

**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 27, 2019
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)

(Registrant's Telephone Number, Including Area Code): **(908) 991-2665**

46-0599018
(I.R.S. Employer
Identification No.)

07920
(Zip Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Trading Symbol	Name of Exchange on which registered
Common Stock, \$0.01 par value per share	BNED	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

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

As of August 16, 2019, 47,607,394 shares of Common Stock, par value \$0.01 per share, were outstanding.

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Fiscal Quarter Ended July 27, 2019
Index to Form 10-Q

	<u>Page No.</u>
<u>PART I - FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Statements of Operations – For the 13 weeks ended July 27, 2019 and July 28, 2018</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets – As of July 27, 2019, July 28, 2018, and April 27, 2019</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows – For the 13 weeks ended July 27, 2019 and July 28, 2018</u>	<u>5</u>
<u>Condensed Consolidated Statements of Equity – As of July 27, 2019 and July 28, 2018</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
<u>Note 1. Organization</u>	<u>7</u>
<u>Note 2. Summary of Significant Accounting Policies</u>	<u>7</u>
<u>Note 3. Recent Accounting Pronouncements</u>	<u>10</u>
<u>Note 4. Revenue</u>	<u>10</u>
<u>Note 5. Leases</u>	<u>11</u>
<u>Note 6. Segment Reporting</u>	<u>13</u>
<u>Note 7. Equity and Earnings Per Share</u>	<u>15</u>
<u>Note 8. Fair Values of Financial Instruments</u>	<u>16</u>
<u>Note 9. Credit Facility</u>	<u>16</u>
<u>Note 10. Supplementary Information</u>	<u>16</u>
<u>Note 11. Employee Benefit Plans</u>	<u>17</u>
<u>Note 12. Stock-Based Compensation</u>	<u>17</u>
<u>Note 13. Income Taxes</u>	<u>17</u>
<u>Note 14. Legal Proceedings</u>	<u>18</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>19</u>
<u>Results of Operations</u>	<u>21</u>
<u>Adjusted Earnings (Non-GAAP)</u>	<u>28</u>
<u>Adjusted EBITDA (Non-GAAP)</u>	<u>29</u>
<u>Liquidity and Capital Resources</u>	<u>29</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>33</u>
<u>Item 4. Controls and Procedures</u>	<u>33</u>
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>33</u>
<u>Item 1A. Risk Factors</u>	<u>33</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>34</u>
<u>Item 5. Other Information</u>	<u>34</u>
<u>Item 6. Exhibits</u>	<u>34</u>
<u>SIGNATURES</u>	<u>35</u>
<u>EXHIBIT INDEX</u>	<u>36</u>

PART I - FINANCIAL INFORMATION

Item 1: Financial Statements

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

	13 weeks ended	
	July 27, 2019	July 28, 2018
Sales:		
Product sales and other	\$ 302,227	\$ 317,845
Rental income	17,430	19,639
Total sales	319,657	337,484
Cost of sales:		
Product and other cost of sales	238,331	258,752
Rental cost of sales	9,669	12,122
Total cost of sales	248,000	270,874
Gross profit	71,657	66,610
Selling and administrative expenses	97,691	99,144
Depreciation and amortization expense	15,879	16,538
Impairment loss (non-cash)	433	—
Restructuring and other charges	1,466	—
Operating loss	(43,812)	(49,072)
Interest expense, net	2,532	3,522
Income loss before income taxes	(46,344)	(52,594)
Income tax benefit	(14,189)	(13,972)
Net loss	\$ (32,155)	\$ (38,622)
Loss per share of common stock:		
Basic	\$ (0.68)	\$ (0.82)
Diluted	\$ (0.68)	\$ (0.82)
Weighted average shares of common stock outstanding:		
Basic	47,582	46,917
Diluted	47,582	46,917

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 27, 2019	July 28, 2018	April 27, 2019
	(unaudited)	(unaudited)	(audited)
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 8,222	\$ 13,258	\$ 14,013
Receivables, net	98,547	99,775	98,246
Merchandise inventories, net	717,765	729,877	420,322
Textbook rental inventories	5,221	6,237	47,001
Prepaid expenses and other current assets	18,069	18,738	11,778
Total current assets	847,824	867,885	591,360
Property and equipment, net	105,902	108,090	109,777
Operating lease right-of-use assets	314,355	—	—
Intangible assets, net	189,183	213,945	194,978
Goodwill	4,700	49,282	4,700
Deferred tax assets, net	—	—	2,425
Other noncurrent assets	40,457	41,659	42,940
Total assets	\$ 1,502,421	\$ 1,280,861	\$ 946,180
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 443,134	\$ 463,723	\$ 186,818
Accrued liabilities	75,876	93,232	121,720
Current operating lease liabilities	111,155	—	—
Short-term borrowings	100,000	100,000	100,000
Total current liabilities	730,165	656,955	408,538
Long-term deferred taxes, net	598	3,172	—
Long-term operating lease liabilities	226,534	—	—
Other long-term liabilities	50,270	58,852	53,514
Long-term borrowings	74,100	130,200	33,500
Total liabilities	1,081,667	849,179	495,552
Commitments and contingencies	—	—	—
Stockholders' equity:			
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, 51,086, 50,032 and 51,030 shares, respectively; outstanding, 47,607, 46,917 and 47,563 shares, respectively	511	501	510
Additional paid-in capital	728,651	719,664	726,331
Accumulated deficit	(276,732)	(258,825)	(244,577)
Treasury stock, at cost	(31,676)	(29,658)	(31,636)
Total stockholders' equity	420,754	431,682	450,628
Total liabilities and stockholders' equity	\$ 1,502,421	\$ 1,280,861	\$ 946,180

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 27, 2019	July 28, 2018
Cash flows from operating activities:		
Net loss	\$ (32,155)	\$ (38,622)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization expense	15,879	16,538
Content amortization expense	911	44
Amortization of deferred financing costs	270	376
Impairment loss (non-cash)	433	—
Deferred taxes	3,023	1,066
Stock-based compensation expense	2,321	2,341
Changes in other long-term liabilities	(3,244)	(1,100)
Changes in operating lease right-of-use assets and liabilities	5,614	—
Changes in other operating assets and liabilities, net	(33,295)	(7,996)
Net cash flows used in operating activities	(40,243)	(27,353)
Cash flows from investing activities:		
Purchases of property and equipment	(8,309)	(8,240)
Net change in other noncurrent assets	2,204	(1,074)
Net cash flows used in investing activities	(6,105)	(9,314)
Cash flows from financing activities:		
Proceeds from borrowings under Credit Agreement	120,300	96,300
Repayments of borrowings under Credit Agreement	(79,700)	(62,500)
Purchase of treasury shares	(40)	—
Net cash flows provided by financing activities	40,560	33,800
Net decrease in cash, cash equivalents and restricted cash	(5,788)	(2,867)
Cash, cash equivalents and restricted cash at beginning of period	14,768	16,869
Cash, cash equivalents and restricted cash at end of period	\$ 8,980	\$ 14,002
Changes in other operating assets and liabilities, net:		
Receivables, net	\$ (377)	\$ 285
Merchandise inventories	(297,443)	(286,318)
Textbook rental inventories	41,780	41,542
Prepaid expenses and other current assets	(6,291)	(6,891)
Accounts payable and accrued liabilities	229,036	243,386
Changes in other operating assets and liabilities, net	\$ (33,295)	\$ (7,996)

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock		Additional Paid-In	Accumulated	Treasury Stock		Total
	Shares	Amount	Capital	Deficit	Shares	Amount	Equity
Balance at April 28, 2018	50,032	\$ 501	\$ 717,323	\$ (220,203)	3,115	\$ (29,658)	\$ 467,963
Stock-based compensation expense			2,341				2,341
Net loss				(38,622)			(38,622)
Balance at July 28, 2018	50,032	\$ 501	\$ 719,664	\$ (258,825)	3,115	\$ (29,658)	\$ 431,682

	Common Stock		Additional Paid-In	Accumulated	Treasury Stock		Total
	Shares	Amount	Capital	Deficit	Shares	Amount	Equity
Balance at April 27, 2019	51,030	\$ 510	\$ 726,331	\$ (244,577)	3,467	\$ (31,636)	\$ 450,628
Stock-based compensation expense			2,321				2,321
Vested equity awards	56	1	(1)				—
Shares repurchased for tax withholdings for vested stock awards					12	(40)	(40)
Net loss				(32,155)			(32,155)
Balance at July 27, 2019	51,086	\$ 511	\$ 728,651	\$ (276,732)	3,479	\$ (31,676)	\$ 420,754

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 27, 2019 and July 28, 2018
(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 College” refer to our college bookstore business operated through our subsidiary Barnes & Noble College Booksellers, LLC. References to “MBS” refer to our virtual bookstore and wholesale textbook distribution business operated through our subsidiary MBS Textbook Exchange, LLC. References to “Student Brands” refer to our direct-to-student subscription-based writing services business operated through our subsidiary Student Brands, 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 27, 2019, which includes consolidated financial statements for the Company for each of the three fiscal years ended April 27, 2019, April 28, 2018 and April 29, 2017 (Fiscal 2019, Fiscal 2018 and Fiscal 2017, respectively).

Note 1. Organization

Description of Business

Barnes & Noble Education, Inc. (“BNED”) is one of the largest contract operators of physical and virtual bookstores for college and university campuses and K-12 institutions across the United States. We are also one of the largest textbook wholesalers, inventory management hardware and software providers, and a leading provider of digital education solutions. We operate 1,491 physical, virtual, and custom bookstores and serve more than 6 million students, delivering essential educational content and tools within a dynamic omni channel retail environment. Additionally, we offer direct-to-student products and services to help students study more effectively and improve academic performance.

The strengths of our business include our ability to compete by developing new products and solutions to meet market needs, our large footprint with direct access to students and faculty, our well-established, deep relationships with partners and stable, long-term contracts, and our well-recognized brands. We expect to continue to grow our business by introducing scalable and advanced digital solutions focused largely on the student, increasing market share with new accounts, and expanding our strategic opportunities through acquisitions and partnerships.

Prior to the fourth quarter of fiscal year 2019, we had three reportable segments: BNC, MBS, and Digital Student Solutions (“DSS”). During the fourth quarter of fiscal year 2019, in an effort to streamline our retail go-to-market strategy, reinforce our company branding, and more efficiently focus our product development efforts, we realigned our business and sales organization into the following three reportable segments: Retail, Wholesale and DSS. For additional information related to our strategies, operations and segments, see *Part I - Item 1. Business* and *Part II - Item 8. Financial Statements and Supplementary Data - Note 6. Segment Reporting* in our Annual Report on Form 10-K for the year ended April 27, 2019.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

Our condensed consolidated financial statements reflect our condensed 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 condensed consolidated financial statements are condensed and therefore do not include all of the information and footnotes required by GAAP. All material intercompany accounts and transactions have been eliminated in consolidation.

On August 21, 2018, we acquired the assets of PaperRater.com (“PaperRater”). The condensed consolidated financial statements for the 13 weeks ended July 27, 2019 include the financial results of PaperRater in the DSS segment and the condensed consolidated financial statements for the 13 weeks ended July 28, 2018 exclude the financial results of PaperRater.

Our business is highly seasonal. Our quarterly results also may fluctuate depending on the timing of the start of the various schools’ semesters, as well as shifts in our fiscal calendar dates. These shifts in timing may affect the comparability of our results across periods. Our fiscal year is comprised of 52 or 53 weeks, ending on the Saturday closest to the last day of April. Due to the seasonal nature of the business, the results of operations for the 13 weeks ended July 27, 2019 are not indicative of the results expected for the 53 weeks ending May 2, 2020 (Fiscal 2020).

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
For the 13 weeks ended July 27, 2019 and July 28, 2018
(Thousands of dollars, except share and per share data)
(unaudited)

For certain of our retail operations, sales are generally highest in the second and third fiscal quarters, when students purchase and rent textbooks and other course materials for the typical academic year, and lowest in the first and fourth fiscal quarters. Sales attributable to our wholesale business are generally highest in our first, second and third quarters, as it sells textbooks and other course materials for retail distribution. Our DSS sales and operating profit are realized relatively consistently throughout the year.

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. Market value of our inventory, which is all purchased finished goods, is determined based on its estimated net realizable value, which is generally the selling price less normally predictable costs of disposal and transportation. Reserves for non-returnable inventory are based on our history of liquidating non-returnable inventory.

Cost is determined primarily by the retail inventory method for our Retail segment and last-in first out, or “LIFO”, method for our Wholesale segment. Our textbook inventories, for Retail and Wholesale, and trade book inventories are valued using the LIFO method and the related reserve was not material to the recorded amount of our inventories.

For our physical bookstores, 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.

Leases

Effective April 28, 2019, we adopted *Accounting Standards Codification ("ASC") Topic 842, Leases*, and recognized lease assets and lease liabilities on the condensed consolidated balance sheet for all operating lease arrangements based on the present value of future lease payments. We do not recognize lease assets or lease liabilities for short-term leases (i.e., those with a term of twelve months or less). We recognize lease expense on a straight-line basis over the lease term for contracts with fixed lease payments, including those with fixed annual minimums, or over a rolling twelve month period for leases where the annual guarantee resets at the start of each contract year, in order to best reflect the pattern of usage of the underlying leased asset.

As a result of adopting the new lease, guidance, we recorded an initial operating lease right-of-use asset of \$277,006 (inclusive of prepaid assets and accrued liabilities related to existing leases) and an operating lease liability of \$294,727 as of April 28, 2019 for all leases that were not completed and with lease terms in excess of twelve months at that date. For additional information, see *Note 5. Leases*.

Revenue Recognition and Deferred Revenue

Product sales and rentals

The majority of our revenue relates to the sales of products through our bookstore locations, including virtual bookstores, and our bookstore affiliated ecommerce websites, and contains a single performance obligation. Revenue from sales of our products is recognized at the point in time when control of the products is transferred to our customers in an amount that reflects the consideration we expect to be entitled to in exchange for the products. For additional information, see *Note 4. Revenue*.

Retail product revenue is recognized when the customer takes physical possession of our products, which occurs either at the point of sale for products purchased at physical locations or upon receipt of our products by our customers for products ordered through our websites and virtual bookstores. Wholesale product revenue is recognized upon shipment of physical textbooks at

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
For the 13 weeks ended July 27, 2019 and July 28, 2018
(Thousands of dollars, except share and per share data)
(unaudited)

which point title passes and risk of loss is transferred to the customer. Additional revenue is recognized for shipping charges billed to customers and shipping costs are accounted for as fulfillment costs within cost of goods sold.

Revenue from the rental of physical textbooks, which contains a single performance obligation, is deferred and recognized over the rental period based on the passage of time commencing at the point of sale, when control of the product transfers to the customer. Rental periods are typically for a single semester and are always less than one year in duration. We offer a buyout option to allow the purchase of a rented physical textbook at the end of the rental period if the customer desires to do so. We record the buyout purchase when the customer exercises and pays the buyout option price which is determined at the time of the buyout. In these instances, we accelerate any remaining deferred rental revenue at the point of sale.

Revenue from the rental of digital textbooks, which contains a single performance obligation, is recognized at the point 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 estimate returns based on an analysis of historical experience. A provision for anticipated merchandise returns is provided through a reduction of sales and cost of goods sold in the period that the related sales are recorded.

For sales and rentals involving third-party products, we evaluate whether we are acting as a principal or an agent. Our determination is based on our evaluation of whether we control the specified goods or services prior to transferring them to the customer. There are significant judgments involved in determining whether we control the specified goods or services prior to transferring them to the customer including whether we have the ability to direct the use of the good or service and obtain substantially all of the remaining benefits from the good or service. For those transactions where we are the principal, we record revenue on a gross basis, and for those transactions where we are an agent to a third-party, we record revenue on a net basis.

We do not have gift card or customer loyalty programs. We do not treat any promotional offers as expenses. Sales tax collected from our customers is excluded from reported revenues. Our payment terms are generally 30 days and do not extend beyond one year.

Service and other revenue

Service and other revenue primarily relates to direct-to-student subscription-based service revenues and partnership marketing services which includes promotional activities and advertisements within our physical bookstores and web properties performed on behalf of third-party customers.

Subscription-based revenue, which contains a single performance obligation, is deferred and recognized based on the passage of time over the subscription period commencing at the point of sale, when control of the service transfers to the customer. The majority of subscriptions sold are one month in duration.

Partnership marketing agreements often include multiple performance obligations which are individually negotiated with our customers. For these arrangements that contain distinct performance obligations, we allocate the transaction price based on the relative standalone selling price method by comparing the standalone selling price ("SSP") of each distinct performance obligation to the total value of the contract. The revenue is recognized as each performance obligation is satisfied, typically at a point in time for partnership marketing service and overtime for advertising efforts as measured based upon the passage of time for contracts that are based on a stated period of time or the number of impressions delivered for contracts with a fixed number of impressions.

Cost of Sales

Our cost of sales primarily include costs such as merchandise costs, textbook rental amortization, content development cost amortization, warehouse costs related to inventory management and order fulfillment, insurance, certain payroll costs, and management service agreement costs, including rent expense, related to our college and university contracts and 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 merchandising, procurement, field support, finance and accounting, and operating costs related to our direct-to-student subscription-based services business. Shared-service costs such as human resources, legal, treasury, information technology, and various other corporate level expenses and other governance functions, are not allocated to any specific reporting segment and are recorded in Corporate Services.

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
For the 13 weeks ended July 27, 2019 and July 28, 2018
(Thousands of dollars, except share and per share data)
(unaudited)

Evaluation of Goodwill and Other Long-Lived Assets

As of July 27, 2019, we had \$0, \$0 and \$4,700 of goodwill on our condensed consolidated balance sheet related to our Retail, Wholesale and DSS reporting units, respectively. In accordance with *ASC 350-10, Intangibles - Goodwill and Other*, we complete our annual goodwill impairment test as of the first day of the third quarter of each fiscal year, or whenever events or changes in circumstances indicate that the carrying amount of the reporting unit exceeds its fair value.

Our other long-lived assets include property and equipment and amortizable intangibles. As of July 27, 2019, we had \$105,902 and \$189,183 of property and equipment and amortizable intangible assets, net of depreciation and amortization, respectively, on our condensed consolidated balance sheet. We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with *ASC 360-10, Accounting for the Impairment or Disposal of Long-Lived Assets*. During the 13 weeks ended July 27, 2019, we recorded an impairment loss (non-cash) of \$433 in the Retail segment related to net capitalized development costs for a project which are not recoverable.

Income Taxes

As of July 27, 2019, other long-term liabilities includes \$32,847 related to the long-term tax payable associated with the LIFO reserve. The LIFO reserve is impacted by changes in the consumer price index ("CPI") and is dependent on the inventory levels at the end of our tax year (on or about January 31st) which is in the middle of our second largest selling cycle. At the end of the most recent tax year, inventory levels declined as compared to the prior year resulting in approximately \$7,260 of the LIFO reserve becoming currently payable. Given recent trends relating to the pricing and rental of textbooks, management believes that an additional portion of the remaining long-term tax payable associated with the LIFO reserve could be payable within the next twelve months. We are unable to predict future trends for CPI and inventory levels, therefore it is difficult to project with reasonable certainty how much of this liability will become payable within the next twelve months.

Note 3. Recent Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board ("FASB") issued *ASU No. 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract ("ASU 2018-15")*, which requires an entity (customer) in a hosting arrangement that is a service contract to follow the guidance to determine which implementation costs to capitalize as an asset (as prepaid expense) related to the service contract and which costs to expense. The ASU requires upfront implementation costs incurred in a cloud computing arrangement (or hosting arrangement) that is a service contract to be amortized to hosting expense over the term of the arrangement, beginning when the module or component of the hosting arrangement is ready for its intended use. We have adopted this standard effective April 28, 2019 (first day of this fiscal quarter) prospectively for all implementation costs incurred in a cloud computing arrangement (or hosting arrangement) that is a service contract after the date of adoption. Under previous accounting guidance, we capitalized certain implementation costs, primarily related to digital and consumer data platforms, to property and equipment on the condensed consolidated balance sheets and depreciated these implementation costs to depreciation and amortization expense in the consolidated statement of operations over the term of the service contract once the asset was ready for its intended use. The adoption of this standard will impact our condensed consolidated financial statements to the extent that implementation costs which were previously capitalized and depreciated as described above, will be included in prepaid expenses and other assets in the condensed consolidated balance sheets and amortized to selling and administrative expense in the consolidated statement of operations under this adopted guidance. We expect to incur additional costs to implement cloud computing arrangements during the remainder of Fiscal 2020 and expect the implementation costs capitalized to prepaid expense in the condensed consolidated balance sheet will increase accordingly.

Note 4. Revenue

Revenue from sales of our products and services is recognized either at the point in time when control of the products is transferred to our customers or over time as services are provided in an amount that reflects the consideration we expect to be entitled to in exchange for the products or services. See *Note 2. Summary of Significant Accounting Pronouncements* for additional information related to our revenue recognition policies and *Note 6. Segment Reporting* for a description of each segments product and service offerings.

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
For the 13 weeks ended July 27, 2019 and July 28, 2018
(Thousands of dollars, except share and per share data)
(unaudited)

Disaggregation of Revenue

The following table disaggregates the revenue associated with our major product and service offerings.

	13 weeks ended	
	July 27, 2019	July 28, 2018
Retail		
Product Sales	\$ 246,375	\$ 256,111
Rental Income	17,430	19,639
Service and Other Revenue ^(a)	10,851	11,335
Retail Total Sales	\$ 274,656	\$ 287,085
Wholesale Sales	\$ 72,309	\$ 89,944
DSS Sales ^(b)	\$ 5,374	\$ 5,677
Eliminations ^(c)	\$ (32,682)	\$ (45,222)
Total Sales	\$ 319,657	\$ 337,484

(a) Service and other revenue primarily relates to brand partnerships and other service revenues.

(b) DSS sales primarily relate to direct-to-student subscription-based revenue.

(c) The sales eliminations represent the elimination of Wholesale sales and fulfillment service fees to Retail and the elimination of Retail commissions earned from Wholesale.

Contract Assets and Contract Liabilities

Contract assets represent the sale of goods or services to a customer before we have the right to obtain consideration from the customer. Contract assets consist of unbilled amounts at the reporting date and are transferred to accounts receivable when the rights become unconditional. Contract assets (unbilled receivables) were \$0 as of July 27, 2019, July 28, 2018 and April 27, 2019 on our condensed consolidated balance sheets.

Contract liabilities represent an obligation to transfer goods or services to a customer for which we have received consideration and consists of our deferred revenue liability (deferred revenue). Deferred revenue primarily consists of advanced payments from customers related to textbook rental and subscription-based performance obligations that have not yet been satisfied, as well as unsatisfied performance obligations associated with partnership marketing services. Deferred revenue is recognized ratably over the terms of the related rental or subscription periods, or when the contracted services are provided to our partnership marketing customers. Deferred revenue of \$14,188, \$15,851, and \$20,418 is recorded within Accrued Liabilities on our condensed consolidated balance sheets for the periods ended July 27, 2019, July 28, 2018 and April 27, 2019, respectively.

The following table presents changes in contract liabilities during the 13 weeks ended July 27, 2019:

	13 weeks ended	
	July 27, 2019	July 28, 2018
Deferred revenue at the beginning of period	\$ 20,418	\$ 20,144
Additions to deferred revenue during the period	18,083	25,100
Reductions to deferred revenue for revenue recognized during the period	(24,313)	(29,393)
Deferred revenue balance at the end of period	\$ 14,188	\$ 15,851

As of July 27, 2019, we expect to recognize \$14,188 of the deferred revenue balance within in the next 12 months.

Note 5. Leases

Effective the first quarter of Fiscal 2020 (April 28, 2019), we adopted FASB *ASC 842, Leases* (Topic 842), which requires us to recognize lease assets and lease liabilities on the condensed consolidated balance sheets for substantially all lease arrangements. We adopted this standard using a modified retrospective basis, with no restatement of prior periods. We elected the package of practical expedients permitted under the transition guidance for existing or expired contracts and did not reassess whether such contracts contain leases, the lease classification or the initial direct costs. Additionally, we utilized the historical lease term and

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
For the 13 weeks ended July 27, 2019 and July 28, 2018
(Thousands of dollars, except share and per share data)
(unaudited)

did not utilize the practical expedient allowing the use of hindsight in determining the lease term and in assessing impairment of its right-of-use ("ROU") assets. Additionally, we elected to apply the available practical expedient allowing for the election of an accounting policy by class of underlying asset to combine lease and non-lease components for all of our asset classes.

Our portfolio of leases consists of operating leases comprised of operations agreements which grant us the right to operate on-campus bookstores at colleges and universities; real estate leases for office and warehouse operations; and vehicle leases. We do not have finance leases or short-term leases (i.e., those with a term of twelve months or less).

We recognize a ROU asset and lease liability in our condensed consolidated balance sheets for leases with a term greater than twelve months. Options to extend or terminate a lease are included in the determination of the ROU asset and lease liability when it is reasonably certain that such options will be exercised. Our lease terms generally range from one year to fifteen years and a number of agreements contain minimum annual guarantees, many of which are adjusted at the start of each contract year based on the actual sales activity of the leased premises for the most recently completed contract year.

Payment terms are based on the fixed rates explicit in the lease, including minimum annual guarantees, and/or variable rates based on: i) a percentage of revenues or sales arising at the relevant premises ("variable commissions"), and/or ii) operating expenses, such as common area charges, real estate taxes and insurance. For contracts with fixed lease payments, including those with minimum annual guarantees, we recognize lease expense on a straight-line basis over the lease term or over the contract year in order to best reflect the pattern of usage of the underlying leased asset and our minimum obligations arising from these types of leases. Our lease agreements do not contain any material residual value guarantees, material restrictions or covenants.

We used our incremental borrowing rates to determine the present value of fixed lease payments based on the information available at the lease commencement date, as the rate implicit in the lease is not readily determinable. We utilized an estimated collateralized incremental borrowing rate as of the effective date or the commencement date of the lease, whichever is later.

The following table summarizes lease expense as of July 27, 2019:

	13 weeks ended July 27, 2019
Variable lease expense	\$ 6,870
Operating lease expense	25,394
Net lease expense	<u>\$ 32,264</u>

The following table summarizes our minimum fixed lease obligations, excluding variable commissions, as of July 27, 2019:

	As of July 27, 2019
Remainder of Fiscal 2020	\$ 118,447
Fiscal 2021	77,212
Fiscal 2022	49,907
Fiscal 2023	40,430
Fiscal 2024	32,273
Thereafter	60,223
Total lease payments	378,492
Less: imputed interest	(40,803)
Operating lease liabilities at period end	<u>\$ 337,689</u>

Future lease payment obligations related to leases that were entered into, but did not commence as of July 27, 2019, were not material.

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
For the 13 weeks ended July 27, 2019 and July 28, 2018
(Thousands of dollars, except share and per share data)
(unaudited)

The following summarizes additional information related to our operating leases:

	As of
	July 27, 2019
Weighted average remaining lease term (in years)	4.6 years
Weighted average discount rate	4.0%
Supplemental cash flow information:	
Cash payments for lease liabilities within operating activities	\$ 33,366
ROU assets obtained in exchange for lease liabilities from initial recognition	\$ 73,003

Note 6. Segment Reporting

Prior to the fourth quarter of Fiscal 2019, we had three reportable segments: BNC, MBS, and DSS. During the fourth quarter of Fiscal 2019, in an effort to streamline our retail go-to-market strategy, reinforce our company branding, and more efficiently focus our product development efforts, we realigned our business and sales organization into the following three reportable segments: Retail, Wholesale and DSS. The *Retail Segment* combines the operations of the former BNC segment with MBS Direct (from the former MBS segment), the *Wholesale Segment* is comprised of the MBS wholesale business (from the former MBS segment), and the *DSS Segment* remains unchanged.

Additionally, unallocated shared-service costs, which include various corporate level expenses and other governance functions, continue to be presented as “Corporate Services”.

We identify our segments in accordance with 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. The following summarizes the three segments. For additional information about this segments operations, see *Part I - Item 1. Business* in our Annual Report on Form 10-K for the year ended April 27, 2019.

Retail

The *Retail Segment* operates 1,491 college, university, and K-12 school bookstores, comprised of 777 physical bookstores and 714 virtual bookstores. Our bookstores typically operate under agreements with the college, university, or K-12 schools to be the official bookstore and the exclusive seller of course materials and supplies, including physical and digital products. The majority of the physical campus bookstores have school-branded e-commerce sites which we operate and which offer students access to affordable course materials and affinity products, including emblematic apparel and gifts. The Retail Segment also offers inclusive access programs, in which course materials, including e-content, are offered at a reduced price through a course materials fee, and delivered to students on or before the first day of class. Additionally, the Retail Segment offers a suite of digital content and services to colleges and universities, including a variety of open educational resource-based courseware.

Wholesale

The *Wholesale Segment* is comprised of our wholesale textbook business and is one of the largest textbook wholesalers in the country. The Wholesale Segment centrally sources, sells, and distributes new and used textbooks to approximately 3,500 physical bookstores (including our Retail Segment's 777 physical bookstores) and sources and distributes new and used textbooks to our 714 virtual bookstores. Additionally, the Wholesale Segment sells hardware and a software suite of applications that provides inventory management and point-of-sale solutions to approximately 400 college bookstores.

DSS

The *Digital Student Solutions (“DSS”) Segment* includes direct-to-student products and services to assist students to study more effectively and improve academic performance. The DSS Segment is comprised of the operations of Student Brands, LLC, a leading direct-to-student subscription-based writing services business, and *bartleby*®, a direct-to-student subscription-based offering providing textbook solutions, expert questions and answers, tutoring and test prep services.

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
For the 13 weeks ended July 27, 2019 and July 28, 2018
(Thousands of dollars, except share and per share data)
(unaudited)

Corporate Services

Corporate Services represent unallocated shared-service costs which include corporate level expenses and other governance functions, including executive functions, such as accounting, legal, treasury, information technology, and human resources.

Intercompany Eliminations

The eliminations are primarily related to the following intercompany activities:

- The sales eliminations represent the elimination of Wholesale sales and fulfillment service fees to Retail and the elimination of Retail commissions earned from Wholesale, and
- These cost of sales eliminations represent (i) the recognition of intercompany profit for Retail inventory that was purchased from Wholesale in a prior period that was subsequently sold to external customers during the current period and the elimination of Wholesale service fees charged for fulfillment of inventory for virtual store sales, net of (ii) the elimination of intercompany profit for Wholesale inventory purchases by Retail that remain in ending inventory at the end of the current period.

Our international operations are not material and the majority of the revenue and total assets are within the United States. Summarized financial information for our reportable segments is reported below:

	13 weeks ended	
	July 27, 2019	July 28, 2018
Sales:		
Retail	\$ 274,656	\$ 287,085
Wholesale	72,309	89,944
DSS	5,374	5,677
Elimination	(32,682)	(45,222)
Total Sales	\$ 319,657	\$ 337,484
Gross Profit		
Retail	\$ 62,139	\$ 56,521
Wholesale	14,918	19,545
DSS	4,414	5,554
Elimination	(9,814)	(15,010)
Total Gross Profit	\$ 71,657	\$ 66,610
Depreciation and Amortization		
Retail	\$ 11,977	\$ 13,325
Wholesale	1,565	1,460
DSS	2,304	1,709
Corporate Services	33	44
Total Depreciation and Amortization	\$ 15,879	\$ 16,538
Operating Loss		
Retail	\$ (35,042)	\$ (42,039)
Wholesale	8,594	12,446
DSS	(2,003)	1,066
Corporate Services	(5,550)	(5,537)
Elimination	(9,811)	(15,008)
Total Operating Loss	\$ (43,812)	\$ (49,072)

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
For the 13 weeks ended July 27, 2019 and July 28, 2018
(Thousands of dollars, except share and per share data)
(unaudited)

	13 weeks ended	
	July 27, 2019	July 28, 2018
The following is a reconciliation of segment Operating Loss to consolidated Loss Before Income Taxes:		
Total Operating Loss	\$ (43,812)	\$ (49,072)
Interest Expense, net	2,532	3,522
Loss Before Income Taxes	\$ (46,344)	\$ (52,594)

Note 7. 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 may include 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 27, 2019, we did not repurchase shares of our Common Stock under the program and as of July 27, 2019, approximately \$26,669 remains available under the stock repurchase program.

During the 13 weeks ended July 27, 2019, we repurchased 11,933 shares of our Common Stock outside of the stock repurchase program in connection with employee tax withholding obligations for vested stock awards.

Earnings Per Share

Basic EPS is computed based upon the weighted average number of common shares outstanding for the year. Diluted EPS is computed based upon the weighted average number of common shares outstanding for the year plus the dilutive effect of common stock equivalents using the treasury stock method and the average market price of our common stock for the year. We include participating securities (unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents) in the computation of EPS pursuant to the two-class method. Our participating securities consist solely of unvested restricted stock awards, which have contractual participation rights equivalent to those of stockholders of unrestricted common stock. The two-class method of computing earnings per share is an allocation method that calculates earnings per share for common stock and participating securities. During periods of net loss, no effect is given to the participating securities because they do not share in the losses of the Company. During the 13 weeks ended July 27, 2019 and July 28, 2018 average shares of 3,746,663 and 2,539,422 were excluded from the diluted earnings per share calculation as their inclusion would have been antidilutive, respectively.

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

	13 weeks ended	
	July 27, 2019	July 28, 2018
(shares in thousands)		
Numerator for basic and diluted earnings per share:		
Net loss available to common shareholders	\$ (32,155)	\$ (38,622)
Denominator for basic and diluted earnings per share:		
Basic and diluted weighted average shares of Common Stock	47,582	46,917
Loss per share of Common Stock:		
Basic	\$ (0.68)	\$ (0.82)
Diluted	\$ (0.68)	\$ (0.82)

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
For the 13 weeks ended July 27, 2019 and July 28, 2018
(Thousands of dollars, except share and per share data)
(unaudited)

Note 8. 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 fair value of short-term and long-term debt approximates its carrying value.

Note 9. Credit Facility

We have a credit agreement (the "Credit Agreement"), amended March 1, 2019, under which the lenders committed to provide us with a 5-year asset-backed revolving credit facility in an aggregate committed principal amount of \$400,000 (the "Credit Facility"). We have the option to request an increase in commitments under the Credit Facility of up to \$100,000, subject to certain restrictions. Proceeds from the Credit Facility are used for general corporate purposes, including seasonal working capital needs. The agreement includes an incremental first in, last out seasonal loan facility (the "FILO Facility") for a \$100,000 incremental facility maintaining the maximum availability under the Credit Agreement at \$500,000.

For additional information including interest terms and covenant requirements related to the Credit Facility, refer to *Part II - 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 27, 2019.

During the 13 weeks ended July 27, 2019, we borrowed \$120,300 and repaid \$79,700 under the Credit Agreement. The net total outstanding borrowings of \$174,100 as of July 27, 2019 is comprised of \$74,100 and \$100,000 of outstanding borrowings under the Credit Facility and FILO Facility, respectively. During the 13 weeks ended July 28, 2018, we borrowed \$96,300 and repaid \$62,500 under the Credit Agreement. The net total outstanding borrowings of \$230,200 as of July 28, 2018 is comprised of \$130,200 and \$100,000 of outstanding borrowings under the Credit Facility and FILO Facility, respectively. As of both July 27, 2019 and July 28, 2018, we have issued \$4,759 in letters of credit under the Credit Facility.

Note 10. Supplementary Information

Impairment Loss (non-cash)

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with *ASC 360-10, Accounting for the Impairment or Disposal of Long-Lived Assets*. During the 13 weeks ended July 27, 2019, we recognized an impairment loss (non-cash) of \$433 in the Retail segment related to net capitalized development costs for a project which are not recoverable.

Restructuring and other charges

During the 13 weeks ended July 27, 2019, we recognized expenses totaling \$1,466, comprised primarily of \$631 for severance and other employee termination and benefit costs associated with several management changes and the elimination of various positions as part of cost reduction objectives, and \$735 related to professional service costs related to restructuring and process improvements.

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
For the 13 weeks ended July 27, 2019 and July 28, 2018
(Thousands of dollars, except share and per share data)
(unaudited)

Note 11. Employee Benefit Plans

We sponsor defined contribution plans for the benefit of substantially all of the employees of BNC and DSS. MBS maintains a profit sharing plan covering substantially all full-time employees of MBS. For all plans, we are responsible to fund the employer contributions directly. Total employee benefit expense for these plans was \$1,538 and \$2,085 during the 13 weeks ended July 27, 2019 and July 28, 2018, respectively.

Note 12. Stock-Based Compensation

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 for those awards with only service or performance conditions. For those awards with market conditions, we have determined the grant date fair value using the Monte Carlo simulation model.

During the 13 weeks ended July 27, 2019, we granted the following awards:

- 709,517 performance share unit ("PSU") awards to employees that will vest based upon the achievement of pre-established performance goals related to absolute total shareholder returns ("TSR") determined by the Company's common stock price and Company Adjusted EBITDA measured over a two year performance period (Fiscal 2020 - Fiscal 2021) with one additional year of time-based vesting. The number of PSU awards that will vest range from 0%-150% of the target award based on actual performance.
- 1,283,782 restricted stock units ("RSU") awards were granted to employees with a three year vesting period in accordance with the Equity Incentive Plan.

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

	13 weeks ended	
	July 27, 2019	July 28, 2018
Restricted stock expense	\$ 30	\$ 30
Restricted stock units expense ^(a)	1,990	2,198
Performance shares expense ^{(a) (b)}	12	57
Performance share units expense ^{(a) (b)}	289	56
Stock-based compensation expense	<u>\$ 2,321</u>	<u>\$ 2,341</u>

(a) For the 13 weeks ended July 27, 2019, the restricted stock units expense, performance shares expense and performance share units expense reflects a forfeiture adjustment for unvested shares related to management changes in Fiscal 2019 and Fiscal 2020, and incremental expense for the Fiscal 2020 grant discussed above, compared to Fiscal 2019 grant which occurred in the second quarter of Fiscal 2019.

(b) The performance shares and performance share units expense reflect catch-up adjustments for changes in the expected level of achievement of the respective grants for both Fiscal 2018 and Fiscal 2019, and incremental expense for the Fiscal 2020 grant discussed above.

Total unrecognized compensation cost related to unvested awards as of July 27, 2019 was \$14,095 and is expected to be recognized over a weighted-average period of 2.2 years. Approximately \$2,828 of the unrecognized compensation cost is related to performance shares and performance share units, which is subject to attaining the stated performance metrics.

Note 13. Income Taxes

We recorded an income tax benefit of \$(14,189) on a pre-tax loss of \$(46,344) during the 13 weeks ended July 27, 2019, which represented an effective income tax rate of 30.6% and an income tax benefit of \$(13,972) on pre-tax loss of \$(52,594) during the 13 weeks ended July 28, 2018, which represented an effective income tax rate of 26.6%. The effective tax rate for the 13 weeks ended July 27, 2019 is higher as compared to the prior year comparable period due to permanent differences.

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
For the 13 weeks ended July 27, 2019 and July 28, 2018
(Thousands of dollars, except share and per share data)
(unaudited)

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

Unless the context otherwise indicates, references to “we,” “us,” “our” and “the Company” refer to Barnes & Noble Education, Inc. or “BNED”, a Delaware corporation. References to “Barnes & Noble College” or “BNC” refer to our subsidiary Barnes & Noble College Booksellers, LLC. References to “MBS” refer to our subsidiary MBS Textbook Exchange, LLC. References to “Student Brands” refer to our subsidiary Student Brands, LLC.

Overview**Description of Business**

Barnes & Noble Education, Inc. (“BNED”) is one of the largest contract operators of physical and virtual bookstores for college and university campuses and K-12 institutions across the United States. We are also one of the largest textbook wholesalers, inventory management hardware and software providers, and a leading provider of digital education solutions. We operate 1,491 physical, virtual, and custom bookstores and serve more than 6 million students, delivering essential educational content and tools within a dynamic omni channel retail environment. Additionally, we offer direct-to-student products and services to help students study more effectively and improve academic performance.

The *Barnes & Noble* and *MBS* brands are virtually synonymous with bookselling, and, we believe, are widely recognized and respected brands in the United States. Our large college footprint, 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, and for being a trusted source for students in our direct-to-student digital solutions business.

The strengths of our business include our ability to compete by developing new products and solutions to meet market needs, our large footprint with direct access to students and faculty, our well-established, deep relationships with partners and stable, long-term contracts and our well-recognized brands. We expect to continue to grow our business by introducing scalable and advanced digital solutions focused largely on the student, increasing market share with new accounts, and expanding our strategic opportunities through acquisitions and partnerships.

We offer our *BNC First Day*™ inclusive access program, in which course materials, including e-content, are offered at a reduced price through a course materials fee, and delivered to students on or before the first day of class. We recently announced a new agreement with VitalSource®, part of Ingram Content Group, to use their technology to power our *First Day* inclusive access platform, thus allowing us to increase penetration rates for course material sales, as well as accelerate and optimize *First Day* implementations. During the first quarter of Fiscal 2020, *First Day* total revenue increased 46% from the prior year comparative period.

For additional information related to our business, see *Part I - Item 1. Business* in our Annual Report on Form 10-K for the year ended April 27, 2019.

Segments

Prior to the fourth quarter of Fiscal 2019, we had three reportable segments: BNC, MBS, and Digital Student Solutions (“DSS”). During the fourth quarter of fiscal year 2019, in an effort to streamline our retail go-to-market strategy, reinforce our company branding, and more efficiently focus our product development efforts, we realigned our business and sales organization into the following three reportable segments: Retail, Wholesale and DSS. The *Retail Segment* combines the operations of the former BNC segment with MBS Direct (from the former MBS segment), the *Wholesale Segment* is comprised of the MBS wholesale business (from the former MBS segment), and the *DSS Segment* remains unchanged. Additionally, unallocated shared-service costs, which include various corporate level expenses and other governance functions, continue to be presented as “Corporate Services”. The following discussion summarizes the three segments:

Retail Segment

The *Retail Segment* operates 1,491 college, university, and K-12 school bookstores, comprised of 777 physical bookstores and 714 virtual bookstores. Our bookstores typically operate under agreements with the college, university, or K-12 schools to be the official bookstore and the exclusive seller of course materials and supplies, including physical and digital products. The majority of the physical campus bookstores have school-branded e-commerce sites which we operate and which offer students access to affordable course materials and affinity products, including emblematic apparel and gifts. The Retail Segment also offers inclusive access programs, in which course materials, including e-content, are offered at a reduced price through a course materials fee, and delivered to students on or before the first day of class. Additionally, the Retail Segment offers a suite of digital content and services to colleges and universities, including a variety of open educational resource-based courseware.

Wholesale Segment

The *Wholesale Segment* is comprised of our wholesale textbook business and is one of the largest textbook wholesalers in the country. The Wholesale Segment centrally sources, sells, and distributes new and used textbooks to approximately 3,500

physical bookstores (including our Retail Segment's 777 physical bookstores) and sources and distributes new and used textbooks to our 714 virtual bookstores. Additionally, the Wholesale Segment sells hardware and a software suite of applications that provides inventory management and point-of-sale solutions to approximately 400 college bookstores.

DSS Segment

The *DSS Segment* includes direct-to-student products and services to assist students to study more effectively and improve academic performance. The DSS Segment is comprised of the operations of Student Brands, LLC, a leading direct-to-student subscription-based writing services business, and *bartleby*, a direct-to-student subscription-based offering providing textbook solutions, expert questions and answers, tutoring and test prep services.

Corporate Services represents unallocated shared-service costs which include corporate level expenses and other governance functions, including executive functions, such as accounting, legal, treasury, information technology, and human resources.

For additional information about the Retail, Wholesale and DSS segment operations, see *Part I - Item 1. Business* in our Annual Report on Form 10-K for the year ended April 27, 2019.

Seasonality

Our business is highly seasonal. Our quarterly results also may fluctuate depending on the timing of the start of the various schools' semesters, as well as shifts in our fiscal calendar dates. These shifts in timing may affect the comparability of our results across periods. Our fiscal year is comprised of 52 or 53 weeks, ending on the Saturday closest to the last day of April.

For our retail operations, sales are generally highest in the second and third fiscal quarters, when students generally purchase and rent textbooks and other course materials, and lowest in the first and fourth fiscal quarters. Sales attributable to our wholesale business are generally highest in our first, second and third quarter, as it sells textbooks and other course materials for retail distribution. For our DSS segment, or direct-to-student business, sales and operating profit are realized relatively consistently throughout the year.

Trends, Competition and Other Business Conditions Affecting Our Business

The market for educational materials is undergoing unprecedented change. As tuition and other costs rise, colleges and universities face increasing pressure to attract and retain students and provide them with innovative, affordable educational content and tools that support their educational development. Current trends, competition and other factors affecting our business include:

- *Increased Use of Online and Digital Platforms as Companions or Alternatives to Printed Course Materials.* Students and faculty can now choose from a wider variety of educational content and tools than ever before, delivered across both print and digital platforms.
- *Distribution Network Evolving.* The way course materials are distributed and consumed is changing significantly, a trend that is expected to continue. The market for course materials, including textbooks and supplemental materials, is intensely competitive and subject to rapid change.
 - *Disintermediation.* We are experiencing growing competition from alternative media and alternative sources of textbooks and other course materials. In addition to the official physical or virtual campus bookstore, course materials are also sold through off-campus bookstores, e-commerce outlets, digital platform companies, publishers, including Cengage, Pearson and McGraw Hill, bypassing the bookstore distribution channel by selling or renting directly to students and educational institutions, and student-to-student transactions over the Internet.
 - *Supply Chain and Inventory.* Since the demand for used textbooks has historically been greater than the available supply, our financial results are highly dependent upon Wholesale's ability to build its textbook inventory from suppliers in advance of the selling season. Some textbook publishers have begun to supply textbooks pursuant to consignment or rental programs which could impact used textbook supplies in the future. Additionally, Wholesale is a national distributor for rental textbooks offered through McGraw-Hill Education's and Pearson Education's consignment rental program.
 - *Price Competition.* In addition to the competition in the services we provide to our customers, our textbook and other course materials business faces significant price competition. Students purchase textbooks and other course materials from multiple providers, are highly price sensitive, and can easily shift spending from one provider or format to another.
- *Competition.* In addition to the competition we face from alternative distribution sources, we also have competition from other college bookstore operators, textbook wholesalers and educational content providers. Competitors that provide online bookstore solutions to colleges and universities not only compete with our physical bookstore operations, but also compete with Retail's virtual stores. We also compete with other companies that offer college themed and other general merchandise. Our DSS segment faces competition from other digital student solutions providers, including Chegg.

- *A Large Number of Traditional Campus Bookstores Have Yet to be Outsourced.*
 - *Outsourcing Trends.* We continue to see the trend towards outsourcing in the campus bookstore market, including virtual bookstores and online marketplace websites, and we also continue to see a variety of business models being pursued for the provision of textbooks and other course materials, such as inclusive access and publisher subscription models, and general merchandise.
 - *New and Existing Bookstore Contracts.* We expect awards of new accounts resulting in new physical and virtual store openings will continue to be an important driver of future growth in our business.
- *Overall Economic Environment, College Enrollment and Consumer Spending Patterns.* Our business is affected by the overall economic environment, funding levels at colleges and universities, by changes in enrollments at colleges and universities, and spending on course materials and general merchandise.
 - *Economic Environment:* Retail general merchandise sales are subject to short-term fluctuations driven by the broader retail environment. We expect general merchandise sales to continue to increase over the long term, 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.
 - *Enrollment Trends.* The growth of our business depends on our ability to attract new students and to increase the level of engagement by our current student customers. We continue to see downward enrollment trends and shrinking resources from state and federal government for colleges and universities. Enrollment trends, specifically at community colleges, continue to decline, led primarily by an improved economy and a dip in the United States birth rate resulting in fewer students at the traditional 18-24 year old college age. However, online degree program enrollments continue to grow, even in the face of declining overall higher education enrollment, and consistent with projections from the National Center for Education Statistics, we expect undergraduate enrollment to increase in the long-term.

For additional discussion of our trends and other factors affecting our business, see *Part I - Item 1. Business* in our Annual Report on Form 10-K for the year ended April 27, 2019.

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, used and digital textbooks, and at college and university bookstores which we operate, we sell 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 textbooks. We also derive revenue from other sources, such as sales of inventory management, hardware and point-of-sale software, direct-to-student subscription-based services, and other services.

Our cost of sales primarily include costs such as merchandise costs, textbook rental amortization, content development cost amortization, warehouse costs related to inventory management and order fulfillment, insurance, certain payroll costs, and management service agreement costs, including rent expense, related to our college and university contracts and 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 merchandising, procurement, field support, finance and accounting, and operating costs related to our direct-to-student subscription-based services business. Shared-service costs such as human resources, legal, treasury, information technology, and various other corporate level expenses and other governance functions, are not allocated to any specific reporting segment and are recorded in Corporate Services as discussed in the *Overview - Segments* discussion above.

Results of Operations - Summary

	13 weeks ended	
	July 27, 2019	July 28, 2018
<i>Dollars in thousands</i>		
Sales:		
Product sales and other	\$ 302,227	\$ 317,845
Rental income	17,430	19,639
Total sales	<u>\$ 319,657</u>	<u>\$ 337,484</u>
Net loss	<u>\$ (32,155)</u>	<u>\$ (38,622)</u>
Adjusted Earnings (non-GAAP) ^(a)	<u>\$ (30,075)</u>	<u>\$ (38,589)</u>
Adjusted EBITDA (non-GAAP) ^(a)		
Retail	\$ (21,492)	\$ (28,670)
Wholesale	10,159	13,906
DSS	1,028	2,775
Corporate Services	(5,007)	(5,493)
Elimination	(9,811)	(15,008)
Total Adjusted EBITDA (non-GAAP)	<u>\$ (25,123)</u>	<u>\$ (32,490)</u>

(a) Adjusted Earnings and Adjusted EBITDA are non-GAAP financial measures. See *Adjusted Earnings (non-GAAP)* and *Adjusted EBITDA (non-GAAP)* discussion below.

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

	13 weeks ended	
	July 27, 2019	July 28, 2018
Sales:		
Product sales and other	94.5 %	94.2 %
Rental income	5.5	5.8
Total sales	<u>100.0</u>	<u>100.0</u>
Cost of sales:		
Product and other cost of sales ^(a)	78.9	81.4
Rental cost of sales ^(a)	55.5	61.7
Total cost of sales	<u>77.6</u>	<u>80.3</u>
Gross margin	<u>22.4</u>	<u>19.7</u>
Selling and administrative expenses	30.6	29.4
Depreciation and amortization expense	5.0	4.9
Impairment loss (non-cash)	0.1	—
Restructuring and other charges	0.5	—
Operating loss	<u>(13.8)%</u>	<u>(14.6)%</u>

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

Results of Operations - 13 weeks ended July 27, 2019 compared with the 13 weeks ended July 28, 2018

<i>Dollars in thousands</i>	13 weeks ended, July 27, 2019					
	Retail	Wholesale	DSS	Corporate Services	Eliminations	Total
Sales:						
Product sales and other	\$ 257,226	\$ 72,309	\$ 5,374	\$ —	\$ (32,682)	\$ 302,227
Rental income	17,430	—	—	—	—	17,430
Total sales	274,656	72,309	5,374	—	(32,682)	319,657
Cost of sales:						
Product and other cost of sales	202,848	57,391	960	—	(22,868)	238,331
Rental cost of sales	9,669	—	—	—	—	9,669
Total cost of sales	212,517	57,391	960	—	(22,868)	248,000
Gross profit	62,139	14,918	4,414	—	(9,814)	71,657
Selling and administrative expenses	83,815	4,759	4,113	5,007	(3)	97,691
Depreciation and amortization expense	11,977	1,565	2,304	33	—	15,879
Sub-Total:	\$ (33,653)	\$ 8,594	\$ (2,003)	\$ (5,040)	\$ (9,811)	(41,913)
Impairment loss (non-cash)						433
Restructuring and other charges						1,466
Operating loss						\$ (43,812)

<i>Dollars in thousands</i>	13 weeks ended, July 28, 2018					
	Retail	Wholesale	DSS	Corporate Services	Eliminations	Total
Sales:						
Product sales and other	\$ 267,446	\$ 89,944	\$ 5,677	\$ —	\$ (45,222)	\$ 317,845
Rental income	19,639	—	—	—	—	19,639
Total sales	287,085	89,944	5,677	—	(45,222)	337,484
Cost of sales:						
Product and other cost of sales	218,442	70,399	123	—	(30,212)	258,752
Rental cost of sales	12,122	—	—	—	—	12,122
Total cost of sales	230,564	70,399	123	—	(30,212)	270,874
Gross profit	56,521	19,545	5,554	—	(15,010)	66,610
Selling and administrative expenses	85,235	5,639	2,779	5,493	(2)	99,144
Depreciation and amortization expense	13,325	1,460	1,709	44	—	16,538
Operating loss:	\$ (42,039)	\$ 12,446	\$ 1,066	\$ (5,537)	\$ (15,008)	(49,072)

Sales

The following table summarizes our sales for the 13 weeks ended July 27, 2019 and July 28, 2018:

<i>Dollars in thousands</i>	13 weeks ended		
	July 27, 2019	July 28, 2018	%
Product sales and other	\$ 302,227	\$ 317,845	(4.9)%
Rental income	17,430	19,639	(11.2)%
Total Sales	\$ 319,657	\$ 337,484	(5.3)%

Our sales decreased by \$17.8 million, or 5.3%, to \$319.7 million during the 13 weeks ended July 27, 2019 from \$337.5 million during the 13 weeks ended July 28, 2018.

The components of the variances for the 13 week periods are reflected in the table below.

Sales variances	13 weeks ended	
	July 27, 2019	July 28, 2018
<i>Dollars in millions</i>		
Retail Sales		
New stores	\$ 7.4	\$ 7.8
Closed stores	(6.3)	(8.8)
Comparable stores ^(a)	(9.0)	(6.4)
Textbook rental deferral	0.7	(0.2)
Service revenue ^(b)	(0.4)	(0.1)
Other ^(c)	(4.8)	(2.5)
Retail sales subtotal:	\$ (12.4)	\$ (10.2)
Wholesale Sales	\$ (17.6)	\$ (2.6)
DSS Sales	\$ (0.3)	\$ 5.7
Eliminations ^(d)	\$ 12.5	\$ (11.1)
Total sales variance:	\$ (17.8)	\$ (18.2)

- (a) Comparable store sales includes sales from physical stores that have been open for an entire fiscal year period and virtual store sales for the period, does not include sales from closed stores for all periods presented, and digital agency sales are included on a gross basis.
- (b) Service revenue includes Promoversity, brand partnerships, shipping and handling, digital content, software, services, and revenue from other programs.
- (c) Other includes inventory liquidation sales to third parties, marketplace sales and certain accounting adjusting items related to return reserves, agency sales and other deferred items.
- (d) Eliminates Wholesale sales and service fees to Retail and Retail commissions earned from Wholesale. See discussion of intercompany activities and eliminations below.

Retail

Retail sales decreased \$12.4 million, or 4.3%, to \$274.7 million during the 13 weeks ended July 27, 2019 from \$287.1 million during the 13 weeks ended July 27, 2018. The first quarter is typically a low sales activity period for the Retail. Retail added 84 new stores and closed 41 stores during the 13 weeks ended July 27, 2019, ending the period with a total of 1,491 stores.

Number of Stores:	13 weeks ended			
	July 27, 2019		July 28, 2018	
	Physical	Virtual	Physical	Virtual
Number of stores at beginning of period	772	676	768	676
Opened	38	46	13	17
Closed	33	8	28	9
Number of stores at end of period	777	714	753	684

Product and other sales for Retail for the 13 weeks ended July 27, 2019 decreased by \$10.2 million, or 3.8%. Product and other sales are impacted by comparable store sales (as noted in the chart below), new store openings and store closings. Textbook (Course Materials) revenue for Retail for the 13 weeks ended July 27, 2019 decreased primarily due to lower new and used textbook and other course materials sales, while digital and eTextbook revenue increased. General merchandise sales for Retail increased for the 13 weeks ended July 27, 2019 primarily due to higher emblematic apparel and graduation product sales.

Rental income for Retail for the 13 weeks ended July 27, 2019 decreased by \$2.2 million, or 11.2% to \$17.4 million from \$19.6 million. Rental income is impacted by comparable store sales, new store openings and store closings. The decrease in rental income is due to decreased rental activity impacted by increased digital offerings.

Comparable store sales for Retail decreased for the 13 week sales periods. Comparable store sales were impacted primarily by a shift to lower cost options and more affordable solutions, including digital offerings, increased consumer purchases directly from publishers and other online providers, and lower student enrollment, specifically in two-year community colleges. These

decreases were partially offset by improved general merchandise sales. Comparable store sales variances for Retail by category for the 13 week periods are as follows:

Comparable Store Sales variances - Retail

Dollars in millions	13 weeks ended			
	July 27, 2019		July 28, 2018	
Textbooks (Course Materials)	\$ (13.7)	(11.0)%	\$ (6.1)	(4.7)%
General Merchandise	5.9	4.9 %	1.2	1.0 %
Trade Books	(1.2)	(11.8)%	(1.5)	(12.9)%
Total Comparable Store Sales	<u>\$ (9.0)</u>	<u>(3.5)%</u>	<u>\$ (6.4)</u>	<u>(2.5)%</u>

Wholesale

Wholesale sales decreased by \$17.6 million, or 19.6%, to \$72.3 million during the 13 weeks ended July 27, 2019 from \$89.9 million during the 13 weeks ended July 28, 2018. The decrease is driven primarily due to a shift in buying patterns, a decrease in supply, and a decrease in customer demand (including sales to our Retail Segment). The first quarter is typically a high sales activity period for Wholesale as schools purchase inventory for the upcoming fall semester.

DSS

DSS total sales decreased by \$0.3 million or 5.3% to \$5.4 million during the 13 weeks ended July 27, 2019 from \$5.7 million during the 13 weeks ended July 28, 2018 primarily due to lower Student Brands sales overall, partially offset by growth in certain foreign language properties and increased *bartleby* subscription sales.

Cost of Sales and Gross Margin

Our cost of sales decreased as a percentage of sales to 77.6% during the 13 weeks ended July 27, 2019 compared to 80.3% during the 13 weeks ended July 28, 2018. Our gross margin increased by \$5.0 million, or 7.6%, to \$71.6 million, or 22.4% of sales, during the 13 weeks ended July 27, 2019 from \$66.6 million, or 19.7% of sales during the 13 weeks ended July 28, 2018.

Retail

The following table summarizes the Retail cost of sales for the 13 weeks ended July 27, 2019 and July 28, 2018:

Dollars in thousands	13 weeks ended			
	July 27, 2019	% of Related Sales	July 28, 2018	% of Related Sales
Product and other cost of sales	\$ 202,848	78.9%	\$ 218,442	81.7%
Rental cost of sales	9,669	55.5%	12,122	61.7%
Total Cost of Sales	<u>\$ 212,517</u>	<u>77.4%</u>	<u>\$ 230,564</u>	<u>80.3%</u>

The following table summarizes the Retail gross margin for the 13 weeks ended July 27, 2019 and July 28, 2018:

Dollars in thousands	13 weeks ended			
	July 27, 2019	% of Related Sales	July 28, 2018	% of Related Sales
Product and other gross margin	\$ 54,378	21.1%	\$ 49,004	18.3%
Rental gross margin	7,761	44.5%	7,517	38.3%
Gross Margin	<u>\$ 62,139</u>	<u>22.6%</u>	<u>\$ 56,521</u>	<u>19.7%</u>

For the 13 weeks ended July 27, 2019, the Retail gross margin as a percentage of sales increased as discussed below:

- Product and other gross margin increased (280 basis points), driven primarily by a favorable sales mix (205 basis points) due to increased sales of higher margin general merchandise and lower costs related to our college and university contracts (190 basis points) resulting from contract renewals and new store contracts, partially offset by lower margin rates (115 basis points) due to higher markdowns.
- Rental gross margin increased (620 basis points), driven primarily by favorable rental mix (505 basis points) due to increased consignment rental sales and lower costs related to our college and university contracts (510 basis points) resulting from contract renewals and new store contracts, partially offset by lower rental margin rates (395 basis points).

Wholesale

The cost of sales and gross margin for Wholesale were \$57.4 million, or 79.4% of sales, and \$14.9 million, or 20.6% of sales, respectively, during the 13 weeks ended July 27, 2019. The cost of sales and gross margin for Wholesale was \$70.4 million or 78.3% of sales and \$19.5 million or 21.7% of sales, respectively, during the 13 weeks ended July 28, 2018. The gross margin decreased to 20.6% during the 13 weeks ended July 27, 2019 from 21.7% during the 13 weeks ended July 28, 2018 primarily due to an unfavorable sales mix.

DSS

The gross margin for the DSS segment was \$4.4 million, or 82.1% of sales, during the 13 weeks ended July 27, 2019 and \$5.6 million, or 97.8% of sales, during the 13 weeks ended July 28, 2018 driven primarily by due to the amortization of content development costs of \$0.7 million for *bartleby* textbook solutions which was launched in the latter half of Fiscal 2019.

Intercompany Eliminations

During the 13 weeks ended July 27, 2019 and July 28, 2018, our sales eliminations were \$(32.7) million and \$(45.2) million, respectively. These sales eliminations represent the elimination of Wholesale sales and fulfillment service fees to Retail and the elimination of Retail commissions earned from Wholesale.

During the 13 weeks ended July 27, 2019 and July 28, 2018, the cost of sales eliminations were \$(22.9) million and \$(30.2) million, respectively. These cost of sales eliminations represent (i) the recognition of intercompany profit for Retail inventory that was purchased from Wholesale in a prior period that was subsequently sold to external customers during the current period and the elimination of Wholesale service fees charged for fulfillment of inventory for virtual store sales, net of (ii) the elimination of intercompany profit for Wholesale inventory purchases by Retail that remain in ending inventory at the end of the current period.

During the 13 weeks ended July 27, 2019 and July 28, 2018, the gross margin eliminations were \$(9.8) million and \$(15.0) million, respectively. The gross margin eliminations reflect the net impact of the sales eliminations and cost of sales eliminations during the above mentioned reporting periods.

Selling and Administrative Expenses

	13 weeks ended			
	July 27, 2019	% of Sales	July 28, 2018	% of Sales
<i>Dollars in thousands</i>				
Total Selling and Administrative Expenses	\$ 97,691	30.6%	\$ 99,144	29.4%

During the 13 weeks ended July 27, 2019, selling and administrative expenses decreased by \$1.4 million, or 1.5%, to \$97.7 million from \$99.1 million during the 13 weeks ended July 28, 2018. The variances by segment are as follows:

Retail

During the 13 weeks ended July 27, 2019, Retail selling and administrative expenses decreased by \$1.4 million, or 1.7%, to \$83.8 million from \$85.2 million during the 13 weeks ended July 28, 2018. This decrease was primarily due to a \$1.5 million decrease in stores payroll and operating expenses, including comparable stores and new/closed stores payroll and operating expenses, a \$1.0 million decrease in virtual store payroll and operating expenses, a decrease of \$1.0 million in LoudCloud digital operations, partially offset by an increase of \$1.1 million in corporate payroll and infrastructure costs and a \$1.0 million increase in product development costs.

Wholesale

During the 13 weeks ended July 27, 2019, Wholesale selling and administrative expenses decreased by \$0.9 million or 15.6% to \$4.8 million from \$5.6 million during the 13 weeks ended July 28, 2018. The decrease in selling and administrative expenses was primarily driven by lower payroll and operating costs.

DSS

During the 13 weeks ended July 27, 2019, DSS selling and administrative expenses increased by \$1.3 million to \$4.1 million from \$2.8 million during the 13 weeks ended July 28, 2018. The increase in costs was primarily driven by higher payroll and professional fees related to developing, marketing and selling our student success hub on *bartleby* which launched during the latter half of Fiscal 2019.

Corporate Services

During the 13 weeks ended July 27, 2019, Corporate Services' selling and administrative expenses decreased by \$0.5 million or 8.8% to \$5.0 million from \$5.5 million during the 13 weeks ended July 28, 2018. The decrease was primarily due to lower bonus expense and lower operating expenses, partially offset by higher stock-based compensation expense.

Depreciation and Amortization Expense

Dollars in thousands	13 weeks ended			
	July 27, 2019	% of Sales	July 28, 2018	% of Sales
Total Depreciation and Amortization Expense	\$ 15,879	5.0%	\$ 16,538	4.9%

Depreciation and amortization expense decreased by \$0.7 million, or 4.0%, to \$15.9 million during the 13 weeks ended July 27, 2019 from \$16.5 million during the 13 weeks ended July 28, 2018. This decrease was primarily attributable to lower depreciation related to closed stores, offset by incremental depreciation and amortization expense resulting from the acquisition of PaperRater on August 21, 2018 associated with the identified intangibles recorded at fair value as of the acquisition date and additional capital expenditures.

Impairment loss (non-cash)

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with *ASC 360-10, Accounting for the Impairment or Disposal of Long-Lived Assets*. During the 13 weeks ended July 27, 2019, we recognized an impairment loss (non-cash) of \$0.4 million in the Retail segment related to net capitalized development costs for a project which are not recoverable.

Restructuring and other charges

During the 13 weeks ended July 27, 2019, we recognized expenses totaling \$1.5 million, comprised primarily of \$0.6 million for severance and other employee termination and benefit costs associated with several management changes and the elimination of various positions as part of cost reduction objectives, and \$0.7 million related to professional service costs, for restructuring activities and related process improvements.

Operating loss

Dollars in thousands	13 weeks ended			
	July 27, 2019	% of Sales	July 28, 2018	% of Sales
Total Operating Loss	\$ (43,812)	(13.8)%	\$ (49,072)	(14.6)%

Our operating loss was \$(43.8) million during the 13 weeks ended July 27, 2019, compared to operating loss of \$(49.1) million during the 13 weeks ended July 28, 2018. The decrease is due to the matters discussed above. For the 13 weeks ended July 27, 2019, excluding the \$1.5 million of restructuring and other charges and impairment loss of \$0.4 million, discussed above, operating loss was \$(41.9) million (or 13.1% of sales).

Interest Expense, Net

Dollars in thousands	13 weeks ended	
	July 27, 2019	July 28, 2018
Interest Expense, Net	\$ 2,532	\$ 3,522

Net interest expense decreased by \$1.0 million to \$2.5 million during the 13 weeks ended July 27, 2019 from \$3.5 million during the 13 weeks ended July 28, 2018 due to lower borrowings.

Income Tax Benefit

Dollars in thousands	13 weeks ended			
	July 27, 2019	Effective Rate	July 28, 2018	Effective Rate
Income Tax Benefit	\$ (14,189)	30.6%	\$ (13,972)	26.6%

We recorded an income tax benefit of \$(14.2) million on a pre-tax loss of \$(46.3) million of during the 13 weeks ended July 27, 2019, which represented an effective income tax rate of 30.6% and we recorded an income tax benefit of \$(14.0) million on pre-tax loss of \$(52.6) million during the 13 weeks ended July 28, 2018, which represented an effective income tax rate of 26.6%. The effective tax rate for the 13 weeks ended July 27, 2019 is higher as compared to the comparable prior year due to permanent differences.

Net Loss

Dollars in thousands	13 weeks ended	
	July 27, 2019	July 28, 2018
Net loss	\$ (32,155)	\$ (38,622)

As a result of the factors discussed above, net loss was \$(32.2) million during the 13 weeks ended July 27, 2019, compared with net loss of \$(38.6) million during the 13 weeks ended July 28, 2018.

Adjusted Earnings (non-GAAP) is \$(30.1) million during the 13 weeks ended July 27, 2019, compared with \$(38.6) million during the 13 weeks ended July 28, 2018. See *Adjusted Earnings (non-GAAP)* discussion below.

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

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

To properly and prudently evaluate our business, we encourage you to review our consolidated financial statements included elsewhere in the Form 10-K for the year ended April 27, 2019, the reconciliation of Adjusted Earnings to net income and the reconciliation of Adjusted EBITDA 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.

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 they exclude 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 Earnings and Adjusted EBITDA results provides investors useful and important information regarding our operating results.

Adjusted Earnings (non-GAAP)

Dollars in thousands	13 weeks ended	
	July 27, 2019	July 28, 2018
Net loss	\$ (32,155)	\$ (38,622)
Reconciling items, after-tax ^(below)	2,080	33
Adjusted Earnings (non-GAAP)	\$ (30,075)	\$ (38,589)
Reconciling items, pre-tax		
Impairment loss (non-cash) ^(a)	\$ 433	\$ —
Content amortization (non-cash) ^(b)	911	44
Restructuring and other charges ^(a)	1,466	—
Reconciling items, pre-tax	2,810	44
Less: Pro forma income tax impact ^(b)	730	11
Reconciling items, after-tax	\$ 2,080	\$ 33

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

(b) For the 13 weeks ended July 27, 2019, earnings are adjusted for amortization expense (non-cash) related to content development costs which are included in cost of goods sold.

(c) Represents the income tax effects of the non-GAAP items.

Adjusted EBITDA (non-GAAP)

<i>Dollars in thousands</i>	13 weeks ended	
	July 27, 2019	July 28, 2018
Net loss	\$ (32,155)	\$ (38,622)
Add:		
Depreciation and amortization expense	15,879	16,538
Content amortization (non-cash) ^(a)	911	44
Interest expense, net	2,532	3,522
Income tax benefit	(14,189)	(13,972)
Impairment loss (non-cash) ^(b)	433	—
Restructuring and other charges ^(b)	1,466	—
Adjusted EBITDA (non-GAAP) ^(b)	<u>\$ (25,123)</u>	<u>\$ (32,490)</u>

(a) For the 13 weeks ended July 27, 2019, earnings are adjusted for amortization expense (non-cash) related to content development costs which are included in cost of goods sold.

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

The following is Adjusted EBITDA by segment for the 13 weeks ended July 27, 2019 and July 28, 2018.

Adjusted EBITDA - by Segment

<i>Dollars in thousands</i>	13 weeks ended, July 27, 2019					
	Retail	Wholesale	DSS	Corporate Services	Elimination ^(b)	Total
Sales	\$ 274,656	\$ 72,309	\$ 5,374	\$ —	\$ (32,682)	\$ 319,657
Cost of sales ^(a)	212,333	57,391	233	—	(22,868)	247,089
Gross profit	62,323	14,918	5,141	—	(9,814)	72,568
Selling and administrative expenses	83,815	4,759	4,113	5,007	(3)	97,691
Adjusted EBITDA (non-GAAP)	<u>\$ (21,492)</u>	<u>\$ 10,159</u>	<u>\$ 1,028</u>	<u>\$ (5,007)</u>	<u>\$ (9,811)</u>	<u>\$ (25,123)</u>

Adjusted EBITDA - by Segment

<i>Dollars in thousands</i>	13 weeks ended, July 28, 2018					
	Retail	Wholesale	DSS	Corporate Services	Elimination ^(b)	Total
Sales	\$ 287,085	\$ 89,944	\$ 5,677	\$ —	\$ (45,222)	\$ 337,484
Cost of sales ^(a)	230,520	70,399	123	—	(30,212)	270,830
Gross profit	56,565	19,545	5,554	—	(15,010)	66,654
Selling and administrative expenses	85,235	5,639	2,779	5,493	(2)	99,144
Adjusted EBITDA (non-GAAP)	<u>\$ (28,670)</u>	<u>\$ 13,906</u>	<u>\$ 2,775</u>	<u>\$ (5,493)</u>	<u>\$ (15,008)</u>	<u>\$ (32,490)</u>

(a) For the 13 weeks ended July 27, 2019, gross margin excludes \$0.2 million and \$0.7 million of amortization expense (non-cash) related to content development costs in the Retail Segment and DSS Segment, respectively. For the 13 weeks ended July 28, 2018, gross margin excludes \$0.05 million and \$0 of amortization expense (non-cash) related to content development costs in the Retail Segment and DSS Segment, respectively.

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

Liquidity and Capital Resources

Our primary sources of cash are net cash flows from operating activities, funds available under our credit agreement and short-term vendor financing. As of July 27, 2019, we had \$174.1 million of borrowings under the Credit Agreement. See *Financing Arrangements* discussion below.

Sources and Uses of Cash Flow

<i>Dollars in thousands</i>	13 weeks ended	
	July 27, 2019	July 28, 2018
Cash, cash equivalents, and restricted cash at beginning of period	\$ 14,768	\$ 16,869
Net cash flows used in operating activities	(40,243)	(27,353)
Net cash flows used in investing activities	(6,105)	(9,314)
Net cash flows provided by financing activities	40,560	33,800
Cash, cash equivalents, and restricted cash at end of period	\$ 8,980	\$ 14,002

Cash Flow from Operating Activities

Our business is highly seasonal. For our retail operations, 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 and other course materials for the upcoming semesters based on the typical academic semester. For our wholesale operations, cash flows from operating activities are typically a source of cash in the second and fourth fiscal quarters, as payments are received from the summer and winter selling season when they sell textbooks and other course materials for retail distribution. For both retail and wholesale, cash flows from operating activities are typically a use of cash in the fourth fiscal quarter, when sales volumes are materially lower than the other quarters. For our DSS segment, cash flows are not seasonal as cash flows from operating activities are typically consistent throughout the year. 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 our 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 27, 2019 were \$(40.2) million compared to \$(27.4) million during the 13 weeks ended July 28, 2018. This increase of \$12.8 million was primarily due to improved net income compared to prior year, and changes in working capital, partially offset by the change in deferred taxes and operating lease right-of-use assets and lease liabilities. See *Item 1. Financial Statements - Note 2. Summary of Significant Accounting Policies* and *Note 5. Leases* for information regarding the impact of adopting FASB ASC 842, *Leases* (Topic 842) effective April 28, 2019.

Cash Flow from Investing Activities

Cash flows used in investing activities during the 13 weeks ended July 27, 2019 were \$(6.1) million compared to \$(9.3) million during the 13 weeks ended July 28, 2018. The decrease is primarily due to the change in other noncurrent assets for contractual obligations.

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. Capital expenditures totaled \$8.3 million and \$8.2 million during the 13 weeks ended July 27, 2019 and July 28, 2018, respectively.

Cash Flow from Financing Activities

Cash flows provided by financing activities during the 13 weeks ended July 27, 2019 were \$40.6 million compared to \$33.8 million during the 13 weeks ended July 28, 2018. This net change of \$6.8 million is primarily due to increased net borrowings under the credit agreement.

Financing Arrangements

We have a credit agreement (the "Credit Agreement"), amended March 1, 2019, under which the lenders committed to provide us with a five-year asset-backed revolving credit facility in an aggregate committed principal amount of \$400 million (the "Credit Facility"). We have the option to request an increase in commitments under the Credit Facility of up to \$100 million, subject to certain restrictions. Proceeds from the Credit Facility are used for general corporate purposes, including seasonal working capital needs. The agreement includes an incremental first in, last out seasonal loan facility (the "FILO Facility") for a \$100 million incremental facility maintaining the maximum availability under the Credit Agreement at \$500 million.

During the 13 weeks ended July 27, 2019, we borrowed \$120.3 million and repaid \$79.7 million under the Credit Agreement. The net total outstanding borrowings of \$174.1 million of as of July 27, 2019 is comprised of \$74.1 million and \$100.0 million of outstanding borrowings under the Credit Facility and FILO Facility, respectively. During the 13 weeks ended July 28, 2018, we borrowed \$96.3 million and repaid \$62.5 million under the Credit Agreement. The net total outstanding borrowings of \$230.2 million as of July 28, 2018 is comprised of \$130.2 million and \$100.0 million of outstanding borrowings under the Credit Facility and FILO Facility, respectively. As of both July 27, 2019 and July 28, 2018, we have issued \$4.8 million in letters of credit under the Credit Facility.

For additional information including interest terms and covenant requirements related to the Credit Facility and FILO Facility, refer to *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 27, 2019.

We believe that our future cash from operations, access to borrowings under the Credit Facility, FILO Facility and short-term vendor financing will provide adequate resources to fund our operating and financing needs for the foreseeable future. Our future capital requirements will depend on many factors, including, but not limited to, the economy and the outlook for and pace of sustainable growth in our markets, the levels at which we maintain inventory, the number and timing of new store openings, and any potential acquisitions of other brands or companies including digital properties. To the extent that available funds are insufficient to fund our future activities, we may need to raise additional funds through public or private financing of debt or equity. 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.

Income Tax Implications on Liquidity

As of July 27, 2019, other long-term liabilities includes \$32.8 million related to the long-term tax payable associated with the LIFO reserve. The LIFO reserve is impacted by changes in the consumer price index ("CPI") and is dependent on the inventory levels at the end of our tax year (on or about January 31st) which is in the middle of our second largest selling cycle. At the end of the most recent tax year, inventory levels declined as compared to the prior year resulting in approximately \$7.3 million of the income taxes associated with the LIFO reserve becoming currently payable. Given recent trends relating to the pricing and rental of textbooks, management believes that an additional portion of the remaining long-term tax payable associated with the LIFO reserve could become payable within the next twelve months. We are unable to predict future trends for CPI and inventory levels, therefore it is difficult to project with reasonable certainty how much of this liability will become payable within the next twelve months.

Share Repurchases

On December 14, 2015, our Board of Directors authorized a stock repurchase program of up to \$50 million, in the aggregate, of our outstanding Common Stock. The stock repurchase program is carried out at the direction of management (which may include 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 27, 2019, we did not repurchase any of our Common Stock under the stock repurchase program. As of July 27, 2019, approximately \$26.7 million remains available under the stock repurchase program.

During the 13 weeks ended July 27, 2019, we repurchased 11,933 shares of our Common Stock outside of the stock repurchase program in connection with employee tax withholding obligations for vested stock awards.

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 27, 2019.

Off-Balance Sheet Arrangements

As of July 27, 2019, we have no off-balance sheet arrangements as defined in Item 303 of Regulation S-K.

Critical Accounting Policies

Our policies regarding the use of estimates and other critical accounting policies are consistent with the disclosures in *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 27, 2019.

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 and content providers 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 physical and/or online bookstore operations or change the operation of their bookstores;
- implementation 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 including new digital channels, and enhancements to higher education digital products, and the inability to achieve the expected cost savings;
- the risk of price reduction or change in format of course materials by publishers, which could negatively impact revenues and margin;
- the general economic environment and consumer spending patterns;
- decreased consumer demand for our products, low growth or declining sales;
- the strategic objectives, successful integration, anticipated synergies, and/or other expected potential benefits of various acquisitions, may not be fully realized or may take longer than expected;
- the integration of the operations of various acquisitions into our own may also increase the risk of our internal controls being found ineffective;
- changes to purchase or rental terms, payment terms, return policies, the discount or margin on products or other terms with our suppliers;
- our ability to successfully implement our strategic initiatives including our ability to identify, compete for and execute upon additional acquisitions and strategic investments;
- risks associated with operation or performance of MBS Textbook Exchange, LLC's point-of-sales systems that are sold to college bookstore customers;
- technological changes;
- risks associated with counterfeit and piracy of digital and print materials;
- our international operations could result in additional risks;
- our ability to attract and retain employees;
- 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 managed bookstore, physical and/or online store contracts and higher-than-anticipated store closings;
- disruptions to our information technology systems, infrastructure and data due to computer malware, viruses, hacking and phishing attacks, resulting in harm to our business and results of operations;
- disruption of or interference with third party web service providers and our own proprietary technology;
- work stoppages or increases in labor costs;
- possible increases in shipping rates or interruptions in shipping service;
- product shortages, including decreases in the used textbook inventory supply associated with the implementation of publishers' direct to student textbook consignment rental programs, as well as risks associated with merchandise sourced indirectly from outside the United States;
- changes in domestic and international laws or regulations, including U.S. tax reform, changes in tax rates, laws and regulations, as well as related guidance;
- enactment of laws or changes in enforcement practices which may restrict or prohibit our use of texts, emails, interest based online advertising, recurring billing or similar marketing and sales activities;
- 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, tax-related proceedings, or audits;
- changes in accounting standards; 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 27, 2019.

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 *Part II - Item 7A. Quantitative and Qualitative Disclosures About Market Risk* in our Annual Report on Form 10-K for the year ended April 27, 2019.

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.

We implemented internal controls in connection with our adoption of the new lease accounting guidance in the first quarter of Fiscal 2020. Management has not identified any other 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.

Item 1A. Risk Factors

There have been no material changes during the 13 weeks ended July 27, 2019 to the risk factors discussed in *Part I - Item 1A. Risk Factors* in our Annual Report on Form 10-K for the year ended April 27, 2019.

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

The following table provides information as of July 27, 2019 with respect to shares of Common Stock we purchased during the first quarter of Fiscal 2020:

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
April 28, 2019 - May 25, 2019	—	\$ —	—	\$ 26,669,324
May 26, 2019 - June 29, 2019	—	\$ —	—	\$ 26,669,324
June 30, 2019 - July 27, 2019	—	\$ —	—	\$ 26,669,324
	—	\$ —	—	

(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 may include 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 27, 2019, we did not repurchase any shares of our Common Stock under the program.

During the 13 weeks ended July 27, 2019, we repurchased 11,933 shares of our Common Stock outside of the stock repurchase program in connection with employee tax withholding obligations for vested stock awards.

Item 5. Other Information

None.

Item 6. Exhibits

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/ THOMAS D. DONOHUE

Thomas D. Donohue

Chief Financial Officer

(principal financial officer)

By: /s/ SEEMA C. PAUL

Seema C. Paul

Chief Accounting Officer

(principal accounting officer)

August 27, 2019

EXHIBIT INDEX

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

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

I, Michael P. Huseby, certify that:

1. I have reviewed this report on Form 10-Q for the quarterly period ended July 27, 2019 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: August 27, 2019

By: /s/ Michael P. Huseby
Michael P. Huseby
Chairman and 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, Thomas D. Donohue, certify that:

1. I have reviewed this report on Form 10-Q for the quarterly period ended July 27, 2019 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: August 27, 2019

By: /s/ Thomas D. Donohue

Thomas D. Donohue

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 27, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michael P. Huseby, Chairman and 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/ Michael P. Huseby

Michael P. Huseby

*Chairman and Chief Executive Officer
Barnes & Noble Education, Inc.*

August 27, 2019

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 27, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Thomas D. Donohue, 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/ Thomas D. Donohue

Thomas D. Donohue

Chief Financial Officer

Barnes & Noble Education, Inc.

August 27, 2019

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.