
**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 January 30, 2016

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: 1-37499

BARNES & NOBLE EDUCATION, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

120 Mountain View Blvd., Basking Ridge, NJ

(Address of Principal Executive Offices)

46-0599018

(I.R.S. Employer
Identification No.)

07920

(Zip Code)

(908) 991-2665

(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☐

Non-accelerated filer ☒ (Do not check if a smaller reporting company) Smaller reporting company ☐

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 March 2, 2016, 47,401,667 shares of Common Stock, par value \$0.01 per share, were outstanding.

EXPLANATORY NOTE

On February 26, 2015, Barnes & Noble, Inc. ("Barnes & Noble") announced plans for the complete legal and structural separation of Barnes & Noble Education, Inc. (the "Company", "us", "we") from Barnes & Noble (the "Spin-Off"). Under the Separation and Distribution Agreement between Barnes & Noble and the Company (the "Separation and Distribution Agreement"), Barnes & Noble planned to distribute all of its equity interest in us, consisting of all of the outstanding shares of our Common Stock, to Barnes & Noble's stockholders on a pro rata basis. Following the Spin-Off, Barnes & Noble would not own any equity interest in us, and we would operate independently from Barnes & Noble.

On July 14, 2015, Barnes & Noble approved the final distribution ratio and declared a pro rata dividend of the outstanding shares of our common stock, par value \$0.01 per share ("Common Stock"), to Barnes & Noble's existing stockholders. The pro rata dividend was made on August 2, 2015 to the Barnes & Noble stockholders of record (as of July 27, 2015). Each Barnes & Noble stockholder of record received a distribution of 0.632 shares of our Common Stock for each share of Barnes & Noble common stock held on the record date.

On August 2, 2015, we completed the legal separation from Barnes & Noble, at which time we began to operate as an independent publicly-traded company. Our Common Stock began to trade on a "when-issued" basis on the New York Stock Exchange ("NYSE") under the symbol "BNED WI" beginning on July 23, 2015. On August 3, 2015, when-issued trading of our Common Stock ended, and our Common Stock began "regular-way" trading under the symbol "BNED."

The results of operations for the 39 weeks ended January 31, 2015 and the 13 weeks ended August 1, 2015 reflected in our condensed consolidated financial statements are presented on a stand-alone basis since we were still part of Barnes & Noble, Inc. until the consummation of the Spin-Off on August 2, 2015, and the results of operations for the 26 weeks ended January 30, 2016 reflected in our condensed consolidated financial statements are presented on a consolidated basis as we became a separate consolidated entity.

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES**Fiscal Quarter Ended January 30, 2016****Index to Form 10-Q**

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PART I - FINANCIAL INFORMATION

Item 1: Financial Statements

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES **Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income** (In thousands, except per share data) (unaudited)

	13 weeks ended		39 weeks ended	
	January 30, 2016	January 31, 2015	January 30, 2016	January 31, 2015
Sales:				
Product sales and other	\$ 457,126	\$ 461,059	\$ 1,359,848	\$ 1,346,152
Rental income	61,297	60,495	153,422	152,845
Total sales	518,423	521,554	1,513,270	1,498,997
Cost of sales and occupancy:				
Product and other cost of sales and occupancy	361,030	362,740	1,073,319	1,062,930
Rental cost of sales and occupancy	36,753	37,192	92,646	93,624
Total cost of sales and occupancy	397,783	399,932	1,165,965	1,156,554
Gross profit	120,640	121,622	347,305	342,443
Selling and administrative expenses	98,010	94,694	287,133	271,553
Depreciation and amortization	13,081	12,583	39,350	37,635
Impairment loss (non-cash)	11,987	—	11,987	—
Operating (loss) income	(2,438)	14,345	8,835	33,255
Interest expense, net	711	30	1,268	49
(Loss) income before income taxes	(3,149)	14,315	7,567	33,206
Income tax expense	454	5,665	4,687	13,818
Net (loss) income	\$ (3,603)	\$ 8,650	\$ 2,880	\$ 19,388
Other comprehensive earnings, net of tax	—	—	—	—
Total comprehensive (loss) income	\$ (3,603)	\$ 8,650	\$ 2,880	\$ 19,388
(Loss) Earnings per share of Common Stock:				
Basic	\$ (0.07)	\$ 0.09	\$ 0.06	\$ 0.34
Diluted	\$ (0.07)	\$ 0.09	\$ 0.06	\$ 0.34
Weighted average shares of Common Stock outstanding:				
Basic	48,088	38,924	45,907	37,955
Diluted	48,088	38,970	46,173	37,998

See accompanying notes to condensed consolidated financial statements.

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(In thousands, except per share data)

	January 30, 2016	January 31, 2015	May 2, 2015
	(unaudited)	(unaudited)	(audited)
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 126,909	\$ 174,620	\$ 59,714
Receivables, net	183,133	188,477	76,551
Merchandise inventories, net	542,489	462,062	297,424
Textbook rental inventories	65,757	69,726	47,550
Prepaid expenses and other current assets	5,754	3,438	4,625
Short-term deferred tax assets, net	24,323	26,871	24,358
Total current assets	948,365	925,194	510,222
Property and equipment:			
Buildings and leasehold improvements	167,280	152,817	149,065
Fixtures and equipment	354,797	328,779	335,403
	522,077	481,596	484,468
Less accumulated depreciation and amortization	408,573	376,863	376,911
Net property and equipment	113,504	104,733	107,557
Goodwill	274,070	274,070	274,070
Intangible assets, net	190,549	200,753	198,190
Other noncurrent assets	33,635	34,548	39,885
Total assets	\$ 1,560,123	\$ 1,539,298	\$ 1,129,924
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 507,731	\$ 492,200	\$ 170,101
Accrued liabilities	199,655	190,794	97,575
Total current liabilities	707,386	682,994	267,676
Long-term deferred taxes, net	64,154	71,463	66,091
Other long-term liabilities	69,937	62,670	69,488
Total liabilities	841,477	817,127	403,255
Commitments and contingencies	—	—	—
Stockholders' equity:			
Preferred membership interests	—	—	—
Parent company investment	—	722,171	726,669
Preferred stock, \$0.01 par value; authorized, 5,000 shares; issued and outstanding, none	—	—	—
Common stock, \$0.01 par value; authorized, 200,000 shares; issued, 48,294, 0 and 0 shares, respectively; outstanding, 47,346, 0 and 0 shares, respectively	483	—	—
Additional paid-in capital	697,662	—	—
Retained earnings	29,798	—	—
Treasury stock, at cost	(9,297)	—	—
Total stockholders' equity	718,646	722,171	726,669
Total liabilities and stockholders' equity	\$ 1,560,123	\$ 1,539,298	\$ 1,129,924

See accompanying notes to condensed consolidated financial statements.

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(In thousands)
(unaudited)

	39 weeks ended	
	January 30, 2016	January 31, 2015
Cash flows from operating activities:		
Net income	\$ 2,880	\$ 19,388
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	39,350	37,635
Amortization of deferred financing costs	325	—
Impairment loss (non-cash)	11,987	—
Deferred taxes	(1,902)	(8,472)
Stock-based compensation expense	4,817	3,811
Increase in other long-term liabilities	449	1,517
Changes in other operating assets and liabilities, net	68,038	66,640
Net cash flows provided by operating activities	125,944	120,519
Cash flows from investing activities:		
Purchases of property and equipment	(37,663)	(35,107)
Net increase in other noncurrent assets	(2,115)	(4,396)
Net cash flows used in investing activities	(39,778)	(39,503)
Cash flows from financing activities:		
Net changes in Barnes & Noble, Inc. Investment	(6,423)	25,510
Acquisition of Preferred Membership Interests	—	(76,175)
Proceeds from borrowings on Credit Facility	60,600	—
Repayments of borrowings on Credit Facility	(60,600)	—
Payment of deferred financing costs	(3,251)	—
Purchase of treasury shares	(9,297)	—
Net cash flows used in financing activities	(18,971)	(50,665)
Net increase in cash and cash equivalents	67,195	30,351
Cash and cash equivalents at beginning of period	59,714	144,269
Cash and cash equivalents at end of period	\$ 126,909	\$ 174,620
Changes in other operating assets and liabilities, net:		
Receivables, net	\$ (106,582)	\$ (149,476)
Merchandise inventories	(245,064)	(186,716)
Textbook rental inventories	(18,207)	(22,664)
Prepaid expenses and other current assets	(1,875)	684
Accounts payable and accrued liabilities	439,766	424,812
Changes in other operating assets and liabilities, net	\$ 68,038	\$ 66,640

See accompanying notes to condensed consolidated financial statements.

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Equity
(In thousands)
(unaudited)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Preferred Membership Interests	Parent Company Investment	Treasury Stock		Total Equity
	Shares	Amount					Shares	Amount	
Balance at May 3, 2014	—	\$ —	\$ —	\$ —	\$ 383,397	\$ 366,240	—	\$ —	\$ 749,637
Net income						19,388			19,388
Net change in Barnes & Noble, Inc. Investment						25,510			25,510
Stock-based compensation expense						3,811			3,811
Accretive dividend on preferred stockholders					6,077	(6,077)			—
Acquisition of preferred membership interests					(389,474)	313,299			(76,175)
Balance at January 31, 2015	—	\$ —	\$ —	\$ —	\$ —	\$ 722,171	—	\$ —	\$ 722,171

	Common Stock		Additional Paid-In Capital	Retained Earnings	Preferred Membership Interests	Parent Company Investment	Treasury Stock		Total Equity
	Shares	Amount					Shares	Amount	
Balance at May 2, 2015	—	\$ —	\$ —	\$ —	\$ —	\$ 726,669	—	\$ —	\$ 726,669
Net loss						(26,918)			(26,918)
Stock-based compensation expense						953			953
Net change in Barnes & Noble, Inc. Investment						(28,868)			(28,868)
Balance at August 2, 2015 (Spin-Off)	—	—	—	—	—	671,836	—	—	671,836
Net change in Barnes & Noble, Inc. Investment						22,445			22,445
Capitalization at Spin-Off	48,187	482	693,799			(694,281)			—
Stock-based compensation expense			3,864						3,864
Vested equity awards	107	1	(1)						—
Common stock repurchased							907	(8,701)	(8,701)
Shares repurchased for tax withholdings for vested stock awards							41	(596)	(596)
Net income				29,798					29,798
Balance at January 30, 2016	48,294	\$ 483	\$ 697,662	\$ 29,798	\$ —	\$ —	948	\$ (9,297)	\$ 718,646

See accompanying notes to condensed consolidated financial statements.

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
For the 13 and 39 weeks ended January 30, 2016 and January 31, 2015
(Thousands of dollars, except share and per share data)
(unaudited)

Unless the context otherwise indicates, references in these Notes to the accompanying condensed consolidated financial statements to “we,” “us,” “our” and “the Company” refer to Barnes & Noble Education, Inc., a Delaware corporation. References to “Barnes & Noble” refer to Barnes & Noble, Inc., a Delaware corporation, and its consolidated subsidiaries (other than Barnes & Noble Education, Inc. and its consolidated subsidiaries) unless the context otherwise requires. References to “Barnes & Noble College” refer to our college bookstore business operated through our subsidiary Barnes & Noble College Booksellers, LLC. Barnes & Noble College is our only operating subsidiary.

This Form 10-Q should be read in conjunction with our Audited Consolidated Financial Statements and accompanying Notes to consolidated financial statements in our Prospectus dated July 15, 2015 and filed with the Securities and Exchange Commission (the “SEC”) on that date, which includes consolidated financial statements for the Company for each of the three fiscal years ended May 2, 2015, May 3, 2014 and April 27, 2013 (Fiscal 2015, Fiscal 2014 and Fiscal 2013, respectively), the unaudited condensed consolidated financial statements in our Form 10-Q for the 13 weeks ended August 1, 2015 and the unaudited condensed consolidated financial statements in our Form 10-Q for the 26 weeks ended October 31, 2015.

Note 1. Organization

Description of Business

We are one of the largest contract operators of bookstores on college and university campuses across the United States and a leading provider of digital education services. We create and operate campus stores that are focal points for college life and learning, enhancing the educational mission of the institution, enlivening campus culture and delivering an important revenue stream to our partner schools. We typically operate our stores under multi-year management service agreements granting us the right to operate the official school bookstore on campus. In turn, we pay the school a percentage of store sales and, in some cases, a minimum fixed guarantee.

We build relationships and derive sales by actively engaging and marketing to over 5 million students and their faculty on the campuses we serve and offer a full assortment of items in our campus stores, including course materials, which includes new and used print textbooks and digital textbooks, which are available for sale or rent, emblematic apparel and gifts, trade books, computer products, school and dorm supplies, convenience and café items and graduation products. We are a multi-channel marketer and operate school-branded e-commerce sites for each store, allowing students and faculty to purchase textbooks, course materials and other products online.

As of May 2, 2015, we operated 724 stores nationwide, which reached 24% of the total United States college and university student enrolled population. During the 39 weeks ended January 30, 2016, we opened 34 stores and closed 10 stores. As of January 30, 2016, we operated 748 stores nationwide.

Separation from Barnes & Noble, Inc.

On February 26, 2015, Barnes & Noble announced plans to Spin-Off its 100% equity interest in our Company. At the time of the Spin-Off on August 2, 2015, Barnes & Noble distributed all of its equity interest in us, consisting of all of the outstanding shares of our Common Stock, to Barnes & Noble’s stockholders on a pro rata basis (the “Distribution”). Following the Spin-Off, Barnes & Noble did not own any equity interest in us. On August 2, 2015, we completed the legal separation from Barnes & Noble, at which time we began to operate as an independent publicly-traded company. For details related to the Distribution of our Common Stock, see *Note 5. Equity and Earnings Per Share*.

In connection with the separation from Barnes & Noble, we entered into several agreements that govern the relationship between the parties after the separation and allocate between the parties various assets, liabilities, rights and obligations following the separation and also describe Barnes & Noble’s future commitments to provide us with certain transition services following the Spin-Off. For additional information related to these agreements, see *Note 9. Barnes & Noble, Inc. Transactions*.

The results of operations for the 39 weeks ended January 31, 2015 and the 13 weeks ended August 1, 2015 reflected in our condensed consolidated financial statements are presented on a stand-alone basis since we were still part of Barnes & Noble, Inc. until the consummation of the Spin-Off on August 2, 2015 and the results of operations for the 26 weeks ended January 30, 2016 reflected in our condensed consolidated financial statements are presented on a consolidated basis as we became a separate consolidated entity (as discussed in *Note 2. Summary of Significant Accounting Policies*).

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
For the 13 and 39 weeks ended January 30, 2016 and January 31, 2015
(Thousands of dollars, except share and per share data)
(unaudited)

Strategies

Our primary business strategies include growing our business by increasing market share with new accounts, increasing sales at existing bookstores, growing digital sales and services by expanding our digital platform, and expanding strategic opportunities through acquisitions and partnerships. For an update on recent transactions that support these strategies, see *Note 14. Subsequent Events* and *Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview*.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

Our condensed consolidated financial statements reflect our consolidated financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States ("GAAP"). In the opinion of the Company's management, the accompanying unaudited condensed consolidated financial statements of the Company contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly its consolidated financial position and the results of its operations and cash flows for the periods reported. These consolidated financial statements are condensed and therefore do not include all of the information and footnotes required by GAAP.

Our fiscal year is comprised of 52 or 53 weeks, ending on the Saturday closest to the last day of April. Due to the seasonal nature of the business, the results of operations for the 13 and 39 weeks ended January 30, 2016 are not indicative of the results expected for the 52 weeks ending April 30, 2016 (Fiscal 2016). Our business is highly seasonal, with the major portion of sales and operating profit realized during the second and third fiscal quarters, when college students generally purchase and rent textbooks for the upcoming semesters.

As discussed below, the results of operations for the 39 weeks ended January 31, 2015 and the 13 weeks ended August 1, 2015 reflected in our condensed consolidated financial statements are presented on a stand-alone basis since we were still part of Barnes & Noble, Inc. until the consummation of the Spin-Off on August 2, 2015 and the results of operations for the 26 weeks ended January 30, 2016 reflected in our condensed consolidated financial statements are presented on a consolidated basis as we became a separate consolidated entity.

Stand-alone basis financial statements

The results of operations for the 39 weeks ended January 31, 2015 (i.e. first, second and third quarter of fiscal 2015) and the 13 weeks ended August 1, 2015 (i.e. first quarter of fiscal 2016) (collectively referred to as the "stand-alone periods") reflected in our condensed consolidated financial statements are presented on a stand-alone basis since we were still part of Barnes & Noble, Inc.

Our condensed consolidated financial statements were derived from the consolidated financial statements and accounting records of Barnes & Noble. Our condensed consolidated financial statements include certain assets and liabilities that have historically been held at the Barnes & Noble corporate level but are specifically identifiable or otherwise attributable to us.

All intercompany transactions between us and Barnes & Noble have been included in our condensed consolidated financial statements and are considered to be effectively settled for cash in our condensed consolidated financial statements at the time the Spin-Off became effective. The total net effect of the settlement of these intercompany transactions is reflected in our condensed consolidated statements of cash flow as a financing activity and in our condensed consolidated balance sheets as "Parent company investment."

The condensed consolidated financial statements for the stand-alone periods include an allocation for certain corporate and shared service functions historically provided by Barnes & Noble, including, but not limited to, executive oversight, accounting, treasury, tax, legal, human resources, occupancy, procurement, information technology and other shared services. These expenses have been allocated to us on the basis of direct usage when identifiable, with the remainder allocated on a pro rata basis of consolidated sales, headcount, tangible assets or other measures considered to be a reasonable reflection of the historical utilization levels of these services. Management believes the assumptions underlying our condensed consolidated financial statements, including the assumptions regarding the allocation of general corporate expenses from Barnes & Noble were reasonable.

Nevertheless, our condensed consolidated financial statements for these stand-alone periods may not include all of the actual expenses that would have been incurred had we operated as a stand-alone company and may not reflect our consolidated results of operations, financial position and cash flows had we operated as a stand-alone company during the periods presented. Actual costs that would have been incurred if we had operated as a stand-alone company would depend on multiple factors, including

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(unaudited)

organizational structure and strategic decisions made in various areas, including information technology and infrastructure. As discussed below, following the Spin-Off on August 2, 2015, we began to perform these functions using our own resources or contracted services, certain of which may be provided by Barnes & Noble during a transitional period pursuant to the Transition Services Agreement (as defined in *Note 9. Barnes & Noble, Inc. Transactions*).

Consolidated basis financial statements

The Spin-Off from Barnes & Noble, Inc. occurred on August 2, 2015 and therefore, the results of operations are presented on a consolidated basis for the 26 weeks ended January 30, 2016 (i.e. second and third quarter of fiscal 2016) which includes direct costs incurred with Barnes & Noble under various agreements. Certain corporate and shared service functions historically provided by Barnes & Noble (as described above) will continue to be provided by Barnes & Noble under the Transition Services Agreement. For additional information, see *Note 9. Barnes & Noble, Inc. Transactions*.

Use of Estimates

In preparing financial statements in conformity with GAAP, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Merchandise Inventories

Merchandise inventories, which consist of finished goods, are stated at the lower of cost or market. Cost is determined primarily by the retail inventory method. Our textbook and trade book inventories are valued using the last-in first out, or "LIFO", method and the related reserve was not material to the recorded amount of our inventories.

Market value of our inventory is determined based on its estimated net realizable value, which is generally the selling price. Reserves for non-returnable inventory are based on our history of liquidating non-returnable inventory.

We also estimate and accrue shortage for the period between the last physical count of inventory and the balance sheet date. Shortage rates are estimated and accrued based on historical rates and can be affected by changes in merchandise mix and changes in actual shortage trends.

Textbook Rental Inventories

Physical textbooks out on rent are categorized as textbook rental inventories. At the time a rental transaction is consummated, the book is removed from merchandise inventories and moved to textbook rental inventories at cost. The cost of the book is amortized down to its estimated residual value over the rental period. The related amortization expense is included in cost of goods sold. At the end of the rental period, upon return, the book is removed from textbook rental inventories and recorded in merchandise inventories at its amortized cost.

Revenue Recognition

Revenue from sales of our products at physical locations is recognized at the time of sale. Revenue from sales of products ordered through our websites is recognized upon delivery and receipt of the shipment by our customers. Sales taxes collected from our customers are excluded from reported revenues. All of our sales are recognized as revenue on a "net" basis, including sales in connection with any periodic promotions offered to customers. We do not treat any promotional offers as expenses.

We rent both physical and digital textbooks. Revenue from the rental of physical textbooks is deferred and recognized over the rental period commencing at point of sale. Revenue from the rental of digital textbooks is recognized at time of sale. A software feature is embedded within the content of our digital textbooks, such that upon expiration of the rental term the customer is no longer able to access the content. While the digital rental allows the customer to access digital content for a fixed period of time, once the digital content is delivered to the customer our performance obligation is complete. We offer a buyout option to allow the purchase of a rented book at the end of the rental period. We record the buyout purchase when the customer exercises and pays the buyout option price. In these instances, we would accelerate any remaining deferred rental revenue at the point of sale.

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
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(Thousands of dollars, except share and per share data)
(unaudited)

Research and Development Costs for Software Products

We follow the guidance in Accounting Standards Codification ("ASC") No. 985-20, *Cost of Software to Be Sold, Leased or Marketed*, regarding software development costs to be sold, leased, or otherwise marketed. Capitalization of software development costs begins upon the establishment of technological feasibility and is discontinued when the product is available for sale. A certain amount of judgment and estimation is required to assess when technological feasibility is established, as well as the ongoing assessment of the recoverability of capitalized costs. Our products reach technological feasibility shortly before the products are available for sale and therefore research and development costs are generally expensed as incurred.

Goodwill

The costs in excess of net assets of businesses acquired are carried as goodwill in the accompanying condensed consolidated balance sheets. As of January 30, 2016, we had \$274,070 of goodwill. ASC No. 350-30, *Goodwill and Other Intangible Assets* ("ASC 350-30"), requires that goodwill be tested for impairment at least annually or earlier if there are impairment indicators. We perform a two-step process for impairment testing of goodwill as required by ASC 350-30. The first step of this test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount. The second step (if necessary) measures the amount of the impairment.

We completed our annual goodwill impairment test as of the first day of the third quarter of fiscal 2016. In performing the valuation, we used cash flows that reflected management's forecasts and discount rates that included risk adjustments consistent with the current market conditions. Based on the results of the step one testing, fair value of the one reporting unit exceeded its carrying value; therefore, the second step of the impairment test was not required to be performed and no goodwill impairment was recognized.

As of the date of our annual goodwill impairment test, the excess fair value over carrying value was approximately 9%. Goodwill is subject to further risk of impairment if comparable store sales decline, store closings accelerate or digital projections fall short of expectations. Additionally, changes in the structure of our business as a result of future reorganizations, acquisitions or divestitures of assets or businesses could result in future impairments of goodwill. Refer to Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates* of this Quarterly Report on Form 10-Q for a discussion of key assumptions used in our testing.

Note 3. Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2016-02, *Leases (Topic 842)* ("ASU 2016-01") to increase transparency and comparability by providing additional information to users of financial statements regarding an entity's leasing activities. The revised guidance seeks to achieve this objective by requiring reporting entities to recognize lease assets and lease liabilities on the balance sheet for substantially all lease arrangements. We are required to adopt this standard in the first quarter of fiscal 2020 and early adoption is permitted. The guidance will be applied on a modified retrospective basis beginning with the earliest period presented. We are currently evaluating this standard to determine the impact of adoption on our condensed consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740) - Balance Sheet Classification of Deferred Taxes* ("ASU 2015-17") to simplify the presentation of deferred income taxes. The amendments in this update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in this update. The amendments in this update may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. We are required to adopt this standard in the first quarter of fiscal 2018. This standard will impact the classification of current deferred income taxes on our condensed consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, *Business Combinations (Topic 805) - Simplifying the Accounting for Measurement-Period Adjustments* ("ASU 2015-16") to simplify the accounting for measurement-period adjustments resulting from business combinations. The amendments in this update eliminate the requirement to retrospectively account for measurement-period adjustments. Instead, these adjustments will be recognized in the period the adjustment amount is determined. We are required to adopt this standard in the first quarter of fiscal 2017, but have early adopted this standard during the second quarter of fiscal 2016 as permitted. Adoption of this standard will impact our condensed consolidated financial statements to the extent adjustments to provisional amounts recorded for future acquisitions are determined subsequent to the period the acquisition is originally reported.

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In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330) – Simplifying the Measurement of Inventory* (“ASU 2015-11”). The amendments in this update state that inventory should be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The update does not apply to inventory that is measured using last-in, first-out (“LIFO”) or the retail inventory method. The update applies to all other inventory, which includes inventory that is measured using first-in, first-out (“FIFO”) or average cost. We are required to adopt this standard in the first quarter of fiscal 2018, but have early adopted this standard during the first quarter of fiscal 2016 as permitted. This standard does not have an impact on our condensed consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement* (“ASU 2015-05”) to simplify the accounting for cloud computing arrangements. The amendments in this update requires that if a cloud computing arrangement includes a software license, then a customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change GAAP for a customer’s accounting for service contracts. We are required to adopt this standard in the first quarter of fiscal 2017 and early adoption is permitted. We are currently evaluating this standard to determine the impact of adoption on our condensed consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, *Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* (“ASU 2015-03”) to simplify the presentation of debt issuance costs. The amendments in the update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction of the carrying amount of the debt. Recognition and measurement of debt issuance costs were not affected by this amendment. In August 2015, FASB issued ASU No. 2015-15, *“Presentation and Subsequent Measurement of Debt Issuance Costs Associated With Line-of-Credit Arrangements — Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting”* which clarified that the SEC would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement. We are required to adopt ASU 2015-03 in the first quarter of fiscal 2017, but have early adopted this standard during the first quarter of fiscal 2016 as permitted. As discussed in *Note 7. Credit Facility*, debt issuance costs related to the New Credit Facility have been deferred and are presented as an asset which is subsequently amortized ratably over the term of the New Credit Facility.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (“ASU 2014-09”). The standard provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue when control of the goods or services transfers to the customer, as opposed to recognizing revenue when the risks and rewards transfer to the customer under the existing revenue guidance. In August 2015, FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which effectively delayed the adoption date by one year. We are required to adopt ASU 2014-09 in the first quarter of fiscal 2019 and early adoption is permitted. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. We have not yet selected a transition method nor have we determined the impact of adoption on our condensed consolidated financial statements.

Note 4. Segment Reporting

We identified our operating segment based on the way our business is managed (focusing on the financial information distributed) and the manner in which our chief operating decision maker allocates resources and assesses financial performance. We have determined that we operate within a single reportable segment, which is entirely within the United States.

Note 5. Equity and Earnings Per Share

Equity

On February 26, 2015, Barnes & Noble announced plans to Spin-Off its 100% equity interest in our Company by distributing all of its equity interest in us, consisting of all of the outstanding shares of our Common Stock, to Barnes & Noble’s stockholders on a pro rata basis (the “Distribution”).

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On July 14, 2015, Barnes & Noble approved the final distribution ratio and declared a pro rata dividend of the outstanding shares of our common stock to Barnes & Noble's existing stockholders. The pro-rata dividend was made on August 2, 2015 to the Barnes & Noble stockholders of record (as of July 27, 2015). Each Barnes & Noble stockholder of record received a distribution of 0.632 shares of our common stock for each share of Barnes & Noble common stock held on the record date. On August 2, 2015, we completed the legal separation from Barnes & Noble, at which time we began to operate as an independent publicly-traded company. Following the Spin-Off, Barnes & Noble does not own any equity interest in us.

Following the Spin-Off on August 2, 2015, our authorized capital stock consisted of 200,000,000 shares of common stock, par value \$0.01 per share, and 5,000,000 shares of preferred stock, par value \$0.01 per share. As of August 2, 2015, 48,186,900 shares of our Common Stock and 0 shares of our preferred stock were issued and outstanding. Our Common Stock began to trade on a "when-issued" basis on the NYSE under the symbol "BNED WI" beginning on July 23, 2015. On August 3, 2015, when-issued trading of our Common Stock ended, and our Common Stock began "regular-way" trading under the symbol "BNED."

We do not intend to pay dividends on our Common Stock in the foreseeable future. The holders of our Common Stock are entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders. Holders of shares of our Common Stock do not have cumulative voting rights in the election of directors. The holders of our Common Stock will be entitled to share ratably in our assets legally available for distribution to our stockholders, subject to the prior distribution rights of preferred stock, if any, then outstanding. The holders of our Common Stock do not have preemptive rights or preferential rights to subscribe for shares of our capital stock.

During the second quarter, 2,409,345 shares of Common Stock were reserved for future grants, in accordance with the Barnes & Noble Education Inc. Equity Incentive Plan. See *Note 11. Stock-Based Compensation*.

Share Repurchases

On December 14, 2015, our Board of Directors authorized a stock repurchase program of up to \$50,000, in the aggregate, of our outstanding Common Stock. The stock repurchase program is carried out at the direction of management (which may or may not include a plan under Rule 10b5-1 of the Securities Exchange Act of 1934). The Common Stock may be repurchased on an ongoing basis. The stock repurchase program may be suspended, terminated, or modified at any time. Any repurchased shares will be held as treasury stock and will be available for general corporate purposes. During the 13 weeks ended January 30, 2016, we repurchased 906,732 shares for approximately \$8,701 at an average cost per share of \$9.78.

During the 39 weeks ended January 30, 2016, we also repurchased 40,719 shares of our Common Stock in connection with employee tax withholding obligations for vested stock awards.

Earnings Per Share

For periods prior to the Spin-Off from Barnes & Noble on August 2, 2015, basic earnings per share and weighted-average basic shares outstanding are based on the number of shares of Barnes & Noble common stock outstanding as of the end of the period, adjusted for the distribution ratio of 0.632 shares of our Common Stock for every one share of Barnes & Noble common stock held on the record date for the Spin-Off.

For periods prior to the Spin-Off, diluted earnings per share and weighted-average diluted shares outstanding reflect potential common shares from Barnes & Noble equity plans in which our employees participated. Certain of our employees held restricted stock units and stock options granted by Barnes & Noble which were considered participating securities.

Basic EPS is computed based upon the weighted average number of common shares outstanding for the year. Diluted EPS is computed based upon the weighted average number of common shares outstanding for the year plus the dilutive effect of common stock equivalents using the treasury stock method and the average market price of our common stock for the year. We include participating securities (unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents) in the computation of EPS pursuant to the two-class method. Our participating securities consist solely of unvested restricted stock awards, which have contractual participation rights equivalent to those of stockholders of unrestricted common stock. The two-class method of computing earnings per share is an allocation method that calculates earnings per share for common stock and participating securities. During periods of net loss, no effect is given to the participating securities because they do not share in the losses of the Company. During the 39 weeks ended January 30, 2016 and January 31, 2015, no shares were excluded from the diluted earnings per share calculation using the two-class method as they were not antidilutive.

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The following is a reconciliation of the basic and diluted (loss) earnings per share calculation:

	13 weeks ended		39 weeks ended	
	January 30, 2016	January 31, 2015	January 30, 2016	January 31, 2015
Numerator for basic earnings per share:				
Net (loss) income	\$ (3,603)	\$ 8,650	\$ 2,880	\$ 19,388
Accretion of dividends on preferred stock	—	(5,192)	—	(6,077)
Less allocation of earnings to participating securities	—	(83)	(9)	(335)
Net (loss) income available to common shareholders	<u>\$ (3,603)</u>	<u>\$ 3,375</u>	<u>\$ 2,871</u>	<u>\$ 12,976</u>
Numerator for diluted earnings per share:				
Net (loss) income available to common shareholders	\$ (3,603)	\$ 3,375	\$ 2,871	\$ 12,976
Accretion of dividends on preferred stock ^(a)	—	—	—	—
Allocation of earnings to participating securities	—	83	9	335
Less diluted allocation of earnings to participating securities	—	(83)	(9)	(334)
Net (loss) income available to common shareholders	<u>\$ (3,603)</u>	<u>\$ 3,375</u>	<u>\$ 2,871</u>	<u>\$ 12,977</u>
Denominator for basic earnings per share:				
Basic weighted average shares of Common Stock	<u>48,088</u>	<u>38,924</u>	<u>45,907</u>	<u>37,955</u>
Denominator for diluted earnings per share:				
Basic weighted average shares of Common Stock	48,088	38,924	45,907	37,955
Average dilutive restricted stock units	—	—	247	—
Average dilutive options	—	46	19	43
Diluted weighted average shares of Common Stock	<u>48,088</u>	<u>38,970</u>	<u>46,173</u>	<u>37,998</u>
(Loss) Earnings per share of Common Stock:				
Basic	\$ (0.07)	\$ 0.09	\$ 0.06	\$ 0.34
Diluted	\$ (0.07)	\$ 0.09	\$ 0.06	\$ 0.34

(a) Although the Company was in a net income position for the 13 and 39 weeks ended January 31, 2015, the dilutive effect of the accretion of preferred membership interests were excluded from the calculation of earnings per share using the two-class method because the effect would be antidilutive.

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Note 6. Fair Values of Financial Instruments

In accordance with ASC No. 820, *Fair Value Measurements and Disclosures*, the fair value of an asset is considered to be the price at which the asset could be sold in an orderly transaction between unrelated knowledgeable and willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor. Assets and liabilities recorded at fair value are measured using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

Level 1—Observable inputs that reflect quoted prices in active markets

Level 2—Inputs other than quoted prices in active markets that are either directly or indirectly observable

Level 3—Unobservable inputs in which little or no market data exists, therefore requiring us to develop our own assumptions

Our financial instruments include cash and cash equivalents, receivables, accrued liabilities and accounts payable. The fair values of cash and cash equivalents, receivables, accrued liabilities and accounts payable approximates their carrying values because of the short-term nature of these instruments, which are all considered Level 1.

Note 7. Credit Facility

Until August 3, 2015, we were party to an amended and restated credit facility with Barnes & Noble, as the lead borrower, and Bank of America, N.A., as administrative agent, collateral agent and swing line lender, and other lenders, dated as of April 29, 2011 (as amended and modified to date, the "B&N Credit Facility"). The B&N Credit Facility provided for up to \$1,000,000 in aggregate commitments under a five -year asset-backed revolving credit facility expiring on April 29, 2016 . The B&N Credit Facility was secured by eligible inventory and accounts receivable with the ability to include eligible real estate and related assets. We were a borrower and co-guarantor of all amounts owing under the B&N Credit Facility. All outstanding debt under the B&N Credit Facility was recorded on Barnes & Noble's balance sheet as of August 1, 2015.

On August 3, 2015, the Company and certain of its subsidiaries from time to time party thereto entered into a credit agreement (the "Credit Agreement") with Bank of America, N.A., as administrative agent, collateral agent and swing line lender, and other lenders from time to time party thereto, under which the lenders committed to provide a five -year asset-backed revolving credit facility in an aggregate committed principal amount of \$400,000 (the "New Credit Facility"). Proceeds from the New Credit Facility will be used for general corporate purposes, including seasonal working capital needs. Bank of America Merrill Lynch, J.P. Morgan Securities LLC, Wells Fargo Bank, N.A. and SunTrust Robinson Humphrey, Inc. are the joint lead arrangers for the New Credit Facility.

The Company and certain of its subsidiaries (collectively, the "Loan Parties") will be permitted to borrow under the New Credit Facility. The New Credit Facility is secured by substantially all of the inventory, accounts receivable and related assets of the borrowers under the New Credit Facility, but excluding the equity interests in the Company and its subsidiaries, intellectual property, equipment and certain other property. The Company has the option to request an increase in commitments under the New Credit Facility of up to \$100,000 , subject to certain restrictions.

As of January 30, 2016 , we had no outstanding borrowings under the New Credit Facility. During the 39 weeks ended January 30, 2016 , we borrowed and repaid \$60,600 under the New Credit Facility. As of January 30, 2016 , we have issued \$3,567 in letters of credit under the facility.

We incurred debt issuance costs totaling \$3,251 related to the New Credit Facility. As permitted under ASU No. 2015-15, the debt issuance costs have been deferred and are presented as an asset which is subsequently amortized ratably over the term of the credit agreement.

Interest under the New Credit Facility accrues, at the election of the Company, at a LIBOR or alternate base rate, plus, in each case, an applicable interest rate margin, which is determined by reference to the level of excess availability under the New Credit Facility. Loans will initially bear interest at LIBOR plus 2.000% per annum, in the case of LIBOR borrowings, or at the alternate base rate plus 1.000% per annum, in the alternative, and thereafter the interest rate will fluctuate between LIBOR plus 2.000% per annum and LIBOR plus 1.750% per annum (or between the alternate base rate plus 1.000% per annum and the alternate base rate plus 0.750% per annum), based upon the excess availability under the New Credit Facility at such time.

The Credit Agreement contains customary negative covenants, which limit the Company's ability to incur additional indebtedness, create liens, make investments, make restricted payments or specified payments and merge or acquire assets, among

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other things. In addition, if excess availability under the New Credit Facility were to fall below certain specified levels, certain additional covenants (including fixed charge coverage ratio requirements) would be triggered, and the lenders would have the right to assume dominion and control over the Loan Parties' cash.

The Credit Agreement contains customary events of default, including payment defaults, material breaches of representations and warranties, covenant defaults, default on other material indebtedness, customary ERISA events of default, bankruptcy and insolvency, material judgments, invalidity of liens on collateral, change of control or cessation of business. The Credit Agreement also contains customary affirmative covenants and representations and warranties.

Note 8. Supplementary Information

Impairment Loss (non-cash)

During the third and fourth quarters of fiscal 2016, we implemented a plan to restructure our digital operations. For additional information, see Note 14. *Subsequent Events*. As a result of this restructuring, during the 13 and 39 weeks ended January 30, 2016, we recorded a non-cash impairment loss of \$11,987 related to all of the capitalized content costs for the Yuzu® eTextbook platform (\$8,987) based on the probability of recoverability of the capitalized content costs, and we recorded a non-recurring other than temporary loss related to an investment held at cost (\$3,000), whose fair value has been reduced to \$0 based on the financial projections of the investment.

Other Long-Term Liabilities

Other long-term liabilities consist primarily of tax liabilities related to the long-term tax payable associated with the LIFO reserve and deferred management service agreement costs related to college and university contracts, which we account for under lease accounting (as deferred rent). We provide for minimum contract expense (rent expense) over the lease terms (including the build-out period) on a straight-line basis. The excess of such rent expense over actual lease payments (net of school allowances) is classified as deferred rent. We had the following long-term liabilities at January 30, 2016, January 31, 2015 and May 2, 2015:

	January 30, 2016	January 31, 2015	May 2, 2015
Tax liabilities and reserves	\$ 63,459	\$ 58,558	\$ 63,673
Deferred rent	4,662	4,008	4,082
Other	1,816	104	1,733
Total other long-term liabilities	<u>\$ 69,937</u>	<u>\$ 62,670</u>	<u>\$ 69,488</u>

As a result of an immaterial balance sheet error correction, during the first quarter of fiscal 2016, we increased other long-term liabilities and decreased Parent company investment by \$58,298 and \$63,459 for the periods ended as of January 31, 2015 and May 2, 2015, respectively. This correction related to the long-term tax payable associated with the LIFO reserve which was previously deemed contributed to Parent company capital as an intercompany liability, along with other income tax liabilities associated with our operations. The liability should not have been deemed contributed as the long-term obligation to the tax authority is required to stay with Barnes & Noble Education, Inc. as that entity would be legally obligated to pay that amount if required. Management believes it is remote that the long-term tax payable associated with the LIFO reserve will be payable or will result in a cash tax payment in the foreseeable future, assuming that LIFO will continue to be an acceptable inventory method for tax purposes. Management has assessed both quantitative and qualitative factors discussed in ASC No. 250, *Accounting Changes and Error Corrections* and Staff Accounting Bulletin 1.M, *Materiality* (SAB Topic 1.M) to determine that this misstatement qualifies as an immaterial balance sheet error correction. We concluded that this balance sheet misstatement is not material to an investor as it did not affect pre-tax income, net income, earnings per share or amounts reported in the statement of cash flows for any prior period financial statements.

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Note 9. Barnes & Noble, Inc. Transactions

Our History with Barnes & Noble, Inc.

On September 30, 2009, Barnes & Noble acquired Barnes & Noble College Booksellers, LLC from Leonard and Louise Riggio. From that date until October 4, 2012, Barnes & Noble College Booksellers, LLC was wholly owned by Barnes & Noble Booksellers, Inc., a wholly owned subsidiary of Barnes & Noble. We were initially incorporated under the name NOOK Media Inc. in July 2012 to hold Barnes & Noble's college and digital businesses. On October 4, 2012, Microsoft Corporation ("Microsoft") acquired a 17.6% non-controlling preferred membership interest in our subsidiary NOOK Media LLC ("NOOK Media"), and through us, Barnes & Noble maintained an 82.4% controlling interest of the college and digital businesses.

On January 22, 2013, Pearson Education, Inc. ("Pearson") acquired a 5% non-controlling preferred membership interest in NOOK Media, received warrants to purchase an additional preferred membership interest in NOOK Media and entered into a commercial agreement with NOOK Media relating to the college business. See *Pearson Investment* below.

On December 4, 2014, we re-acquired Microsoft's interest in NOOK Media in exchange for cash and common stock of Barnes & Noble. On December 22, 2014, we also re-acquired Pearson's interest in NOOK Media and related warrants previously issued to Pearson in exchange for cash and common stock of Barnes & Noble. As a result of these transactions, Barnes & Noble owned 100% of our Company prior to the Spin-Off. See *Microsoft Investment* below.

In February 2015, we changed our name from NOOK Media Inc. to Barnes & Noble Education, Inc. and NOOK Media's name to B&N Education, LLC.

On May 1, 2015, we distributed to Barnes & Noble all of the membership interests in NOOK Digital LLC (formerly known as barnesandnoble.com llc), which owns the NOOK digital business and which will continue to be owned by Barnes & Noble. At such time, we ceased to own any interest in the NOOK digital business. These condensed consolidated financial statements retroactively reflect the reorganization of NOOK Media Inc. as described above.

On February 26, 2015, Barnes & Noble announced plans to Spin-Off its 100% equity interest in our Company. At the time of the Spin-Off on August 2, 2015, Barnes & Noble distributed all of its equity interest in us, consisting of all of the outstanding shares of our Common Stock, to Barnes & Noble's stockholders on a pro rata basis (the "Distribution"). Following the Spin-Off, Barnes & Noble does not own any equity interest in us. On August 2, 2015, we completed the legal separation from Barnes & Noble, at which time we began to operate as an independent publicly-traded company.

Microsoft Investment

On April 27, 2012, Barnes & Noble entered into an investment agreement pursuant to which Barnes & Noble transferred to NOOK Media its digital device, digital content and college bookstore businesses. On October 4, 2012, Morrison Investment Holdings, Inc. ("Morrison"), a subsidiary of Microsoft Corporation ("Microsoft"), acquired a 17.6% non-controlling preferred membership interest in NOOK Media. Concurrently with its entry into this agreement, Barnes & Noble also entered into a commercial agreement with Microsoft relating to the digital and college businesses investment.

On December 3, 2014, the Microsoft commercial agreement was terminated. On December 4, 2014, we re-acquired Morrison's interest in NOOK Media in exchange for cash and common stock of Barnes & Noble.

In connection with the closing, Morrison, Barnes & Noble and Barnes & Noble Education entered into a Digital Business Contingent Payment Agreement related to Barnes & Noble's digital business ("DBCPA"). Effective as of August 2, 2015, all of Barnes & Noble Education's obligations under the DBCPA were either assigned to Barnes & Noble or terminated.

Pearson Investment

On December 21, 2012, NOOK Media entered into an agreement with Pearson, a subsidiary of Pearson plc, to make a strategic investment in NOOK Media whereby Pearson acquired a 5% non-controlling preferred membership interest in NOOK Media and received warrants to purchase up to an additional 5% of NOOK Media under certain conditions. That transaction closed on January 22, 2013.

At closing, NOOK Media and Pearson entered into a commercial agreement relating to the college business with respect to distributing Pearson content in connection with this strategic investment. On December 27, 2013, NOOK Media entered into an

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amendment to the commercial agreement that extended the term of the agreement and the timing of the measurement period to meet certain revenue share milestones.

On December 22, 2014, we re-acquired Pearson's interest in NOOK Media and related warrants previously issued to Pearson in exchange for cash and common stock of Barnes & Noble. We remain a party to the commercial agreement with Pearson relating to the college business.

Allocation of General Corporate Expenses from Barnes & Noble Prior to Spin-Off

The results of operations for the 39 weeks ended January 31, 2015 (i.e. first, second and third quarter of fiscal 2015) and the 13 weeks ended August 1, 2015 (i.e. first quarter of fiscal 2016) (collectively referred to as the "stand-alone periods") reflected in our condensed consolidated financial statements are presented on a stand-alone basis since we were still part of Barnes & Noble, Inc.

Our condensed consolidated financial statements were derived from the consolidated financial statements and accounting records of Barnes & Noble. Our condensed consolidated financial statements include certain assets and liabilities that have historically been held at the Barnes & Noble corporate level but are specifically identifiable or otherwise attributable to us.

All intercompany transactions between us and Barnes & Noble have been included in our condensed consolidated financial statements and are considered to be effectively settled for cash in our condensed consolidated financial statements at the time the Spin-Off became effective. The total net effect of the settlement of these intercompany transactions was reflected in our condensed consolidated statements of cash flow as a financing activity and in our condensed consolidated balance sheets as "Parent company investment."

The condensed consolidated financial statements for the stand-alone periods include an allocation for certain corporate and shared service functions historically provided by Barnes & Noble, including, but not limited to, executive oversight, accounting, treasury, tax, legal, human resources, occupancy, procurement, information technology and other shared services. These expenses have been allocated to us on the basis of direct usage when identifiable, with the remainder allocated on a pro rata basis of consolidated sales, headcount, tangible assets or other measures considered to be a reasonable reflection of the historical utilization levels of these services. Following the Spin-Off on August 2, 2015, we began to perform these functions using our own resources or contracted services, certain of which may be provided by Barnes & Noble during a transitional period pursuant to the Transition Services Agreement.

Direct Costs Incurred Related to On-going Agreements with Barnes & Noble After the Spin-Off

The Spin-Off from Barnes & Noble, Inc. occurred on August 2, 2015 and therefore, the results of operations are presented on a consolidated basis for the 26 weeks ended January 30, 2016 (i.e. second and third quarter of fiscal 2016) which includes direct costs incurred with Barnes & Noble under various agreements.

In connection with the separation from Barnes & Noble, we entered into a Separation and Distribution Agreement with Barnes & Noble on July 14, 2015 and several other ancillary agreements on August 2, 2015. These agreements govern the relationship between the parties after the separation and allocate between the parties various assets, liabilities, rights and obligations following the separation, including inventory purchases, employee benefits, intellectual property, information technology, insurance and tax-related assets and liabilities. The agreements also describe Barnes & Noble's future commitments to provide us with certain transition services following the Spin-Off. These agreements include the following:

- a Separation and Distribution Agreement that set forth Barnes & Noble's and our agreements regarding the principal actions that both parties took in connection with the Spin-Off and aspects of our relationship following the Spin-Off. The term of the agreement is perpetual after the Distribution date.;
- a Transition Services Agreement pursuant to which Barnes & Noble agreed to provide us with specified services for a limited time to help ensure an orderly transition following the Distribution. The Transition Services Agreement specifies the calculation of our costs for these services. The agreement will expire and services under it will cease no later than two years following the Distribution date or sooner in the event we no longer require such services.;
- a Tax Matters Agreement governs the respective rights, responsibilities and obligations of Barnes & Noble and us after the Spin-Off with respect to all tax matters (including tax liabilities, tax attributes, tax returns and tax contests). The agreement will expire after two years following the Distribution date.;

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- an Employee Matters Agreement with Barnes & Noble addressing employment, compensation and benefits matters including the allocation and treatment of assets and liabilities arising out of employee compensation and benefits programs in which our employees participated prior to the Spin-Off. The agreement will expire and services under it will cease when we no longer require such services.; and
- a Trademark License Agreement pursuant to which Barnes & Noble grants us an exclusive license in certain licensed trademarks and a non-exclusive license in other licensed trademarks. The term of the agreement is perpetual after the Distribution date.

A description of the material terms and conditions of these agreements can be found in the Prospectus dated July 15, 2015 and filed with the SEC on that date. The descriptions of the Transition Services Agreement, Tax Matters Agreement, Employee Matters Agreement and Trademark License Agreement are qualified in their entirety by reference to the full text of the Transition Services Agreement, Tax Matters Agreement, Employee Matters Agreement and Trademark License Agreement, which are attached as Exhibits 10.1, 10.2, 10.3 and 10.4, respectively, to the Current Report on Form 8-K dated August 2, 2015 and filed with the SEC on August 3, 2015. The description of the Separation and Distribution Agreement is qualified in its entirety by reference to the full text of the Separation and Distribution Agreement, which is attached as Exhibit 2.1 to the Quarterly Report on Form 10-Q dated August 1, 2015 and filed with the SEC on September 10, 2015.

Summary of Transactions with Barnes & Noble

During the 26 weeks ended January 30, 2016 (i.e. second and third quarter of fiscal 2016), we were billed \$16,834 for purchases of inventory and direct costs incurred under the agreements discussed above which are included as cost of sales and occupancy and selling, general and administrative expense in the condensed consolidated statement of operations.

During the 39 weeks ended January 31, 2015 (i.e. first, second and third quarter of fiscal 2015) and the 13 weeks ended August 1, 2015 (i.e. first quarter of fiscal 2016), we were allocated \$34,893 and \$13,321, respectively, of general corporate expenses incurred by Barnes & Noble and purchases of inventory which are included as cost of sales and occupancy and selling, general and administrative expense in the condensed consolidated statement of operations. For information related to allocated stock-based compensation expense, see *Note 11. Stock-Based Compensation*.

As of January 30, 2016, amounts due to Barnes & Noble, Inc. for book purchases and direct costs incurred under the agreements discussed above was \$5,476 and is included in accounts payable and accrued liabilities in the condensed consolidated balance sheets. As of January 31, 2015, amounts due from Barnes & Noble, Inc. related to intercompany loans, net of corporate allocations, income taxes, and purchases of inventory was \$3,433 and is included in Parent Company Investment in the condensed consolidated balance sheets.

Note 10. Employees' Defined Contribution Plan

Prior to the Spin-Off on August 2, 2015, Barnes & Noble sponsored the defined contribution plan (the "Savings Plan") for the benefit of substantially all of our employees. Total contributions charged to employee benefit expenses for the Savings Plan prior to the Spin-Off were based on amounts allocated to us on the basis of direct usage. See *Note 9. Barnes & Noble, Inc. Transactions*.

Subsequent to the Spin-Off, we established a 401(k) plan and Barnes & Noble transferred to it the 401(k) plan assets relating to the account balances of our employees. Additionally, we are responsible for employer contributions to the Savings Plan and fund the contributions directly.

Total contributions charged to employee benefit expenses for the Savings Plan were \$957 and \$840 during the 13 weeks ended January 30, 2016 and January 31, 2015, respectively, and \$3,252 and \$2,864 during the 39 weeks ended January 30, 2016 and January 31, 2015, respectively.

Note 11. Stock-Based Compensation

Prior to the Spin-Off, certain of our employees were eligible to participate in Barnes & Noble equity plans pursuant to which they were granted awards of Barnes & Noble common stock. The equity-based payments recorded by us prior to the Spin-Off included the expense associated with our employees.

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
For the 13 and 39 weeks ended January 30, 2016 and January 31, 2015
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(unaudited)

During the 13 weeks ended October 31, 2015, 2,409,345 shares of our Common Stock were reserved for future grants in accordance with the Barnes & Noble Education Inc. Equity Incentive Plan (the "Equity Incentive Plan"). Types of equity awards that can be granted under the Equity Incentive Plan include options, restricted stock ("RS"), restricted stock units ("RSU") and performance awards. Currently, outstanding awards are not based on performance and are based solely on continued service. We recognize compensation expense for awards ratably over the requisite service period of the award, which is generally three years. We recognize compensation expense based on the number of awards expected to vest using an estimated average forfeiture rate. We calculate the fair value of stock-based awards based on the closing price on the date the award was granted.

Since the Spin-Off on August 2, 2015, we have granted the following awards:

- Barnes & Noble RSU awards held by our employees (or transferred employees) were converted to 877,426 shares of our RSUs with substantially the same vesting schedule as the forfeited awards. Compensation expense for these awards will continue to be recognized ratably over the remaining term of the unvested awards of approximately two years;
- 27,272 BNED RS awards were granted to former Barnes & Noble BOD members involved in the Spin-Off transaction. The awards vested during the 13 weeks ended October 31, 2015;
- 794,126 BNED RSU awards were granted to employees in accordance with Equity Incentive Plan;
- 46,080 BNED RS awards were granted to the current BOD members for annual director compensation with a one year vesting period in accordance with Equity Incentive Plan.

We recognized stock-based compensation expense for equity-based awards in selling and administrative expenses as follows:

	13 weeks ended		39 weeks ended	
	January 30, 2016	January 31, 2015	January 30, 2016	January 31, 2015
Restricted Stock Expense	\$ 150	\$ 80	\$ 690	\$ 226
Restricted Stock Units Expense	1,697	733	4,007	3,017
Stock Option Expense	—	94	120	568
Stock-Based Compensation Expense	<u>\$ 1,847</u>	<u>\$ 907</u>	<u>\$ 4,817</u>	<u>\$ 3,811</u>

Total unrecognized compensation cost related to unvested awards as of January 30, 2016 was \$12,547 and is expected to be recognized over a weighted-average period of 2.1 years.

Note 12. Income Taxes

We recorded an income tax expense of \$454 on a pre-tax loss of \$(3,149) during the 13 weeks ended January 30, 2016, which represented an effective income tax rate of (14.4)% and an income tax expense of \$5,665 on pre-tax income of \$14,315 during the 13 weeks ended January 31, 2015, which represented an effective income tax rate of 39.6%.

We recorded an income tax expense of \$4,687 on pre-tax income of \$7,567 during the 39 weeks ended January 30, 2016, which represented an effective income tax rate of 61.9% and an income tax expense of \$13,818 on pre-tax income of \$33,206 during the 39 weeks ended January 31, 2015, which represented an effective income tax rate of 41.6%.

The income tax provision for the 13 and 39 weeks ended January 30, 2016 reflects the impact of federal and state income taxes imposed upon income from operations, impacted by the effect of certain non-deductible expenses which was partially offset by favorable state law and tax rate changes. As compared to the 13 and 39 weeks ended January 31, 2015, the income tax provision for the 13 and 39 weeks ended January 30, 2016 reflects the non-deductibility of certain amounts referred to in Note 8. *Supplementary Information - Impairment Loss (non-cash)*.

Note 13. Legal Proceedings

We are involved in a variety of claims, suits, investigations and proceedings that arise from time to time in the ordinary course of our business, including actions with respect to contracts, intellectual property, taxation, employment, benefits, personal injuries and other matters. The results of these proceedings in the ordinary course of business are not expected to have a material adverse effect on our condensed consolidated financial position, results of operations, or cash flows.

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
For the 13 and 39 weeks ended January 30, 2016 and January 31, 2015
(Thousands of dollars, except share and per share data)
(unaudited)

Note 14. Subsequent Events

In March 2016, the following transactions occurred:

- We entered into a strategic commercial agreement with Vital Source Technologies, Inc. ("VitalSource"), a part of the Ingram Content Group, and will effectively outsource the Yuzu[®] eTextbook reading platform. VitalSource has existing relationships with publishers and a very competitive product from a feature and technology perspective. VitalSource will continue to provide an eTextbook experience for Yuzu[®] users leveraging and utilizing a broad digital library and the product will be branded and marketed to the students and universities as Yuzu[®]. We expect the transition from Yuzu[®] to the VitalSource platform will be seamless for students and faculty.
- We completed the purchase of substantially all of the assets of LoudCloud Systems, Inc. ("LoudCloud"). LoudCloud will be a foundational asset for our digital and learning services. LoudCloud is a sophisticated digital platform and analytics provider with a proven product and existing clients in higher education, the for-profit sector and K-12 markets. LoudCloud currently has product capabilities that include a competency based courseware platform, a learning analytics platform and services, an eReading product, and a learning management system ("LMS"). Its software captures and analyzes key behavioral and performance metrics from students, allowing educators to monitor and improve student success. The acquisition of LoudCloud closed on March 4, 2016 for a purchase price of \$17,900 million and was financed completely with cash from operations.

For additional information, see *Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview*.

With the implementation of the initiatives discussed above, we expect to operate with a lower cost structure as compared to our historical Yuzu[®] digital spend. In March 2016, we announced a reduction in staff and closure of the facilities in Mountain View, California, and Redmond, Washington that support the Yuzu[®] eTextbook platform. The cost of severance, retention, and other restructuring costs (i.e. subleasing facilities) related to our Yuzu[®] operations will be approximately \$8,000 - \$10,000 and will be incurred during the fourth quarter of fiscal 2016 and first quarter of fiscal 2017, at which time we expect the restructuring to be completed.

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

Overview

Description of business

We are one of the largest contract operators of bookstores on college and university campuses across the United States and a leading provider of digital education services. We create and operate campus stores that are focal points for college life and learning, enhancing the educational mission of the institution, enlivening campus culture and delivering an important revenue stream to our partner schools. We typically operate our stores under multi-year management service agreements granting us the right to operate the official school bookstore on campus. In turn, we pay the school a percentage of store sales and, in some cases, a minimum fixed guarantee.

We build relationships and derive sales by actively engaging and marketing to over 5 million students and their faculty on the campuses we serve and offer a full assortment of items in our campus stores, including course materials consisting of new and used print textbooks and digital textbooks available for sale or rent, emblematic apparel and gifts, trade books, computer products, school and dorm supplies, convenience and café items and graduation products. We are a multi-channel marketer and operate school-branded e-commerce sites for each store, allowing students and faculty to purchase textbooks, course materials and other products online.

We provide and have direct access to a large and well-educated demographic group, enabling us to build relationships with students throughout their college years and beyond. Given our direct relationship with both institutions and students, we expect to be the beneficiary of the continuing trend towards outsourcing across the campus bookstore market. We are uniquely positioned to benefit from this trend given our reputation for service with institutions and students alike; combined with our full suite of services including: bookstore management, textbook rental and digital delivery. In addition, we are making further investments in our digital education platform and services that will provide access to a wide range of rich, engaging content, including products designed to deliver personalized learning to the higher education market.

As of May 2, 2015, we operated 724 stores nationwide, which reached 24% of the total United States college and university student enrolled population. During the 39 weeks ended January 30, 2016, we opened 34 stores and closed 10 stores. As of January 30, 2016, we operated 748 stores nationwide.

Separation from Barnes & Noble, Inc.

For information on our separation from Barnes & Noble, Inc. see *Item 1. Financial Statements — Note 1. Organization*.

On-going Agreements with Barnes & Noble, Inc.

For information on our on-going agreements with Barnes & Noble, Inc. see *Item 1. Financial Statements — Note 9. Barnes & Noble, Inc. Transactions*.

Strategies

Our primary business strategies to grow our business are as follows:

- **Increase Market Share with New Accounts** : Historically, new store openings have been an important driver of growth in our business. For example, we increased our number of stores from 636 at the beginning of Fiscal 2012 to 724 at the end of Fiscal 2015. Looking forward, approximately 52% of college and university affiliated bookstores in the United States are operated by their respective institutions. Moreover, at the end of Fiscal 2015, we operated bookstores representing only 18% of all college and university affiliated bookstores in the United States. As more and more universities decide to outsource the management of their bookstores, we intend to aggressively pursue these opportunities and bid on these contracts. Based on the continuing trend towards outsourcing in the campus bookstore market, we expect awards of new accounts resulting in new store openings will continue to be an important driver of future growth in our business. We are in a unique position to offer academic superstores to colleges and universities.
- **Increase Sales at Existing Bookstores** : We intend to increase sales at our existing bookstores through new product offerings, enhanced marketing efforts using mobile and other technologies, increased local social and promotional offerings and expanded sales channels to both new customers and alumni. We are actively working with publishers by offering them access, along with key data and information, to FacultyEnlight[®], our proprietary online platform, to better coordinate textbook adoptions with faculty on each campus, to reduce the use of publisher-offered microsites and reduce the disintermediation of sales. We expect sales growth at our existing bookstores will be a driver for growth in our business.
- **Grow digital sales and services by expanding our digital platform:** While the eTextbook will remain a part of our core digital strategy and a textbook format option for students, we are adapting to the changing market landscape by expanding

our capability set to deliver best-in-class digital learning tools. We intend to provide personalized education including courseware through cloud-based software as a service ("SaaS") architecture and deep analytics to support competency based education. We also believe that our enhanced digital offerings will significantly improve our ability to address the broader E-Learning market and will enable us to grow our customer base. See *Recent Developments to Support our Digital Strategy* discussion below.

- *Expand strategic opportunities through acquisitions and partnerships* : We believe that acquisitions and strategic partnerships will be a pillar of our growth strategy in the future. We intend to pursue strategic relationships with companies that enhance our educational services or distribution platform or that create compelling content offerings. We may also expand our current suite of digital content offerings and platform through acquisitions, internal or third party software development and strategic partnerships. Expansion into new educational verticals and markets, such as K-12, vocational and international markets, will be opportunistically evaluated. See *Recent Developments to Support our Digital Strategy* discussion below.

Recent Developments to Support our Digital Strategy

In an effort to reduce and manage digital expenditures, while at the same time maintaining high quality digital products, we have taken the following actions: we are closing our Yuzu[®] offices and eliminating staffing in California and Washington; we have established a long-term relationship with VitalSource, a part of the Ingram Content Group; and we have acquired LoudCloud Systems, Inc. These initiatives are discussed as follows:

- We entered into a strategic commercial agreement with Vital Source Technologies, Inc. ("VitalSource"), a part of the Ingram Content Group, and will effectively outsource the Yuzu[®] eTextbook reading platform. VitalSource has existing relationships with publishers and a very competitive product from a feature and technology perspective. VitalSource will continue to provide an eTextbook experience for Yuzu[®] users leveraging and utilizing a broad digital library and the product will be branded and marketed to the students and universities as Yuzu[®]. We expect the transition from Yuzu[®] to the VitalSource platform will be seamless for students and faculty.
- We completed the purchase of substantially all of the assets of LoudCloud Systems, Inc. ("LoudCloud"). LoudCloud will be a foundational asset for our digital and learning services. LoudCloud is a sophisticated digital platform and analytics provider with a proven product and existing clients in higher education, the for-profit sector and K-12 markets. LoudCloud products, such as LoudBooks, LoudTrack, LoudSight and LoudCloud LMS, currently have product capabilities that include a competency based courseware platform, a learning analytics platform and services, an eReading product, and a learning management system ("LMS"). Its software captures and analyzes key behavioral and performance metrics from students, allowing educators to monitor and improve student success. LoudCloud is designed to deliver personalized education through cloud-based software as a service ("SaaS") architecture. The acquisition of LoudCloud closed on March 4, 2016 for a purchase price of \$17.9 million and was financed completely with cash from operations.
- With the implementation of the initiatives discussed above, we expect to operate with a lower cost structure as compared to our historical Yuzu[®] digital spend. We expect these transactions to reduce our digital spend from \$26 million in fiscal 2016 to approximately \$13 million in fiscal 2017, resulting in \$13 million of forecasted expense reduction. In March 2016, we announced a reduction in staff and closure of the facilities in Mountain View, California, and Redmond, Washington that support the Yuzu[®] eTextbook platform. The cost of severance, retention, and other restructuring costs (i.e. subleasing facilities) related to our Yuzu[®] operations will be approximately \$8-\$10 million and will be incurred during the fourth quarter of fiscal 2016 and first quarter of fiscal 2017, at which time we expect the restructuring to be completed.

Products & Services

As of May 2, 2015, we operated 724 stores nationwide, which reached 24% of the total United States college and university student enrolled population.

Traditional Products and Services

- *Textbook and Course Material Sales* : Textbooks continue to be a core product offering of our business. We work directly with faculty to insure the correct textbooks are available in required formats before the start of classes. We provide students with affordable textbook solutions and educate them about each format through e-mail, social media engagement and new student orientation programs and in our stores.
- *Textbook and Course Material Rentals* : We are an industry leader in textbook rentals. An increasing number of students now rent from our robust title list. The majority of all titles are available for rent. These include custom course packs and adaptive learning materials, along with traditional textbooks. In addition, we offer a convenient buyout option to allow the customer to purchase the rented book at the end of the semester, thereby enhancing our revenue and improving our inventory management processes.

- *General Merchandise* : General merchandise sales are generated in-store, as well as online through school-branded e-commerce sites. Our stores feature collegiate and athletic apparel relating to a school and/or its athletic programs and other custom-branded school spirit products, technology, supplies and convenience items. We offer a comprehensive athletic merchandise program that leverages innovative promotional campaigns and showcases the apparel industry's top selling performance apparel categories from leading brands including Under Armour and Nike. Other merchandise, such as laptops and other technology products, notebooks, backpacks, school and dormitory supplies and related items are also offered. In addition, as of May 2, 2015, we operated 78 customized cafés and 17 stand-alone convenience stores featuring Starbucks coffee, as well as diverse grab-and-go options including organic, vegan and gluten-free, and ethnic fare for students on the move. These offerings increase traffic and the amount of time customers spend in our stores.
- *Trade* : We carry an extensive selection of trade, academic and reference books along with education toys and games and schedule store events, such as author signings, that extend to the entire community. The majority of our bookstores carry the most popular campus bestsellers along with academically relevant titles.

Technology Platform and Services

- *eTextbook Platform*: For students, the platform combines an electronic reading and note-taking experience in a simple app, with access to a rich, engaging catalog of content. It allows students to replace or supplement multiple textbooks with an app that holds and organizes all their digital content, by course and term, annotate and highlight text, add bookmarks and “sticky notes” to important pages and use a keyword search function to find a desired passage or annotation using an interface that is simple and easy to use.
- *Digital Education Platform*: With the acquisition of LoudCloud, our digital education platform has the capability to offer a suite of content and learning materials that far exceed the capabilities of eTextbooks. Our platform will allow educators to mix and author many forms of content including rich media, adaptive analytics and assessment capabilities that drive improved outcomes and better experiences. The core framework, rooted in the student-centric design, simplifies course and content authoring using proprietary algorithms to inform and guide course progress. Our module-based architecture will allow for customization and the ability to support different educational models. The platform also offers a variety of additional capabilities including competency based learning and courseware development. These tools enable students and teachers to personalize the learning experience. We now have the tools to provide institutions with the turn-key solution for their online education initiatives that they have been seeking.
- *e-Commerce Platform* : With an active digital community of over 4.4 million customers, our custom-branded school websites drove over \$360 million of sales in Fiscal 2015, with transactions up over 14% over the prior fiscal year. Designed to appeal to students, parents and alumni, the school-branded sites offer simple and seamless textbook purchasing with free in-store pick up or shipping to any location, general merchandise promotions and collections that are customized to the individual user, as well as faculty course material adoption tools and customer service support.
- *FacultyEnlight*® : Our proprietary online platform enhances content search, discovery and adoption (i.e., textbook selection) by faculty on each campus. Thus far, over 225,000 Faculty members are using FacultyEnlight® and are able to compare and contrast key decision-making factors, such as cost to students and format availability; read peer product reviews; and contribute fresh perspectives and experiences and see what textbooks are being used by colleagues at other colleges and universities.

We enhance the academic and social purpose of higher education institutions by integrating our technology and systems with the school's technology and organizational infrastructure to forge a bond with the school and its constituencies. Our customizable technology delivers a seamless experience that enables faculty to research and select, and enables students to find and purchase, the most affordable course materials, maximizing savings and sales.

Segment

We identified our operating segment based on the way our business is managed (focusing on the financial information distributed) and the manner in which our chief operating decision maker allocates resources and assesses financial performance. We have determined that we operate within a single reportable segment, which is entirely within the United States.

Seasonality

Our business is highly seasonal, with the major portion of sales and operating profit realized during the second and third fiscal quarters, when college students generally purchase and rent textbooks for the upcoming semesters. We rent both physical and digital textbooks. Revenue from the rental of physical textbooks is deferred and recognized over the rental period commencing at point of sale. Revenue from the rental of digital textbooks is recognized at time of sale. Our fiscal year is comprised of 52 or 53 weeks, ending on the Saturday closest to the last day of April.

Trends and Other Factors Affecting Our Business

Our business is dependent on the overall economic environment, college enrollment and consumer spending patterns. Our business is affected by funding levels at colleges and universities and by changes in enrollments at colleges and universities, changes in student enrollments and spending on textbooks and general merchandise.

We expect awards of new accounts resulting in new store openings will continue to be an important driver of future growth in our business. We are awarded additional contracts for stores as colleges and universities decide to outsource their bookstore, and we also obtain new contracts for stores that were previously operated by others. We close stores at the end of their contract terms due to low profitability or because the new contract has been awarded to a competitor. Over the last three years, we have consistently opened new stores increasing our total number of stores open from 636 at the beginning of Fiscal 2012 to 724 at the end of Fiscal 2015.

Sales trends are primarily impacted by new store openings, increasing the students and faculty served, as well as changes in comparable store sales and store closings. Comparable store sales increase (decrease) is calculated on a 52-week basis, including sales from stores that have been open for at least 15 months and does not include sales from closed stores for all periods presented.

We continue to see increasing trends towards outsourcing in the campus bookstore market, including virtual bookstores and online marketplace websites. We continue to see a variety of business models being pursued for the provision of textbooks, course materials and general merchandise. In addition to being competitive in the services we provide to our customers, our textbook business faces significant price competition.

As we expanded our textbook rental offerings, students have been shifting away from higher priced textbook purchases to lower priced rental options, which has resulted in lower textbook sales and increasing rental income. After several years of comparable store sales declines, primarily on lower textbook unit volume, during the 52 weeks ended May 2, 2015, our comparable store sales trends improved for both textbook and general merchandise. For the 39 weeks ended January 30, 2016, our comparable store sales declined primarily due to lower community college enrollment.

General merchandise sales have continued to increase as our product assortments continue to emphasize and reflect the changing consumer trends and we evolve our presentation concepts and merchandising of product in stores and online.

Occupancy costs, which are included in cost of sales and occupancy costs and primarily consist of the payments we make to the colleges and universities to operate their official bookstores (management service agreement costs), have generally increased as a percentage of sales as a result of increased competition for renewals and new store contracts.

Selling and administrative expenses have generally increased primarily as a result of our investments in Yuzu[®], our eTextbook platform and increased infrastructure costs to support growth and costs associated with being an independent publicly-traded company. See *Recent developments to support our Digital Strategy* above for a discussion of recent changes in our digital operations.

Elements of Results of Operations

Our condensed consolidated financial statements reflect our consolidated financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States ("GAAP").

Our sales are primarily derived from the sale of course materials (which include new and used textbooks and digital textbooks), emblematic apparel and gifts, trade books, computer products, school and dorm supplies, convenience and café items and graduation products. Our rental income is primarily derived from the rental of physical and digital textbooks.

Our cost of sales and occupancy primarily includes costs such as merchandise costs, textbook rental amortization and management service agreement costs related to our college and university contracts and by other facility related expenses.

Our selling and administrative expenses consist primarily of store payroll and store operating expenses. Selling and administrative expenses also include stock-based compensation and general office expenses, such as executive oversight, merchandising, field support, finance, human resources, benefits, training, legal, and information technology, as well as our investments in digital.

As discussed below, the results of operations for the 39 weeks ended January 31, 2015 and the 13 weeks ended August 1, 2015 reflected in our condensed consolidated financial statements are presented on a stand-alone basis since we were still part of Barnes & Noble, Inc. until the consummation of the Spin-Off on August 1, 2015 and the results of operations for the 26 weeks ended January 30, 2016 reflected in our condensed consolidated financial statements are presented on a consolidated basis as we became a separate consolidated entity.

Stand-alone financial statements

The results of operations for the 39 weeks ended January 31, 2015 (i.e. first, second and third quarter of fiscal 2015) and the 13 weeks ended August 1, 2015 (i.e. first quarter of fiscal 2016) (collectively referred to as the "stand-alone periods") reflected in our condensed consolidated financial statements are presented on a stand-alone basis since we were still part of Barnes & Noble, Inc.

Our condensed consolidated financial statements were derived from the consolidated financial statements and accounting records of Barnes & Noble. Our condensed consolidated financial statements include certain assets and liabilities that have historically been held at the Barnes & Noble corporate level but are specifically identifiable or otherwise attributable to us.

All intercompany transactions between us and Barnes & Noble have been included in our condensed consolidated financial statements and are considered to be effectively settled for cash in our condensed consolidated financial statements at the time the Spin-Off became effective. The total net effect of the settlement of these intercompany transactions was reflected in our condensed consolidated statements of cash flow as a financing activity and in our condensed consolidated balance sheets as "Parent company investment."

The condensed consolidated financial statements for the stand-alone periods include an allocation for certain corporate and shared service functions historically provided by Barnes & Noble, including, but not limited to, executive oversight, accounting, treasury, tax, legal, human resources, occupancy, procurement, information technology and other shared services. These expenses have been allocated to us on the basis of direct usage when identifiable, with the remainder allocated on a pro rata basis of consolidated sales, headcount, tangible assets or other measures considered to be a reasonable reflection of the historical utilization levels of these services. Management believes the assumptions underlying our condensed consolidated financial statements, including the assumptions regarding the allocation of general corporate expenses from Barnes & Noble were reasonable.

Nevertheless, our condensed consolidated financial statements for these stand-alone periods may not include all of the actual expenses that would have been incurred had we operated as a stand-alone company and may not reflect our consolidated results of operations, financial position and cash flows had we operated as a stand-alone company during the periods presented. Actual costs that would have been incurred if we had operated as a stand-alone company would depend on multiple factors, including organizational structure and strategic decisions made in various areas, including information technology and infrastructure. As discussed below, following the Spin-Off on August 2, 2015, we began to perform these functions using our own resources or contracted services.

Consolidated financial statements

The Spin-Off from Barnes & Noble, Inc. occurred on August 2, 2015 and therefore, the results of operations are presented on a consolidated basis for the 26 weeks ended January 30, 2016 (i.e. second and third quarters of fiscal 2016) which includes direct costs incurred with Barnes & Noble under various agreements.

Certain corporate and shared service functions historically provided by Barnes & Noble (as described above) will continue to be provided by Barnes & Noble under the Transition Services Agreement. For additional information, see *Item 1. Financial Statements — Note 9. Barnes & Noble, Inc. Transactions*.

Results of Operations

<i>Dollars in thousands</i>	13 weeks ended		39 weeks ended	
	January 30, 2016	January 31, 2015	January 30, 2016	January 31, 2015
Sales:				
Product sales and other	\$ 457,126	\$ 461,059	\$ 1,359,848	\$ 1,346,152
Rental income	61,297	60,495	153,422	152,845
Total sales	<u>\$ 518,423</u>	<u>\$ 521,554</u>	<u>\$ 1,513,270</u>	<u>\$ 1,498,997</u>
Net (loss) income	\$ (3,603)	\$ 8,650	\$ 2,880	\$ 19,388
Impairment loss (non-cash), net of tax benefit of \$3,497 ^(a)	\$ 8,490	\$ —	\$ 8,490	\$ —
Net income excluding Impairment Loss (non-GAAP)	\$ 4,887	\$ 8,650	\$ 11,370	\$ 19,388
Adjusted EBITDA (non-GAAP) ^(b)	\$ 22,630	\$ 26,928	\$ 60,172	\$ 70,890
Comparable store sales decrease ^(c)	(4.1)%	(1.4)%	(2.7)%	(0.7)%
Stores opened	6	4	34	37
Stores closed	1	1	10	20
Number of stores open at end of period	748	717	748	717

(a) See *Impairment Loss* discussion below.

(b) Adjusted EBITDA is a non-GAAP financial measure. See *EBITDA (Non-GAAP)* discussion below.

(c) Comparable store sales increase (decrease) is calculated on a 52-week basis, including sales from stores that have been open for at least 15 months and does not include sales from closed stores for all periods presented.

The following table sets forth, for the periods indicated, the percentage relationship that certain items bear to total sales of the Company:

	13 weeks ended		39 weeks ended	
	January 30, 2016	January 31, 2015	January 30, 2016	January 31, 2015
Sales:				
Product sales and other	88.2 %	88.4%	89.9%	89.8%
Rental income	11.8	11.6	10.1	10.2
Total sales	100.0	100.0	100.0	100.0
Cost of sales and occupancy:				
Product and other cost of sales and occupancy (a)	79.0	78.7	78.9	79.0
Rental cost of sales and occupancy (a)	60.0	61.5	60.4	61.3
Total cost of sales and occupancy	76.7	76.7	77.0	77.2
Gross margin	23.3	23.3	23.0	22.8
Selling and administrative expenses	18.9	18.2	19.0	18.1
Depreciation and amortization	2.5	2.4	2.6	2.5
Impairment loss	2.3	—	0.8	—
Operating (loss) income	(0.4)	2.7	0.6	2.2
Interest expense, net	0.1	—	0.1	—
(Loss) Income before income taxes	(0.5)	2.7	0.5	2.2
Income tax expense	0.1	1.1	0.3	0.9
Net (loss) income	<u>(0.6)%</u>	<u>1.6%</u>	<u>0.2%</u>	<u>1.3%</u>

(a) Represents the percentage these costs bear to the related sales, instead of total sales.

13 and 39 weeks ended January 30, 2016 compared with the 13 and 39 weeks ended January 31, 2015

Sales

The following table summarizes our sales for the 13 and 39 weeks ended January 30, 2016 and January 31, 2015:

<i>Dollars in thousands</i>	13 weeks ended		39 weeks ended	
	January 30, 2016	January 31, 2015	January 30, 2016	January 31, 2015
Product sales and other	\$ 457,126	\$ 461,059	\$ 1,359,848	\$ 1,346,152
Rental income	61,297	60,495	153,422	152,845
Total Sales	<u>\$ 518,423</u>	<u>\$ 521,554</u>	<u>\$ 1,513,270</u>	<u>\$ 1,498,997</u>

Our sales decreased \$3.2 million, or 0.6%, to \$518.4 million during the 13 weeks ended January 30, 2016 from \$521.6 million during the 13 weeks ended January 31, 2015. New store openings increased sales by \$20.8 million, partially offset by closed stores, which decreased sales by \$2.4 million.

Comparable store sales decreased 4.1%, or \$22.1 million, for the comparable 13 week sales period. Comparable store sales were negatively impacted by the timing of the spring back-to-school rush season which extended past the close of our fiscal third quarter and also by student enrollment, specifically in two-year community colleges. Textbook revenue decreased \$21.4 million, primarily due to lower new and used textbook sales. This decrease was partially offset by a \$0.6 million, or 0.5%, increase in general merchandise sales, primarily due to higher emblematic apparel sales, which were partially offset by lower technology product sales.

Our sales increased \$14.3 million, or 1.0%, to \$1,513.3 million during the 39 weeks ended January 30, 2016 from \$1,499.0 million during the 39 weeks ended January 31, 2015. New store openings over the past year increased sales by \$66.6 million, partially offset by closed stores, which decreased sales by \$8.5 million.

Comparable store sales decreased 2.7%, or \$41.0 million, for the comparable 39 week sales period. Comparable store sales were negatively impacted by the timing of the spring back-to-school rush season which extended past the close of our fiscal third quarter and also by student enrollment, specifically in two-year community colleges. Textbook revenue decreased \$49.3 million, primarily due to lower new and used textbook sales. This decrease was partially offset by a \$9.8 million, or 2.5%, increase in general merchandise sales, primarily due to higher emblematic apparel sales, which were partially offset by lower technology product sales.

We added 34 new stores and closed 10 stores during the 39 weeks ended January 30, 2016, ending the period with a total of 748 stores.

Cost of Sales and Occupancy and Gross Margin

The following table summarizes our cost of sales and occupancy for the 13 and 39 weeks ended January 30, 2016 and January 31, 2015:

<i>Dollars in thousands</i>	13 weeks ended				39 weeks ended			
	January 30, 2016	% of Related Sales	January 31, 2015	% of Related Sales	January 30, 2016	% of Related Sales	January 31, 2015	% of Related Sales
Product and other cost of sales and occupancy	\$ 361,030	79.0%	\$ 362,740	78.7%	\$ 1,073,319	78.9%	\$ 1,062,930	79.0%
Rental cost of sales and occupancy	36,753	60.0%	37,192	61.5%	92,646	60.4%	93,624	61.3%
Total Cost of Sales and Occupancy	<u>\$ 397,783</u>	<u>76.7%</u>	<u>\$ 399,932</u>	<u>76.7%</u>	<u>\$ 1,165,965</u>	<u>77.0%</u>	<u>\$ 1,156,554</u>	<u>77.2%</u>

The following table summarizes our gross margin for the 13 and 39 weeks ended January 30, 2016 and January 31, 2015 :

<i>Dollars in thousands</i>	13 weeks ended				39 weeks ended			
	January 30, 2016	% of Related Sales	January 31, 2015	% of Related Sales	January 30, 2016	% of Related Sales	January 31, 2015	% of Related Sales
Product and other gross margin	\$ 96,096	21.0%	\$ 98,319	21.3%	\$ 286,529	21.1%	\$ 283,222	21.0%
Rental gross margin	24,544	40.0%	23,303	38.5%	60,776	39.6%	59,221	38.7%
Gross Margin	<u>\$ 120,640</u>	<u>23.3%</u>	<u>\$ 121,622</u>	<u>23.3%</u>	<u>\$ 347,305</u>	<u>23.0%</u>	<u>\$ 342,443</u>	<u>22.8%</u>

Our cost of sales and occupancy as a percentage of sales remained at 76.7% during the 13 weeks ended January 30, 2016 compared to the 13 weeks ended January 31, 2015 . This was due to the matters discussed below.

Our gross margin decreased \$1.0 million, or 0.8%, to \$120.6 million, or 23.3% of sales, during the 13 weeks ended January 30, 2016 from \$121.6 million, or 23.3% of sales, during the 13 weeks ended January 31, 2015. Gross margin as a percentage of sales was unchanged as margin improvements and a favorable sales mix were offset by higher occupancy costs resulting from contract renewals and new store contracts as discussed below:

- Product and other gross margin decreased (30 basis points), driven primarily by increased occupancy costs (40 basis points) resulting from contract renewals and new store contracts, partially offset by margin improvements (5 basis points) resulting primarily from used textbooks and a favorable sales mix (5 basis points) resulting from higher margin general merchandise increasing as a percentage of sales.
- Rental gross margin increased (150 basis points), driven primarily by margin improvements (350 basis points), partially offset by increased occupancy costs (195 basis points) resulting from contract renewals and new store contracts and an unfavorable rental mix (5 basis points).

Our cost of sales and occupancy decreased as a percentage of sales to 77.0% during the 39 weeks ended January 30, 2016 compared to 77.2% during the 39 weeks ended January 31, 2015 . The decrease was due to the matters discussed below.

Our gross margin increased \$4.9 million, or 1.4%, to \$347.3 million, or 23.0% of sales, during the 39 weeks ended January 30, 2016 from \$342.4 million, or 22.8% of sales, during the 39 weeks ended January 31, 2015. Gross margin as a percentage of sales increased due to margin improvements and a favorable sales mix, partially offset by higher occupancy costs resulting from contract renewals and new store contracts as discussed below:

- Product and other gross margin increased (5 basis points), driven primarily by margin improvements (40 basis points), predominately as a result of improved inventory management strategies for used textbooks, and a favorable sales mix (10 basis points) resulting from higher margin general merchandise increasing as a percentage of sales. These favorable items were partially offset by increased occupancy costs (50 basis points) resulting from contract renewals and new store contracts.
- Rental gross margin increased (85 basis points), driven primarily by margin improvements (185 basis points) and a favorable rental mix (45 basis points), partially offset by increased occupancy costs (140 basis points) resulting from contract renewals and new store contracts.

Selling and Administrative Expenses

<i>Dollars in thousands</i>	13 weeks ended				39 weeks ended			
	January 30, 2016	% of Sales	January 31, 2015	% of Sales	January 30, 2016	% of Sales	January 31, 2015	% of Sales
Total Selling and Administrative Expenses	<u>\$ 98,010</u>	<u>18.9%</u>	<u>\$ 94,694</u>	<u>18.2%</u>	<u>\$ 287,133</u>	<u>19.0%</u>	<u>\$ 271,553</u>	<u>18.1%</u>

During the 13 weeks ended January 30, 2016 , selling and administrative expenses increased \$3.3 million, or 3.5%, to \$98.0 million from \$94.7 million during the 13 weeks ended January 31, 2015 . The increase was due primarily to a \$2.1 million increase in new store payroll and operating expenses (net of closed stores), a \$0.9 million increase in comparable store payroll and operating expenses (including a \$0.5 million increase in employee benefit costs primarily due to higher medical claims costs), and a \$0.3 million increase in corporate payroll and infrastructure costs to support business growth including incremental costs associated with our separation. Yuzu[®] expenses were flat in comparison to the prior year period and included \$0.5 million of severance expense.

During the 39 weeks ended January 30, 2016, selling and administrative expenses increased \$15.5 million, or 5.7%, to \$287.1 million from \$271.6 million during the 39 weeks ended January 31, 2015. The increase was due primarily to a \$7.1 million increase in new store payroll and operating expenses (net of closed stores), a \$4.1 million increase in comparable store payroll and operating expenses (including a \$2.2 million increase in employee benefit costs primarily due to higher medical claims costs), a \$3.4 million increase in corporate payroll and infrastructure costs to support business growth including incremental costs associated with our separation, and a \$1.1 million increase in Yuzu[®] expenses, which include \$0.5 million of severance expense.

Depreciation and Amortization

<i>Dollars in thousands</i>	13 weeks ended				39 weeks ended			
	January 30, 2016	% of Sales	January 31, 2015	% of Sales	January 30, 2016	% of Sales	January 31, 2015	% of Sales
Total Depreciation and Amortization	\$ 13,081	2.5%	\$ 12,583	2.4%	\$ 39,350	2.6%	\$ 37,635	2.5%

Depreciation and amortization increased \$0.5 million, or 4.0%, to \$13.1 million during the 13 weeks ended January 30, 2016 from \$12.6 million during the 13 weeks ended January 31, 2015. This increase was primarily attributable to additional capital expenditures.

Depreciation and amortization increased \$1.8 million, or 4.6%, to \$39.4 million during the 39 weeks ended January 30, 2016 from \$37.6 million during the 39 weeks ended January 31, 2015. This increase was primarily attributable to additional capital expenditures.

Impairment Loss (non-cash)

During the third and fourth quarters of fiscal 2016, we implemented a plan to restructure our digital operations. For additional information, see *Overview* discussion above. As a result of this restructuring, during the 13 and 39 weeks ended January 30, 2016, we recorded a non-cash impairment loss of \$12.0 million related to all of the capitalized content costs for the Yuzu[®] eTextbook platform (\$9 million), and recorded a non-recurring other than temporary loss related to an investment held at cost (\$3 million).

Operating (Loss) Income

<i>Dollars in thousands</i>	13 weeks ended				39 weeks ended			
	January 30, 2016	% of Sales	January 31, 2015	% of Sales	January 30, 2016	% of Sales	January 31, 2015	% of Sales
Total Operating (Loss) Income	\$ (2,438)	(0.4)%	\$ 14,345	2.7%	\$ 8,835	0.6%	\$ 33,255	2.2%

Our operating loss was \$2.4 million during the 13 weeks ended January 30, 2016 compared to operating income of \$14.3 million during the 13 weeks ended January 31, 2015. This decrease was due to the matters discussed above. Excluding the impairment loss of \$12.0 million, we reported operating income of \$9.5 million during the 13 weeks ended January 30, 2016, compared with operating income of \$14.3 million during the 13 weeks ended January 31, 2015.

Our operating income was \$8.8 million during the 39 weeks ended January 30, 2016 compared to \$33.3 million during the 39 weeks ended January 31, 2015. This decrease was due to the matters discussed above. Excluding the impairment loss of \$12.0 million, we reported operating income of \$20.8 million during the 39 weeks ended January 30, 2016, compared with operating income of \$33.3 million during the 39 weeks ended January 31, 2015.

Income Taxes

<i>Dollars in thousands</i>	13 weeks ended				39 weeks ended			
	January 30, 2016	Effective Rate	January 31, 2015	Effective Rate	January 30, 2016	Effective Rate	January 31, 2015	Effective Rate
Income Tax Expense	\$ 454	(14.4)%	\$ 5,665	39.6%	\$ 4,687	61.9%	\$ 13,818	41.6%

We recorded an income tax expense of \$0.5 on a pre-tax loss of \$(3.1) during the 13 weeks ended January 30, 2016, which represented an effective income tax rate of (14.4)% and an income tax expense of \$5.7 on pre-tax income of \$14.3 during the 13 weeks ended January 31, 2015, which represented an effective income tax rate of 39.6%.

We recorded an income tax expense of \$4.7 on pre-tax income of \$7.6 during the 39 weeks ended January 30, 2016 , which represented an effective income tax rate of 61.9% and an income tax expense of \$13.8 on pre-tax income of \$33.2 during the 39 weeks ended January 31, 2015 , which represented an effective income tax rate of 41.6% .

The income tax provision for the 13 and 39 weeks ended January 30, 2016 reflects the impact of federal and state income taxes imposed upon income from operations, impacted by the effect of certain non-deductible expenses which was partially offset by favorable state law and tax rate changes. As compared to the 13 and 39 weeks ended January 31, 2015, the income tax provision for the 13 and 39 weeks ended January 30, 2016 reflects the non-deductibility of certain amounts referred to in the preceding discussion of *Impairment Loss (non-cash)* .

Net (Loss) Income

<i>Dollars in thousands</i>	13 weeks ended		39 weeks ended	
	January 30, 2016	January 31, 2015	January 30, 2016	January 31, 2015
Net (Loss) Income	\$ (3,603)	\$ 8,650	\$ 2,880	\$ 19,388

As a result of the factors discussed above, we reported net loss of \$3.6 million during the 13 weeks ended January 30, 2016 , compared with net income of \$8.7 million during the 13 weeks ended January 31, 2015 . Excluding the impairment loss of \$8.5, net of tax benefit, we reported net income of \$4.9 million during the 13 weeks ended January 30, 2016 , compared with net income of \$8.7 million during the 13 weeks ended January 31, 2015 .

As a result of the factors discussed above, we reported net income of \$2.9 million during the 39 weeks ended January 30, 2016 , compared with net income of \$19.4 million during the 39 weeks ended January 31, 2015 . Excluding the impairment loss of \$8.5, net of tax benefit, we reported net income of \$11.4 million during the 39 weeks ended January 30, 2016 , compared with net income of \$19.4 million during the 39 weeks ended January 31, 2015 .

Adjusted EBITDA (non-GAAP)

To supplement our results prepared in accordance with GAAP, we use the measure of Adjusted EBITDA, which is a non-GAAP financial measure as defined by the Securities and Exchange Commission (the “SEC”). We define Adjusted EBITDA as net earnings (loss) plus (1) depreciation and amortization; (2) interest expense and (3) income taxes, (4) as adjusted for additional items and subtracted from or added to net income.

This non-GAAP financial measure is not intended as a substitute for and should not be considered superior to measures of financial performance prepared in accordance with GAAP. In addition, our use of this non-GAAP financial measure may be different from an Adjusted EBITDA measure used by other companies, limiting its usefulness for comparison purposes. Adjusted EBITDA should not be considered as an alternative to net income as an indicator of our performance or any other measures of performance derived in accordance with GAAP. As noted above, Adjusted EBITDA has limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of our results reported under GAAP. The limitations of Adjusted EBITDA include: (i) it does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments; (ii) it does not reflect changes in, or cash requirements for, our working capital needs; (iii) it does not reflect income tax payments we may be required to make; and (iv) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized often will have to be replaced in the future, and Adjusted EBITDA does not reflect any requirements for such replacements.

We believe that Adjusted EBITDA is a useful performance measure, and it is used by us to facilitate a comparison of our operating performance on a consistent basis from period-to-period and to provide for a more complete understanding of factors and trends affecting our business than measures under GAAP can provide alone. Our board of directors (the “Board”) and management also use Adjusted EBITDA as one of the primary methods for planning and forecasting overall expected performance and for evaluating on a quarterly and annual basis actual results against such expectations. We review this non-GAAP measure internally to evaluate our performance and manage our operations. We believe that the inclusion of Adjusted EBITDA results provides investors useful and important information regarding our operating results.

To properly and prudently evaluate our business, we encourage you to review our condensed consolidated financial statements included elsewhere in this Form 10-Q and the reconciliation from Adjusted EBITDA to net earnings (loss), the most directly comparable financial measure presented in accordance with GAAP, set forth in the table below. All of the items included in the reconciliation from Adjusted EBITDA to net earnings (loss) are either (i) non-cash items or (ii) items that management does not consider in assessing our on-going operating performance.

<i>Dollars in thousands</i>	13 weeks ended		39 weeks ended	
	January 30, 2016	January 31, 2015	January 30, 2016	January 31, 2015
Adjusted EBITDA	\$ 22,630	\$ 26,928	\$ 60,172	\$ 70,890
Subtract:				
Depreciation and amortization	13,081	12,583	39,350	37,635
Interest expense, net	711	30	1,268	49
Income tax expense	454	5,665	4,687	13,818
Impairment loss (non-cash) ^(a)	11,987	—	11,987	—
Net (loss) income	\$ (3,603)	\$ 8,650	\$ 2,880	\$ 19,388

(a) See *Management Discussion and Analysis - Results of Operations* discussion above.

Liquidity and Capital Resources

Our business is highly seasonal. Cash flows from operating activities are typically a source of cash in the second and third fiscal quarters, when students generally purchase and rent textbooks for the upcoming semesters. Cash flows from operating activities are typically a use of cash in the first and fourth fiscal quarters, when sales volumes are materially lower than the other quarters. Our quarterly cash flows also may fluctuate depending on the timing of the start of the various school's semesters, as well as shifts in fiscal calendar dates. These shifts in timing may affect the comparability of our results across periods.

Until August 3, 2015, we were party to the B&N Credit Facility. The B&N Credit Facility provided for up to \$1 billion in aggregate commitments under a five-year asset-backed revolving credit facility expiring on April 29, 2016. The B&N Credit Facility was secured by eligible inventory and accounts receivable with the ability to include eligible real estate and related assets. We were a borrower and co-guarantor of all amounts owing under the B&N Credit Facility. All outstanding debt under the B&N Credit Facility was recorded on Barnes & Noble's balance sheet as of August 1, 2015.

On August 3, 2015, in connection with the Spin-Off, we entered into a new five-year \$400 million asset-backed revolving credit facility (the "New Credit Facility"), the proceeds of which will be used for general corporate purposes, including seasonal working capital needs. See *Financing Arrangements* discussion below. As of January 30, 2016, we had no outstanding borrowings under the New Credit Facility.

As of January 30, 2016, Other long-term liabilities includes \$63.5 million related to the long-term tax payable associated with the LIFO reserve. Management believes it is remote that the long-term tax payable associated with the LIFO reserve will be payable or will result in a cash tax payment in the foreseeable future, assuming that LIFO will continue to be an acceptable inventory method for tax purposes.

Share Repurchases

On December 14, 2015, our Board of Directors authorized a stock repurchase program of up to \$50 million, in the aggregate, of our outstanding Common Stock. The stock repurchase program is carried out at the direction of management (which may or may not include a plan under Rule 10b5-1 of the Securities Exchange Act of 1934). The Common Stock may be repurchased on an ongoing basis. The stock repurchase program may be suspended, terminated, or modified at any time. Any repurchased shares will be held as treasury stock and will be available for general corporate purposes. During the 13 weeks ended January 30, 2016, we repurchased 906,732 shares for approximately \$8,701 at an average cost per share of \$9.78.

During the 39 weeks ended January 30, 2016, we also repurchased 40,719 shares of our Common Stock in connection with employee tax withholding obligations for vested stock awards.

Sources and Uses of Cash Flow

<i>Dollars in thousands</i>	39 weeks ended	
	January 30, 2016	January 31, 2015
Cash and cash equivalents at beginning of period	\$ 59,714	\$ 144,269
Net cash flows provided by operating activities	125,944	120,519
Net cash flows used in investing activities	(39,778)	(39,503)
Net cash flows used in financing activities	(18,971)	(50,665)
Cash and cash equivalents at end of period	\$ 126,909	\$ 174,620

Cash Flow from Operating Activities

Cash flows provided by operating activities during the 39 weeks ended January 30, 2016 were \$125.9 million compared to \$120.5 million during the 39 weeks ended January 31, 2015. This net change of \$5.4 million was primarily due to changes in working capital, including deferred taxes.

Cash Flow from Investing Activities

Our investing activities consist principally of capital expenditures for contractual capital investments associated with renewing existing contracts, new store construction and enhancements to internal systems and our website.

Cash flows used in investing activities during the 39 weeks ended January 30, 2016 were \$(39.8) million compared to \$(39.5) million during the 39 weeks ended January 31, 2015. Capital expenditures totaled \$37.7 million and \$35.1 million during the 39 weeks ended January 30, 2016 and January 31, 2015, respectively.

Cash Flow from Financing Activities

Cash flows used in financing activities during the 39 weeks ended January 30, 2016 decreased by \$31.7 million compared to the 39 weeks ended January 31, 2015 primarily due to the acquisition of Preferred Membership Interests of \$76.2 in the prior year, offset by the net change in the Barnes & Noble, Inc. Investment of \$31.9 million, and increased payments for common stock repurchased of \$9.3 million and deferred financing costs of \$3.3 million.

Financing Arrangements

Until August 3, 2015, we were party to the B&N Credit Facility. All outstanding debt under the B&N Credit Facility was recorded on Barnes & Noble's balance sheet as of August 1, 2015.

On August 3, 2015, the Company and certain of its subsidiaries from time to time party thereto entered into the Credit Agreement with Bank of America, N.A., as administrative agent, collateral agent and swing line lender, and other lenders from time to time party thereto, under which the lenders committed to provide a five-year asset-backed revolving credit facility in an aggregate committed principal amount of \$400 million under the New Credit Facility. Proceeds from the Credit Facility are used for general corporate purposes, including seasonal working capital needs. Bank of America Merrill Lynch, J.P. Morgan Securities LLC, Wells Fargo Bank, N.A. and SunTrust Robinson Humphrey, Inc. are the joint lead arrangers for the New Credit Facility.

The Company and certain of its subsidiaries (collectively, the "Loan Parties") will be permitted to borrow under the New Credit Facility. The New Credit Facility is secured by substantially all of the inventory, accounts receivable and related assets of the borrowers under the New Credit Facility, but excluding the equity interests in the Company and its subsidiaries, intellectual property, equipment and certain other property. The Company has the option to request an increase in commitments under the New Credit Facility of up to \$100 million, subject to certain restrictions.

As of January 30, 2016, we had no outstanding borrowings under the New Credit Facility. During the 13 weeks ended January 30, 2016, we borrowed and repaid \$60.6 million under the New Credit Facility. As of January 30, 2016, we have issued \$3.6 in letters of credit under the facility.

We incurred debt issuance costs totaling \$3.3 million related to the New Credit Facility. As permitted under ASU No. 2015-15, these debt issuance costs have been deferred and are presented as an asset which is subsequently amortized ratably over the term of the credit agreement.

Interest under the New Credit Facility accrues, at the election of the Company, at a LIBOR or alternate base rate, plus, in each case, an applicable interest rate margin, which is determined by reference to the level of excess availability under the New Credit Facility. Loans will initially bear interest at LIBOR plus 2.000% per annum, in the case of LIBOR borrowings, or at the alternate base rate plus 1.000% per annum, in the alternative, and thereafter the interest rate will fluctuate between LIBOR plus 2.000% per

annum and LIBOR plus 1.750% per annum (or between the alternate base rate plus 1.000% per annum and the alternate base rate plus 0.750% per annum), based upon the excess availability under the New Credit Facility at such time.

The Credit Agreement contains customary negative covenants, which limit the Company's ability to incur additional indebtedness, create liens, make investments, make restricted payments or specified payments and merge or acquire assets, among other things. In addition, if excess availability under the New Credit Facility were to fall below certain specified levels, certain additional covenants (including fixed charge coverage ratio requirements) would be triggered, and the lenders would have the right to assume dominion and control over the Loan Parties' cash.

The Credit Agreement contains customary events of default, including payment defaults, material breaches of representations and warranties, covenant defaults, default on other material indebtedness, customary ERISA events of default, bankruptcy and insolvency, material judgments, invalidity of liens on collateral, change of control or cessation of business. The Credit Agreement also contains customary affirmative covenants and representations and warranties.

We believe that our future cash from operations, access to borrowings under the New Credit Facility and short-term vendor financing will provide adequate resources to fund our operating and financing needs for the foreseeable future. Our access to, and the availability of, financing in the future will be impacted by many factors, including the liquidity of the overall capital markets and the current state of the economy. There can be no assurances that we will have access to capital markets on acceptable terms.

Contractual Obligations

Except as noted below, our projected contractual obligations are consistent with amounts disclosed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Prospectus dated July 15, 2015 and filed with the SEC on that date.

On August 3, 2015, the Company and certain of its subsidiaries from time to time party thereto entered into the Credit Agreement under which the lenders committed to provide a five-year asset-backed revolving credit facility in an aggregate committed principal amount of \$400 million (the "New Credit Facility"). See *Financing Arrangements* above for additional information.

Off-Balance Sheet Arrangements

As of January 30, 2016, we have no off-balance sheet arrangements as defined in Item 303 of Regulation S-K.

Critical Accounting Policies

Except as noted below, during the first nine months of Fiscal 2016, there were no changes in the Company's policies regarding the use of estimates and other critical accounting policies. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," in our Prospectus dated July 15, 2015 and filed with the SEC on that date, for additional information relating to the Company's use of estimates and other critical accounting policies.

Evaluation of Goodwill Impairment

Goodwill is tested for impairment at least annually or earlier if there are impairment indicators. We perform a two-step process for impairment testing of goodwill as required by ASC 350-30. The first step of this test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount. The second step (if necessary) measures the amount of the impairment.

Application of the goodwill impairment test requires judgment, including: the identification of reporting units; assignment of assets and liabilities to reporting units; assignment of goodwill to reporting units; and the determination of the fair value of each reporting unit. We have determined that we have one single reporting unit.

We estimate the fair value of our reporting unit using an income approach based on the present value of estimated future cash flows. Inherent in our preparation of cash flow projections are assumptions and estimates derived from a review of our operating results, business plans, expected growth rates, cost of capital and tax rates. We also make certain forecasts about future economic conditions, interest rates and other market data. Many of the factors used in assessing fair value are outside the control of management, and these assumptions and estimates may change in future periods. Changes in assumptions or estimates could materially affect the estimate of the fair value, and therefore could affect the likelihood and amount of potential impairment. The following assumptions are significant to our income approach:

Business Projections - We make assumptions about the level of revenues, gross profit, operating expenses, as well as capital expenditures and net working capital requirements. These assumptions drive our planning assumptions and represent key inputs for developing our cash flow projections. These projections are developed using our internal business plans over a five-year planning period that are updated at least annually;

Long-term Growth Rates - We also utilize an assumed long-term growth rate representing the expected rate at which our cash flow stream is projected to grow. These rates are used to calculate the terminal value and are added to the cash flows projected during our five-year planning period; and

Discount Rates - The estimated future cash flows are then discounted at a rate that is consistent with a weighted-average cost of capital that is likely to be expected by market participants. The weighted-average cost of capital is an estimate of the overall after-tax rate of return required by equity and debt holders of a business enterprise.

Based on the results of the step one testing, fair value of the Company exceeded its carrying value by approximately 9%.

Given the margin by which the estimated fair value exceeded its carrying amount, we also performed a sensitivity analysis related to the long-term growth rate and discount rate used in the November 1, 2015 test. Specifically, the estimated fair value would exceed its carrying amount if we independently either reduced the long-term growth rate by 100 basis points or increased the discount rate by 50 basis points. The fair value would not exceed its carrying value if we simultaneously reduced the long-term growth rate by either 50 or 100 basis points, while also increasing the discount rate by 50 basis points; or we simultaneously reduced the long-term growth rate by 100 basis points, while also increasing the discount rate by 25 basis points. Under these scenarios, step two testing would have been required to determine the potential goodwill impairment.

The November 1, 2015 impairment test assumed earnings growth, primarily from our digital revenues. Should this growth not occur, if the reporting unit otherwise fails to meet its current financial plans, or if there were changes to any other key assumption used in the test, the reporting unit could fail step one of the goodwill impairment test in a future period. We will continue to monitor the reporting unit for impairment.

Recent Accounting Pronouncements

See *Item 1. Financial Statements — Note 3. Recent Accounting Pronouncements* for information related to new accounting pronouncements.

Disclosure Regarding Forward-Looking Statements

This quarterly report on Form 10-Q contains certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 and information relating to us and our business that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this communication, the words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “will,” “forecasts,” “projections,” and similar expressions, as they relate to us or our management, identify forward-looking statements. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the future events and trends discussed in this Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

Such statements reflect our current views with respect to future events, the outcome of which is subject to certain risks, including, among others:

- general competitive conditions, including actions our competitors may take to grow their businesses;
- a decline in college enrollment or decreased funding available for students;
- decisions by colleges and universities to outsource their bookstore operations or change the operation of their bookstores;
- the general economic environment and consumer spending patterns;
- decreased consumer demand for our products, low growth or declining sales;
- challenges to running our company independently from Barnes & Noble now that the Spin-Off has been completed;
- the potential adverse impact on our business resulting from the Spin-Off;
- restructuring of our digital strategy may not result in the expected growth in our digital sales and/or profitability;
- risk that digital sales growth does not exceed the rate of investment spend;
- the performance of our online, digital and other initiatives, including possible delays and unexpected challenges in the outsourcing and transition in our current Yuzu[®] eTextbook platform to the VitalSource platform, integration of and deployment of, additional products and services, and further enhancements to, Yuzu[®] and any future higher education digital products, and the inability to achieve the expected cost savings;

- our ability to successfully implement our strategic initiatives including our ability to identify and execute upon additional acquisitions and strategic investments;
- technological changes;
- our international expansion could result in additional risks;
- changes to payment terms, return policies, the discount or margin on products or other terms with our suppliers;
- risks associated with data privacy, information security and intellectual property;
- trends and challenges to our business and in the locations in which we have stores;
- non-renewal of contracts;
- disruptions to our computer systems, data lines, telephone systems or supply chain, including the loss of suppliers;
- work stoppages or increases in labor costs;
- our ability to attract and retain employees;
- possible increases in shipping rates or interruptions in shipping service, effects of competition;
- obsolete or excessive inventory;
- product shortages;
- higher-than-anticipated store closings;
- changes in law or regulation;
- the amount of our indebtedness and ability to comply with covenants applicable to any future debt financing;
- our ability to satisfy future capital and liquidity requirements;
- our ability to access the credit and capital markets at the times and in the amounts needed and on acceptable terms;
- adverse results from litigation, governmental investigations or tax-related proceedings or audits;
- changes in accounting standards; and
- the other risks and uncertainties detailed in the section titled “Risk Factors” in this Form 10-Q.

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described as anticipated, believed, estimated, expected, intended or planned. Subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements in this paragraph. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this Form 10-Q.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

Except as noted below, there have been no material changes to the items discussed in “*Quantitative and Qualitative Disclosures About Market Risk*” in our Prospectus dated July 15, 2015 and filed with the SEC on that date.

On August 3, 2015, the Company and certain of its subsidiaries from time to time party thereto entered into the Credit Agreement under which the lenders committed to the New Credit Facility. See *Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity - Financing Arrangements* in this Form 10-Q for additional information.

We may from time to time borrow money under the New Credit Facility at various interest rate options based on LIBOR or alternate base rate (each term as defined therein) depending upon certain financial tests. Accordingly, we may be exposed to interest rate risk on borrowings under the New Credit Facility. To the extent we continue to have no outstanding debt under the New Credit Facility, a 25 basis point increase in interest rates would have increased our interest expense by \$0 in Fiscal 2016. Conversely, a 25 basis point decrease in interest rates would have reduced interest expense by \$0 in Fiscal 2016.

Item 4: Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation (as required under Rules 13a-15(b) and 15d-15(b) under the Exchange Act) was performed under the supervision and with the participation of the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company’s “disclosure controls and procedures” (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in the Company’s periodic reports. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company’s disclosure controls and procedures were effective at the reasonable assurance level.

Management has not identified any changes in the Company’s internal control over financial reporting that occurred during the quarter that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in a variety of claims, suits, investigations and proceedings that arise from time to time in the ordinary course of our business, including actions with respect to contracts, intellectual property, taxation, employment, benefits, personal injuries and other matters. We record a liability when we believe that it is both probable that a loss has been incurred and the amount of loss can be reasonably estimated. Based on our current knowledge, we do not believe that there is a reasonable possibility that the final outcome of any pending or threatened legal proceedings to which we or any of our subsidiaries are a party, either individually or in the aggregate, will have a material adverse effect on our future financial results. However, legal matters are inherently unpredictable and subject to significant uncertainties, some of which are beyond our control. As such, there can be no assurance that the final outcome of these matters will not materially and adversely affect our business, financial condition, results of operations or cash flows.

The litigation matter described below is the only material legal proceeding in which we are currently involved. Under the Separation Agreement, Barnes & Noble is obligated to indemnify us against any expenses and liabilities incurred in connection with the matter; consequently, we do not expect an adverse outcome to this litigation to adversely impact our financial condition, results of operations or cash flows.

Adrea LLC v. Barnes & Noble, Inc., NOOK Digital, LLC (formerly barnesandnoble.com llc) and B&N Education, LLC (formerly Nook Media LLC):

On June 14, 2013, Adrea LLC (“Adrea”) filed a complaint against Barnes & Noble, Inc., NOOK Digital, LLC (formerly barnesandnoble.com llc) and B&N Education, LLC (formerly NOOK Media LLC) (collectively, “B&N”) in the United States District Court for the Southern District of New York alleging that various B&N NOOK products and related online services infringe U.S. Patent Nos. 7,298,851 (the “’851 patent”), 7,299,501 (the “’501 patent”) and 7,620,703 (the “’703 patent”). B&N filed its Answer on August 9, 2013, denying infringement and asserting several affirmative defenses. At the same time, B&N filed counterclaims seeking declaratory judgments of non-infringement and invalidity with respect to each of the patents-in-suit. Discovery was commenced and completed and summary judgment motions were filed. On July 1, 2014, the Court issued a decision granting partial summary judgment in B&N’s favor, and in particular granting B&N’s motion to dismiss one of Adrea’s infringement claims, and granting B&N’s motion to limit any damages award with respect to another of Adrea’s infringement claims. Beginning October 7, 2014, through and including October 22, 2014, the case was tried before a jury in the Southern District of New York. The jury returned its verdict on October 27, 2014. The jury found no infringement with respect to the ‘851 patent, and infringement with respect to the ‘501 patent and ‘703 patent. It awarded damages in the amount of \$1.3 million. The jury further found no willful infringement with respect to any patent.

On July 24, 2015, the Court granted B&N’s post trial application to invalidate one of the two patents (the ‘501 Patent) the jury found to have been infringed. The Court heard oral argument on September 28, 2015 on the post-trial motions on the jury’s infringement and validity determinations. On February 24, 2016, the Court issued a decision upholding the jury’s determination of infringement and validity with respect to the ‘703 patent and ordered a new trial on damages with respect to ‘703 patent since the original damages award was a total award for both the ‘501 patent and the ‘703 patent. The date of such trial, and the scope of any damage claims the Court may permit the jury to consider with respect to the ‘703 patent, are to be determined by the Court in due course.

Item 1A. Risk Factors

The risks and uncertainties described below are not the only ones faced by us. Additional risks and uncertainties not presently known or that are currently deemed immaterial also may impair our business operations. If any of the following risks occur, our business, financial condition, operating results and cash flows and the trading price of our Common Stock could be materially adversely affected.

Risks Relating to Our Business

We face significant competition in our business, and we expect such competition to increase.

The market for course materials, including textbooks and supplemental materials, is intensely competitive and subject to rapid change. We are experiencing growing competition from alternative media and alternative sources of textbooks and course-related materials, such as websites that sell textbooks, eBooks, digital content and other merchandise directly to students; online resources, including open educational resources; publishers bypassing the bookstore distribution channel by selling directly to students and educational institutions; print-on-demand textbooks; textbook rental companies; and student-to-student transactions over the Internet. We also have competition from other college bookstore operators and educational content providers, including Follett Corporation, a contract operator of campus bookstores, which recently acquired Nebraska Book Company, a contract operator of

on-campus and off-campus bookstores; Amazon.com, an e-commerce operator and a provider of contract services to colleges and universities; BBA Solutions, a college textbook retailer; Chegg.com, an online textbook rental company; CourseSmart, a digital course materials provider; Akademos, a virtual bookstore and marketplace for academic institutions; Rafter, a course materials management solution for higher educational institutions; bn.com, the e-commerce platform of Barnes & Noble; MBS Direct, an online bookstore provider; providers of eTextbooks, such as Apple iTunes, CourseSmart, Blackboard, Rafter and Google; and various private textbook rental websites. In addition, Amazon, Akademos and Rafter have recently begun to develop relationships with colleges and universities to provide online bookstore solutions. Many students purchase from multiple textbook providers, are highly price sensitive and can easily shift spending from one provider or format to another. As a consequence, in addition to being competitive in the services we provide to our customers, our textbook business faces significant price competition. Some of our competitors have adopted, and may continue to adopt, aggressive pricing policies and devote substantial resources to marketing, website and systems development. In addition, a variety of business models are being pursued for the provision of print textbooks, some of which may be more profitable or successful than our business model.

We may not be able to enter into new contracts and contracts for existing or additional college and university affiliated bookstores may not be profitable.

An important part of our business strategy is to expand sales for our college bookstore operations by being awarded additional contracts to manage bookstores for colleges and universities. Our ability to obtain those additional contracts is subject to a number of factors that we are not able to control. In addition, the anticipated strategic benefits of new and additional college and university bookstores may not be realized at all or may not be realized within the time frames contemplated by management. In particular, contracts for additional managed stores may involve a number of special risks, including adverse short-term effects on operating results, diversion of management's attention and other resources, standardization of accounting systems, dependence on retaining, hiring and training key personnel, unanticipated problems or legal liabilities, and actions of our competitors and customers. Because certain terms of any contract are generally fixed for the initial term of the contract and involve judgments and estimates that may not be accurate, including for reasons outside of our control, we have contracts that are not profitable and may have such contracts in the future. Even if we have the right to terminate a contract, we may be reluctant to do so even when a contract is unprofitable due to, among other factors, the potential effect on our reputation.

We may not be able to successfully retain or renew our managed bookstore contracts on profitable terms.

We face significant competition in retaining existing store contracts and when renewing those contracts as they expire. Our contracts are typically for five years with renewal options but can range from two to 15 years, and most contracts are cancelable by either party without penalty, typically with 120 days' notice. We may not be successful in retaining our current contracts, renewing our current contracts or renewing our current contracts on terms that provide us the opportunity to improve or maintain the profitability of managing stores that are the subject matter of such contracts.

Our business is dependent on the overall economic environment, college enrollment and consumer spending patterns.

A deterioration of the current economic environment could have a material adverse effect on our financial condition and operating results, as well as our ability to fund our growth and strategic business initiatives. Our business is affected by funding levels at colleges and universities and by changes in enrollments at colleges and universities, changes in student enrollments and lower spending on textbooks and general merchandise. The growth of our business depends on our ability to attract new students and to increase the level of engagement by existing students. To the extent we are unable to attract new students or students spend less generally, our business could be adversely affected.

We face the risk of disruption of supplier relationships and/or supply chain and/or inventory surplus.

The products that we sell originate from a wide variety of domestic and international vendors. During Fiscal 2015, our four largest suppliers accounted for approximately 47% of our merchandise purchased, with the largest supplier accounting for approximately 19% of our merchandise purchased. While we believe that our relationships with our suppliers are good, suppliers may modify the terms of these relationships due to general economic conditions or otherwise.

We do not have long-term arrangements with most of our suppliers to guarantee availability of merchandise, content or services, particular payment terms or the extension of credit limits. If our current suppliers were to stop selling merchandise, content or services to us on acceptable terms, including as a result of one or more supplier bankruptcies due to poor economic conditions, we may be unable to procure the same merchandise, content or services from other suppliers in a timely and efficient manner and on acceptable terms, or at all. In addition, our business is dependent on the continued supply of textbooks. The publishing industry generally has suffered recently due to, among other things, changing consumer preferences away from the print medium and the economic climate. A significant disruption in this industry generally or a significant unfavorable change in our relationships with key suppliers could adversely impact our business. In addition, any significant change in the terms that we have with our key suppliers including, payment terms, return policies, the discount or margin on products or changes to the distribution model of textbooks, could adversely affect our financial condition and liquidity. Furthermore, certain of our

merchandise is sourced indirectly from outside the United States. Political or financial instability, merchandise quality issues, product safety concerns, trade restrictions, work stoppages, tariffs, foreign currency exchange rates, transportation capacity and costs, inflation, civil unrest, natural disasters, outbreaks of pandemics and other factors relating to foreign trade are beyond our control and could disrupt our supply of foreign-sourced merchandise.

In addition, we have significantly increased our textbook rental business, offering students a lower cost alternative to purchasing textbooks, which is also subject to certain inventory risks such as textbooks not being resold or re-rented due to delayed returns or poor condition, or faculty members not continuing to adopt or use certain textbooks.

We are dependent upon access to the capital markets, bank credit facilities, and short-term vendor financing for liquidity needs.

We must have sufficient sources of liquidity to fund working capital requirements. We believe that the combination of cash-on-hand, cash flow received from operations, funds available under our revolving senior credit facility and short-term vendor financing will be sufficient to meet our normal working capital and debt service requirements for at least the next twelve months. If these sources of liquidity do not satisfy our requirements, we may need to seek additional financing. The future availability of financing will depend on a variety of factors, such as economic and market conditions, and the availability of credit. These factors could materially adversely affect our costs of borrowing, and our financial position and results of operations would be adversely impacted.

Our business relies on certain key personnel.

Management believes that our continued success will depend to a significant extent upon the efforts and abilities of certain of our key personnel. The loss of the services of any of these key personnel could have a material adverse effect on our business. We do not maintain “key man” life insurance on any of our officers or other employees.

Our business is seasonal.

Our business is seasonal, with sales generally highest in the second and third fiscal quarters, when college students generally purchase textbooks for the upcoming semesters, and lowest in the first and fourth fiscal quarters. Less than satisfactory net sales during our peak fiscal quarters could have a material adverse effect on our financial condition or operating results for the year, and our results of operations from those quarters may not be sufficient to cover any losses that may be incurred in the other fiscal quarters of the year.

Our results also depend on the successful implementation of our strategic initiatives. We may not be able to implement these strategies successfully, on a timely basis, or at all.

Our ability to grow depends upon a number of factors, including our ability to implement our strategic initiatives to retain and expand existing customer relationships, acquire new accounts, expand sales channels and marketing efforts, develop and market Yuzu[®] and other higher education digital products and adapt to changing industry trends. While we believe we have the capital resources, experience, management resources and internal systems to successfully operate our business, we may not be successful in implementing these strategies. Further, even if successfully implemented, our business strategy may not ultimately produce positive results.

Our strategy includes pursuing strategic acquisitions and partnerships and we may not be able to identify and successfully complete such transactions.

As part of our strategy, we have acquired, and, may in the future acquire, businesses or business operations, or enter into other business transactions, such as our recent acquisition of LoudCloud Systems, Inc. and strategic commercial agreement with Vital Source Technologies, Inc. We may not be able to identify suitable candidates for additional business combinations and strategic investments, obtain financing on acceptable terms for such transactions, obtain necessary regulatory approvals, if any, or otherwise consummate such transactions on acceptable terms, or at all. Any strategic acquisitions or investments that we are able to identify and complete may also involve a number of risks, including our inability to successfully or profitably integrate, operate, maintain and manage our newly acquired operations or employees; the diversion of our management’s attention from our existing business to integrate operations and personnel; possible material adverse effects on our results of operations during the integration process; becoming subject to contingent or other liabilities, including liabilities arising from events or conduct predating the acquisition that were not known to us at the time of the acquisition; and our possible inability to achieve the intended objectives of the transaction, including the inability to achieve cost savings and synergies. Acquisitions may also have unanticipated tax, legal, regulatory and accounting ramifications, including recording goodwill and nonamortizable intangible assets that are subject to impairment testing on a regular basis and potential periodic impairment charges and incurring amortization expenses related to certain intangible assets.

Our international expansion could result in additional risks.

Historically, our operations have been limited to the U.S.; however, we contract with service providers outside the U.S. and we recently have acquired operations in India (and we may continue to expand internationally). Such international expansion may result in additional risks that are not present domestically and which could adversely affect our business or our results of operations, including compliance with additional U.S. regulations and those of other nations applicable to international operations; cultural and language differences; currency fluctuations between the U.S. dollar and foreign currencies, which are harder to predict in the current adverse global economic climate; restrictions on the repatriation of earnings; potentially adverse tax consequences and limitations on our ability to utilize losses generated in our foreign operations; different regulatory requirements and other barriers to conducting business; and different or less stable political and economic environments. Further, conducting business abroad subjects us to increased regulatory compliance and oversight. For example, in connection with our international operations, we are subject to laws prohibiting certain payments to governmental officials, such as the Foreign Corrupt Practices Act. A failure to comply with applicable regulations could result in regulatory enforcement actions as well as substantial civil and criminal penalties assessed against us and our employees.

We face data security risks with respect to personal information.

Our business involves the receipt, storage, processing and transmission of personal information about customers and employees. We may share information about such persons with vendors and third parties that assist with certain aspects of our business. Also, in connection with our student financial aid platform and the processing of university debit cards, we secure and have access to certain student personal information that has been provided to us by the universities we serve. Our handling and use of personal information is regulated at the international, federal and state levels and by industry standards, such as the Payment Card Industry Data Security Standard. As an entity that provides services to institutions of higher education, we are contractually bound to handle certain personal information from student education records in accordance with the requirements of The Family Educational Rights and Privacy Act (“FERPA”). Privacy and information security laws, regulations, and industry standards change from time to time, and compliance with them may result in cost increases due to necessary systems changes and the development of new processes and may be difficult to achieve. If we fail to comply with these laws, regulations and standards, we could be subjected to legal risk. In addition, even if we fully comply with all laws, regulations and standards and even though we have taken significant steps to protect personal information, we could experience a data security breach, and our reputation could be damaged, possibly resulting in a material breach of contract with one or more of our clients, lost future sales or decreased usage of credit and debit card products. Further, in the event that we disclose student information in violation of FERPA, the U.S. Department of Education could require a client to suspend our access to their student information for at least five years. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. A party that is able to circumvent our security measures could misappropriate our or our users’ proprietary information and cause interruption in our operations. Any compromise of our data security could result in a violation of applicable privacy and other laws or standards, significant legal and financial exposure beyond the scope or limits of insurance coverage, increased operating costs associated with remediation, equipment acquisitions or disposal and added personnel, and a loss of confidence in our security measures, which could harm our business or affect investor confidence. Data security breaches may also result from non-technical means, for example, actions by an employee.

Our business could be impacted by changes in federal, state, local or international laws, rules or regulations.

We are subject to general business regulations and laws relating to all aspects of our business. These regulations and laws may cover taxation, privacy, data protection, our access to student financial aid, pricing and availability of educational materials, competition and/or antitrust, content, copyrights, distribution, college distribution, mobile communications, electronic contracts and other communications, consumer protection, the provision of online payment services, unencumbered Internet access to our services, the design and operation of websites, digital content (including governmental investigations and litigation relating to the agency pricing model for digital content distribution), the characteristics and quality of products and services and employee benefits (including the costs associated with complying with the Patient Protection and Affordable Care Act). Changes in federal, state, local or international laws, rules or regulations relating to these matters could increase our costs of doing business or otherwise impact our business.

Changes in tax laws and regulations might adversely impact our businesses or financial performance.

We collected sales tax on the majority of the products and services that we sold in our respective prior fiscal years that were subject to sales tax, and we generally have continued the same policies for sales tax within the current fiscal year. While management believes that the financial statements included elsewhere in this Form 10-Q reflect management’s best current estimate of any potential additional sales tax liability based on current discussions with taxing authorities, we cannot assure you that the outcome of any discussions with any taxing authority will not result in the payment of sales taxes for prior periods or otherwise, or that the amount of any such payments will not be materially in excess of any liability currently recorded. In the future, our businesses may

be subject to claims for not collecting sales tax on the products and services we currently sell for which sales tax is not collected. In addition, our provision for income taxes and our obligation to pay income tax is based on existing federal, state and local tax laws. Changes to these laws, in particular as they relate to depreciation, amortization and cost of goods sold, could have a significant impact on our income tax provision, our projected cash tax liability, or both.

Our expansion into new products, services and technologies subjects us to additional business, legal, financial and competitive risks.

We may require additional capital in the future to sustain or grow our business. Our gross profits and margins in our newer activities may be lower than in our traditional activities, and we may not be successful enough in these newer activities to recoup our investments in them. In addition, we may have limited or no experience in our newer products and services, and our customers may not adopt our new product or service offerings. Some of these offerings, such as our commercial agreement with Pearson, may present new and difficult technological challenges, and we may be subject to claims if customers of these offerings experience service disruptions or failures or other quality issues.

We may not be able to adequately protect our intellectual property rights or may be accused of infringing upon intellectual property rights of third parties.

We regard our trademarks, service marks, copyrights, patents, trade dress, trade secrets, proprietary technology and similar intellectual property as important to our success, and we rely on trademark, copyright and patent law, domain name regulations, trade secret protection and confidentiality or license agreements to protect our proprietary rights, including our use of the Barnes & Noble trademark. Laws and regulations may not adequately protect our trademarks and similar proprietary rights. We may be unable to prevent third parties from acquiring domain names that are similar to, infringe upon or diminish the value of our trademarks and other proprietary or licensed rights.

We may not be able to discover or determine the extent of any unauthorized use of our proprietary rights. The protection of our intellectual property may require the expenditure of significant financial and managerial resources. Moreover, the steps we take to protect our intellectual property may not adequately protect our rights or prevent third parties from infringing or misappropriating our proprietary rights. We also cannot be certain that others will not independently develop or otherwise acquire equivalent or superior technology or other intellectual property rights.

Other parties also may claim that we infringe their proprietary rights. Because of the changes in Internet commerce and digital content businesses, current extensive patent coverage, and the rapid rate of issuance of new patents, it is possible that certain components of our products and business methods may unknowingly infringe existing patents or intellectual property rights of others.

Our digital content offerings depend in part on effective digital rights management technology to control access to digital content. If the digital rights management technology that we use is compromised or otherwise malfunctions, we could be subject to claims, and content providers may be unwilling to include their content in our service.

We do not own the Barnes & Noble trademark and instead rely on a license of that trademark and certain other trademarks, which license imposes limits on what those trademarks can be used to do.

In connection with the Spin-Off, Barnes & Noble granted us an exclusive, perpetual, fully paid up, non-transferable and non-assignable license to use the trademarks “Barnes & Noble College,” “B&N College,” “Barnes & Noble Education” and “B&N Education” and the non-exclusive, perpetual, fully paid up, non-transferable and non-assignable license to use the marks “Barnes & Noble,” “B&N” and “BN,” solely in connection with the contract management of college and university bookstores and other bookstores associated with academic institutions and related websites as well as education products and services (including digital education products and services) and related websites. These restrictions may materially limit our ability to use the licensed marks in the expansion of our operations in the future. In addition, we are reliant on Barnes & Noble to maintain the licensed trademarks.

We rely on third-party digital content and applications, which may not be available to us on commercially reasonable terms or at all.

We contract with certain third-parties to offer their digital content. Our licensing arrangements with these third-parties do not guarantee the continuation or renewal of these arrangements on reasonable terms, if at all. Some third-party content providers currently or in the future may offer competing products and services, and could take action to make it more difficult or impossible for us to license our content in the future. Other content owners, providers or distributors may seek to limit our access to, or increase the total cost of, such content. If we are unable to offer a wide variety of content at reasonable prices with acceptable usage rules, our business may be materially adversely affected.

Risks Relating to Our Recent Spin-Off from Barnes & Noble

We could have an indemnification obligation to Barnes & Noble if the Spin-Off were determined not to qualify for non-recognition treatment.

If, due to any of our covenants in the Tax Matters Agreement being breached, it were determined as a tax matter that the Spin-Off did not qualify for non-recognition of gain and loss, we could be required to indemnify Barnes & Noble for the resulting taxes and related expenses. In addition, Section 355(e) of the Internal Revenue Code of 1986, as amended (the “Code”), generally creates a presumption that the Spin-Off would be taxable to Barnes & Noble, but not to holders, if we or our stockholders were to engage in transactions that result in a 50% or greater change by vote or value in the ownership of our stock during the four-year period beginning on the date that begins two years before the date of the Spin-Off, unless it were established that such transactions and the Spin-Off were not part of a plan or series of related transactions giving effect to such a change in ownership. If the Spin-Off were taxable to Barnes & Noble due to such 50% or greater change in the ownership of our stock, Barnes & Noble would have to recognize gain in an amount up to the fair market value of our stock held by it immediately before the Spin-Off, and we generally would be required to indemnify Barnes & Noble for the tax on such gain and related expenses. See “Certain Relationships and Related Party Transactions—Agreements with Barnes & Noble—Tax Matters Agreement” in our Prospectus dated July 15, 2015 and filed with SEC on that date for more information.

We have agreed to numerous restrictions to preserve the non-recognition treatment of the Spin-Off, which may reduce our strategic and operating flexibility.

We have agreed in the Tax Matters Agreement to covenants and indemnification obligations that address compliance with Section 355(e) of the Code. These covenants and indemnification obligations may limit our ability to pursue strategic transactions or engage in new businesses or other transactions that might maximize the value of our business, and could discourage or delay a strategic transaction that our stockholders may consider favorable. See “Certain Relationships and Related Party Transactions—Agreements with Barnes & Noble—Tax Matters Agreement” in our Prospectus dated July 15, 2015 and filed with SEC on that date for more information.

We may be unable to achieve some or all of the benefits that we expect to achieve from the Spin-Off.

We believe that, as an independent publicly-traded company, we will be able to, among other things, better focus our financial and operational resources on our specific business, implement and maintain a capital structure designed to meet our specific needs, design and implement corporate strategies and policies that are targeted to our business, more effectively respond to industry dynamics and create effective incentives for our management and employees that are more closely tied to our business performance. However, following our separation from Barnes & Noble, we may be more susceptible to market fluctuations and have less leverage with suppliers, and we may experience other adverse events. In addition, we may be unable to achieve some or all of the benefits that we expect to achieve as an independent company in the time we expect, if at all.

We may be unable to make, on a timely or cost-effective basis, the changes necessary to operate as an independent publicly-traded company, and we may experience increased costs after the Spin-Off.

In the past, Barnes & Noble provided us with various corporate services. Following the Spin-Off, Barnes & Noble has no obligation to provide us with assistance other than the transition services described under “Certain Relationships and Related Party Transactions—Agreements with Barnes & Noble” in our Prospectus dated July 15, 2015 and filed with SEC on that date. These services do not include every service that we have received from Barnes & Noble in the past, and Barnes & Noble is only obligated to provide these services for limited periods from the date of the Spin-Off. Accordingly, we now need to provide internally or obtain from unaffiliated third parties the services we previously received from Barnes & Noble prior to the Spin-Off. We may be unable to replace these services in a timely manner or on terms and conditions as favorable as those we receive from Barnes & Noble. We may be unable to successfully establish the infrastructure or implement the changes necessary to operate independently or may incur additional costs. If we fail to obtain the services necessary to operate effectively or if we incur greater costs in obtaining these services, our business, financial condition and results of operations may be adversely affected.

We have limited operating history as an independent publicly-traded company, and our historical financial information is not necessarily representative of the results we would have achieved as an independent publicly-traded company and may not be a reliable indicator of our future results.

We derived the historical financial information included in this Form 10-Q from Barnes & Noble’s consolidated financial statements, and this information does not necessarily reflect the results of operations and financial position we would have achieved as an independent publicly-traded company during the periods presented or those that we will achieve in the future. This is primarily because of the following factors:

- Prior to the Spin-Off, we operated as part of Barnes & Noble’s broader corporate organization, and Barnes & Noble performed various corporate functions for us. Our historical financial information reflects allocations of corporate expenses

from Barnes & Noble for these and similar functions. These allocations may not reflect the costs we will incur for similar services in the future as an independent publicly-traded company.

- We have entered into transactions with Barnes & Noble that did not exist prior to the Spin-Off and modified our existing agreements with Barnes & Noble, such as Barnes & Noble's provision of transition services, which will cause us to incur new costs.
- Our historical financial information does not reflect changes that we expect to experience in the future as a result of our separation from Barnes & Noble, including changes in our cost structure, personnel needs, tax structure, financing and business operations. As part of Barnes & Noble, we enjoyed certain benefits from Barnes & Noble's operating diversity, size, purchasing power, borrowing leverage and available capital for investments, and we lost these benefits after the Spin-Off. As an independent entity, we may be unable to purchase goods, services and technologies, such as insurance and health care benefits and computer software licenses or access capital markets on terms as favorable to us as those we obtained as part of Barnes & Noble prior to the Spin-Off.

Following the Spin-Off, we are now also responsible for the additional costs associated with being an independent publicly-traded company, including costs related to corporate governance, investor and public relations and public reporting. In addition, certain costs incurred by Barnes & Noble, including executive oversight, accounting, treasury, tax, legal, human resources, occupancy, procurement, information technology and other shared services, had historically been allocated to us by Barnes & Noble; but these allocations may not reflect the future level of these costs to us as we provide these services ourselves. Therefore, our historical financial statements may not be indicative of our future performance as an independent publicly-traded company. We cannot assure you that our operating results will continue at a similar level when we are an independent publicly-traded company. For additional information about our past financial performance and the basis of presentation of our financial statements, see "Financial Statements (Unaudited)" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q as well as the historical financial statements and the notes thereto included in our Prospectus dated July 15, 2015 and filed with SEC on that date.

We may not be able to access the credit and capital markets at the times and in the amounts needed on acceptable terms.

From time to time we may need to access the long-term and short-term capital markets to obtain financing. Although we believe our current sources of capital will permit us to finance our operations for the foreseeable future on acceptable terms and conditions, we have not previously accessed the capital markets as an independent public company, and our access to, and the availability of, financing on acceptable terms and conditions in the future will be impacted by many factors, including our financial performance, our credit ratings or absence thereof, the liquidity of the overall capital markets and the state of the economy. We cannot assure you that we will have access to the capital markets at the times and in the amounts needed or on terms acceptable to us.

Some of our contracts contain provisions requiring the consent of third parties in connection with the Spin-Off.

Some of our contracts contain provisions that require the consent of third parties to the Spin-Off. Failure to obtain such consents on commercially reasonable and satisfactory terms may impair our entitlement to the benefit of these contracts in the future.

We may have been able to receive better terms from unaffiliated third parties than the terms we received in our agreements with Barnes & Noble.

We entered into agreements with Barnes & Noble related to our separation from Barnes & Noble, including the Separation Agreement, Transition Services Agreement, Tax Matters Agreement, the Trademark License Agreement and Employee Matters Agreement, while we were still part of Barnes & Noble. Accordingly, these agreements may not reflect terms that would have resulted from arms-length negotiations between unaffiliated parties. The terms of the agreements relate to, among other things, allocations of assets, liabilities, rights, indemnifications and other obligations between Barnes & Noble and us. We may have received better terms from third parties than we received from Barnes & Noble because third parties would have competed with each other to win our business but we are now bound by the terms of the agreements we entered into with Barnes & Noble. See "Certain Relationships and Related Party Transactions" in our Prospectus dated July 15, 2015 and filed with SEC on that date for more information.

Risks Relating to our Common Stock and the Securities Market

An active trading market for our Common Stock may not develop or be sustained. Our stock price may fluctuate significantly.

There was no public market for our Common Stock prior to August 3, 2015, consequently there is limited trading history in our Common Stock. An active trading market for the Common Stock may not develop or may not be sustained in the future. The lack of an active market may make it more difficult for stockholders to sell our shares and could lead to our share price being depressed or volatile.

We cannot predict the prices at which our Common Stock may trade. The market price of our Common Stock may fluctuate widely, depending on many factors, some of which may be beyond our control, including:

- actual or anticipated fluctuations in our operating results due to factors related to our businesses;
- success or failure of our business strategies, including our digital education initiative;
- our quarterly or annual earnings or those of other companies in our industries;
- our ability to obtain financing as needed;
- announcements by us or our competitors of significant acquisitions or dispositions;
- changes in accounting standards, policies, guidance, interpretations or principles;
- the failure of securities analysts to cover our Common Stock after the Spin-Off;
- changes in earnings estimates by securities analysts or our ability to meet those estimates;
- the operating and stock price performance of other comparable companies;
- investor perception of our Company and the college bookstore industry;
- overall market fluctuations;
- results from any material litigation or government investigation;
- changes in laws and regulations (including tax laws and regulations) affecting our business;
- changes in capital gains taxes and taxes on dividends affecting stockholders; and
- general economic conditions and other external factors.

Furthermore, our business profile and market capitalization may not fit the investment objectives of some Barnes & Noble stockholders and, as a result, these Barnes & Noble stockholders may have sold, and may continue to sell their shares of our Common Stock. Low trading volume for our Common Stock, which may occur if an active trading market does not develop, among other reasons, would amplify the effect of the above factors on our stock price volatility.

Stock markets in general have experienced volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations could adversely affect the trading price of our Common Stock.

Substantial sales of the Common Stock may occur in connection with the Spin-Off, which could cause our stock price to decline.

Barnes & Noble stockholders that received shares of our Common Stock in the Spin-Off generally may sell those shares in the public market. Although we had and have no actual knowledge of any plan or intention of any significant stockholder to sell our Common Stock following the Spin-Off, it is likely that some Barnes & Noble stockholders, possibly including some of its larger stockholders, will sell their shares received in the Spin-Off if, for reasons such as our business profile or market capitalization as an independent company, we do not fit their investment objectives, or, in the case of index funds, we are not a participant in the index in which they are investing. The sales of significant amounts of our Common Stock or the perception in the market that this will occur may decrease the market price of our Common Stock.

The concentration of our capital stock ownership may limit our stockholders' ability to influence corporate matters and may involve other risks.

A portion of our capital stock is controlled by a few stockholders. This control may limit the ability of the Company's other stockholders to influence corporate matters and, as a result, we may take actions with which our other stockholders do not agree.

We do not intend to pay any cash dividends in the foreseeable future and, therefore, any return on your investment in our Common Stock must come from increases in the fair market value and trading price of our Common Stock.

We do not intend to pay cash dividends on our Common Stock in the foreseeable future. We expect to retain future earnings, if any, for reinvestment in our business. Also, our credit agreements may restrict our ability to pay dividends. Whether we pay

cash dividends in the future will be at the discretion of our Board and will be dependent upon our financial condition, results of operations, cash requirements, future prospects and any other factors our Board deems relevant. Therefore, any return on your investment in our Common Stock must come from increases in the fair market value and trading price of our Common Stock. For more information, see “Dividend Policy” in our Prospectus dated July 15, 2015 and filed with SEC on that date.

Your percentage ownership in the Company may be diluted in the future.

Your percentage ownership in the Company may be diluted in the future because of equity awards that we expect to grant to our directors, officers and other employees. We have an incentive plan that provides for the grant of Common Stock-based equity awards to our directors, officers and other employees. In addition, we may issue equity as all or part of the consideration paid for acquisitions and strategic investments that we may make in the future or as necessary to finance our ongoing operations.

Provisions in our Amended and Restated Certificate of Incorporation and Amended and Restated By-laws and of Delaware law may prevent or delay an acquisition of the Company, which could affect the trading price of our Common Stock.

Our Amended and Restated Certificate of Incorporation and our Amended and Restated By-laws contain provisions which, together with applicable Delaware law, may discourage, delay or prevent a merger or acquisition that our stockholders consider favorable, including provisions that:

- divide our Board into three staggered classes of directors that are each elected to three-year terms;
- prohibit stockholder action by written consent;
- authorize the issuance of “blank check” preferred stock that could be issued by our Board to increase the number of outstanding shares of capital stock, making a takeover more difficult and expensive;
- provide that special meetings of the stockholders may be called only by or at the direction of a majority of our Board or the chairman of our Board; and
- require advance notice to be given by stockholders for any stockholder proposals or director nominations.

In addition, Section 203 of the General Corporation Law of the State of Delaware, or the DGCL, may affect the ability of an “interested stockholder” to engage in certain business combinations, for a period of three years following the time that the stockholder becomes an “interested stockholder”.

These provisions may discourage, delay or prevent certain types of transactions involving an actual or a threatened acquisition or change in control of the Company, including unsolicited takeover attempts, even though the transaction may offer our stockholders the opportunity to sell their Common Stock at a price above the prevailing market price. See “Description of Our Capital Stock—Certain Provisions of Delaware Law, Our Amended and Restated Certificate of Incorporation and Amended and Restated By-laws” in our Prospectus dated July 15, 2015 and filed with SEC on that date for more information.

Our Amended and Restated By-laws designate courts in the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our Amended and Restated By-laws provide that, subject to limited exceptions, the state and federal courts of the State of Delaware are the sole and exclusive forum for (a) any derivative action or proceeding brought on our behalf, (b) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (c) any action asserting a claim arising pursuant to any provision of the DGCL, our Amended and Restated Certificate of Incorporation or our Amended and Restated By-laws or (d) any other action asserting a claim that is governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring or holding any interest in shares of our capital stock will be deemed to have notice of and to have consented to these provisions. This provision may limit a stockholder’s ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and employees.

Alternatively, if a court were to find this provision of our Amended and Restated By-laws inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds*Issuer Purchases of Equity Securities*

The following table provides information as of January 30, 2016 with respect to shares of common stock we purchased during the third quarter of fiscal 2016:

Period	Total Number of Shares Purchased	Average Price Paid per Share (a)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
November 1, 2015 - November 28, 2015	—	\$ —	—	\$ —
November 29, 2015 - January 2, 2016	164,823	\$ 10.00	164,823	\$ 48,360,214
January 3, 2016 - January 30, 2016	685,019	\$ 9.51	685,019	\$ 41,898,750
	<u>849,842</u>	<u>\$ 9.69</u>	<u>849,842</u>	

(a) This amount represents the average price paid per common share. This price includes a per share commission paid for all repurchases.

On December 14, 2015, our Board of Directors authorized a new stock repurchase program of up to \$50 million, in the aggregate, of our outstanding Common Stock. The stock repurchase program is carried out at the direction of management (which may or may not include a plan under Rule 10b5-1 of the Securities Exchange Act of 1934). The Common Stock may be repurchased on an ongoing basis. The stock repurchase program may be suspended, terminated, or modified at any time. Any repurchased shares will be held as treasury stock and will be available for general corporate purposes.

During the 39 weeks ended January 30, 2016, we also repurchased 40,719 shares of our Common Stock in connection with employee tax withholding obligations for vested stock awards.

Item 6. Exhibits

2. 1† Separation and Distribution Agreement, dated as of July 14, 2015, between Barnes & Noble, Inc. and Barnes & Noble Education, Inc., filed as Exhibit 2.1 to Report on Form 10-Q filed with the SEC on September 10, 2015, and incorporated herein by reference.
- 3.1† Amended and Restated Certificate of Incorporation of Barnes & Noble Education, Inc., filed as Exhibit 3.1 to the Report on Form 8-K filed with the SEC on August 3, 2015, and incorporated herein by reference.
- 3.2† Amended and Restated By-Laws of Barnes & Noble Education, Inc., filed as Exhibit 3.2 to the Report on Form 8-K filed with the SEC on August 3, 2015, and incorporated herein by reference.
10. 1† Transition Services Agreement, dated as of August 2, 2015, between Barnes & Noble Education, Inc. and Barnes & Noble, Inc., filed as Exhibit 10.1 to Report on Form 8-K filed with the SEC on August 3, 2015, and incorporated herein by reference.
- 10.2† Tax Matters Agreement, dated as of August 2, 2015, between Barnes & Noble Education, Inc. and Barnes & Noble, Inc., filed as Exhibit 10.2 to Report on Form 8-K filed with the SEC on August 3, 2015, and incorporated herein by reference.
- 10.3† Employee Matters Agreement, dated as of August 2, 2015, between Barnes & Noble Education, Inc. and Barnes & Noble, Inc., filed as Exhibit 10.3 to Report on Form 8-K filed with the SEC on August 3, 2015, and incorporated herein by reference.
- 10.4† Trademark License Agreement, dated as of August 2, 2015, between Barnes & Noble Education, Inc. and Barnes & Noble, Inc., filed as Exhibit 10.4 to Report on Form 8-K filed with the SEC on August 3, 2015, and incorporated herein by reference.
- 10.5† Credit Agreement, dated as of August 3, 2015, by and among Barnes & Noble Education, Inc., as borrower, the lenders party thereto, Bank of America, N.A., as administrative agent, and the other agents party thereto, filed as Exhibit 10.4 to Report on Form 8-K filed with the SEC on August 3, 2015, and incorporated herein by reference.
- 31.1 Certification by the Chief Executive Officer pursuant to Rule 13a-14(a)/15(d)-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification by the Chief Financial Officer pursuant to Rule 13a-14(a)/15(d)-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
- † Not filed herewith, but incorporated herein by reference.

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.

BARNES & NOBLE EDUCATION, INC.

(Registrant)

By: / s / BARRY BROVER

Barry Brover

Chief Financial Officer

(principal financial officer)

By: / s / SEEMA PAUL

Seema Paul

Chief Accounting Officer

(principal accounting officer)

March 9, 2016

EXHIBIT INDEX

31.1	Certification by the Chief Executive Officer pursuant to Rule 13a-14(a)/15(d)-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by the Chief Financial Officer pursuant to Rule 13a-14(a)/15(d)-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

**CERTIFICATION BY THE
CHIEF EXECUTIVE OFFICER PURSUANT TO
17 CFR 240.13a-14(a)/15(d)-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Max J. Roberts, certify that:

1. I have reviewed this report on Form 10-Q for the quarterly period ended January 30, 2016 of Barnes & Noble Education, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer 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: March 9, 2016

By: /s/ Max J. Roberts
Max J. Roberts
Chief Executive Officer
Barnes & Noble Education, Inc.

**CERTIFICATION BY THE
CHIEF FINANCIAL OFFICER PURSUANT TO
17 CFR 240.13a-14(a)/15(d)-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Barry Brover, certify that:

1. I have reviewed this report on Form 10-Q for the quarterly period ended January 30, 2016 of Barnes & Noble Education, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer 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: March 9, 2016

By: /s/ Barry Brover

Barry Brover

Chief Financial Officer

Barnes & Noble Education, Inc.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
RULE 13a-14(b) UNDER THE SECURITIES EXCHANGE ACT OF 1934
AND 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 Barnes & Noble Education, Inc. (the "Company") on Form 10-Q for the period ended January 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Max J. Roberts, Chief Executive Officer of the Company, certify, to the best of my knowledge, pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 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; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Max J. Roberts

Max J. Roberts

Chief Executive Officer

Barnes & Noble Education, Inc.

March 9, 2016

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
RULE 13a-14(b) UNDER THE SECURITIES EXCHANGE ACT OF 1934
AND 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 Barnes & Noble Education, Inc. (the "Company") on Form 10-Q for the period ended January 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Barry Brover, Chief Financial Officer of the Company, certify, to the best of my knowledge, pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 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; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Barry Brover

Barry Brover

Chief Financial Officer

Barnes & Noble Education, Inc.

March 9, 2016

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.