Secured Party for the payment of the Obligations, nor shall any Guarantor seek or be entitled to seek any contribution or reimbursement from the Borrower or any other Guarantor in respect of payments made by such Guarantor hereunder, until the Termination Date. If any amount shall be paid to any Guarantor on account of such subrogation rights at any time prior to the Termination Date, such amount shall be held by such Guarantor in trust for the Agent and the other Secured Parties, segregated from other funds of such Guarantor, and shall, forthwith upon receipt by such Guarantor, be turned over to the Agent (or its sub-agent) in the exact form received by such Guarantor (duly indorsed by such Guarantor to the Agent, if required), to be applied against the Obligations, whether due or to become due, in accordance with Section 5.04 of the Security Agreement.

6. Amendments, etc. with Respect to the Obligations; Waiver of Rights. Except for termination of a Guarantor's obligations hereunder as expressly provided in Section 25 of this Guarantee, each Guarantor shall remain obligated hereunder notwithstanding that, without any reservation of rights against any Guarantor and without notice to or further assent by any Guarantor, (a) any demand for payment of any of the Obligations made by the Agent or any other Secured Party may be rescinded by such party and any of the Obligations continued, (b) the Obligations, or the liability of any other party upon or for any part thereof, or any collateral security or guarantee therefor or right of offset with respect thereto, may, from time to time, in whole or in part, be renewed, extended, amended, modified, accelerated, compromised, waived, surrendered or released by the Agent or any other Secured Party, (c) the Credit Agreement, the other Credit Documents and any other documents executed and delivered in connection therewith, the Secured Hedging Agreements and any other documents executed and delivered in connection therewith and the Secured Cash Management Agreements and any other documents executed and delivered in connection therewith may be amended, waived, modified, supplemented or terminated, in whole or in part, in accordance with the terms of the applicable document and (d) any collateral security, guarantee or right of offset at any time held by the Agent or any other Secured Party for the payment of the Obligations may be sold, exchanged, waived, surrendered or released. Neither the Agent nor any other Secured Party shall have any obligation to protect, secure, perfect or insure any Lien at any time held by it as security for the Obligations or for this Guarantee or any property subject thereto. When making any demand hereunder against any Guarantor, the Agent or any other Secured Party may, but shall be under no obligation to, make a similar demand on the Borrower or any other Guarantor or other guarantor, and any failure by the Agent or any other Secured Party to make any such demand or to collect any payments from the Borrower or any other Guarantor or other guarantor or any release of the Borrower or any other Guarantor or other guarantor shall not relieve any Guarantor in respect of which a demand or collection is not made or any Guarantor not so released of its several obligations or liabilities hereunder, and shall not impair or affect the rights and remedies, express or implied, or as a matter of law, of the Agent or any other Secured Party against any Guarantor. For the purposes hereof, "demand" shall include the commencement and continuance of any legal proceedings.

7. Guarantee Absolute and Unconditional. Each Guarantor waives any and all notice of the creation, contraction, Incurrence, renewal, extension, amendment, waiver or accrual of any of the Obligations (including as a result of the Incurrence of Incremental Facilities), and notice of or proof of reliance by the Agent or any other Secured Party upon this Guarantee or acceptance of this Guarantee, the Obligations or any of them, shall conclusively be deemed to have been created, contracted or Incurred, or renewed, extended, amended, waived or accrued, in reliance upon this Guarantee; and all dealings between the Borrower and any of the other Guarantors, on the one hand, and the Agent and the other Secured Parties, on the other hand, likewise shall be conclusively presumed to have been had or

consummated in reliance upon this Guarantee. Each Guarantor waives promptness, diligence, presentment, protest, notice of protest, demand for payment and notice of default, acceleration or nonpayment and any other notice to or upon the Borrower or any other Guarantor with respect to the Obligations. Each Guarantor understands and agrees that this Guarantee shall be construed as a continuing, absolute and unconditional guarantee of payment (and not of collection) without regard to (a) the validity, regularity or enforceability of the Credit Agreement, any other Credit Document, any Secured Hedging Agreement or any Secured Cash Management Agreement, any of the Obligations or any other collateral security therefor or guarantee or right of offset with respect thereto at any time or from time to time held by the Agent or any other Secured Party, (b) any defense, set-off or counterclaim (other than a defense of payment or performance) that may at any time be available to or be asserted by the Borrower against the Agent or any other Secured Party, (c) any default, failure or delay, willful or otherwise, in the performance of the Obligations by the Guarantors or (d) any other circumstance whatsoever (with or without notice to or knowledge of the Borrower or such Guarantor) that constitutes, or might be construed to constitute, an equitable or legal discharge of the Borrower for the Obligations, or of such Guarantor under this Guarantee, in bankruptcy or in any other instance. When pursuing its rights and remedies hereunder against any Guarantor, the Agent and any other Secured Party may elect, but shall be under no obligation, to pursue such rights and remedies as it may have against the Borrower or any other Person or against any collateral security or guarantee for the Obligations or any right of offset with respect thereto, and any failure by the Agent or any other Secured Party to pursue such other rights or remedies or to collect any payments from the Borrower or any such other Person or to realize upon any such collateral security or guarantee or to exercise any such right of offset, or any release of the Borrower or any such other Person or any such collateral security, guarantee or right of offset, shall not relieve such Guarantor of any liability hereunder, and shall not impair or affect the rights and remedies, whether express, implied or available as a matter of law, of the Agent and the other Secured Parties against such Guarantor. To the fullest extent permitted by Applicable Law, each Guarantor waives any defense arising out of any such election even though such election operates, pursuant to Applicable Law, to impair or to extinguish any right of reimbursement, subrogation, exoneration, contribution or indemnification or other right or remedy of such Guarantor against the Borrower or any other Guarantor, as the case may be, or any security. This Guarantee shall remain in full force and effect and be binding in accordance with and to the extent of its terms upon each Guarantor and the successors and assigns thereof, and shall inure to the benefit of the Agent and the other Secured Parties, and their respective successors, indorsees, transferees and assigns, until the Termination Date, notwithstanding that from time to time during the term of the Credit Agreement and any Secured Hedging Agreement or Secured Cash Management Agreement the Credit Parties may be free from any Obligations.

8. Subordination. Each Guarantor hereby agrees that any Indebtedness of any Guarantor now or hereafter owing to any other Subsidiary, whether heretofore, now or hereafter created (the "Guarantor Subordinated Debt"), is hereby subordinated to all of the Obligations until the Termination Date and that the Guarantor Subordinated Debt shall not be paid in whole or in part during the continuance of any Event of Default after written notice from the Agent to the Borrower. In the event of any insolvency or bankruptcy proceedings, and any receivership, liquidation, reorganization or other similar proceedings in connection therewith, relative to any Guarantor or to its property, and in the event of any proceedings for voluntary liquidation, dissolution or other winding up of such Guarantor (except as expressly permitted by the Credit Agreement), whether or not involving insolvency or bankruptcy, then, if an Event of Default has occurred and is continuing, after written notice from the Agent to the Borrower, (a) the Termination Date shall be required to have occurred before any payee is entitled to receive (whether directly or indirectly), or make any demands for, any payment on account of the Guarantor Subordinated Debt and (b) until the Termination Date shall have occurred, any payment or distribution to which such payee would otherwise be entitled (other than debt securities of such Guarantor that are subordinated, to at least the same extent as this Section 8, to the payment of all Guarantor Subordinated Debt then outstanding (such securities being hereinafter referred to as "Restructured Debt Securities"))

shall be made to the Agent. If any Event of Default occurs and is continuing, after written notice from the Agent to the Borrower, no payment or distribution of any kind or character shall be accepted by or on behalf of the Guarantor or any other Person on its behalf with respect to the Guarantor Subordinated Debt. If any payment or distribution of any character, whether in cash, securities or other property (other than Restructured Debt Securities), in respect of the Guarantor Subordinated Debt shall be received by any payee in violation of this Section 8 before all Obligations shall have been paid irrevocably in full in cash in immediately available funds (other than Hedging Obligations under Secured Hedging Agreements, Cash Management Obligations under Secured Cash Management Agreements or contingent indemnification obligations), such payment or distribution shall be held in trust for the benefit of the Secured Parties, and shall be paid over to the Agent for application in accordance with Section 5.04 of the Security Agreement.

9. Representations and Warranties; Covenants. Each Guarantor hereby (a) represents and warrants that the representations and warranties as to it made by the Borrower in Section 8 of the Credit Agreement are true and correct in all material respects on each date as required by Section 7.1 of the Credit Agreement (except where such representations and warranties expressly relate to an earlier date, in which case such representations and warranties shall have been true and correct in all material respects as of such earlier date, and except where such representations and warranties are qualified by materiality, "Material Adverse Effect" or similar language, in which case such representations and warranties shall be true and correct in all respects) and (b) agrees to take, or refrain from taking, as the case may be, each action necessary to be taken or not taken, as the case may be, so that no Default or Event of Default is caused by the failure to take such action or to refrain from taking such action by such Guarantor.

10. Reinstatement. This Guarantee shall continue to be effective, or be reinstated, as the case may be, if at any time payment, or any part thereof, of any of the Obligations is rescinded or must otherwise be restored or returned by the Agent or any other Secured Party upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of the Borrower or any other Guarantor, or upon or as a result of the appointment of a receiver, intervenor or conservator of, or trustee or similar officer for, the Borrower or any other Guarantor or any substantial part of its property, or otherwise, all as though such payments had not been made.

11. Payments. Each Guarantor hereby guarantees that payments hereunder will be paid to the Agent without set-off or counterclaim in Dollars at the Administrative Agent's Office.

12. Authority of Agent. Each Guarantor acknowledges that the rights and responsibilities of the Agent under this Guarantee with respect to any action taken by the Agent or the exercise or non-exercise by the Agent of any option, right, request, judgment or other right or remedy provided for herein or resulting or arising out of this Guarantee shall, as between the Agent and the other Secured Parties, be governed by the Credit Agreement and by such other agreements with respect thereto as may exist from time to time among them (including any intercreditor agreement), but, as between the Agent and such Guarantor, the Agent shall be conclusively presumed to be acting as agent for the Secured Parties with full and valid authority so to act or refrain from acting, and no Guarantor shall be under any obligation, or entitlement, to make any inquiry respecting such authority.

13. Notices. All notices, requests and demands pursuant hereto shall be made in accordance with Section 13.2 of the Credit Agreement. All communications and notices hereunder to each Guarantor shall be given to it in care of the Borrower at the Borrower's address set forth in Section 13.2 of the Credit Agreement.

14. Counterparts. This Guarantee may be executed by one or more of the parties to this Guarantee on any number of separate counterparts (including by facsimile or other electronic transmission (i.e., a “PDF” or “TIF” file)), and all of said counterparts taken together shall be deemed to constitute one and the same instrument. This Guarantee may, be in the form of an Electronic Record and may be executed using Electronic Signatures (including, without limitation, facsimile and .pdf) and shall be considered an original, and shall have the same legal effect, validity and enforceability as a paper record. For the avoidance of doubt, the authorization under this paragraph may include, without limitation, use or acceptance by the Agent of a manually signed paper Communication which has been converted into electronic form (such as scanned into PDF format), or an electronically signed Communication converted into another format, for transmission, delivery and/or retention.

15. Severability. Any provision of this Guarantee that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. The parties hereto shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

16. Integration. This Guarantee represents the agreement of each Guarantor and the Agent with respect to the subject matter hereof, and there are no promises, undertakings, representations or warranties by the Agent or any other Secured Party relative to the subject matter hereof not expressly set forth or referred to herein or in the other Credit Documents (and each other agreement or instrument executed or issued in connection therewith).

17. Amendments in Writing; No Waiver; Cumulative Remedies.

(a) None of the terms or provisions of this Guarantee may be waived, amended, supplemented or otherwise modified except by a written instrument executed by the affected Guarantor(s) and the Agent in accordance with Section 13.1 of the Credit Agreement.

(b) Neither the Agent nor any other Secured Party shall by any act (except by a written instrument pursuant to Section 17(a) hereof), delay, indulgence, omission or otherwise be deemed to have waived any right or remedy hereunder or to have acquiesced in any Default or Event of Default or in any breach of any of the terms and conditions hereof. No failure to exercise, nor any delay in exercising, on the part of the Agent or any other Secured Party, any right, power or privilege hereunder shall operate as a waiver thereof. No single or partial exercise of any right, power or privilege hereunder shall preclude any other or further exercise thereof or the exercise of any other right, power or privilege. A waiver by the Agent or any other Secured Party of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy that the Agent or any Secured Party would otherwise have on any future occasion.

(c) The rights, remedies, powers and privileges herein provided are cumulative, may be exercised singly or concurrently and are not exclusive of any other rights or remedies provided by law.

18. Section Headings. The section headings used in this Guarantee are for convenience of reference only and are not to affect the construction hereof or be taken into consideration in the interpretation hereof.

19. Entire Agreement. This Guarantee, taken together with all of the other Credit Documents represents the entire agreement and understanding of the parties hereto and supersedes all prior understandings, written and oral, relating to the subject matter hereof.

20. Successors and Assigns. This Guarantee shall be binding upon the successors and assigns of each Guarantor and shall inure to the benefit of the Agent and the other Secured Parties and their respective successors and permitted assigns, except that no Guarantor may assign, transfer or delegate any of its rights or obligations under this Guarantee without the prior written consent of the Agent unless otherwise permitted under the Credit Agreement.

21. Additional Guarantors. Each Subsidiary of the Borrower that is required to become a party to this Guarantee pursuant to Section 9.10 of the Credit Agreement shall become a Guarantor, with the same force and effect as if originally named as a Guarantor herein, for all purposes of this Guarantee upon execution and delivery by such Subsidiary of a Supplement in the form of Annex B hereto or in such other form reasonably satisfactory to the Agent. The execution and delivery of any instrument adding an additional Guarantor as a party to this Guarantee shall not require the consent of any other Guarantor hereunder. The rights and obligations of each Guarantor hereunder shall remain in full force and effect notwithstanding the addition of any new Guarantor as a party to this Guarantee.

22. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS GUARANTEE, ANY OTHER CREDIT DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN.

23. Submission to Jurisdiction; Waivers. Each Guarantor hereby irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to this Guarantee, the other Credit Documents to which it is a party, or for recognition and enforcement of any judgment in respect thereof, to the exclusive general jurisdiction of the courts of the State of New York located in the County of New York, the courts of the United States of America for the Southern District of New York and appellate courts from any thereof;

(b) consents that any such action or proceeding may be brought in such courts and waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(c) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to such Guarantor at its address referred to in Section 13 hereof or at such other address of which the Agent shall have been notified pursuant thereto;

(d) agrees that nothing herein shall affect the right of the Agent or any other Secured Party to effect service of process in any other manner permitted by law or shall limit the right of the Agent or any other Secured Party to sue in any other jurisdiction; and

(e) waives, to the maximum extent not prohibited by law, any right it may have to claim or recover in any legal action or proceeding referred to in this Section 23 any special, exemplary, punitive or consequential damages.

24. GOVERNING LAW. THIS GUARANTEE AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

25. Termination or Release.

(a) This Guarantee shall terminate on the Termination Date.

(b) A Subsidiary Guarantor shall automatically be released from its obligations hereunder upon the consummation of any transaction with respect to the Obligations, permitted by the Credit Agreement as a result of which such Subsidiary Guarantor ceases to be a Restricted Subsidiary or otherwise becomes an Excluded Subsidiary, subject to the restrictions and requirements for the release of such Subsidiary Guarantor from its obligations under this Guarantee set forth in Section 13.17(a) of the Credit Agreement; provided that the requisite lenders shall have consented to such transaction (to the extent required by the Credit Agreement) and the terms of such consent did not provide otherwise.

(c) In connection with any termination or release, subject to the provisions of Section 13.17 of the Credit Agreement, the Agent shall execute and deliver to any Guarantor, at such Guarantor's expense, all documents that such Guarantor shall reasonably request to evidence such termination or release. Any execution and delivery of documents pursuant to this Section 25 shall be without recourse to or warranty by the Agent.

[Signature Pages Follow]

IN WITNESS WHEREOF, each of the undersigned has caused this Guarantee to be duly executed and delivered by its duly authorized officer as of the day and year first above written.

GROCERY OUTLET HOLDING CORP.,

as Borrower

By: /s/ Charles C. Bracher

Name: Charles C. Bracher
Title: Executive Vice President and Chief
Financial Officer

GLOBE INTERMEDIATE CORP.,

as a Subsidiary Guarantor

By: /s/ Charles C. Bracher

Name: Charles C. Bracher
Title: Executive Vice President and Chief
Financial Officer

GOBP HOLDINGS, INC.,

as a Subsidiary Guarantor

By: /s/ Charles C. Bracher

Name: Charles C. Bracher
Title: Executive Vice President and Chief
Financial Officer

GOBP MIDCO, INC.,

as a Subsidiary Guarantor

By: /s/ Charles C. Bracher

Name: Charles C. Bracher
Title: Executive Vice President and Chief
Financial Officer

GROCERY OUTLET, INC.,

as a Subsidiary Guarantor

By: /s/ Charles C. Bracher

Name: Charles C. Bracher
Title: Executive Vice President and Chief
Financial Officer

[Signature Page to Guarantee]

BANK OF AMERICA, N.A.,
as Administrative Agent and Collateral Agent

By: /s/ Priscilla Ruffin
Name: Priscilla Ruffin
Title: AVP

[Signature Page to Guarantee]

SUBSIDIARY GUARANTORS

| Grantor | Jurisdiction of Organization | Type of Organization |
|--------------------------|-------------------------------------|-----------------------------|
| Globe Intermediate Corp. | Delaware | Corporation |
| GOBP Holdings, Inc. | Delaware | Corporation |
| GOBP Midco, Inc. | Delaware | Corporation |
| Grocery Outlet Inc. | California | Corporation |

ANNEX B
TO THE GUARANTEE

SUPPLEMENT NO. [●], dated as of [●], 20[●] (this “Supplement”), to the GUARANTEE, dated as of February 21, 2023 (as the same may be amended, increased, extended, restated, supplemented, amended and restated or otherwise modified from time to time, the “Guarantee”), made among **GROCERY OUTLET HOLDING CORP.**, a Delaware corporation (the “Borrower”), each of the subsidiaries of the Borrower listed on Annex A hereto or that becomes a party hereto pursuant to Section 21 of the Guarantee (each such subsidiary, individually, a “Subsidiary Guarantor” and, collectively, the “Subsidiary Guarantors”; and together with the Borrower, other than with respect to its own obligations, collectively, the “Guarantors”), and **BANK OF AMERICA, N.A.** as Administrative Agent and Collateral Agent for the Secured Parties (as defined in the Credit Agreement) (in such capacity, together with its successors, assigns, designees and sub-agents in such capacity, the “Agent”).

A. Reference is made to the Credit Agreement, dated as of February 21, 2023 (as the same may be amended, increased, extended, restated, supplemented, amended and restated or otherwise modified from time to time, the “Credit Agreement”), among the Borrower, the several Lenders and Letter of Credit Issuers from time to time party thereto and Bank of America, N.A., as the Administrative Agent, the Collateral Agent and Swingline Lender.

B. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Guarantee. The rules of construction and other interpretative provisions specified in Section 1(b) of the Guarantee shall apply to this Supplement, including terms defined in the preamble and recitals hereto.

C. The Guarantors have entered into the Guarantee in order to induce the Agent, the Swingline Lender, the Lenders and the Letter of Credit Issuers to enter into the Credit Agreement and to induce the Lenders, the Swingline Lender and the Letter of Credit Issuers to make their respective Extensions of Credit to the Borrower under the Credit Agreement, to induce one or more Hedge Banks to enter into Secured Hedging Agreements with any Credit Party or any Restricted Subsidiary and to induce one or more Cash Management Banks to provide Cash Management Services pursuant to Secured Cash Management Agreements to any Credit Party or any Restricted Subsidiary. Section 9.10 of the Credit Agreement and Section 21 of the Guarantee provide that additional Subsidiaries may become Guarantors under the Guarantee by execution and delivery of an instrument in the form of this Supplement. Each undersigned Subsidiary (each a “New Guarantor”) is executing this Supplement in accordance with the requirements of the Credit Agreement to become a Guarantor under the Guarantee in order to induce the Lenders, the Swingline Lender and the Letter of Credit Issuers to make additional Extensions of Credit to the Borrower under the Credit Agreement, to induce one or more Hedge Banks to enter into Secured Hedging Agreements with any Credit Party or any Restricted Subsidiary and to induce one or more Cash Management Banks to provide Cash Management Services pursuant to Secured Cash Management Agreements to any Credit Party or any Restricted Subsidiary and as consideration for Extensions of Credit previously made, Secured Hedging Agreements previously entered into and Cash Management Services previously provided.

Accordingly, the Agent and each New Guarantor agrees as follows:

SECTION 1. In accordance with Section 21 of the Guarantee, each New Guarantor by its signature below becomes a Guarantor under the Guarantee with the same force and effect as if originally named therein as a Guarantor and each New Guarantor hereby (a) agrees to all the terms and provisions of the Guarantee applicable to it as a Guarantor thereunder and (b) represents and warrants that the representations and warranties made by it as a Guarantor thereunder are true and correct in all material

respects on and as of the date hereof (except to the extent that they expressly relate to an earlier date, in which case they shall be true and correct in all material respects as of such earlier date, and except where such representations and warranties are qualified by materiality, "Material Adverse Effect" or similar language, in which case such representations and warranties shall be true and correct in all respects). Each reference to a Guarantor in the Guarantee shall be deemed to include each New Guarantor. The Guarantee is hereby incorporated herein by reference.

SECTION 2. Each New Guarantor represents and warrants to the Agent and the other Secured Parties that this Supplement has been duly authorized, executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization and other similar laws relating to or affecting creditors' rights generally and general principles of equity (whether considered in a proceeding in equity or law).

SECTION 3. This Supplement may be executed by one or more of the parties to this Supplement on any number of separate counterparts (including by facsimile or other electronic transmission (i.e., a "PDF" or "TIF" file)), and all of said counterparts taken together shall be deemed to constitute one and the same instrument. This Supplement may, be in the form of an Electronic Record (as defined in the Credit Agreement and may be executed using Electronic Signatures (as defined in the Credit Agreement) (including, without limitation, facsimile and .pdf) and shall be considered an original, and shall have the same legal effect, validity and enforceability as a paper record. For the avoidance of doubt, the authorization under this paragraph may include, without limitation, use or acceptance by the Agent of a manually signed paper Communication (as defined in the Credit Agreement) which has been converted into electronic form (such as scanned into PDF format), or an electronically signed Communication converted into another format, for transmission, delivery and/or retention.

SECTION 4. Except as expressly supplemented hereby, the Guarantee shall remain in full force and effect.

SECTION 5. THIS SUPPLEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

SECTION 6. Any provision of this Supplement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof and in the Guarantee, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. The parties hereto shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 7. All notices, requests and demands pursuant hereto shall be made in accordance with Section 13 of the Guarantee. All communications and notices hereunder to each New Guarantor shall be given to it in care of the Borrower at the Borrower's address set forth in Section 13.2 of the Credit Agreement.

SECTION 8. To the extent the Borrower would be required to do so pursuant to Section 13.5 of the Credit Agreement, each New Guarantor agrees to reimburse the Agent for its reasonable and documented and invoiced out-of-pocket costs and expenses in connection with this Supplement, including the reasonable fees, disbursements and other charges of one firm of counsel to the Agent, and, to the extent necessary, a single firm of local counsel in each appropriate local jurisdiction (which may include a

single special counsel acting in multiple jurisdictions) or otherwise retained with the Borrower's consent (such consent not to be unreasonably withheld or delayed).

[Signature Pages Follow]

IN WITNESS WHEREOF, each New Guarantor and the Agent have duly executed this Supplement to the Guarantee as of the day and year first above written.

[NEW GUARANTOR(S)]

By: _____
Name:
Title:

BANK OF AMERICA, N.A.,
as Administrative Agent and Collateral Agent

By: _____
Name: _____
Title: _____

[Signature Page to Guarantee Supplement]

SUBSIDIARY GUARANTORS

| <u>Grantor</u> | <u>Jurisdiction of Organization</u> | <u>Type of Organization</u> |
|----------------|-------------------------------------|-----------------------------|
| [●] | [●] | [●] |

**PERFORMANCE STOCK UNIT GRANT NOTICE
UNDER THE
GROCERY OUTLET HOLDING CORP.
2019 INCENTIVE PLAN**

Grocery Outlet Holding Corp. (the “Company”), pursuant to its 2019 Incentive Plan, as it may be amended and restated from time to time (the “Plan”), hereby grants to the Participant set forth below the number of Performance Stock Units (“Performance Stock Units” or “PSUs”), set forth below. The Performance Stock Units are subject to all of the terms and conditions as set forth herein, in the Performance Stock Unit Agreement (attached hereto or previously provided to the Participant in connection with a prior grant) (the “Agreement”), and in the Plan, all of which are incorporated herein in their entirety. Capitalized terms not otherwise defined herein shall have the meaning set forth in the Plan.

Participant: [Insert Participant Name]

Date of Grant: [Insert Date]

Number of Performance Stock Units: [Number of PSUs], consisting of two tranches

Tranche I PSUs (“Tranch I PSUs”), which will vest upon satisfaction of Net Sales-based targets,¹ and

Tranche II PSUs (“Tranch II PSUs”), which will vest upon satisfaction of Adjusted EBITDA-based targets²

Performance Period: The period commencing on the first day of the Company’s 202[•] fiscal year and ending on the last day of the Company’s 202[•] fiscal year

Vesting: The PSUs will become earned (“Earned PSUs”) based on achievement of the applicable Performance Condition with respect to the Performance Period, in each case, as set forth below.

Performance Conditions

The number of PSUs in each tranche that become Earned PSUs shall be based on the achievement of the Performance Condition set forth in the table below applicable to such tranche:

¹50% of Number of Performance Stock Units.

²50% of Number of Performance Stock Units.

| | Tranche I | Tranche II |
|------------------------------|------------------|-------------------------------|
| <i>Performance Condition</i> | <i>Net Sales</i> | <i>Adjusted EBITDA Growth</i> |
| Minimum Level of Achievement | [\$•] | [•]% |
| Target Level of Achievement | [\$•] | [•]% |
| Maximum Level of Achievement | [\$•] | [•]% |

Calculation of Number of Earned PSUs

The number of PSUs earned in respect of each tranche of PSUs shall equal (x) the number of Tranche I PSUs or Tranche II PSUs, as applicable, granted hereunder multiplied by (y) the applicable Percentage of Target Award Earned for such applicable tranche (rounded up to the nearest whole unit). Following the last day of the Performance Period, the Committee shall determine the level of achievement with respect to each Performance Condition and calculate the “Percentage of Target Award Earned” (as set forth the table below) with respect to each of the Tranche I PSUs and the Tranche II PSUs based on such level of achievement in accordance with the following table:

| LEVEL OF ACHIEVEMENT | PERCENTAGE OF TARGET AWARD EARNED |
|-----------------------------|------------------------------------------|
| Below Minimum | 0% |
| Minimum | 50% |
| Target | 100% |
| Maximum | 200% |
| Above Maximum | 200% |

Unless otherwise determined by the Committee, if actual performance with respect to any tranche is between (i) “Minimum” and “Target” or (ii) “Target” and “Maximum” levels of achievement, the Percentage of Target Award Earned shall be determined using linear interpolation (and rounded to the nearest whole percentage point) between such numbers. For the avoidance of doubt, in the event that actual performance does not meet the “Minimum” level of achievement with respect to any tranche, the Percentage of Target Award Earned shall be 0%, and in the event that actual performance exceeds the “Maximum” level of achievement with respect to any tranche, the Percentage of Target Award Earned shall be 200%. Notwithstanding the foregoing, in the event of a Change in Control during the Performance Period, the number of Earned PSUs shall be calculated, immediately prior to such Change in Control, assuming a Percentage of Target Award Earned for each tranche equal to one hundred percent (100%) (“Target Performance”).

All determinations with respect to whether and to the extent to which a Performance Condition has been achieved shall be made by the Committee in its sole discretion and the applicable Performance Conditions shall not be achieved and the applicable PSUs shall not become Earned PSUs until the date that

Committee approves in writing the extent to which such Performance Conditions have been met (such date, the “Determination Date”). Notwithstanding the foregoing, in the event of a Change in Control during the Performance Period, the Determination Date shall instead occur on the last day of the Performance Period.

Any PSUs which do not become Earned PSUs based on actual performance during the Performance Period shall be forfeited as of the last day of the Performance Period.

Vesting of Earned PSUs

Provided that the Participant has not undergone a Termination on or prior to the Determination Date, any PSUs that become Earned PSUs shall become vested on the Determination Date.

Notwithstanding the foregoing:

- In the event that the Participant undergoes a Termination as a result of such Participant’s death or Disability prior to a Change in Control, a prorated portion of the PSUs in each tranche shall vest on the date of such Termination assuming Target Performance, with such proration based on the number of days elapsed from the commencement of the Performance Period through the date of such Termination, and be settled in accordance with the Agreement.
- In the event that prior to a Change in Control the Participant undergoes a Termination by the Service Recipient without Cause, subject to the Participant’s compliance during the Performance Period with any restrictive covenant by which such Participant is bound, including, without limitation, any covenant not to compete or not to solicit, in any agreement with any member of the Company Group, a prorated portion of the PSUs in each tranche will remain outstanding and eligible to vest based on the actual Percentage of Target Award Earned as determined on the Determination Date, with such proration based on the number of days elapsed from the commencement of the Performance Period through the date of such Termination; *provided* that, in the event of a Change in Control following such Termination, the outstanding portion of PSUs shall instead be calculated based on Target Performance and shall vest as of the last day of the Performance Period. Any PSUs that become Earned PSUs following the date of such Termination shall be settled in accordance with the Agreement.
- In the event the Participant undergoes a Termination (i) by the Service Recipient without Cause, (ii) by the Participant for Good Reason, or (iii) by reason of death or Disability, in each case, on or following a Change in Control, the Earned PSUs (as determined above) shall full vest as of the date of such Termination.
- In the event of any other Termination, the PSUs shall be forfeited as of the date of such Termination.

- To the extent any Participant is party to an agreement between the Participant and the Company that contains language governing the treatment of equity in connection with a Change in Control, this Performance Stock Unit Grant Notice shall govern and control regarding the treatment of such Participant's equity in connection with such Change in Control.

Definitions

“Adjusted EBITDA” shall mean the revised definition of Adjusted EBITDA for [the quarter of year] as publicly disclosed in (or otherwise calculated in a manner consistent with) the Company's Form 10-K for the Company's [] fiscal year.

“Adjusted EBITDA Growth” shall mean the growth rate with respect to Adjusted EBITDA, which shall be expressed as a percentage (rounded to the nearest tenth of a percent) and calculated for the Performance Period based on the sum of annual Adjusted EBITDA growth rates for each fiscal year during the Performance Period.

“Good Reason” shall, in the case of any Participant who is party to an agreement between the Participant and the Service Recipient 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, “Good Reason” shall mean: (i) a material diminution in the Participant's base salary or annual cash bonus opportunity as compared to such Participant's base salary or annual cash bonus opportunity as in effect immediately prior to a Change in Control; (ii) any material diminution in Participant's duties or responsibilities as compared to such Participant's duties and responsibilities as in effect immediately prior to a Change in Control; *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 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's written notice thereof prior to such date.

“Net Sales” shall mean the net sales which is publicly disclosed in (or otherwise calculated in a manner consistent with) the Company's earnings release for the applicable fiscal year financial results or as otherwise determined by the Audit and Risk Committee of the Board.

Dividend Equivalents:

The Performance Stock Units shall be credited with dividend equivalent payments, as provided in Section 13(c)(iii) of the Plan.

* * *

GROCERY OUTLET HOLDING CORP.

By: _____

Title: _____

THE UNDERSIGNED PARTICIPANT ACKNOWLEDGES RECEIPT OF THIS PERFORMANCE STOCK UNIT GRANT NOTICE, THE PERFORMANCE STOCK UNIT AGREEMENT AND THE PLAN, AND, AS AN EXPRESS CONDITION TO THE GRANT OF PERFORMANCE STOCK UNITS HEREUNDER, AGREES TO BE BOUND BY THE TERMS OF THIS PERFORMANCE STOCK UNIT GRANT NOTICE, THE PERFORMANCE STOCK UNIT AGREEMENT AND THE PLAN.³

PARTICIPANT

³To the extent that the Company has established, either itself or through a third-party plan administrator, the ability to accept this award electronically, such acceptance shall constitute the Participant's signature hereto.

[Signature Page to Performance Stock Unit Award]

**PERFORMANCE STOCK UNIT AGREEMENT
UNDER THE
GROCERY OUTLET HOLDING CORP.
2019 INCENTIVE PLAN**

Pursuant to the Performance Stock Unit Grant Notice (the "Grant Notice") delivered to the Participant (as defined in the Grant Notice), and subject to the terms of this Performance Stock Unit Agreement (this "Performance Stock Unit Agreement") and the Grocery Outlet Holding Corp. 2019 Incentive Plan, as it may be amended and restated from time to time (the "Plan"), Grocery Outlet Holding Corp. (the "Company") and the Participant agree as follows. Capitalized terms not otherwise defined herein shall have the same meaning as set forth in the Plan.

1. **Grant of Performance Stock Units.** Subject to the terms and conditions set forth herein and in the Plan, the Company hereby grants to the Participant the number of Performance Stock Units provided in the Grant Notice (with the number of Performance Stock Units that become Earned PSUs representing an unfunded, unsecured right to receive one share of Common Stock upon the vesting of such Earned PSUs). The Company may make one or more additional grants of Performance Stock Units to the Participant under this Performance Stock Unit Agreement by providing the Participant with a new grant notice, which may also include any terms and conditions differing from this Performance Stock Unit Agreement to the extent provided therein. The Company reserves all rights with respect to the granting of additional Performance Stock Units hereunder and makes no implied promise to grant additional Performance Stock Units.

2. **Vesting.** Subject to the conditions contained herein and in the Plan, the Performance Stock Units shall vest as provided in the Grant Notice. With respect to any Performance Stock Unit, the period of time that such Performance Stock Unit remains subject to vesting shall be its Restricted Period.

3. **Settlement of Performance Stock Units.** The Company will deliver to the Participant, without charge, as soon as reasonably practicable (and, in any event, within two and one-half months) following the applicable vesting date, one share of Common Stock for each Earned PSU (as adjusted under the Plan, as applicable) which becomes vested hereunder and such vested Earned PSU shall be cancelled upon such delivery. The Company shall either (a) deliver, or cause to be delivered, to the Participant a certificate or certificates therefor, registered in the Participant's name or (b) cause such shares of Common Stock to be credited to the Participant's account at the third party plan administrator. Notwithstanding anything in this Performance Stock Unit Agreement to the contrary, the Company shall have no obligation to issue or transfer any shares of Common Stock as contemplated by this Performance Stock Unit Agreement unless and until such issuance or transfer complies with all relevant provisions of law and the requirements of any stock exchange on which the Company's shares of Common Stock are listed for trading.

4. **Company; Participant.**

(a) The term "Company" as used in this Performance Stock Unit Agreement with reference to employment shall include the Company and its Subsidiaries.

(b) Whenever the word "Participant" is used in any provision of this Performance Stock Unit Agreement under circumstances where the provision should logically be construed to apply to the executors, the administrators, or the person or persons to whom the Performance Stock Units may be transferred in accordance with Section 13(b) of the Plan, the word "Participant" shall be deemed to include such person or persons.

5. **Non-Transferability.** The Performance Stock Units are not transferable by the Participant except to Permitted Transferees in accordance with Section 13(b) of the Plan. Except as otherwise provided herein, no assignment or transfer of the Performance Stock Units, or of the rights represented thereby, whether voluntary

or involuntary, by operation of law or otherwise, shall vest in the assignee or transferee any interest or right herein whatsoever, but immediately upon such assignment or transfer the Performance Stock Units shall terminate and become of no further effect.

6. **Rights as Shareholder.** The Participant or a Permitted Transferee of the Performance Stock Units shall have no rights as a shareholder with respect to any share of Common Stock underlying a Performance Stock Unit unless and until the Participant shall have become the holder of record or the beneficial owner of such share of Common Stock, and no adjustment shall be made for dividends or distributions or other rights in respect of such share of Common Stock for which the record date is prior to the date upon which the Participant shall become the holder of record or the beneficial owner thereof.

7. **Tax Withholding.** The provisions of Section 13(d) of the Plan are incorporated herein by reference and made a part hereof. The Participant shall satisfy such Participant's withholding liability, if any, referred to in Section 13(d) of the Plan by having the Company (and hereby authorizes the Company to) deliver instructions to the third party administrator/broker designated by the Company to administer Plan transaction to effectuate a "sell to cover" transaction on behalf of the Participant, whereby the Participant will sell a number of shares of Common Stock having a fair market value, on the date that the Performance Stock Units are settled, equal to such withholding liability, and remitted the proceeds from such transaction to the Company.

8. **Notice.** Every notice or other communication relating to this Performance Stock Unit Agreement between the Company and the Participant shall be in writing, which may include by electronic mail, and shall be mailed to or delivered to the party for whom it is intended at such address as may from time to time be designated by such party in a notice mailed or delivered to the other party as herein provided; provided that, unless and until some other address be so designated, all notices or communications by the Participant to the Company shall be mailed or delivered to the Company at its principal executive office, to the attention of the Company's General Counsel or its designee, and all notices or communications by the Company to the Participant may be given to the Participant personally or may be mailed to the Participant at the Participant's last known address, as reflected in the Company's records. Notwithstanding the above, all notices and communications between the Participant and any third-party plan administrator shall be mailed, delivered, transmitted or sent in accordance with the procedures established by such third-party plan administrator and communicated to the Participant from time to time.

9. **No Right to Continued Service.** This Performance Stock Unit Agreement does not confer upon the Participant any right to continue as an employee or other service provider to the Company.

10. **Binding Effect.** This Performance Stock Unit Agreement shall be binding upon the heirs, executors, administrators and successors of the parties hereto.

11. **Waiver and Amendments.** Except as otherwise set forth in Section 12 of the Plan, any waiver, alteration, amendment or modification of any of the terms of this Performance Stock Unit Agreement shall be valid only if made in writing and signed by the parties hereto; provided, however, that any such waiver, alteration, amendment or modification is consented to on the Company's behalf by the Committee. No waiver by either of the parties hereto of their rights hereunder shall be deemed to constitute a waiver with respect to any subsequent occurrences or transactions hereunder unless such waiver specifically states that it is to be construed as a continuing waiver.

12. **Clawback/Forfeiture.** Notwithstanding anything to the contrary contained herein or in the Plan, if the Participant has engaged in or engages in any Detrimental Activity, then the Committee may, in its sole discretion, take actions permitted under the Plan, including: (a) canceling the Performance Stock Units or (b) requiring that the Participant forfeit any gain realized on the disposition of any shares of Common Stock received in settlement of any Performance Stock Units, and repay such gain to the Company. In addition, if the Participant receives any amount in excess of what the Participant should have received under the terms of this Performance

Stock Unit Agreement for any reason (including without limitation by reason of a financial restatement, mistake in calculations or other administrative error), then the Participant shall be required to repay any such excess amount to the Company. Without limiting the foregoing, all Performance Stock Units shall be subject to reduction, cancellation, forfeiture or recoupment to the extent necessary to comply with applicable law.

13. **Governing Law.** This Performance Stock Unit Agreement shall be construed and interpreted in accordance with the laws of the State of Delaware, without regard to the principles of conflicts of law thereof. Notwithstanding anything contained in this Performance Stock Unit Agreement, the Grant Notice or the Plan to the contrary, if any suit or claim is instituted by the Participant or the Company relating to this Performance Stock Unit Agreement, the Grant Notice or the Plan, the Participant hereby submits to the exclusive jurisdiction of and venue in the courts of Delaware.

14. **Plan.** The terms and provisions of the Plan are incorporated herein by reference. In the event of a conflict or inconsistency between the terms and provisions of the Plan and the provisions of this Performance Stock Unit Agreement (including the Grant Notice), the Plan shall govern and control.

15. **Section 409A.** It is intended that the Performance Stock Units granted hereunder shall be exempt from Section 409A of the Code pursuant to the “short-term deferral” rule applicable to such section, as set forth in the regulations or other guidance published by the Internal Revenue Service thereunder.

16. **Imposition of Other Requirements.** The Company reserves the right to impose other requirements on the Participant’s participation in the Plan, on the Performance Stock Units and on any shares of Common Stock acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require the Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

17. **Electronic Delivery and Acceptance.** The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. The Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

18. **Entire Agreement.** This Performance Stock Unit Agreement, the Grant Notice and the Plan constitute the entire agreement of the parties hereto in respect of the subject matter contained herein and supersede all prior agreements and understandings of the parties, oral and written, with respect to such subject matter.

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

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

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

Date: May 10, 2023

By: /s/ Robert J. Sheedy, Jr.

Robert J. Sheedy, Jr.
President and Chief Executive Officer
(Principal Executive Officer)

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

I, Charles C. 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2023

By: /s/ Charles C. Bracher

Charles C. Bracher
Chief Financial Officer
(Principal Financial Officer)

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

In connection with the Quarterly Report of Grocery Outlet Holding Corp. (the "Company") on Form 10-Q for the period ended April 1, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert J. Sheedy, Jr., certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: May 10, 2023

By: /s/ Robert J. Sheedy, Jr.

Robert J. Sheedy, Jr.
President and Chief Executive Officer
(Principal Executive Officer)

**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**

In connection with the Quarterly Report of Grocery Outlet Holding Corp. (the "Company") on Form 10-Q for the period ended April 1, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles C. 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: May 10, 2023

By: /s/ Charles C. Bracher

Charles C. Bracher

Chief Financial Officer

(Principal Financial Officer)