
**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 July 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 August 26, 2016, 46,072,893 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”) from Barnes & Noble (the “Spin-Off”). Under the Separation and Distribution Agreement between Barnes & Noble and the Company, 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.

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. 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. 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, our Common Stock began “regular-way” trading under the symbol “BNED.”

The results of operations for 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 13 weeks ended July 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 July 30, 2016
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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** (In thousands, except per share data) (unaudited)

	13 weeks ended	
	July 30, 2016	August 1, 2015
Sales:		
Product sales and other	\$ 217,736	\$ 218,716
Rental income	21,501	20,267
Total sales	239,237	238,983
Cost of sales:		
Product and other cost of sales	177,994	174,909
Rental cost of sales	13,830	12,530
Total cost of sales	191,824	187,439
Gross profit	47,413	51,544
Selling and administrative expenses	85,464	86,684
Depreciation and amortization expense	12,921	13,100
Restructuring costs	1,790	—
Operating loss	(52,762)	(48,240)
Interest expense, net	666	3
Loss before income taxes	(53,428)	(48,243)
Income tax benefit	(25,512)	(21,325)
Net loss	\$ (27,916)	\$ (26,918)
Other comprehensive loss	(9)	—
Total comprehensive loss	\$ (27,925)	\$ (26,918)
Loss per share of Common Stock:		
Basic	\$ (0.60)	\$ (0.65)
Diluted	\$ (0.60)	\$ (0.65)
Weighted average shares of Common Stock outstanding:		
Basic	46,349	41,426
Diluted	46,349	41,426

See accompanying notes to condensed consolidated financial statements.

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

	July 30, 2016	August 1, 2015	April 30, 2016
	(unaudited)	(unaudited)	(audited)
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 8,906	\$ 8,887	\$ 28,568
Receivables, net	38,898	35,461	50,924
Merchandise inventories, net	724,329	766,767	312,747
Textbook rental inventories	7,527	7,640	47,760
Prepaid expenses and other current assets	8,614	7,623	6,453
Total current assets	788,274	826,378	446,452
Property and equipment, net	107,347	108,783	111,185
Intangible assets, net	197,508	195,627	199,663
Goodwill	281,337	274,070	280,911
Other noncurrent assets	39,003	44,738	33,472
Total assets	\$ 1,413,469	\$ 1,449,596	\$ 1,071,683
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 560,163	\$ 596,786	\$ 152,175
Accrued liabilities	41,949	61,647	105,877
Total current liabilities	602,112	658,433	258,052
Long-term deferred taxes, net	35,636	49,772	29,865
Credit Facility borrowings	25,000	—	—
Other long-term liabilities	74,976	69,555	75,380
Total liabilities	737,724	777,760	363,297
Commitments and contingencies	—	—	—
Stockholders' equity:			
Parent company investment	—	671,836	—
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, 48,655, 0 and 48,645 shares, respectively; outstanding, 46,086, 0 and 46,755 shares, respectively	487	—	486
Accumulated other comprehensive (loss) income	(8)	—	1
Additional paid-in capital	701,401	—	699,512
Retained earnings	(914)	—	27,002
Treasury stock, at cost	(25,221)	—	(18,615)
Total stockholders' equity	675,745	671,836	708,386
Total liabilities and stockholders' equity	\$ 1,413,469	\$ 1,449,596	\$ 1,071,683

See accompanying notes to condensed consolidated financial statements.

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

	13 weeks ended	
	July 30, 2016	August 1, 2015
Cash flows from operating activities:		
Net loss	\$ (27,916)	\$ (26,918)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization expense	12,921	13,100
Amortization of deferred financing costs	163	—
Deferred taxes	5,772	8,039
Stock-based compensation expense	1,890	953
Change in other long-term liabilities	(404)	67
Changes in other operating assets and liabilities, net	(17,628)	14,314
Net cash flows (used in) provided by operating activities	(25,202)	9,555
Cash flows from investing activities:		
Purchases of property and equipment	(6,183)	(11,763)
Acquisition of business	(975)	—
Net increase in other noncurrent assets	(5,690)	(4,853)
Net cash flows used in investing activities	(12,848)	(16,616)
Cash flows from financing activities:		
Net changes in Barnes & Noble, Inc. Investment	—	(28,868)
Proceeds from borrowings on Credit Facility	25,900	—
Repayments of borrowings on Credit Facility	(900)	—
Purchase of treasury shares	(6,606)	—
Net cash flows provided by (used in) financing activities	18,394	(28,868)
Effect of exchange rate changes on cash and cash equivalents	(6)	—
Net decrease in cash and cash equivalents	(19,662)	(35,929)
Cash and cash equivalents at beginning of period	28,568	44,816
Cash and cash equivalents at end of period	\$ 8,906	\$ 8,887
Changes in other operating assets and liabilities, net:		
Receivables, net	\$ 12,566	\$ 41,090
Merchandise inventories	(411,585)	(469,343)
Textbook rental inventories	40,233	39,910
Prepaid expenses and other current assets	(2,062)	(2,998)
Accounts payable and accrued liabilities	343,220	405,655
Changes in other operating assets and liabilities, net	\$ (17,628)	\$ 14,314

See accompanying notes to condensed consolidated financial statements.

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

	<u>Common Stock</u>		<u>Additional</u>	<u>Accum.</u>		<u>Parent</u>	<u>Treasury Stock</u>		<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-In</u>	<u>Other</u>	<u>Retained</u>	<u>Company</u>	<u>Shares</u>	<u>Amount</u>	<u>Equity</u>
			<u>Capital</u>	<u>Comp.</u>	<u>Earnings</u>	<u>Investment</u>			
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 1, 2015	—	\$ —	\$ —	\$ —	\$ —	\$ 671,836	—	\$ —	\$ 671,836

	<u>Common Stock</u>		<u>Additional</u>	<u>Accum.</u>		<u>Parent</u>	<u>Treasury Stock</u>		<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-In</u>	<u>Other</u>	<u>Retained</u>	<u>Company</u>	<u>Shares</u>	<u>Amount</u>	<u>Equity</u>
			<u>Capital</u>	<u>Comp.</u>	<u>Earnings</u>	<u>Investment</u>			
Balance at April 30, 2016	48,645	\$ 486	\$ 699,512	\$ 1	\$ 27,002	\$ —	1,890	\$ (18,615)	\$ 708,386
Stock-based compensation expense			1,890						1,890
Vested equity awards	10	1	(1)						—
Common stock repurchased							676	(6,567)	(6,567)
Shares repurchased for tax withholdings for vested stock awards							3	(39)	(39)
Other comprehensive loss				(9)					(9)
Net loss					(27,916)				(27,916)
Balance at July 30, 2016	48,655	\$ 487	\$ 701,401	\$ (8)	\$ (914)	\$ —	2,569	\$ (25,221)	\$ 675,745

See accompanying notes to condensed consolidated financial statements.

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
For the 13 weeks ended July 30, 2016 and August 1, 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.

This Form 10-Q should be read in conjunction with our Audited Consolidated Financial Statements and accompanying Notes to consolidated financial statements in our Annual Report on Form 10-K for the year ended April 30, 2016, which includes consolidated financial statements for the Company for each of the three fiscal years ended April 30, 2016, May 2, 2015 and May 3, 2014 (Fiscal 2016, Fiscal 2015 and Fiscal 2014, respectively).

Note 1. Organization

Description of Business

Barnes & Noble Education, Inc., 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, enhances the academic and social purpose of educational institutions. As a strategic partner, we are committed to offering a complete support system and an unmatched retail and digital learning experience to foster student success in higher education. Through our wholly-owned subsidiary, Barnes & Noble College, we operate 770 campus bookstores and the school-branded e-commerce sites for each store, serving more than 5 million college students and their faculty nationwide. On August 2, 2015, we completed the legal separation from Barnes & Noble, Inc., at which time we began to operate as an independent publicly-traded company.

Overall educational spending in the United States continues to increase dramatically, and as tuition and other costs rise, colleges and universities face pressure to attract and retain students and provide them with innovative, affordable educational content and tools that support their educational development. While traditional print textbooks remain the first choice of students, demand for alternative forms of educational materials is growing.

We offer a comprehensive set of products and services to help students, faculty and administrators achieve their shared educational and social goals on college and university campuses across the United States. As one of the largest contract operators of bookstores and a provider of digital education services, we operate as a focal point for college life and learning, advancing the educational mission of our institution partners, enlivening campus culture and delivering an important revenue stream to our partner schools.

For over 5 million students and their faculty, our campus stores are a social and academic hub through which students can access affordable course materials and affinity products, including new and used print and digital textbooks, which are available for sale or rent; emblematic apparel and gifts; trade books; computer products; school and dorm supplies; café; convenience food and beverages; and graduation products. Through multi-year management service agreements with our schools, we typically have the exclusive right to operate the official school bookstore on college campuses. In turn, we pay the school a percentage of store sales and, in some cases, a minimum fixed guarantee. We create seamless retail experiences for our customers, both in our dynamic physical stores and on our official school-branded e-commerce sites for each school.

As of April 30, 2016, we operated 751 stores nationwide, which reached 26% of the total number of students enrolled at colleges and universities in the United States. During the 13 weeks ended July 30, 2016, we opened 33 stores and closed 14 stores. As of July 30, 2016, we operated 770 stores nationwide.

We are well positioned to benefit from the continuing trend towards outsourcing across the campus bookstore market given our brand, reputation with institutions, students and faculty for service and our full suite of products and services including: bookstore management, textbook rental and digital delivery.

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
For the 13 weeks ended July 30, 2016 and August 1, 2015
(Thousands of dollars, except share and per share data)
(unaudited)

Growth Drivers

The primary factors that we expect will enable us to grow our business are as follows:

- *Increase Market Share with New Accounts .*
- *Adapting our Merchandising Strategy and Product and Service Offerings.*
- *Scalable and Leading Digital Product and Solution Set .*
- *Expand Strategic Opportunities through Acquisitions and Partnerships .*

For additional information related to our Strategies, see *Part I - Item 2. Management Discussion and Analysis - Overview*.

Separation from Barnes & Noble, Inc.

On February 26, 2015, Barnes & Noble announced plans to spin-off its 100% equity interest in our Company ("Spin-Off"). 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. For details related to the Distribution of our Common Stock, see *Note 6. 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 10. Barnes & Noble, Inc. Transactions* .

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. 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. Due to the seasonal nature of the business, the results of operations for the 13 weeks ended July 30, 2016 are not indicative of the results expected for the 52 weeks ending April 29, 2017 (Fiscal 2017).

Stand-alone basis financial statements

The results of operations for the 13 weeks ended August 1, 2015 (period presented prior to the Spin-Off, which is referred to as the "stand-alone period") 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. For additional information, see *Note 10. 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 13 weeks ended July 30, 2016 (i.e. first quarter of Fiscal 2017) 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 10. Barnes & Noble, Inc. Transactions* .

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
For the 13 weeks ended July 30, 2016 and August 1, 2015
(Thousands of dollars, except share and per share data)
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Use of Estimates

In preparing financial statements in conformity with GAAP, we are required to make estimates and assumptions that affect the reported amounts in the condensed consolidated financial statements and accompanying notes. 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 and Deferred Revenue

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 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.

Cost of Sales

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

Selling and Administrative 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.

Goodwill

The costs in excess of net assets of businesses acquired are carried as goodwill in the accompanying condensed consolidated balance sheets. As of July 30, 2016, we had \$281,337 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

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
For the 13 weeks ended July 30, 2016 and August 1, 2015
(Thousands of dollars, except share and per share data)
(unaudited)

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 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates* in our Annual Report on Form 10-K for the year ended April 30, 2016 for a discussion of key assumptions used in our testing.

Change in Accounting Principle and Error Corrections

During the fourth quarter of Fiscal 2016, we adopted Accounting Standard Update ("ASU") No. 2015-17, *Income Taxes (Topic 740) - Balance Sheet Classification of Deferred Taxes ("ASU 2015-17")* retrospectively to simplify the presentation of deferred income taxes. The amendments in this update require that deferred tax liabilities and assets be classified as non-current in a classified statement of financial position. We reclassified our net current deferred tax asset of \$23,265 to the net non-current deferred tax liability in our condensed consolidated balance sheet as of August 1, 2015.

During the fourth quarter of Fiscal 2016, we identified an immaterial balance sheet error correction for cash and accounts payable amounts for prior periods reported. This correction was to record outstanding payments and overdraft cash concentration balances as part of cash and cash equivalents account from the previously recorded accounts payable account. We corrected the balance sheet for the period ended August 1, 2015 by decreasing cash and accounts payable by \$7,142 as a result of the immaterial balance sheet error correction. Management has assessed both quantitative and qualitative factors discussed in *ASC No. 250, Accounting Changes and Error Corrections* and *Staff Accounting Bulletin I.M, Materiality (SAB Topic I.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, or earnings per share reported in the financial statements for any prior period financial statements. Additionally, this balance sheet misstatement did not affect the debt covenants under our Credit Facility.

Note 3. Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued *Accounting Standard Update ("ASU") No. 2016-15, Statement of Cash Flow (Topic 230) ("ASU 2016-15")* to reduce diversity in practice over the presentation and classification of certain types of cash receipts and cash payments. The revised guidance seeks to achieve this objective by providing specific guidance over eight identified cash flow issues. We are required to adopt this standard in the first quarter of Fiscal 2019 and early adoption is permitted. The guidance will be applied on a retrospective basis beginning with the earliest period presented. We have evaluated the guidance of this new standard to determine the impact of adoption on our condensed consolidated financial statements and concluded that there is no impact at this time. We have elected to early adopt this guidance this quarter.

In February 2016, the FASB issued *ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02")* 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 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

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rewards transfer to the customer under the existing revenue guidance. In 2016, the FASB issued final amendments to clarify the implementation guidance for principal versus agent considerations, identifying performance obligations and the accounting for licenses of intellectual property. 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. Acquisition

Promoversity

In June 2016, we completed the purchase of substantially all of the assets of Promoversity, a custom merchandise supplier and e-commerce storefront solution serving the collegiate bookstore business and its customers. The acquisition will enable us to customize our e-commerce offerings and drive on-campus apparel sales. The acquisition purchase price was \$1,525, including working capital, and was financed with cash from operations. The preliminary allocation of the purchase price was based upon a valuation and our estimates and assumptions are subject to change within the purchase price allocation period (generally one year from the acquisition date). The preliminary purchase price was allocated primarily as follows: \$741 intangible assets (with a five year amortization period), \$428 goodwill, \$306 net current assets, and \$500 future performance-based obligations. This acquisition is not material to our condensed consolidated financial statements and therefore, disclosure of pro forma financial information has not been presented. The results of operations reflect the period of ownership of the acquired business.

Note 5. Segment Reporting

We have determined that we operate within one reportable segment. We identified our single 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. Our international operations are not material and the majority of the revenue and total assets are within the United States.

Note 6. Equity and Earnings Per Share

Equity

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 includes a plan under Rule 10b5-1 of the Securities Exchange Act of 1934). 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 July 30, 2016, we repurchased 676,048 shares for approximately \$6,567 at an average cost per share of \$10.03. As of July 30, 2016, approximately \$26,820 remains available under the stock repurchase program.

During the 13 weeks ended July 30, 2016, we also repurchased 3,686 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, Inc. 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, Inc. 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, Inc. which were considered participating securities.

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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. The following is a reconciliation of the basic and diluted loss per share calculation:

	13 weeks ended	
	July 30, 2016	August 1, 2015
Numerator for basic and diluted loss per share:		
Net loss available to common shareholders	\$ (27,916)	\$ (26,918)
Denominator for basic and diluted loss per share:		
Basic and Diluted weighted average shares of Common Stock	46,349	41,426
Loss per share of Common Stock:		
Basic	\$ (0.60)	\$ (0.65)
Diluted	\$ (0.60)	\$ (0.65)

Note 7. 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. The carrying amount of the outstanding borrowings under the Credit Facility of \$25,000 approximates its fair value.

Note 8. Credit Facility

Until August 3, 2015, we were party to an amended and restated credit facility with Barnes & Noble, Inc. as the lead borrower (as amended and modified to date, 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, we and certain of our subsidiaries, 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 "BNED Credit Facility"). The Company has the option to request an increase in commitments under the BNED Credit Facility of up to \$100,000 subject to certain restrictions. For additional information including interest terms and

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covenant requirements related to the BNED Credit Facility, refer to *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity* in our Annual Report on Form 10-K for the year ended April 30, 2016.

As of July 30, 2016, we had \$25,000 of outstanding borrowings under the BNED Credit Facility. During the 13 weeks ended July 30, 2016, we borrowed \$25,900 and repaid \$900 under the BNED Credit Facility. As of July 30, 2016, we have issued \$3,567 in letters of credit under the facility.

Note 9. Supplementary Information

Restructuring Costs

In Fiscal 2016, we implemented a plan to restructure our digital operations. Additionally, we announced a reduction in staff and closure of the facilities in Mountain View, California, and Redmond, Washington that supported the Yuzu[®] eTextbook platform. We recorded restructuring costs of \$8,830 in Fiscal 2016 comprised of \$3,216 in employee-related costs (including severance and retention), facility exit costs of \$5,046 and \$568 related to specific contracts. During the 13 weeks ended July 30, 2016, we recorded \$1,790 in additional restructuring costs primarily for employee related costs (including severance and retention). The majority of the restructuring related to employee matters was completed in the first quarter of Fiscal 2017.

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. We provide for minimum contract expense over the lease terms on a straight-line basis. The excess of such minimum contract expense over actual contract payments (net of school allowances) is reflected in other long-term liabilities and accrued liabilities in the condensed consolidated balance sheets. Long-term liabilities were comprised of the following:

	July 30, 2016	August 1, 2015	April 30, 2016
Tax liabilities and reserves	\$ 69,345	\$ 63,699	\$ 69,345
Deferred contract obligations ^(a)	4,166	4,052	4,164
Other	1,465	1,804	1,871
Total other long-term liabilities	<u>\$ 74,976</u>	<u>\$ 69,555</u>	<u>\$ 75,380</u>

(a) Contract obligations primarily consist of the payments we make to the colleges and universities to operate their official bookstores (management service agreement costs), including rent expense.

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.

Note 10. Barnes & Noble, Inc. Transactions

Our History with 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 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. For information about our history with Barnes & Noble, Inc. prior to the Spin-Off, see *Part I - Item 1. Financial Statements - Note 10. Barnes & Noble, Inc. Transactions* in our Annual Report on Form 10-K for the year ended April 30, 2016.

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

The results of operations for the 13 weeks ended August 1, 2015 (i.e. first quarter of Fiscal 2016, which is referred to as the "stand-alone period") reflected in our condensed consolidated financial statements are presented on a stand-alone basis since we were still part of Barnes & Noble, Inc.

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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 13 weeks ended July 30, 2016 (i.e. first quarter of Fiscal 2017) 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. For information about these agreements, see *Part I - Item 1. Financial Statements - Note 10. Barnes & Noble, Inc. Transactions* in our Annual Report on Form 10-K for the year ended April 30, 2016.

Summary of Transactions with Barnes & Noble

During the 13 weeks ended July 30, 2016 (i.e. first quarter of Fiscal 2017), we were billed \$8,213 for purchases of inventory and direct costs incurred under the agreements discussed above which are included as cost of sales and selling, general and administrative expense in the condensed consolidated statement of operations.

During the 13 weeks ended August 1, 2015 (i.e. first quarter of Fiscal 2016), we were allocated \$13,321, respectively, of general corporate expenses incurred by Barnes & Noble and purchases of inventory which are included as cost of sales and selling, general and administrative expense in the condensed consolidated statement of operations.

As of July 30, 2016, amounts due to Barnes & Noble, Inc. for book purchases and direct costs incurred under the agreements discussed above was \$8,089 and is included in accounts payable and accrued liabilities in the condensed consolidated balance sheets. As of August 1, 2015, amounts due to Barnes & Noble, Inc. related to intercompany loans, net of corporate allocations, income taxes, and purchases of inventory was \$113 and is included in Parent Company Investment in the condensed consolidated balance sheets.

Note 11. Employees' Defined Contribution Plan

Prior to the Spin-Off on August 2, 2015, Barnes & Noble, Inc. sponsored the defined contribution plan for the benefit of substantially all of our employees. Total contributions charged to employee benefit expenses for the defined contribution plan prior to the Spin-Off were based on amounts allocated to us on the basis of direct usage. See *Note 10. Barnes & Noble, Inc. Transactions*.

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Subsequent to the Spin-Off, we established a defined contribution plan for our employees ("Savings Plan") and Barnes & Noble, Inc. transferred to it the 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 these plans were \$1,249 and \$1,275 during the 13 weeks ended July 30, 2016 and August 1, 2015, respectively.

Note 12. Stock-Based Compensation

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

During the second quarter of Fiscal 2016, 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 shares ("PS").

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.

During the 13 weeks ended July 30, 2016, we granted employees 406,078 PS awards that will only vest based upon the achievement of pre-established performance goals related to Adjusted EBITDA and new business achieved measured over a period of time. The PS will vest based on company performance during Fiscal 2017 - Fiscal 2018 with one additional year of time-based vesting. The targets for achievement range from 0%-150%.

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

	13 weeks ended	
	July 30, 2016	August 1, 2015
Restricted stock expense	\$ 150	\$ 80
Restricted stock units expense	1,596	753
Performance shares expense	144	—
Stock option expense	—	120
Stock-based compensation expense	<u>\$ 1,890</u>	<u>\$ 953</u>

Total unrecognized compensation cost related to unvested awards as of July 30, 2016 was \$23,096 and is expected to be recognized over a weighted-average period of 2.1 years.

Note 13. Income Taxes

We recorded an income tax benefit of \$25,512 on a pre-tax loss of \$53,428 during the 13 weeks ended July 30, 2016, which represented an effective income tax rate of 47.8% and an income tax benefit of \$21,325 on pre-tax loss of \$48,243 during the 13 weeks ended August 1, 2015, which represented an effective income tax rate of 44.2%.

The income tax provision for the 13 weeks ended July 30, 2016 reflects the impact of nondeductible expenses, principally nondeductible compensation expense, partially offset by income tax credits. Management expects nondeductible compensation expense for the current fiscal year to be significantly higher than in previous years because of limitations on deductibility of certain elements of our compensation program imposed by Section 162(m) of the Internal Revenue Code. Management expects that nondeductible compensation in future fiscal years will be lower than the current fiscal year as our compensation plans are brought in alignment with performance based requirements.

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Note 14. 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.

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

Overview

Description of business

Barnes & Noble Education, Inc., 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, enhances the academic and social purpose of educational institutions. As a strategic partner, we are committed to offering a complete support system and an unmatched retail and digital learning experience to foster student success in higher education. Through our wholly-owned subsidiary, Barnes & Noble College, we operate 770 campus bookstores and the school-branded e-commerce sites for each store, serving more than 5 million college students and their faculty nationwide. On August 2, 2015, we completed the legal separation from Barnes & Noble, Inc., at which time we began to operate as an independent publicly-traded company.

Overall educational spending in the United States continues to increase dramatically, and as tuition and other costs rise, colleges and universities face pressure to attract and retain students and provide them with innovative, affordable educational content and tools that support their educational development. While traditional print textbooks remain the first choice of students, demand for alternative forms of educational materials is growing.

We offer a comprehensive set of products and services to help students, faculty and administrators achieve their shared educational and social goals on college and university campuses across the United States. As one of the largest contract operators of bookstores and a provider of digital education services, we operate as a focal point for college life and learning, advancing the educational mission of our institution partners, enlivening campus culture and delivering an important revenue stream to our partner schools.

For over 5 million students and their faculty, our campus stores are a social and academic hub through which students can access affordable course materials and affinity products, including new and used print and digital textbooks, which are available for sale or rent; emblematic apparel and gifts; trade books; computer products; school and dorm supplies; café; convenience food and beverages; and graduation products. Through multi-year management service agreements with our schools, we typically have the exclusive right to operate the official school bookstore on college campuses. In turn, we pay the school a percentage of store sales and, in some cases, a minimum fixed guarantee. We create seamless retail experiences for our customers, both in our dynamic physical stores and on our official school-branded e-commerce sites for each school.

As of April 30, 2016, we operated 751 stores nationwide, which reached 26% of the total number of students enrolled at colleges and universities in the United States. During the 13 weeks ended July 30, 2016, we opened 33 stores and closed 14 stores, with estimated annual net incremental sales of \$86 million. As of July 30, 2016, we operated 770 stores nationwide.

We are well positioned to benefit from the continuing trend towards outsourcing across the campus bookstore market given our brand, reputation with institutions, students and faculty for service and our full suite of products and services including: bookstore management, textbook rental and digital delivery.

Separation from and On-going Agreement with Barnes & Noble, Inc.

For information on our separation from and on-going agreements with Barnes & Noble, Inc. see *Item 1. Financial Statements — Note 10. Barnes & Noble, Inc. Transactions*.

Strength of Our Business

We enhance the academic and social purpose of educational institutions by providing essential educational content and tools within a dynamic retail environment. Our products and services improve academic outcomes, provide support to students, and create loyalty and retention, while also supporting the financial goals of the colleges and universities we serve. We provide more than course materials and merchandise - we work as a true partner with colleges and universities, aligned with their missions and goals by acting as a valuable support system for students and faculty. We deliver an attractive retail and digital learning experience driven by innovation, advanced technologies and a deep understanding of the evolving needs and behaviors of our students, faculty and administrators. Our competitive strengths are:

- **Large Footprint with Well-Recognized Brand** : We are one of the largest operators of bookstores on college and university campuses in the United States. As of April 30, 2016, we operated 751 stores in 43 states and the District of Columbia, which reached 26% of the total number of students enrolled at colleges and universities in the United States. The Barnes & Noble brand is virtually synonymous with bookselling, and we believe it is one of the most widely recognized and respected brands in the United States. Our large footprint and our reputation and credibility in the marketplace not only support our marketing efforts to universities, students and faculty, but are also important for leading publishers who rely on us as one of their primary distribution channels.

- *Stable, Long-Term Contracts:* We operate our stores under management contracts with colleges and universities that are typically for five-year terms with renewal options, but can range from one to 15 years, and are typically cancelable by either party without penalty with 90 to 120 days' notice. From Fiscal 2013 through Fiscal 2016, 94% of these contracts were renewed or extended, often before their termination dates. In addition, these contracts are financially beneficial to us as we typically pay the college or university a percentage of our sales, including certain contracts with minimum guarantee payments. Therefore, the expense related to our college and university contracts is primarily a function of each store's success. This arrangement is also beneficial to the colleges and universities, providing them with an incentive to encourage their students and faculty to shop at our affiliated stores.
- *Well-Established Relationships:* We have strong partnerships with college and university administrators, as well as with publishers, vendors and suppliers.
 - With an average relationship tenure of 15 years, we generate value for our college and university partners, and our relationships are supported by innovative engagement programs and educational initiatives. Our decentralized management structure empowers local teams to make decisions based on the local campus needs and foster collaborative working relationships with our partners.
 - We have long-term relationships with over 9,000 publishers, who can partner with us to access one of the largest distribution networks of college education materials in the United States.
- *Direct Access to Students and Faculty:* We have a flexible business model with excellent visibility into the needs of our customers, and the ability to achieve profitability typically within the first year of operation. Our stores serve as social hubs for over 5 million students and their faculty, allowing us to forge deep customer relationships and seamlessly integrate their systems with our technology. Our established position on campus as the official, contracted provider for bookstore services gives us direct access to students and faculty and translates into relatively modest customer acquisition costs and high customer conversion and retention rates. Our flexible research channels help us stay ahead of the rapidly changing needs and behaviors of our customers, and proactively respond with dynamic solutions. The ReFuel Agency College Explorer Study 2015 estimates \$523 billion total annual spending for tuition, housing, etc. and \$203 billion annual discretionary spending, such as for food, clothing, etc., for the college demographic. Brand partners looking to reach the college audience are also exploring how to leverage our unique position on campus to access the coveted demographic we serve.
- *Highly Relevant Digital Products and Services:* Our position as a strategic partner with our large footprint of existing and prospective colleges and universities allows us to use our suite of digital products and services to best serve their diverse needs and provides a broader scope of products and services beyond outsourcing of bookstore services. Digital products and services range from those related to providing accessible and affordable course materials solutions more directly related to our core business to analytic solutions designed to improve learning outcomes and retention rates.
- *Seasoned Management Team:* We have an experienced senior management team with a proven track record, and demonstrated expertise in college bookstore outsourcing and content distribution, marketing and retail operations, and in scaling digital educational products and services.

Growth Drivers

The primary factors that we expect will enable us to grow our business are as follows:

- *Increasing Market Share with New Accounts :* Historically, new store openings have been an important driver of growth. From Fiscal 2012 to the end of Fiscal 2016, we increased the number of stores we serve from 636 to 751, or 18%. During the 13 weeks ended July 30, 2016 , we opened 33 stores and closed 14 stores. As of July 30, 2016 , we operated 770 stores nationwide. Currently, approximately 52% of college and university affiliated bookstores in the United States are operated by their respective institutions. As of the end of Fiscal 2016, we operated only 19% of all college and university affiliated bookstores in the United States. Based on the anticipated continuing trend towards outsourcing in the campus bookstore market, we intend to aggressively pursue these opportunities and bid on these contracts. We expect new store openings will be the most important driver of future growth in our business.
- *Adapting our Merchandising Strategy and Product and Service Offerings :* We create on campus and online retail destinations with services students want, and capture market share through new product offerings; enhanced marketing efforts using mobile, search and other technologies; increased local social and promotional offerings; and a broad category assortment of general merchandise, including school spirit apparel and gifts, school supplies, computer and technology products, dorm furnishings, graduation products, and café, convenience food and beverage offerings, marketed to our growing student and alumni base. We also are actively working with publishers by offering them access to FacultyEnlight[®], our proprietary online platform, to expedite and better coordinate textbook adoption.

- *Scalable and Advanced Digital Product and Solution Set* : We leverage our digital technology platform to provide product and service offerings designed to address the most pressing issues in higher education, such as affordable and accessible course materials, retention solutions driven by our analytics platform, and products designed to drive and improve student outcomes.
- *Expanding Strategic Opportunities through Acquisitions and Partnerships* : We intend to pursue strategic relationships with companies that enhance our educational services or distribution platform, or create compelling content offerings. In Fiscal 2016, we acquired LoudCloud Systems, Inc., a sophisticated digital platform and analytics provider. 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. During the first quarter of Fiscal 2017, we acquired Promoversity, a custom merchandise supplier and e-commerce storefront solution serving the collegiate bookstore business and its customers. The acquisition will enable us to customize our e-commerce offerings and drive on-campus apparel sales.

Product and Service Offering

Our full suite of product offerings includes:

- *Textbook and Course Material Sales* : Textbooks are a core product offering of our business. We work directly with faculty to ensure 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 various means. During Fiscal 2016, we offered over 220,000 unique textbook titles for sale to support the course offerings on our campuses.
- *Textbook and Course Material Rentals* : Students are increasingly turning to renting as the most affordable way to obtain their textbooks, and we are an industry leader in textbook rentals. The majority of our robust title list is available for rent, including custom course packs and adaptive learning materials, along with traditional textbooks. We also 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, on campus at sporting and other events, 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. With our recent acquisition of Promoversity, a custom merchandise supplier and e-commerce storefront solution serving the collegiate bookstore business and its customers, we will be able to customize our e-commerce offerings and drive on-campus apparel sales. 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 April 30, 2016, we operated 80 customized cafés, featuring Starbucks Coffee[®], and 18 stand-alone convenience stores, 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 time spent in our stores.
- *Trade* : In our stores located on larger campuses, we carry an extensive selection of trade, academic and reference books, along with educational toys and games, and schedule store events, such as author signings, that extend beyond the academic community. The majority of our stores carry the most popular campus bestsellers, along with academically relevant titles.
- *Digital Education*: Using our LoudCloud platform (as described below), we offer a suite of digital content and learning materials to supplement our traditional products (textbooks and course materials) and help faculty provide a more robust educational experience for students. We enable educators to mix and author many forms of content, including eTextbooks and rich media, and provide them with adaptive analytics and assessment capabilities that, when combined, drive improved outcomes and better experiences for students.
- *Brand Partnerships*: United States college students spend billions on discretionary purchases each year in categories such as technology, clothing, entertainment, and food. As the official partner to the colleges and universities we serve, we are in a unique position to provide leading brands direct access to 5 million students who shop at our stores. We operate not just as a retailer, but as a media channel for these brands looking to target the college demographic. We are experts in creating strategic solutions and customer programs for brand partners, creating live touch points during the academic year through digital marketing, custom content, store brand building product sampling and live engagement at our locations in the center of campus life. We conduct business with a wide range of companies, including Adobe[®], Verizon[®], Nutella[®], Visa Checkout[®], West Elm[®] and Kind[®].

Platform Services

- *FacultyEnlight*®: Our proprietary online platform enhances content search, discovery and adoption (i.e. textbook selection) by faculty on each campus. Thus far, over 250,000 faculty members use FacultyEnlight® to compare and contrast key decision-making factors, such as cost savings to students and format availability (including rental and digital options); read and write peer product reviews; and see what textbooks are being used by colleagues at other colleges and universities. This wealth of available information enables faculty to find and select the course materials that are both relevant to their subject matter and affordable to their students. FacultyEnlight® also provides us with a communication platform to connect with faculty directly, allowing us to better understand their needs, preferences and challenges when it comes to the textbook adoption process, and deliver our affordability message.
- *Campus Connect Technologies*™: 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 with a particular emphasis on the needs of students and faculty. 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. Campus Connect Technologies™ platform includes:
 - *Simple Registration Integration* : By linking the online course registration process to the bookstore's e-commerce site, students can easily find their specific required course materials and purchase those materials immediately. They can view the list of necessary course materials and select their preferred format, delivery and payment method.
 - *Seamless LMS Integration* : By tying directly into the school's Learning Management System ("LMS"), faculty and students can easily purchase their course materials and leverage our single-sign on functionality - enabling a stronger connection between student, faculty and campus bookstore.
 - *Real-Time Financial Aid Platform* : To help simplify financial aid transactions, we provide a sophisticated, real-time Student Financial Aid ("SFA") platform that is fully-integrated with any college or university's financial aid systems and point-of-sale technology. This integration provides a direct and simple way for students to use their financial aid dollars in our stores and online, even before the start of classes.
 - *Dynamic Point of Sale ("POS") Platform* : We build a secure, highly customized checkout experience for each campus, greatly expediting and simplifying a student's shopping experience. Campus debit cards, financial aid and all major forms of tender are fully integrated, allowing students to check out from any register.
 - *Flexible Course Fee Solution* : Through this model, all required course materials for a particular course or program are included in the cost of tuition. Students are guaranteed the course materials they need in the format they prefer. Course materials can be picked up at the campus store, shipped directly to the student or delivered digitally.
- *LoudCloud Platform*: Our LoudCloud platform is a sophisticated digital platform and analytics system that includes a competency based courseware platform, a learning analytics platform, an eReading product, and a learning management system. Its software captures and analyzes key behavioral and performance metrics from students, allowing educators to monitor and improve student success. 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 allows for customization and the ability to support different educational models, and support additional capabilities, including competency-based learning and courseware development. These tools enable teachers to provide, and students to experience, a more personalized learning experience and improve student success rates. Additionally, our LMS platform helps institutions handle all aspects of the learning process, including delivery and management of instructional content, learning goals, assessment, course administration and reporting.

Segment

We have determined that we operate within a single reportable segment. We identified our single 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.

Seasonality

Our business is highly seasonal, with the major portion of sales and operating profit realized during the second and third fiscal quarters ("rush season"), when college students generally purchase and rent textbooks for the upcoming semesters. 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, by changes in enrollments at colleges and universities, and 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.

Historically, increasing enrollment has been a significant driver of sales growth at campus bookstores, a trend that is expected to continue. According to the National Center for Education Statistics of the U.S. Department of Education ("NCES"), total enrollment in post-secondary degree-granting institutions is expected to increase 15.5%, from 20.6 million in 2012 to 23.8 million in 2023 driven by increased demand for educational services.

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 competitors. 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. 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 four years, we have consistently opened new stores increasing our total number of stores open from 636 at the beginning of Fiscal 2012 to 751 at the end of Fiscal 2016. As of the end of the first quarter of Fiscal 2017, we operate 770 nationwide.

We continue to see increasing trends towards outsourcing in the campus bookstore market, including virtual bookstores and online marketplace websites. We also continue to see a variety of business models being pursued for the provision of textbooks, course materials and general merchandise. In addition to the competition in the services we provide to our customers, our textbook business faces significant price competition. Many students purchase from multiple textbook providers, are highly price sensitive and can easily shift spending from one provider or format to another. Some of our competitors have adopted, and may continue to adopt, aggressive pricing policies and devote substantial resources to marketing, website and systems development.

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 due to lower textbook unit volume, during the 52 weeks ended May 2, 2015, our comparable store sales trends improved for both textbooks and general merchandise. For the 52 weeks ended April 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 products in stores and online.

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

Prior to the recent restructuring of our digital operation, selling and administrative expenses had generally increased primarily as a result of our investments in Yuzu[®], our eTextbook platform. Additionally, selling and administrative expenses had increased due to infrastructure costs to support growth and costs associated with being an independent publicly-traded company. In an effort to reduce and manage digital expenditures, while at the same time maintaining high quality digital products, we restructured our digital operations in Fiscal 2016. Additionally, we announced a reduction in staff and closure of the facilities in Mountain View, California, and Redmond, Washington that support the Yuzu[®] eTextbook platform. We recorded restructuring costs of \$8.8 million in Fiscal 2016 comprised of employee-related costs (including severance and retention) and facility exit costs. During the 13 weeks ended July 30, 2016, we recorded \$1.8 million in additional restructuring costs primarily for employee related costs. The majority of the restructuring related to employee matters was completed in the first quarter of Fiscal 2017.

Additionally, we have effectively outsourced the Yuzu[®] eTextbook reading platform and have acquired LoudCloud Systems, Inc., a sophisticated digital platform and analytics provider. With the implementation of these initiatives, we expect to operate with a lower digital cost structure in Fiscal 2017, as compared to our historical Yuzu[®] digital spend in previous years.

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 primarily includes costs such as merchandise costs, textbook rental amortization and management service agreement costs, including rent expense, 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 our digital platform.

Stand-alone financial statements (Prior to the Spin-Off)

The results of operations for the 13 weeks ended August 1, 2015 (period presented prior to the Spin-Off, which is referred to as the "stand-alone period") 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. For additional information, see *Part I - Item 1. Financial Statements - Note 10. Barnes & Noble, Inc. Transactions*.

Consolidated financial statements (Subsequent to 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 13 weeks ended July 30, 2016 which includes direct costs incurred with Barnes & Noble under various agreements. Certain corporate and shared service functions historically provided by Barnes & Noble will continue to be provided by Barnes & Noble under the Transition Services Agreement. For additional information, see *Part I - Item 1. Financial Statements - Note 10. Barnes & Noble, Inc. Transactions*.

Results of Operations - Summary

	13 weeks ended	
	July 30, 2016	August 1, 2015
<i>Dollars in thousands</i>		
Sales:		
Product sales and other	\$ 217,736	\$ 218,716
Rental income	21,501	20,267
Total sales	<u>\$ 239,237</u>	<u>\$ 238,983</u>
Net loss	\$ (27,916)	\$ (26,918)
Adjusted EBITDA (non-GAAP) ^(a)	\$ (36,524)	\$ (35,140)
Adjusted Earnings (non-GAAP) ^(b)	\$ (25,885)	\$ (26,918)
Comparable store sales (decrease) increase ^(c)	(2.8)%	1.8%
Stores opened	33	21
Stores closed	14	9
Number of stores open at end of period	770	736

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

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

(c) Effective for the first quarter of Fiscal 2017, comparable store sales includes sales from stores that have been open for an entire fiscal year period, does not include sales from closed stores for all periods presented, and digital agency sales are included on a gross basis. We believe the current comparable store sales calculation method better reflects the manner in which management views comparable sales, as well as the seasonal nature of our business. For periods presented prior to the first quarter of Fiscal 2017, comparable store sales includes sales from stores that have been open for at least 15 months, does not include sales from closed stores for all periods presented, and includes digital agency sales on a net basis.

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	
	July 30, 2016	August 1, 2015
Sales:		
Product sales and other	91.0 %	91.5 %
Rental income	9.0	8.5
Total sales	100.0	100.0
Cost of sales:		
Product and other cost of sales (a)	81.7	80.0
Rental cost of sales (a)	64.3	61.8
Total cost of sales	80.2	78.4
Gross margin	19.8	21.6
Selling and administrative expenses	35.7	36.3
Depreciation and amortization expense	5.4	5.5
Restructuring costs	0.7	—
Operating loss	(22.0)	(20.2)
Interest expense, net	0.3	—
Loss before income taxes	(22.3)	(20.2)
Income tax benefit	(10.7)	(8.9)
Net loss	(11.6)%	(11.3)%

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

13 weeks ended July 30, 2016 compared with the 13 weeks ended August 1, 2015

Sales

The following table summarizes our sales for the 13 weeks ended July 30, 2016 and August 1, 2015:

	13 weeks ended	
	July 30, 2016	August 1, 2015
<i>Dollars in thousands</i>		
Product sales and other	\$ 217,736	\$ 218,716
Rental income	21,501	20,267
Total Sales	\$ 239,237	\$ 238,983

Our sales increased \$0.2 million, or 0.1%, to \$239.2 million during the 13 weeks ended July 30, 2016 from \$239.0 million during the 13 weeks ended August 1, 2015. New store openings increased sales by \$8.5 million, partially offset by closed stores, which decreased sales by \$1.8 million.

Comparable store sales decreased 2.8%, or \$6.2 million, for the comparable 13 week sales period. Textbook revenue decreased \$6.9 million, or 6.8%, during the summer semester, primarily due to lower new and used textbook sales. This decrease was partially offset by a \$1.6 million, or 1.6%, increase in general merchandise sales, primarily due to higher emblematic apparel and graduation product sales.

We added 33 new stores and closed 14 stores during the 13 weeks ended July 30, 2016, ending the period with a total of 770 stores.

Cost of Sales and Gross Margin

The following table summarizes our cost of sales for the 13 weeks ended July 30, 2016 and August 1, 2015 :

<i>Dollars in thousands</i>	13 weeks ended			
	July 30, 2016	% of Related Sales	August 1, 2015	% of Related Sales
Product and other cost of sales	\$ 177,994	81.7%	\$ 174,909	80.0%
Rental cost of sales	13,830	64.3%	12,530	61.8%
Total Cost of Sales	\$ 191,824	80.2%	\$ 187,439	78.4%

The following table summarizes our gross margin for the 13 weeks ended July 30, 2016 and August 1, 2015 :

<i>Dollars in thousands</i>	13 weeks ended			
	July 30, 2016	% of Related Sales	August 1, 2015	% of Related Sales
Product and other gross margin	\$ 39,742	18.3%	\$ 43,807	20.0%
Rental gross margin	7,671	35.7%	7,737	38.2%
Gross Margin	\$ 47,413	19.8%	\$ 51,544	21.6%

Our cost of sales increased as a percentage of sales to 80.2% during the 13 weeks ended July 30, 2016 compared to 78.4% during the 13 weeks ended August 1, 2015 . This was due to the factors discussed below.

Our gross margin decreased \$4.1 million, or 8.0%, to \$47.4 million, or 19.8% of sales, during the 13 weeks ended July 30, 2016 from \$51.5 million, or 21.6% of sales, during the 13 weeks ended August 1, 2015 . Gross margin as a percentage of sales decreased due to lower used textbook margin rates and higher costs related to our college and university contracts resulting from contract renewals and new store contracts, partially offset by a favorable sales mix as discussed below:

- Product and other gross margin decreased (170 basis points), driven primarily by lower margin rates (185 basis points), primarily related to increased markdowns on used textbooks in a non-rush, low volume sales quarter, and increased costs related to our college and university contracts (30 basis points) resulting from contract renewals and new store contracts, partially offset by a favorable sales mix (45 basis points) resulting from an increase in higher margin general merchandise as a percentage of sales.
- Rental gross margin decreased (250 basis points), driven primarily by increased costs related to our college and university contracts (120 basis points) resulting from contract renewals and new store contracts, lower rental margin rates (75 basis points) and an unfavorable rental mix (55 basis points).

Selling and Administrative Expenses

<i>Dollars in thousands</i>	13 weeks ended			
	July 30, 2016	% of Sales	August 1, 2015	% of Sales
Total Selling and Administrative Expenses	\$ 85,464	35.7%	\$ 86,684	36.3%

During the 13 weeks ended July 30, 2016 , selling and administrative expenses decreased \$1.2 million, or 1.4%, to \$85.5 million from \$86.7 million during the 13 weeks ended August 1, 2015 . The decrease was due primarily to a \$3.1 million decrease in digital expenses related to Yuzu[®] and LoudCloud and a \$2.5 million decrease in comparable store payroll and operating expenses, partially offset by a \$2.5 million increase in new store payroll and operating expenses (net of closed stores) and \$1.5 million of transaction costs incurred for business development and acquisitions.

Depreciation and Amortization Expense

<i>Dollars in thousands</i>	13 weeks ended			
	July 30, 2016	% of Sales	August 1, 2015	% of Sales
Total Depreciation and Amortization Expense	\$ 12,921	5.4%	\$ 13,100	5.5%

Depreciation and amortization remained flat during the 13 weeks ended July 30, 2016 compared to the 13 weeks ended August 1, 2015 .

Restructuring Costs

In Fiscal 2016, we implemented a plan to restructure our digital operations. Additionally, we announced a reduction in staff and closure of the facilities in Mountain View, California, and Redmond, Washington that supported the Yuzu[®] eTextbook platform. We recorded restructuring costs of \$8.8 million in Fiscal 2016 comprised of employee-related costs (including severance and retention) and facility exit costs. During the 13 weeks ended July 30, 2016, we recorded \$1.8 million in additional restructuring costs primarily for employee related costs (including severance and retention). The majority of the restructuring related to employee matters was completed in the first quarter of Fiscal 2017.

Operating Loss

Dollars in thousands	13 weeks ended			
	July 30, 2016	% of Sales	August 1, 2015	% of Sales
Total Operating Loss	\$ (52,762)	(22.0)%	\$ (48,240)	(20.2)%

Our operating loss was \$52.8 million during the 13 weeks ended July 30, 2016 compared to operating loss of \$48.2 million during the 13 weeks ended August 1, 2015. This decrease was due to the matters discussed above. Excluding the restructuring costs of \$1.8 million, and transaction costs (included in selling and administrative expenses) of \$1.5 million, operating loss was \$49.4 million (or 20.7% of sales) during the 13 weeks ended July 30, 2016, compared with operating loss of \$48.2 million during the 13 weeks ended August 1, 2015.

Interest Expense, Net

Dollars in thousands	13 weeks ended	
	July 30, 2016	August 1, 2015
Interest Expense, Net	\$ 666	\$ 3

Net interest expense increased during the 13 weeks ended July 30, 2016 primarily due to increased borrowings under the Credit Facility entered into during Fiscal 2016.

Income Tax Expense

Dollars in thousands	13 weeks ended			
	July 30, 2016	Effective Rate	August 1, 2015	Effective Rate
Income Tax Benefit	\$ (25,512)	47.8%	\$ (21,325)	44.2%

We recorded an income tax benefit of \$25.5 on a pre-tax loss of \$53.4 during the 13 weeks ended July 30, 2016, which represented an effective income tax rate of 47.8% and an income tax benefit of \$21.3 on pre-tax loss of \$48.2 during the 13 weeks ended August 1, 2015, which represented an effective income tax rate of 44.2%.

The income tax provision for the 13 weeks ended July 30, 2016 reflects the impact of nondeductible expenses, principally nondeductible compensation expense, partially offset by income tax credits. Management expects nondeductible compensation expense for the current fiscal year to be significantly higher than in previous years because of limitations on deductibility of certain elements of our compensation program imposed by Section 162(m) of the Internal Revenue Code. Management expects that nondeductible compensation in future fiscal years will be lower than the current fiscal year as our compensation plans are brought in alignment with performance based requirements.

Net Loss

Dollars in thousands	13 weeks ended	
	July 30, 2016	August 1, 2015
Net Loss	\$ (27,916)	\$ (26,918)

As a result of the factors discussed above, we reported net loss of \$27.9 million during the 13 weeks ended July 30, 2016, compared with net loss of \$26.9 million during the 13 weeks ended August 1, 2015. Adjusted Earnings (non-GAAP) is \$(25.9) million during the 13 weeks ended July 30, 2016, compared with \$(26.9) million during the 13 weeks ended August 1, 2015. See *Adjusted Earnings (non-GAAP)* discussion below.

Use of Non-GAAP Measures - Adjusted EBITDA and Adjusted Earnings

To supplement our results prepared in accordance with GAAP, we use the measure of Adjusted EBITDA and Adjusted Earnings, which are non-GAAP financial measures under Securities and Exchange Commission (the “SEC”) regulations. We define Adjusted EBITDA as net income 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. We define Adjusted Earnings as net income as adjusted for additional items and subtracted from or added to net income.

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

These non-GAAP financial measures are not intended as substitutes for and should not be considered superior to measures of financial performance prepared in accordance with GAAP. In addition, our use of these non-GAAP financial measures may be different from similarly named measures used by other companies, limiting their usefulness for comparison purposes. These non-GAAP financial measures should not be considered as alternatives to net income as an indicator of our performance or any other measures of performance derived in accordance with GAAP.

We review these Non-GAAP financial measures as internal measures to evaluate our performance and manage our operations. We believe that these measures are useful performance measures which are used by us to facilitate a comparison of our on-going operating performance on a consistent basis from period-to-period. We believe that these Non-GAAP financial measures provide for a more complete understanding of factors and trends affecting our business than measures under GAAP can provide alone, as it excludes certain items that do not reflect the ordinary earnings of our operations. Our Board of Directors and management also use Adjusted EBITDA as one of the primary methods for planning and forecasting overall expected performance, for evaluating on a quarterly and annual basis actual results against such expectations, and as a measure for performance incentive plans. We believe that the inclusion of Adjusted EBITDA and Adjusted Earnings results provides investors useful and important information regarding our operating results.

Adjusted EBITDA (non-GAAP)

	13 weeks ended	
	July 30, 2016	August 1, 2015
<i>Dollars in thousands</i>		
Net loss	\$ (27,916)	\$ (26,918)
Add:		
Depreciation and amortization expense	12,921	13,100
Interest expense, net	666	3
Income tax benefit	(25,512)	(21,325)
Restructuring costs ^(a)	1,790	—
Transaction costs ^(b)	1,527	—
Adjusted EBITDA (non-GAAP) ^(c)	\$ (36,524)	\$ (35,140)

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

(b) Transaction costs are costs incurred for business development and acquisitions, and are included in selling and administrative expenses in the condensed consolidated statements of operations.

(c) See *Use of Non-GAAP Measures* discussion above.

Adjusted Earnings (non-GAAP)

<i>Dollars in thousands</i>	13 weeks ended	
	July 30, 2016	August 1, 2015
Net loss	\$ (27,916)	\$ (26,918)
Reconciling items, after-tax (<i>below</i>)	2,031	—
Adjusted Earnings (non-GAAP) ^(a)	<u>\$ (25,885)</u>	<u>\$ (26,918)</u>
Reconciling items, pre-tax		
Restructuring costs ^(b)	\$ 1,790	\$ —
Transaction costs ^(c)	1,527	—
Reconciling items, pre-tax	3,317	—
Less: Pro forma income tax impact ^(d)	1,286	—
Reconciling items, after-tax	<u>\$ 2,031</u>	<u>\$ —</u>

(a) See *Use of Non-GAAP Measures* discussion above.

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

(c) Transaction costs are costs incurred for business development and acquisitions, and are included in selling and administrative expenses in the condensed consolidated statements of operations.

(d) Represents the projected reduction in income tax expense based on our current combined federal and state aggregate income tax rate.

Liquidity and Capital Resources

Our primary sources of cash are net cash flows from operating activities, funds available under a credit facility and short-term vendor financing.

Prior to the Spin-Off on August 2, 2015, we were party to the Credit Facility held by Barnes & Noble, Inc. ("B&N Credit Facility"). All outstanding debt under the B&N Credit Facility was recorded on Barnes & Noble's balance sheet prior to the Spin-Off on August 2, 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 "BNED 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 July 30, 2016, we had outstanding borrowings of \$25.0 million under the BNED Credit Facility.

As of July 30, 2016, Other long-term liabilities includes \$69.3 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 includes a plan under Rule 10b5-1 of the Securities Exchange Act of 1934). 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 July 30, 2016, we repurchased 676,048 shares for approximately \$6.6 million at an average cost per share of \$10.03. As of July 30, 2016, approximately \$26.8 million remains available under the stock repurchase program.

During the 13 weeks ended July 30, 2016, we also repurchased 3,686 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>	13 weeks ended	
	July 30, 2016	August 1, 2015
Cash and cash equivalents at beginning of period	\$ 28,568	\$ 44,816
Net cash flows (used in) provided by operating activities	(25,202)	9,555
Net cash flows used in investing activities	(12,848)	(16,616)
Net cash flows provided by (used in) financing activities	18,394	(28,868)
Effect of exchange rate changes on cash and cash equivalents	(6)	—
Cash and cash equivalents at end of period	\$ 8,906	\$ 8,887

Cash Flow from Operating Activities

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.

Cash flows used in operating activities during the 13 weeks ended July 30, 2016 were \$(25.2) million compared to cash flows provided by operating activities of \$9.6 million during the 13 weeks ended August 1, 2015. This net change of \$34.8 million was primarily due to changes in working capital, including receipts of a \$38.2 million receivable from Barnes & Noble, Inc., which was paid at the time of the Spin-Off.

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, digital initiatives and enhancements to internal systems and our website.

Cash flows used in investing activities during the 13 weeks ended July 30, 2016 were \$(12.8) million compared to \$(16.6) million during the 13 weeks ended August 1, 2015. Capital expenditures totaled \$6.2 million and \$11.8 million during the 13 weeks ended July 30, 2016 and August 1, 2015, respectively.

Cash Flow from Financing Activities

Cash flows provided by financing activities during the 13 weeks ended July 30, 2016 were \$18.4 million compared to cash flows used in financing activities of \$28.9 million during the 13 weeks ended August 1, 2015. This net change of \$47.3 primarily due to the net change in the Barnes & Noble, Inc. investment of \$28.9 million, credit facility borrowings of \$25.0 million, offset by increased payments for Common Stock repurchased of \$6.6 million.

Financing Arrangements

Until August 3, 2015, we were party to an amended and restated credit facility with Barnes & Noble, Inc. as the lead borrower (as amended and modified to date, 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, we and certain of our subsidiaries, 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 \$400.0 million (the "BNED Credit Facility"). The Company has the option to request an increase in commitments under the BNED Credit Facility of up to \$100.0 million, subject to certain restrictions. For additional information including interest terms and covenant requirements related to the BNED Credit Facility, refer to *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity* in our Annual Report on Form 10-K for the year ended April 30, 2016.

As of July 30, 2016, we had \$25.0 million of outstanding borrowings under the BNED Credit Facility. During the 13 weeks ended July 30, 2016, we borrowed \$25.9 million and repaid \$0.9 million under the BNED Credit Facility. As of July 30, 2016, we have issued \$3.6 million in letters of credit under the facility.

We believe that our future cash from operations, access to borrowings under the BNED 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

Our projected contractual obligations are consistent with amounts disclosed in *Part II - Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources* in our Annual Report on Form 10-K for the year ended April 30, 2016.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies

There were no changes in the Company's policies regarding the use of estimates and other critical accounting policies. See *Part II - Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates* in our Annual Report on Form 10-K for the year ended April 30, 2016.

Recent Accounting Pronouncements

See *Item 1. Financial Statements — Note 3. Recent Accounting Pronouncements* of this Form 10-Q 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;
- 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, 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;
- our ability to attract and retain employees;
- 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 and higher-than-anticipated store closings;
- disruptions to our computer systems, data lines, telephone systems or supply chain, including the loss of suppliers;
- work stoppages or increases in labor costs;
- possible increases in shipping rates or interruptions in shipping service, effects of competition;
- obsolete or excessive inventory;
- product shortages;
- 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;
- challenges to running our company independently from Barnes & Noble, Inc. following the Spin-Off;
- the potential adverse impact on our business resulting from the Spin-Off; and
- the other risks and uncertainties detailed in the section titled “*Risk Factors*” in Part I - Item 1A in our Annual Report on Form 10-K for the year ended April 30, 2016.

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

There have been no material changes to the items discussed in *Item 7A. Quantitative and Qualitative Disclosures About Market Risk* in our Annual Report on Form 10-K for the year ended April 30, 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, Inc. 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 court held a trial on June 23-24 and July 15, 2016 to determine the damage award related to the ‘703 patent. Adrea filed its post-trial brief on August 5, 2016; B&N’s response brief is due August 26, 2016, and Adrea’s reply brief will be due September 8, 2016.

Item 1A. Risk Factors

There have been no material changes during the 13 weeks ended July 30, 2016 to the risk factors discussed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended April 30, 2016.

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

Issuer Purchases of Equity Securities

The following table provides information as of July 30, 2016 with respect to shares of common stock we purchased during the first quarter of Fiscal 2017:

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
May 1, 2016 - May 28, 2016	288,833	\$ 9.23	288,833	\$ 30,710,895
May 29, 2016 - July 2, 2016	281,943	\$ 9.78	281,943	\$ 27,966,624
July 3, 2016 - July 30, 2016	105,272	\$ 11.17	105,272	\$ 26,819,867
	<u>676,048</u>	<u>\$ 10.03</u>	<u>676,048</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 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 includes a plan under Rule 10b5-1 of the Securities Exchange Act of 1934). 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 July 30, 2016, we also repurchased 3,686 shares of our Common Stock in connection with employee tax withholding obligations for vested stock awards.

Item 6. Exhibits

10.1	Barnes & Noble Education, Inc. Equity Award Plan Performance Share Award Agreement.
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

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)

September 8, 2016

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PERFORMANCE SHARE AWARD AGREEMENT

**Issued Pursuant to the
Barnes & Noble Education, Inc. Equity Incentive Plan**

THIS PERFORMANCE SHARE AWARD AGREEMENT (“Agreement”), effective as of the grant date (“Grant Date”) set forth in the attached Performance Share Award Certificate (the “Certificate”), represents the grant of such target number of performance-based shares subject to performance-based and any other vesting criteria (“Performance Shares”) set forth in the Certificate by Barnes & Noble Education, Inc. (the “Company”), to the person named in the Certificate (the “Participant”), subject to the terms and conditions set forth below, the Certificate, and the provisions of the Barnes & Noble Education, Inc. Equity Incentive Plan, as may be amended from time to time (the “Plan”).

All capitalized terms shall have the meanings ascribed to them in the Plan, unless specifically set forth otherwise herein. The parties hereto agree as follows:

1. **Grant of Performance Shares.** The Company hereby grants to the Participant the number of Performance Shares set forth in the Certificate. The portion of the Performance Shares that will be earned based on the attainment of certain financial goals (the “Performance Metrics”) during a specific period of time (the “Performance Period”) under a specified formula (including the maximum number of Performance Shares that are eligible to be earned), each of which is set forth in the Certificate, shall be determined by the Committee. Following the end of the Performance Period, the Committee shall certify the level of attainment of the Performance Metrics and the Performance Shares earned as a result thereof. Such earned Performance Shares may be subject to additional vesting requirements, including, but not limited to time vesting requirements as established by the Committee.
2. **Vesting Period.** (a) In General. Subject to the terms of this Agreement, the Certificate and the Plan, Performance Shares granted hereunder are eligible to vest as indicated in the Certificate at the end of the Performance Period or, if the Committee has established additional vesting requirements, once such requirements have been satisfied (the “Vesting Date”). The Participant must be continuously employed by the Company or any of its Affiliates from the Grant Date through the Vesting Date. Except as set forth in Section 6 or Section 13 below, if the Participant’s employment terminates before the Performance Shares have vested, the unvested Performance Shares held as of the date of termination of employment shall be forfeited.
(b) Vesting. Except as set forth in this Agreement, a Participant shall not have any rights to the Performance Shares granted hereunder prior to the date such Performance Shares vest pursuant to the vesting schedule set forth in the Certificate.
3. **Voting Rights.** All Performance Shares issued hereunder, whether vested or unvested, shall have full voting rights accorded to outstanding Shares.
4. **Dividend Rights.** (a) Cash Dividends. The Participant shall be entitled to receive any cash dividends paid with respect to the Performance Shares granted hereunder. Any such cash dividends shall not be distributed to the Participant unless, until and except to the extent that the Performance Shares vest.
(b) Non-Cash Dividends. Any stock dividends or other distributions or dividends of property other than cash with respect to the Shares underlying these Performance Shares granted hereunder shall be subject to the same forfeiture restrictions and restrictions on transferability as apply to the Performance Shares with respect to which such property was paid.
5. **Nontransferability.** (a) In General. Except as may be provided in Section 5(b) below, these Performance Shares granted hereunder may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution, except as provided in the Plan. No assignment or transfer of any Performance Shares in violation of this Section 5, whether voluntary or involuntary, by operation of law or otherwise, except by will or the laws of descent and distribution or as otherwise required by applicable law, shall vest in the assignee or transferee any interest whatsoever.
(b) Transfers With The Consent of the Committee. With the consent of the Committee, a Participant may assign or transfer unvested Performance Shares to the Participant’s spouse, domestic partner and/or children (and/or trusts and/or partnerships established for the benefit of the Participant’s spouse, domestic partner and/or children or in which the Participant is a beneficiary or partner) (each transferee thereof, a “Permitted Assignee”); provided, however, that such Permitted Assignee(s) shall be bound by and subject to all of the terms and conditions of the Plan, the Certificate and this Agreement

relating to the transferred Performance Shares and shall execute an agreement satisfactory to the Company evidencing such obligations; and provided further that such Participant shall remain bound by the terms and conditions of the Plan, the Certificate and this Agreement. Notwithstanding the foregoing, in no event shall the Performance Shares (or any rights and obligations thereunder) be transferred to a third party in exchange for value unless such transfer is specifically approved by the Company's stockholders. The Company shall cooperate with any Permitted Assignee and the Company's transfer agent in effectuating any transfer permitted under this Section 5(b).

6. **Termination.** (a) Death. In the event a Participant dies while employed by the Company or any of its Affiliates, a number of Performance Shares equal to the target number of Performance Shares awarded (as set forth in the Certificate) shall immediately vest in the estate of such Participant or in any person who acquired such Performance Shares by bequest or inheritance, or by the Permitted Assignee. References in this Agreement to a Participant shall include any person who acquired Performance Shares from such Participant by bequest or inheritance.

(b) Disability. In the event a Participant ceases to perform services of any kind for the Company or any of its Affiliates due to permanent and total disability, a number of Performance Shares equal to the target number of Performance Shares awarded (as set forth in the Certificate) shall immediately vest in the Participant, or his or her guardian or legal representative, or a Permitted Assignee, as of the first date of permanent and total disability (as determined in the sole discretion of the Committee). For purposes of this Agreement, the term "permanent and total disability" means the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months, and the permanence and degree of which shall be supported by medical evidence satisfactory to the Committee. Notwithstanding anything to the contrary set forth herein, the Committee shall determine, in its sole and absolute discretion, (1) whether a Participant has ceased to perform services of any kind due to a permanent and total disability and, if so, (2) the first date of such permanent and total disability.

7. **Recoupment.** The Committee may, in its sole discretion, direct that the Performance Shares be cancelled or that the Company recoup, and upon demand by the Company, the Participant agrees to return to the Company, any gain realized under a previously paid Performance Share if (a) the Participant, without the consent of the Company, while employed by or providing services to the Company or any of its Affiliates, (i) violates a non-competition, non-solicitation or non-disclosure agreement, (ii) otherwise engages in activity that is in conflict with or adverse to the interest of the Company or any Affiliate, including fraud or conduct contributing to any financial restatements or irregularities or (iii) to the extent applicable to the Participant, otherwise violates any policy adopted by the Company or any of its Affiliates relating to the recovery of compensation granted, paid, delivered, awarded or otherwise provided to the Participant by the Company or any of its Affiliates as such policy is in effect on the date of grant of the Performance Shares or, to the extent necessary to address the requirements of applicable law (including Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as codified in Section 10D of the Exchange Act, Section 304 of the Sarbanes-Oxley Act of 2002 or any other applicable law), as may be amended from time to time or (b) if a financial restatement reduces the amount that would have been earned under such PSU. The amount to be recouped shall be determined by the Committee in its sole discretion but shall not exceed the Fair Market Value of the Performance Shares that vested under this Agreement. If after a demand for recoupment under this Section 7, the Participant fails to return any amount paid by the Company, the Participant acknowledges that the Company has the right to effect the recovery of the amount paid and the amount of its court costs, attorneys' fees and other costs and expenses incurred in connection with enforcing this Agreement.

8. **Administration.** (a) Generally. This Agreement and the rights of the Participant hereunder and under the Certificate are subject to all the terms and conditions of the Plan, as the same may be amended from time to time, as well as to such rules and regulations as the Committee may adopt for administration of the Plan. It is expressly understood that the Committee is authorized to administer, construe, and make all determinations necessary or appropriate to the administration of the Plan, this Agreement and the Certificate, all of which shall be binding upon the Participant and Permitted Assignees. Any inconsistency between this Agreement or the Certificate (on the one hand) and the Plan (on the other hand) shall be resolved in favor of the Plan.

(b) Conflicts. The order of precedence as between the Plan, this Agreement or the Certificate, and any written employment agreement between the Participant and the Company shall be as follows: If there is any inconsistency between (i) the terms of this Agreement or the Certificate (on the one hand) and the terms of the Plan (on the other hand); or (ii) any such written employment agreement (on the one hand) and the terms of the Plan (on the other hand), the Plan's terms shall completely supersede and replace the conflicting terms of this Agreement, the Certificate or the written employment agreement (as the case may be). If there is any inconsistency between the terms of this Agreement or the Certificate (on the one hand) and the terms of Participant's written employment agreement, if any (on the other hand), the terms of this Agreement or the Certificate (as the case may be) shall completely supersede and replace the conflicting terms of the written employment

agreement unless such written employment agreement was approved by the Committee, in which event such written employment agreement shall completely supersede and replace the conflicting terms of this Agreement or the Certificate (as the case may be).

9. **Adjustments.** The number of Performance Shares granted hereunder shall be subject to adjustment in accordance with Section 12.2 of the Plan.

10. **Exclusion from Other Computations.** By acceptance of these Performance Shares granted hereunder, the Participant hereby agrees that any income or gain realized upon the receipt or disposition of the Performance Shares is special incentive compensation and shall not be taken into account, to the extent permissible under applicable law, as “wages,” “salary” or “compensation” in determining the amount of any payment under any pension, retirement, incentive, profit sharing, bonus, severance or deferred compensation plan of the Company or any of its Affiliates.

11. **Withholding Taxes.** The Company shall have the right to withhold from wages or other amounts otherwise payable to the Participant (or a Permitted Assignee thereof), or otherwise require the Participant or Permitted Assignee to pay, any federal, state, local or foreign income taxes, withholding taxes, or employment taxes required to be withheld by law or regulations (“Withholding Taxes”) arising as a result of the grant or vesting of Performance Shares, the transfer of any Performance Shares or any other taxable event occurring pursuant to the Plan, this Agreement or the Certificate. If, notwithstanding the foregoing, the Participant (or Permitted Assignee) shall fail to actually or constructively make such tax payments as are required, the Company (or its Affiliates) shall, to the extent permitted by law, have the right to deduct any such Withholding Taxes from any payment of any kind otherwise due to such Participant or Permitted Assignee or to take such other action as may be necessary to satisfy such Withholding Taxes. In satisfaction of the requirement to pay Withholding Taxes, the Company, in its sole discretion, may elect to satisfy the obligation for Withholding Taxes by retaining a sufficient number of Shares that it would otherwise deliver on a particular vesting date equal to the amount of any Withholding Taxes due on such vesting date. For purposes of the preceding sentence, where the Company is to retain Shares to satisfy the obligation for Withholding Taxes, the net amount of Shares to be delivered to the Participant on a vesting date shall equal the total number of Shares otherwise deliverable to the Participant on such vesting date (pursuant to Section 2(c) hereof and the Certificate), less such number of Shares having an aggregate Fair Market Value equal to the amount of such Withholding Taxes (as determined in the Committee’s sole discretion).

12. **Registration; Legend.** The Company may postpone the issuance and delivery of any Performance Shares granted hereunder until (a) the admission of such Shares to listing on any stock exchange or exchanges on which Shares of the Company of the same class are then listed and (b) the completion of such registration or other qualification of such Shares under any state or federal law, rule or regulation as the Company shall determine to be necessary or advisable. The Participant shall make such representations and furnish such information as may, in the opinion of counsel for the Company, be appropriate to permit the Company, in light of the then existence or non-existence with respect to such Shares of an effective Registration Statement under the Securities Act of 1933, as amended, to issue the Shares in compliance with the provisions of that or any comparable act.

The Company may cause the following or a similar legend to be set forth on each certificate representing Performance Shares granted hereunder unless counsel for the Company is of the opinion as to any such certificate that such legend is unnecessary:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY BE SUBJECT TO FORFEITURE AND OTHER LIMITATIONS AND RESTRICTIONS AS SET FORTH IN A PERFORMANCE SHARE AWARD AGREEMENT ON FILE WITH THE COMPANY. IN ADDITION, THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE OFFERED FOR SALE, SOLD OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “ACT”), OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE ACT, THE AVAILABILITY OF WHICH IS ESTABLISHED BY AN OPINION FROM COUNSEL TO THE COMPANY.

13. **Change of Control.** (a) In the event of the occurrence of a Change of Control of the Company, the Performance Shares shall be treated in accordance with Article 11 of the Plan.

(b) Notwithstanding the foregoing, in the event of a termination of the Participant’s employment by the successor company within 24 months following such Change of Control, these Performance Shares granted hereunder or any award substituted therefor held by the Participant at the time of the Change of Control shall vest as of the day immediately preceding the date of termination unless the termination was made by the successor company for cause. For purposes of this Agreement, “cause” shall mean either (i) material failure by the Participant to perform his or her duties (other than as a result of incapacity due to physical or mental illness) during his or her employment with the Company after written notice of such

breach or failure and the Participant failed to cure such breach or failure to the Company's reasonable satisfaction within five days after receiving such written notice; or (ii) any act of fraud, misappropriation, misuse, embezzlement or any other material act of dishonesty in respect of the Company or its funds, properties, assets or other employees.

14. **Miscellaneous.**

(a) No Right to Employment. Neither this Agreement nor the Certificate shall confer upon the Participant any right to continuation of employment by the Company, nor shall this Agreement or the Certificate interfere in any way with the Company's right to terminate the Participant's employment at any time.

(b) Successors. All obligations of the Company under the Plan, this Agreement and the Certificate, with respect to these Performance Shares granted hereunder, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation or otherwise, of all or substantially all of the business and/or assets of the Company.

(c) Severability. The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

(d) Consent to Board or Committee Action. By accepting this grant of Performance Shares, the Participant and each person claiming under or through the Participant shall be conclusively deemed to have indicated their acceptance and ratification of, and consent to, any action taken under the Plan by the Company, the Board or the Committee.

(e) Amendment. The Committee may, with the consent of the Participant, at any time or from time to time amend the terms and conditions of this grant of Performance Shares. In addition, the Committee may at any time or from time to time amend the terms and conditions of this grant of Performance Shares in accordance with the Plan.

(f) Governmental Approvals. This Agreement and the Certificate shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

(g) Governing Law. To the extent not preempted by federal law, this Agreement and the Certificate shall be governed by, and construed in accordance with, the laws of the State of Delaware.

(h) Compliance with Code Section 409A. The grant of Performance Shares is intended to comply with Code Section 409A, and this Agreement shall be interpreted, operated and administered consistent with this intent. Notwithstanding the preceding, the Company makes no representations concerning the tax consequences of this Agreement under Code Section 409A or any other federal, state, local, foreign or other taxes. Tax consequences will depend, in part, upon the application of the relevant tax law to the relevant facts and circumstances. The Participant should consult a competent and independent tax advisor regarding the tax consequences of this Agreement.

(i) Section 162(m). To the extent the Committee determines it is desirable with respect to the Performance Shares, all payments under this Agreement shall be intended to constitute "qualified performance-based compensation" within the meaning of Section 162(m) of the Code. This Award shall be construed and administered in a manner consistent with such intent.

(j) Waiver of Trial by Jury. The Participant, every person claiming under or through the Participant, and the Company hereby waives to the fullest extent permitted by applicable law any right to a trial by jury with respect to any litigation directly or indirectly arising out of, under or in connection with the Plan, this Agreement or the Certificate.

(k) Exculpation. These Performance Shares granted hereunder and all documents, agreements, understandings and arrangements relating hereto have been issued on behalf of the Company by officers acting on its behalf and not by any person individually. None of the Directors, officers or stockholders of the Company nor the Directors, officers or stockholders of any Affiliate of the Company shall have any personal liability hereunder or thereunder. The Participant shall look solely to the assets of the Company for satisfaction of any liability of the Company in respect of these Performance Shares granted hereunder and all documents, agreements, understandings and arrangements relating hereto and will not seek recourse or commence any action against any of the Directors, officers or stockholders of the Company or any of the Directors, officers or stockholders of any Affiliate, or any of their personal assets, for the performance or payment of any obligation hereunder or thereunder. The foregoing shall also apply to any future documents, agreements, understandings, arrangements and transactions between the parties hereto with respect to these Performance Shares granted hereunder.

(l) Captions. The captions in this Agreement are for convenience of reference only, and are not intended to narrow, limit or affect the substance or interpretation of the provisions contained herein.

(m) Notices. Any notice that either party hereto may be required or permitted to give to the other shall be in writing, and may be delivered personally or by mail, postage prepaid or overnight courier, addressed as follows: if to the Company, at its office at 120 Mountain View Blvd, Basking Ridge, NJ 07920, Attn: Human Resources, or at such other address as the Company by notice to the Participant may designate in writing from time to time; and if to the Participant, at the address shown below his or her signature on the Certificate, or at such other address as the Participant by notice to the Company may designate in writing from time to time. Notices shall be effective upon receipt.

**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 July 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: September 8, 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 July 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: September 8, 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 July 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.

September 8, 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 July 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.

September 8, 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.