

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended January 25, 2020
OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____
Commission File Number: 1-37499

BARNES & NOBLE EDUCATION, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

120 Mountain View Blvd., Basking Ridge, NJ
(Address of Principal Executive Offices)

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

07920
(Zip Code)

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

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 February 21, 2020, 48,297,554 shares of Common Stock, par value \$0.01 per share, were outstanding.

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Fiscal Quarter Ended January 25, 2020
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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		39 weeks ended	
	January 25, 2020	January 26, 2019	January 25, 2020	January 26, 2019
Sales:				
Product sales and other	\$ 453,678	\$ 491,989	\$ 1,474,448	\$ 1,566,007
Rental income	48,614	56,019	119,729	134,251
Total sales	502,292	548,008	1,594,177	1,700,258
Cost of sales:				
Product and other cost of sales	354,999	381,953	1,146,400	1,209,676
Rental cost of sales	28,758	33,102	70,635	80,259
Total cost of sales	383,757	415,055	1,217,035	1,289,935
Gross profit	118,535	132,953	377,142	410,323
Selling and administrative expenses	106,184	110,941	317,279	325,408
Depreciation and amortization expense	15,117	16,374	46,542	49,333
Impairment loss (non-cash)	—	—	433	—
Restructuring and other charges	205	2,500	3,240	2,500
Transaction costs	—	117	—	654
Operating (loss) income	(2,971)	3,021	9,648	32,428
Interest expense, net	1,904	2,546	5,882	7,904
(Loss) income before income taxes	(4,875)	475	3,766	24,524
Income tax (benefit) expense	(3,182)	(294)	1,683	2,680
Net (loss) income	\$ (1,693)	\$ 769	\$ 2,083	\$ 21,844
(Loss) Earnings per share of common stock:				
Basic	\$ (0.04)	\$ 0.02	\$ 0.04	\$ 0.46
Diluted	\$ (0.04)	\$ 0.02	\$ 0.04	\$ 0.46
Weighted average shares of common stock outstanding:				
Basic	48,298	47,561	47,911	47,220
Diluted	48,298	47,937	48,767	47,772

See accompanying notes to condensed consolidated financial statements.

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

	January 25, 2020	January 26, 2019	April 27, 2019
	(unaudited)	(unaudited)	(audited)
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 9,798	\$ 22,049	\$ 14,013
Receivables, net	238,045	231,106	98,246
Merchandise inventories, net	530,260	579,582	420,322
Textbook rental inventories	48,474	50,577	47,001
Prepaid expenses and other current assets	24,617	20,691	11,778
Total current assets	851,194	904,005	591,360
Property and equipment, net	101,055	109,414	109,777
Operating lease right-of-use assets	251,743	—	—
Intangible assets, net	179,596	208,439	194,978
Goodwill	4,700	53,982	4,700
Deferred tax assets, net	2,647	—	2,425
Other noncurrent assets	37,169	40,216	42,940
Total assets	\$ 1,428,104	\$ 1,316,056	\$ 946,180
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 389,050	\$ 464,933	\$ 186,818
Accrued liabilities	193,705	219,713	121,720
Current operating lease liabilities	102,247	—	—
Short-term borrowings	—	—	100,000
Total current liabilities	685,002	684,646	408,538
Long-term deferred taxes, net	—	7,991	—
Long-term operating lease liabilities	169,227	—	—
Other long-term liabilities	50,529	58,632	53,514
Long-term borrowings	65,900	70,100	33,500
Total liabilities	970,658	821,369	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, 52,139, 51,026 and 51,030 shares, respectively; outstanding, 48,297, 47,561 and 47,563 shares, respectively	521	511	510
Additional paid-in capital	732,320	724,164	726,331
Accumulated deficit	(242,494)	(198,359)	(244,577)
Treasury stock, at cost	(32,901)	(31,629)	(31,636)
Total stockholders' equity	457,446	494,687	450,628
Total liabilities and stockholders' equity	\$ 1,428,104	\$ 1,316,056	\$ 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)

	39 weeks ended	
	January 25, 2020	January 26, 2019
Cash flows from operating activities:		
Net income	\$ 2,083	\$ 21,844
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization expense	46,542	49,333
Content amortization expense	2,973	360
Amortization of deferred financing costs	811	1,127
Impairment loss (non-cash)	433	—
Deferred taxes	(222)	5,885
Stock-based compensation expense	6,000	6,851
Changes in other long-term liabilities	(2,992)	(1,183)
Changes in operating lease right-of-use assets and liabilities	9,890	—
Changes in other operating assets and liabilities, net	20,834	91,645
Net cash flows provided by operating activities	86,352	175,862
Cash flows from investing activities:		
Purchases of property and equipment	(26,841)	(31,711)
Acquisition of businesses, net of cash acquired	—	(10,000)
Net change in other noncurrent assets	5,148	43
Net cash flows used in investing activities	(21,693)	(41,668)
Cash flows from financing activities:		
Proceeds from borrowings under Credit Agreement	383,400	374,000
Repayments of borrowings under Credit Agreement	(451,000)	(500,300)
Purchase of treasury shares	(1,265)	(1,971)
Net cash flows used in financing activities	(68,865)	(128,271)
Net (decrease) increase in cash, cash equivalents and restricted cash	(4,206)	5,923
Cash, cash equivalents and restricted cash at beginning of period	14,768	16,869
Cash, cash equivalents and restricted cash at end of period	\$ 10,562	\$ 22,792
Changes in other operating assets and liabilities, net:		
Receivables, net	\$ (139,875)	\$ (131,046)
Merchandise inventories	(109,938)	(136,023)
Textbook rental inventories	(1,473)	(2,798)
Prepaid expenses and other current assets	(12,839)	(8,844)
Accounts payable and accrued liabilities	284,959	370,356
Changes in other operating assets and liabilities, net	\$ 20,834	\$ 91,645

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	Accumulated	Treasury Stock		Total
	Shares	Amount	Paid-In Capital		Shares	Amount	
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
Stock-based compensation expense			2,632				2,632
Vested equity awards	994	10	(10)				—
Shares repurchased for tax withholdings for vested stock awards					350	(1,971)	(1,971)
Net income				59,697			59,697
Balance at October 27, 2018	51,026	\$ 511	\$ 722,286	\$ (199,128)	3,465	\$ (31,629)	\$ 492,040
Stock-based compensation expense			1,878				1,878
Net income				769			769
Balance at January 26, 2019	51,026	\$ 511	\$ 724,164	\$ (198,359)	3,465	\$ (31,629)	\$ 494,687

	Common Stock		Additional	Accumulated	Treasury Stock		Total
	Shares	Amount	Paid-In Capital		Shares	Amount	
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
Stock-based compensation expense			1,860				1,860
Vested equity awards	1,053	10	(10)				—
Shares repurchased for tax withholdings for vested stock awards					363	(1,225)	(1,225)
Net income				35,931			35,931
Balance at October 28, 2019	52,139	\$ 521	\$ 730,501	\$ (240,801)	3,842	\$ (32,901)	\$ 457,320
Stock-based compensation expense			1,819				1,819
Net loss				(1,693)			(1,693)
Balance at January 25, 2020	52,139	\$ 521	\$ 732,320	\$ (242,494)	3,842	\$ (32,901)	\$ 457,446

See accompanying notes to condensed consolidated financial statements.

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
For the 13 and 39 weeks ended January 25, 2020 and January 26, 2019
(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. or “BNED”, a Delaware corporation. References to “Barnes & Noble College” or “BNC” 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), the unaudited condensed consolidated financial statements in our Quarterly Report on Form 10-Q for the 13 weeks ended July 27, 2019, and the unaudited condensed consolidated financial statements in our Form 10-Q for the 26 weeks ended October 26, 2019.

Note 1. Organization

Description of Business

Barnes & Noble Education, Inc. 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 1,436 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 operating 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 introduce scalable and advanced digital solutions focused largely on the student, expand our general merchandise e-commerce capabilities, increase market share with new accounts, and expand our strategic opportunities through acquisitions and partnerships. 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, as we improve our e-commerce capabilities through investments we are making in new systems, processes and people.

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 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.

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

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
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For the 13 and 39 weeks ended January 25, 2020 and January 26, 2019
(Thousands of dollars, except share and per share data)
(unaudited)

seasonal nature of the business, the results of operations for the 13 and 39 weeks ended January 25, 2020 are not indicative of the results expected for the 53 weeks ending May 2, 2020 (Fiscal 2020).

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 MBS sells textbooks and other course materials for retail distribution. Our DSS segment 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 ASC Topic 842, 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 is derived from the sale of products through our bookstore locations, including virtual bookstores, and our bookstore affiliated e-commerce 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*.

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
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(Thousands of dollars, except share and per share data)
(unaudited)

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 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 is primarily derived from DSS segment 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 includes 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,

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Notes to Condensed Consolidated Financial Statements
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(Thousands of dollars, except share and per share data)
(unaudited)

field support, finance and accounting, and operating costs related to our DSS segment 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.

Evaluation of Goodwill and Other Long-Lived Assets

As of January 25, 2020, 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.

We completed our annual goodwill impairment test as of the first day of the third quarter of Fiscal 2020. In performing the valuation, we used cash flows that reflected management's forecasts and discount rates that included risk adjustments consistent with the current market conditions. The fair value of the DSS reporting unit was determined to exceed the carrying value of the reporting unit; therefore, no goodwill impairment was recognized. During the 13 and 39 weeks ended January 26, 2019, we completed our annual goodwill impairment test for Fiscal 2019 and concluded that the fair value of the MBS and DSS reporting units, as they existed at that time, each exceeded their respective carrying values and no goodwill impairment was recognized. In the fourth quarter of Fiscal 2019, due to the change in our reporting units identified as a result of the change in our reportable segments, we recognized a total goodwill impairment (non-cash impairment loss) of \$49,282, consisting of the full carrying value of the goodwill allocated to the Retail and Wholesale reporting units.

Our other long-lived assets include property and equipment and amortizable intangibles. As of January 25, 2020, we had \$101,055 and \$179,596 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 39 weeks ended January 25, 2020, 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 January 25, 2020, 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 December 2019, the Financial Accounting Standards Board ("FASB") issued *ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. The guidance seeks to simplify the accounting for income taxes by removing the following exceptions: 1) exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items, 2) exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment, 3) exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary and 4) exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. Additionally, the guidance seeks to further simplify the accounting for income taxes by: 1) requiring that an entity recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax, 2) requiring that an entity evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction, 3) specifying that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements (although the entity may elect to do so (on an entity-by-entity basis) for a legal entity that is both not subject to tax and disregarded by the taxing authority), 4) requiring that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in

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the interim period that includes the enactment date and 5) making minor improvements for income tax accounting related to employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method. This guidance will be effective for fiscal years and interim periods beginning after December 15, 2020. Different components of the guidance require retrospective, modified retrospective or prospective adoption, and early adoption is permitted. We are currently assessing whether we will early adopt this guidance, and the impact on our condensed consolidated financial statements is not currently estimable.

In August 2018, the 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 year) 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.

In June 2016, the FASB issued *ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The ASU replaces the existing incurred loss impairment model for trade receivables with an expected loss model which requires the use of forward-looking information to calculate expected credit loss estimates. These changes may result in earlier recognition of credit losses. Early adoption is permitted and the guidance requires a modified retrospective method of adoption through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. This guidance is effective for annual periods beginning after December 15, 2019. We plan to adopt this guidance during the first quarter of Fiscal 2021 and we are currently in the process of evaluating the impact of this update. We believe the adoption of the guidance will not have a material impact on our condensed consolidated financial statements.

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 segment's product and service offerings.

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Disaggregation of Revenue

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

	13 weeks ended		39 weeks ended	
	January 25, 2020	January 26, 2019	January 25, 2020	January 26, 2019
Retail				
Product Sales	\$ 400,170	\$ 431,555	\$ 1,320,587	\$ 1,396,940
Rental Income	48,614	56,019	119,729	134,251
Service and Other Revenue ^(a)	9,204	10,572	34,097	37,946
Retail Total Sales	\$ 457,988	\$ 498,146	\$ 1,474,413	\$ 1,569,137
Wholesale Sales	\$ 66,996	\$ 78,508	\$ 179,515	\$ 209,282
DSS Sales ^(b)	\$ 6,435	\$ 5,237	\$ 17,024	\$ 15,848
Eliminations ^(c)	\$ (29,127)	\$ (33,883)	\$ (76,775)	\$ (94,009)
Total Sales	\$ 502,292	\$ 548,008	\$ 1,594,177	\$ 1,700,258

(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 January 25, 2020, January 26, 2019 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 \$60,708, \$69,662, and \$20,418 is recorded within Accrued Liabilities on our condensed consolidated balance sheets for the periods ended January 25, 2020, January 26, 2019 and April 27, 2019, respectively. The following table presents changes in contract liabilities:

	39 weeks ended	
	January 25, 2020	January 26, 2019
Deferred revenue at the beginning of period	\$ 20,418	\$ 20,144
Additions to deferred revenue during the period	170,375	189,832
Reductions to deferred revenue for revenue recognized during the period	(130,085)	(140,314)
Deferred revenue balance at the end of period	<u>\$ 60,708</u>	<u>\$ 69,662</u>

As of January 26, 2019, we expect to recognize \$60,708 of the deferred revenue balance within the next 12 months.

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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 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 for the 13 and 39 weeks ended January 25, 2020:

	13 weeks ended January 25, 2020	39 weeks ended January 25, 2020
Variable lease expense	\$ 23,402	\$ 54,412
Operating lease expense	37,188	137,148
Net lease expense	<u>\$ 60,590</u>	<u>\$ 191,560</u>

The following table summarizes our minimum fixed lease obligations, excluding variable commissions, as of January 25, 2020:

	As of January 25, 2020
Remainder of Fiscal 2020	\$ 65,672
Fiscal 2021	63,753
Fiscal 2022	47,012
Fiscal 2023	39,724
Fiscal 2024	31,316
Thereafter	58,018
Total lease payments	<u>305,495</u>
Less: imputed interest	<u>(34,021)</u>
Operating lease liabilities at period end	<u>\$ 271,474</u>

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Future lease payment obligations related to leases that were entered into, but did not commence as of January 25, 2020, were not material.

The following summarizes additional information related to our operating leases:

	As of
	January 25, 2020
Weighted average remaining lease term (in years)	4.9 years
Weighted average discount rate	4.3%
Supplemental cash flow information:	
Cash payments for lease liabilities within operating activities	\$ 106,690
ROU assets obtained in exchange for lease liabilities from initial recognition	\$ 88,902

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 each segment's 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 1,436 college, university, and K-12 school bookstores, comprised of 772 physical bookstores and 664 virtual bookstores. Our bookstores typically operate under agreements with the college, university, or K-12 schools to be the official bookstore, with the majority of these agreements providing us exclusive rights to sell 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 772 physical bookstores) and sources and distributes new and used textbooks to our 664 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.

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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.

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.

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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		39 weeks ended	
	January 25, 2020	January 26, 2019	January 25, 2020	January 26, 2019
Sales:				
Retail	\$ 457,988	\$ 498,146	\$ 1,474,413	\$ 1,569,137
Wholesale	66,996	78,508	179,515	209,282
DSS	6,435	5,237	17,024	15,848
Elimination	(29,127)	(33,883)	(76,775)	(94,009)
Total Sales	\$ 502,292	\$ 548,008	\$ 1,594,177	\$ 1,700,258
Gross Profit				
Retail	\$ 99,790	\$ 106,244	\$ 322,869	\$ 341,466
Wholesale	14,235	22,739	41,688	56,559
DSS	5,283	4,969	13,838	15,312
Elimination	(773)	(999)	(1,253)	(3,014)
Total Gross Profit	\$ 118,535	\$ 132,953	\$ 377,142	\$ 410,323
Depreciation and Amortization				
Retail	\$ 11,699	\$ 12,769	\$ 35,372	\$ 39,061
Wholesale	1,483	1,496	4,531	4,455
DSS	1,904	2,072	6,543	5,698
Corporate Services	31	37	96	119
Total Depreciation and Amortization	\$ 15,117	\$ 16,374	\$ 46,542	\$ 49,333
Operating (Loss) Income				
Retail	\$ (3,747)	\$ (4,920)	\$ 11,478	\$ 18,180
Wholesale	8,440	15,845	23,493	35,703
DSS	(1,608)	(678)	(6,420)	(627)
Corporate Services	(5,412)	(6,234)	(17,832)	(17,862)
Elimination	(644)	(992)	(1,071)	(2,966)
Total Operating (Loss) Income	\$ (2,971)	\$ 3,021	\$ 9,648	\$ 32,428
The following is a reconciliation of segment Operating (Loss) Income to consolidated (Loss) Income Before Income Taxes:				
Total Operating Income	\$ (2,971)	\$ 3,021	\$ 9,648	\$ 32,428
Interest Expense, net	1,904	2,546	5,882	7,904
(Loss) Income Before Income Taxes	\$ (4,875)	\$ 475	\$ 3,766	\$ 24,524

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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 39 weeks ended January 25, 2020, we did not repurchase shares of our Common Stock under the program and as of January 25, 2020, approximately \$26,669 remains available under the stock repurchase program.

During the 39 weeks ended January 25, 2020, we repurchased 374,733 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 January 25, 2020 and January 26, 2019 average shares of 3,682,169 and 1,412,951 were excluded from the diluted earnings per share calculation as their inclusion would have been antidilutive, respectively. During the 39 weeks ended January 25, 2020 and January 26, 2019, average shares of 1,348,949 and 2,844,886, respectively, were excluded from the diluted earnings per share calculation as their inclusion would have been antidilutive.

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

	13 weeks ended		39 weeks ended	
(shares in thousands)	January 25, 2020	January 26, 2019	January 25, 2020	January 26, 2019
Numerator for basic and diluted earnings per share:				
Net (loss) income available to common shareholders	\$ (1,693)	\$ 769	\$ 2,083	\$ 21,844
Less allocation of earnings to participating securities	—	—	(1)	(9)
Net (loss) income available to common shareholders	<u>\$ (1,693)</u>	<u>\$ 769</u>	<u>\$ 2,082</u>	<u>\$ 21,835</u>
Numerator for diluted earnings per share:				
Net (loss) income available to common shareholders	\$ (1,693)	\$ 769	\$ 2,082	\$ 21,835
Allocation of earnings to participating securities	—	—	1	9
Less diluted allocation of earnings to participating securities	—	—	(1)	(9)
Net (loss) income available to common shareholders	<u>\$ (1,693)</u>	<u>\$ 769</u>	<u>\$ 2,082</u>	<u>\$ 21,835</u>
Denominator for basic earnings per share:				
Basic weighted average shares of Common Stock	<u>48,298</u>	<u>47,561</u>	<u>47,911</u>	<u>47,220</u>
Denominator for diluted earnings per share:				
Basic weighted average shares of Common Stock	48,298	47,561	47,911	47,220
Average dilutive restricted stock units	—	178	403	403
Average dilutive performance shares	—	45	9	41
Average dilutive restricted shares	—	3	12	10
Average dilutive performance share units	—	150	432	98
Diluted weighted average shares of Common Stock	<u>48,298</u>	<u>47,937</u>	<u>48,767</u>	<u>47,772</u>
(Loss) Earnings per share of Common Stock:				
Basic	\$ (0.04)	\$ 0.02	\$ 0.04	\$ 0.46
Diluted	\$ (0.04)	\$ 0.02	\$ 0.04	\$ 0.46

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.

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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. As of January 25, 2020, we are in compliance with all debt covenants under the Credit Agreement. On March 2, 2020, we were granted a waiver to the condition to the upcoming draw under the FILO Facility, scheduled for April 2020, that Consolidated EBITDA (as defined in the Credit Agreement) minus Restricted Payments (as defined in the Credit Agreement) equal at least \$90,000. In connection with the waiver, the applicable margin for credit extensions made under the FILO Facility after March 2, 2020 through the end of 2020 was increased by 0.50% (to 3.25% per annum for LIBO rate loans and 2.25% for base rate loans).

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 39 weeks ended January 25, 2020, we borrowed \$383,400 and repaid \$451,000 under the Credit Agreement, with \$65,900 of outstanding borrowings as of January 25, 2020, comprised entirely of outstanding borrowings under the Credit Facility. During the 39 weeks ended January 26, 2019, we borrowed \$374,000 and repaid \$500,300 under the Credit Agreement, with \$70,100 of outstanding borrowings as of January 26, 2019, comprised entirely of outstanding borrowings under the Credit Facility. As of both January 25, 2020 and January 26, 2019, 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 39 weeks ended January 25, 2020, 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 and 39 weeks ended January 25, 2020, we recognized expenses totaling \$205 and \$3,240, respectively, comprised primarily of \$0 and \$791, respectively, 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 \$205 and \$2,449, respectively, for professional service costs related to restructuring, process improvements, and shareholder activist activities.

During the 13 and 39 weeks ended January 26, 2019, we recognized restructuring and other charges totaling \$2,500 for severance and other employee termination and benefit costs associated with management changes.

In February 2020, we implemented a cost reduction program designed to streamline our operations, maximize productivity and drive profitability. For additional information, see *Note 15. Subsequent Event*.

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 \$844 and \$1,509 during the 13 weeks ended January 25, 2020 and January 26, 2019, respectively. Total employee benefit expense for these plans was \$3,683 and \$4,978 for the 39 weeks ended January 25, 2020 and January 26, 2019, respectively.

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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 39 weeks ended January 25, 2020, we granted the following awards under the Equity Incentive Plan:

- 190,480 restricted stock units ("RSU") awards and 38,096 restricted stock ("RS") awards with a one-year vesting period to the current Board of Directors ("BOD") members for annual compensation.
- 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.
- 1,350,674 RSU awards to employees with a three-year vesting period.

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

	13 weeks ended		39 weeks ended	
	January 25, 2020	January 26, 2019	January 25, 2020	January 26, 2019
Restricted stock expense	\$ 30	\$ 30	\$ 90	\$ 80
Restricted stock units expense	1,515	1,860	5,227	6,010
Performance shares expense	—	(72)	12	42
Performance share units expense	274	60	671	719
Stock-based compensation expense	<u>\$ 1,819</u>	<u>\$ 1,878</u>	<u>\$ 6,000</u>	<u>\$ 6,851</u>

Total unrecognized compensation cost related to unvested awards as of January 25, 2020 was \$10,103 and is expected to be recognized over a weighted-average period of 1.8 years. Approximately \$1,821 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 income tax benefit of \$(3,182) on a pre-tax loss of \$(4,875) during the 13 weeks ended January 25, 2020, which represented an effective income tax rate of 65.3% and income tax benefit of \$(294) on pre-tax income of \$475 during the 13 weeks ended January 26, 2019, which represented an effective income tax rate of (61.9)%. The effective tax rate for the 13 weeks ended January 26, 2019 is higher as compared to the prior year comparable period due to permanent differences.

We recorded income tax expense of \$1,683 on a pre-tax income of \$3,766 during the 39 weeks ended January 25, 2020, which represented an effective income tax rate of 44.7% and income tax expense of \$2,680 on pre-tax income of \$24,524 during the 39 weeks ended January 26, 2019, which represented an effective income tax rate of 10.9%. The effective tax rate for the 39 weeks ended January 26, 2019 is higher as compared to the prior year comparable period due to permanent differences.

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.

On or about January 22, 2020, a purported class action complaint was filed in the United States District Court for the District of Delaware against the Company, along with several publishers, another collegiate bookstore retailer, and an industry association

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
For the 13 and 39 weeks ended January 25, 2020 and January 26, 2019
(Thousands of dollars, except share and per share data)
(unaudited)

by Campus Book Company, Inc., BJJ Corporation, CBSKY, Inc., CBSNM, Inc., and Renttext.com, Inc. The plaintiffs claim, on their own behalf and on behalf of the purported class, that the Company and the other defendants violated Section 1 of the Sherman Act (15 U.S.C. § 1), Section 2 of the Sherman Act (15 U.S.C. § 2), Section 13(a) of the Robinson-Patman Act (15 U.S.C. §13(a)), and various state antitrust and unfair trade practices laws for alleged activities in connection with inclusive access and the sale of course materials to universities and their students. We intend to vigorously defend this matter and are currently unable to estimate any potential losses.

Note 15. Subsequent Event

In February 2020, we implemented a significant cost reduction program designed to streamline our operations, maximize productivity and drive profitability. Certain elements of this plan have recently been implemented, while other actions are planned for Fiscal 2021, which begins in May 2020. We anticipate meaningful annualized cost savings from this program, the majority of which are expected to be realized beginning in Fiscal 2021. As a result of the personnel and related elements of this program, we expect to recognize a restructuring charge of \$10,000 to \$15,000 during the fourth quarter of Fiscal 2020.

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 1,436 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 BNC and MBS brands are virtually synonymous with innovation in bookselling and campus retail, 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. 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.

We offer our BNC *First Day*™ inclusive access programs, consisting of *First Day* and *First Day Complete* 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. In August 2019, we announced a new agreement with VitalSource®, part of Ingram Content Group, to use their technology to power our *First Day* inclusive access platform, allowing us to increase penetration rates for course material sales, as well as accelerate and optimize *First Day* implementations. During the 39 weeks ended January 25, 2020, *First Day* total revenue increased 99% from the prior year comparative period.

The strengths of our business include our ability to compete by developing new products and solutions to meet market needs, our large operating footprint with direct access to students and faculty, our well-established, deep relationships with academic partners and stable, long-term contracts and our well-recognized brands. We expect to continue to introduce scalable and advanced digital solutions focused largely on the student, expand our general merchandise e-commerce capabilities, increase market share with new accounts, and expand our strategic opportunities through acquisitions and partnerships. 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, as we improve our e-commerce capabilities through investments we are making in new systems, processes and people.

As we previously disclosed, we have retained Morgan Stanley & Co. to serve as a financial advisor in connection with our review of strategic opportunities. The review is designed to accelerate the execution of customer-focused strategic initiatives and enhance value for our shareholders, including, but not limited to, continued execution of our current business plan, new partnerships, joint ventures and other potential opportunities. There can be no assurance that the review will result in a transaction or announcement of any kind. We have not set a timetable for the conclusion of the review.

In February 2020, we implemented a significant cost reduction program designed to streamline our operations, maximize productivity and drive profitability. Certain elements of this plan have recently been implemented, while other actions are planned for Fiscal 2021, which begins in May 2020. We anticipate meaningful annualized cost savings from this program, the majority of which is expected to be realized beginning in Fiscal 2021. As a result of the personnel and related elements of this program, we expect to recognize a restructuring charge of \$10 million to \$15 million during the fourth quarter of Fiscal 2020.

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 1,436 college, university, and K-12 school bookstores, comprised of 772 physical bookstores and 664 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 772 physical bookstores) and sources and distributes new and used textbooks to our 664 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, both of which are relatively nascent.

- *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. We also compete with competitors offering products utilizing open educational resources ("OER") and other expert sources and enhanced with digital content. 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, Course Hero and others.
- *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, as we improve our e-commerce capabilities through investments we are making in new systems, processes and people.
 - *Enrollment Trends.* The growth of our business depends on our ability to attract new customers 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 (e.g. low unemployment) 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 high margin general merchandise, including 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 includes 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		39 weeks ended	
	January 25, 2020	January 26, 2019	January 25, 2020	January 26, 2019
<i>Dollars in thousands</i>				
Sales:				
Product sales and other	\$ 453,678	\$ 491,989	\$ 1,474,448	\$ 1,566,007
Rental income	48,614	56,019	119,729	134,251
Total sales	\$ 502,292	\$ 548,008	\$ 1,594,177	\$ 1,700,258
Net (loss) income	\$ (1,693)	\$ 769	\$ 2,083	\$ 21,844
Adjusted Earnings (non-GAAP) ^(a)	\$ (748)	\$ 3,308	\$ 7,011	\$ 24,929
Adjusted EBITDA (non-GAAP) ^(a)				
Retail	\$ 8,140	\$ 10,480	\$ 49,220	\$ 60,020
Wholesale	9,923	17,458	28,024	40,275
DSS	1,150	1,475	2,492	5,652
Corporate Services	(5,154)	(6,197)	(15,829)	(17,706)
Elimination	(644)	(992)	(1,071)	(2,966)
Total Adjusted EBITDA (non-GAAP)	\$ 13,415	\$ 22,224	\$ 62,836	\$ 85,275

(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		39 weeks ended	
	January 25, 2020	January 26, 2019	January 25, 2020	January 26, 2019
Sales:				
Product sales and other	90.3 %	89.8%	92.5%	92.1%
Rental income	9.7	10.2	7.5	7.9
Total sales	100.0	100.0	100.0	100.0
Cost of sales:				
Product and other cost of sales ^(a)	78.2	77.6	77.8	77.2
Rental cost of sales ^(a)	59.2	59.1	59.0	59.8
Total cost of sales	76.4	75.7	76.3	75.9
Gross margin	23.6	24.3	23.7	24.1
Selling and administrative expenses	21.1	20.2	19.9	19.1
Depreciation and amortization expense	3.0	3.0	2.9	2.9
Impairment loss (non-cash)	—	—	—	—
Restructuring and other charges	—	0.5	0.2	0.1
Transaction costs	—	—	—	—
Operating (loss) income	(0.5)%	0.6%	0.7%	2.0%

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

Results of Operations - 13 and 39 weeks ended January 25, 2020 compared with the 13 and 39 weeks ended January 26, 2019

	13 weeks ended, January 25, 2020					
<i>Dollars in thousands</i>	Retail	Wholesale	DSS	Corporate Services	Eliminations	Total
Sales:						
Product sales and other	\$ 409,374	\$ 66,996	\$ 6,435	\$ —	\$ (29,127)	\$ 453,678
Rental income	48,614	—	—	—	—	48,614
Total sales	457,988	66,996	6,435	—	(29,127)	502,292
Cost of sales:						
Product and other cost of sales	329,440	52,761	1,152	—	(28,354)	354,999
Rental cost of sales	28,758	—	—	—	—	28,758
Total cost of sales	358,198	52,761	1,152	—	(28,354)	383,757
Gross profit	99,790	14,235	5,283	—	(773)	118,535
Selling and administrative expenses	91,860	4,312	4,987	5,154	(129)	106,184
Depreciation and amortization expense	11,699	1,483	1,904	31	—	15,117
Sub-Total:	\$ (3,769)	\$ 8,440	\$ (1,608)	\$ (5,185)	\$ (644)	(2,766)
Restructuring and other charges						205
Operating loss						\$ (2,971)

	13 weeks ended, January 26, 2019					
<i>Dollars in thousands</i>	Retail	Wholesale	DSS	Corporate Services	Eliminations	Total
Sales:						
Product sales and other	\$ 442,127	\$ 78,508	\$ 5,237	\$ —	\$ (33,883)	\$ 491,989
Rental income	56,019	—	—	—	—	56,019
Total sales	498,146	78,508	5,237	—	(33,883)	548,008
Cost of sales:						
Product and other cost of sales	358,800	55,769	268	—	(32,884)	381,953
Rental cost of sales	33,102	—	—	—	—	33,102
Total cost of sales	391,902	55,769	268	—	(32,884)	415,055
Gross profit	106,244	22,739	4,969	—	(999)	132,953
Selling and administrative expenses	95,895	5,281	3,575	6,197	(7)	110,941
Depreciation and amortization expense	12,769	1,496	2,072	37	—	16,374
Sub-Total:	\$ (2,420)	\$ 15,962	\$ (678)	\$ (6,234)	\$ (992)	5,638
Restructuring and other charges						2,500
Transaction costs						117
Operating income						\$ 3,021

	39 weeks ended, January 25, 2020					
<i>Dollars in thousands</i>	Retail	Wholesale	DSS	Corporate Services	Eliminations	Total
Sales:						
Product sales and other	\$ 1,354,684	\$ 179,515	\$ 17,024	\$ —	\$ (76,775)	\$ 1,474,448
Rental income	119,729	—	—	—	—	119,729
Total sales	1,474,413	179,515	17,024	—	(76,775)	1,594,177
Cost of sales:						
Product and other cost of sales	1,080,909	137,827	3,186	—	(75,522)	1,146,400
Rental cost of sales	70,635	—	—	—	—	70,635
Total cost of sales	1,151,544	137,827	3,186	—	(75,522)	1,217,035
Gross profit	322,869	41,688	13,838	—	(1,253)	377,142
Selling and administrative expenses	274,253	13,664	13,715	15,829	(182)	317,279
Depreciation and amortization expense	35,372	4,531	6,543	96	—	46,542
Sub-Total:	\$ 13,244	\$ 23,493	\$ (6,420)	\$ (15,925)	\$ (1,071)	13,321
Impairment loss (non-cash)						433
Restructuring and other charges						3,240
Operating income						\$ 9,648

	39 weeks ended, January 26, 2019					
<i>Dollars in thousands</i>	Retail	Wholesale	DSS	Corporate Services	Eliminations	Total
Sales:						
Product sales and other	\$ 1,434,886	\$ 209,282	\$ 15,848	\$ —	\$ (94,009)	\$ 1,566,007
Rental income	134,251	—	—	—	—	134,251
Total sales	1,569,137	209,282	15,848	—	(94,009)	1,700,258
Cost of sales:						
Product and other cost of sales	1,147,412	152,723	536	—	(90,995)	1,209,676
Rental cost of sales	80,259	—	—	—	—	80,259
Total cost of sales	1,227,671	152,723	536	—	(90,995)	1,289,935
Gross profit	341,466	56,559	15,312	—	(3,014)	410,323
Selling and administrative expenses	281,725	16,284	9,741	17,706	(48)	325,408
Depreciation and amortization expense	39,061	4,455	5,698	119	—	49,333
Sub-Total:	\$ 20,680	\$ 35,820	\$ (127)	\$ (17,825)	\$ (2,966)	35,582
Restructuring and other charges						2,500
Transaction costs						654
Operating income						\$ 32,428

Sales

The following table summarizes our sales for the 13 and 39 weeks ended January 25, 2020 and January 26, 2019:

	13 weeks ended			39 weeks ended		
<i>Dollars in thousands</i>	January 25, 2020	January 26, 2019	%	January 25, 2020	January 26, 2019	%
Product sales and other	\$ 453,678	\$ 491,989	(7.8)%	\$ 1,474,448	\$ 1,566,007	(5.8)%
Rental income	48,614	56,019	(13.2)%	119,729	134,251	(10.8)%
Total Sales	\$ 502,292	\$ 548,008	(8.3)%	\$ 1,594,177	\$ 1,700,258	(6.2)%

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Our sales decreased by \$45.7 million, or 8.3%, to \$502.3 million during the 13 weeks ended January 25, 2020 from \$548.0 million during the 13 weeks ended January 26, 2019. Our sales decreased by \$106.1 million, or 6.2%, to \$1,594.2 million during the 39 weeks ended January 25, 2020 from \$1,700.3 million during the 39 weeks ended January 26, 2019.

The components of the variances for the 13 and 39 week periods are reflected in the table below.

Sales variances <i>Dollars in millions</i>	13 weeks ended		39 weeks ended	
	January 25, 2020	January 26, 2019	January 25, 2020	January 26, 2019
Retail Sales				
New stores	\$ 16.3	\$ 18.4	\$ 61.9	\$ 48.3
Closed stores	(18.1)	(23.1)	(50.8)	(71.7)
Comparable stores ^(a)	(37.9)	(44.7)	(99.0)	(101.2)
Textbook rental deferral	0.7	4.9	3.0	8.5
Service revenue ^(b)	(1.4)	(1.3)	(3.9)	(1.1)
Other ^(c)	0.3	(3.7)	(5.9)	(2.9)
Retail sales subtotal:	\$ (40.1)	\$ (49.5)	\$ (94.7)	\$ (120.1)
Wholesale Sales	\$ (11.5)	\$ (15.3)	\$ (29.8)	\$ (23.4)
DSS Sales	\$ 1.2	\$ (0.3)	\$ 1.2	\$ 5.8
Eliminations ^(d)	\$ 4.7	\$ 9.7	\$ 17.2	\$ (8.2)
Total sales variance:	\$ (45.7)	\$ (55.4)	\$ (106.1)	\$ (145.9)

(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, 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 by \$40.1 million, or 8.1%, to \$458.0 million during the 13 weeks ended January 25, 2020 from \$498.1 million during the 13 weeks ended January 26, 2019. Retail sales decreased by \$94.7 million, or 6.0%, to \$1,474.4 million during the 39 weeks ended January 25, 2020 from \$1,569.1 million during the 39 weeks ended January 26, 2019. Retail added 107 new stores and closed 119 stores during the 39 weeks ended January 25, 2020, ending the period with a total of 1,436 stores.

	13 weeks ended				39 weeks ended			
	January 25, 2020		January 26, 2019		January 25, 2020		January 26, 2019	
<i>Number of Stores:</i>	Physical	Virtual	Physical	Virtual	Physical	Virtual	Physical	Virtual
Number of stores at beginning of period	772	664	773	677	772	676	768	676
Opened	5	7	1	6	45	62	35	32
Closed	5	7	1	3	45	74	30	28
Number of stores at end of period	772	664	773	680	772	664	773	680

Product and other sales for Retail for the 13 weeks ended January 25, 2020 decreased by \$32.7 million, or 7.4% to \$409.4 million from \$442.1 million during the 13 weeks ended January 26, 2019. Product and other sales for Retail for the 39 weeks ended January 25, 2020 decreased by \$80.2 million, or 5.6% to \$1,354.7 million from \$1,434.9 million during the 39 weeks ended January 26, 2019. 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 and 39 weeks ended January 25, 2020 decreased primarily due to lower new and used textbook and other course materials sales, while First Day, digital and eTextbook revenue increased. General merchandise sales for Retail decreased for the 13 weeks ended January 25, 2020 primarily due to lower sales for supply products and lower emblematic apparel, partially offset by higher graduation product sales. General merchandise sales for Retail increased for the 39 weeks ended January 25, 2020 primarily due to higher emblematic apparel and higher graduation product sales, partially offset by lower sales for supply products and dorm furnishings.

Rental income for Retail for the 13 weeks ended January 25, 2020 decreased by \$7.4 million, or 13.2% to \$48.6 million from \$56.0 million during the 13 weeks ended January 26, 2019. Rental income for Retail for the 39 weeks ended January 25, 2020 decreased by \$14.5 million, or 10.8% to \$119.7 million from \$134.3 million. Rental income is impacted by comparable store sales, new store openings and store closings. The decrease in rental income is primarily due to decreased rental activity impacted by increased digital offerings.

Comparable store sales for Retail decreased for the 13 and 39 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 increased First Day, digital and eTextbook revenue. Consistent with prior years, the Spring Rush period extended beyond the quarter due to later school openings and the continued pattern of students buying course materials later in the semester. Factoring in the fiscal month of February, comparable store sales at BNC decreased 5.7% on a year to date basis.

Comparable store sales variances for Retail by category for the 13 and 39 week periods are as follows:

Comparable Store Sales variances - Retail	13 weeks ended				39 weeks ended			
	January 25, 2020		January 26, 2019		January 25, 2020		January 26, 2019	
<i>Dollars in millions</i>								
Textbooks (Course Materials)	\$ (31.2)	(9.3)%	\$ (44.1)	(11.7)%	\$ (85.2)	(8.3)%	\$ (98.9)	(8.8)%
General Merchandise	(0.9)	(0.7)%	1.9	1.6 %	4.7	1.1 %	6.3	1.5 %
Trade Books	(2.3)	(20.2)%	(0.5)	(4.4)%	(4.9)	(14.7)%	(2.6)	(7.3)%
Total Comparable Store Sales	<u>\$ (34.4)</u>	<u>(7.3)%</u>	<u>\$ (42.7)</u>	<u>(8.3)%</u>	<u>\$ (85.4)</u>	<u>(5.7)%</u>	<u>\$ (95.2)</u>	<u>(6.0)%</u>

Wholesale

Wholesale sales decreased by \$11.5 million, or 14.7%, to \$67.0 million during the 13 weeks ended January 25, 2020 from \$78.5 million during the 13 weeks ended January 26, 2019. Wholesale sales decreased by \$29.8 million, or 14.2%, to \$179.5 million during the 39 weeks ended January 25, 2020 from \$209.3 million during the 39 weeks ended January 26, 2019. The decrease is driven primarily due to a shift in buying patterns from physical textbooks to digital products resulting in a decrease in customer demand (including sales to our Retail Segment).

DSS

DSS total sales increased by \$1.2 million or 22.9% to \$6.4 million during the 13 weeks ended January 25, 2020 from \$5.2 million during the 13 weeks ended January 26, 2019. DSS total sales increased by \$1.2 million or 7.4% to \$17.0 during the 39 weeks ended January 25, 2020 from \$15.8 million during the 39 weeks ended January 26, 2019. For both periods, *bartleby* subscription sales increased and were offset by lower Student Brands sales.

Cost of Sales and Gross Margin

Our cost of sales increased as a percentage of sales to 76.4% during the 13 weeks ended January 25, 2020 compared to 75.7% during the 13 weeks ended January 26, 2019. Our gross margin decreased by \$14.4 million, or 10.8%, to \$118.5 million, or 23.6% of sales, during the 13 weeks ended January 25, 2020 from \$133.0 million, or 24.3% of sales during the 13 weeks ended January 26, 2019.

Our cost of sales increased as a percentage of sales to 76.3% during the 39 weeks ended January 25, 2020 compared to 75.9% during the 39 weeks ended January 26, 2019. Our gross margin decreased by \$33.2 million, or 8.1%, to \$377.1 million, or 23.7% of sales, during the 39 weeks ended January 25, 2020 from \$410.3 million, or 24.1% of sales during the 39 weeks ended January 26, 2019.

Retail

The following table summarizes the Retail cost of sales for the 13 and 39 weeks ended January 25, 2020 and January 26, 2019:

<i>Dollars in thousands</i>	13 weeks ended				39 weeks ended			
	January 25, 2020	% of Related Sales	January 26, 2019	% of Related Sales	January 25, 2020	% of Related Sales	January 26, 2019	% of Related Sales
Product and other cost of sales	\$ 329,440	80.5%	\$ 358,800	81.2%	\$ 1,080,909	79.8%	\$ 1,147,412	80.0%
Rental cost of sales	28,758	59.2%	33,102	59.1%	70,635	59.0%	80,259	59.8%
Total Cost of Sales	<u>\$ 358,198</u>	<u>78.2%</u>	<u>\$ 391,902</u>	<u>78.7%</u>	<u>\$ 1,151,544</u>	<u>78.1%</u>	<u>\$ 1,227,671</u>	<u>78.2%</u>

The following table summarizes the Retail gross margin for the 13 and 39 weeks ended January 25, 2020 and January 26, 2019:

<i>Dollars in thousands</i>	13 weeks ended				39 weeks ended			
	January 25, 2020	% of Related Sales	January 26, 2019	% of Related Sales	January 25, 2020	% of Related Sales	January 26, 2019	% of Related Sales
Product and other gross margin	\$ 79,934	19.5%	\$ 83,327	18.8%	\$ 273,775	20.2%	\$ 287,474	20.0%
Rental gross margin	19,856	40.8%	22,917	40.9%	49,094	41.0%	53,992	40.2%
Gross Margin	<u>\$ 99,790</u>	<u>21.8%</u>	<u>\$ 106,244</u>	<u>21.3%</u>	<u>\$ 322,869</u>	<u>21.9%</u>	<u>\$ 341,466</u>	<u>21.8%</u>

For the 13 weeks ended January 25, 2020, the Retail gross margin as a percentage of sales decreased as discussed below:

- Product and other gross margin increased (70 basis points), driven primarily by higher margin rates (70 basis points) due to lower markdowns and a favorable sales mix (30 basis points) due to increased sales of higher margin general merchandise, partially offset by higher costs related to our college and university contracts (40 basis points) resulting from contract renewals and new store contracts.
- Rental gross margin decreased (10 basis points), driven primarily by lower rental margin rates (100 basis points), partially offset by lower costs related to our college and university contracts (85 basis points) resulting from contract renewals and new store contracts and favorable rental mix (5 basis points).

For the 39 weeks ended January 25, 2020, the Retail gross margin as a percentage of sales increased as discussed below:

- Product and other gross margin increased (20 basis points), driven primarily by a favorable sales mix (40 basis points) due to increased sales of higher margin general merchandise, partially offset by lower margin rates (15 basis points) due to a shift to lower margin digital products and higher markdowns and higher costs related to our college and university contracts (10 basis points) resulting from contract renewals and new store contracts.
- Rental gross margin increased (80 basis points), driven primarily by favorable rental mix (50 basis points) and lower costs related to our college and university contracts (50 basis points) resulting from contract renewals and new store contracts, partially offset by lower rental margin rates (25 basis points).

Wholesale

The cost of sales and gross margin for Wholesale were \$52.8 million, or 78.8% of sales, and \$14.2 million, or 21.2% of sales, respectively, during the 13 weeks ended January 25, 2020. The cost of sales and gross margin for Wholesale was \$55.8 million or 71.0% of sales and \$22.7 million or 29.0% of sales, respectively, during the 13 weeks ended January 26, 2019.

The cost of sales and gross margin for Wholesale were \$137.8 million, or 76.8% of sales, and \$41.7 million, or 23.2% of sales, respectively, during the 39 weeks ended January 25, 2020. The cost of sales and gross margin for Wholesale was \$152.7 million or 73.0% of sales and \$56.6 million or 27.0% of sales, respectively, during the 39 weeks ended January 26, 2019.

The gross margin decreased during the 13 and 39 weeks ended January 25, 2020 primarily due to an unfavorable sales mix (higher priced inventory sold) and inventory markdowns.

DSS

The gross margin for the DSS segment was \$5.3 million, or 82.1% of sales, during the 13 weeks ended January 25, 2020 and \$5.0 million, or 94.9% of sales, during the 13 weeks ended January 26, 2019. The gross margin for the DSS segment was \$13.8 million, or 81.3% of sales, during the 39 weeks ended January 25, 2020 and \$15.3 million, or 96.6% of sales, during the

39 weeks ended January 26, 2019. The high gross margins are driven primarily by high margin subscription service revenue earned. The decrease in gross margin for the 13 and 39 weeks ended January 25, 2020 was primarily due to the amortization of content development costs of \$0.8 million and \$2.4 million, respectively, for *bartleby* textbook solutions which was launched in the latter half of Fiscal 2019.

Intercompany Eliminations

During the 13 weeks ended January 25, 2020 and January 26, 2019, our sales eliminations were \$(29.1) million and \$(33.9) million, respectively. During the 39 weeks ended January 25, 2020 and January 26, 2019, our sales eliminations were \$(76.8) million and \$(94.0) 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 January 25, 2020 and January 26, 2019, the cost of sales eliminations were \$(28.4) million and \$(32.9) million, respectively. During the 39 weeks ended January 25, 2020 and January 26, 2019, the cost of sales eliminations were \$(75.5) million and \$(91.0) 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 January 25, 2020 and January 26, 2019, the gross margin eliminations were \$(0.8) million and \$(1.0) million, respectively. During the 39 weeks ended January 25, 2020 and January 26, 2019, the gross margin eliminations were \$(1.3) million and \$(3.0) 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

<i>Dollars in thousands</i>	13 weeks ended				39 weeks ended			
	January 25, 2020	% of Sales	January 26, 2019	% of Sales	January 25, 2020	% of Sales	January 26, 2019	% of Sales
Total Selling and Administrative Expenses	\$ 106,184	21.1%	\$ 110,941	20.2%	\$ 317,279	19.9%	\$ 325,408	19.1%

During the 13 weeks ended January 25, 2020, selling and administrative expenses decreased by \$4.8 million, or 4.3%, to \$106.2 million from \$110.9 million during the 13 weeks ended January 26, 2019. During the 39 weeks ended January 25, 2020, selling and administrative expenses decreased by \$8.1 million, or 2.5%, to \$317.3 million from \$325.4 million during the 39 weeks ended January 26, 2019.

The variances by segment are as follows:

Retail

During the 13 weeks ended January 25, 2020, Retail selling and administrative expenses decreased by \$4.0 million, or 4.2%, to \$91.9 million from \$95.9 million during the 13 weeks ended January 26, 2019. This decrease was primarily due to a \$4.5 million decrease in stores payroll and operating expenses, including comparable stores, virtual stores and new/closed stores payroll and operating expenses, partially offset by an increase of \$1.1 million in corporate payroll and infrastructure costs and a \$0.2 million increase in product development costs and digital operations costs.

During the 39 weeks ended January 25, 2020, Retail selling and administrative expenses decreased by \$7.5 million, or 2.7%, to \$274.2 million from \$281.7 million during the 39 weeks ended January 26, 2019. This decrease was primarily due to an \$8.9 million decrease in stores payroll and operating expenses, including comparable stores, virtual stores and new/closed stores payroll and operating expenses, partially offset by an increase of \$1.9 million in corporate payroll and infrastructure costs and a \$0.5 million increase in product development costs and digital operations costs.

Wholesale

During the 13 weeks ended January 25, 2020, Wholesale selling and administrative expenses decreased by \$1.0 million or 18.3% to \$4.3 million from \$5.3 million during the 13 weeks ended January 26, 2019. During the 39 weeks ended January 25, 2020, Wholesale selling and administrative expenses decreased by \$2.6 million or 16.1% to \$13.7 million from \$16.3 million during the 39 weeks ended January 26, 2019. The decrease in selling and administrative expenses was primarily driven by lower payroll and operating costs.

DSS

During the 13 weeks ended January 25, 2020, DSS selling and administrative expenses increased by \$1.4 million to \$5.0 million from \$3.6 million during the 13 weeks ended January 26, 2019. During the 39 weeks ended January 25, 2020, DSS selling and administrative expenses increased by \$4.0 million to \$13.7 million from \$9.7 million during the 39 weeks ended January 26, 2019. 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 January 25, 2020, Corporate Services' selling and administrative expenses decreased by \$1.0 million or 16.8% to \$5.2 million from \$6.2 million during the 13 weeks ended January 26, 2019. During the 39 weeks ended January 25, 2020, Corporate Services' selling and administrative expenses decreased by \$1.9 million or 10.6% to \$15.8 million from \$17.7 million during the 39 weeks ended January 26, 2019. The decrease was primarily due to lower compensation-related expense and lower operating expenses.

Depreciation and Amortization Expense

Dollars in thousands	13 weeks ended				39 weeks ended			
	January 25, 2020	% of Sales	January 26, 2019	% of Sales	January 25, 2020	% of Sales	January 26, 2019	% of Sales
Total Depreciation and Amortization Expense	\$ 15,117	3.0%	\$ 16,374	3.0%	\$ 46,542	2.9%	\$ 49,333	2.9%

Depreciation and amortization expense decreased by \$1.3 million, or 7.7%, to \$15.1 million during the 13 weeks ended January 25, 2020 from \$16.4 million during the 13 weeks ended January 26, 2019. Depreciation and amortization expense decreased by \$2.8 million, or 5.7%, to \$46.5 million during the 39 weeks ended January 25, 2020 from \$49.3 million during the 39 weeks ended January 26, 2019. The decrease was primarily attributable to lower depreciation related to closed stores and lower 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 39 weeks ended January 25, 2020, 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 and 39 weeks ended January 25, 2020, we recognized restructuring and other charges totaling \$0.2 million and \$3.2 million, respectively, comprised primarily of \$0 and \$0.8 million, respectively, 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 \$0.2 million and \$2.4 million, respectively for professional service costs for restructuring, process improvements, and shareholder activist activities.

During the 13 and 39 weeks ended January 26, 2019, we recognized restructuring and other charges totaling \$2.5 million for severance and other employee termination and benefit costs associated with management changes.

In February 2020, we implemented a cost reduction program designed to streamline our operations, maximize productivity and drive profitability. For additional information, see the *Overview* discussion above or *Item 1. Financial Statements - Note 15. Subsequent Event*.

Transaction Costs

Transaction costs were \$0.1 million and 0.7 million during the 13 and 39 weeks ended January 26, 2019 respectively. We incur transaction costs for business development and acquisitions.

Operating (Loss) Income

Dollars in thousands	13 weeks ended				39 weeks ended			
	January 25, 2020	% of Sales	January 26, 2019	% of Sales	January 25, 2020	% of Sales	January 26, 2019	% of Sales
Total Operating (Loss)Income	\$ (2,971)	(0.5)%	\$ 3,021	0.6%	\$ 9,648	0.7%	\$ 32,428	2.0%

Our operating loss was \$(3.0) million during the 13 weeks ended January 25, 2020, compared to operating income of \$3.0 million during the 13 weeks ended January 26, 2019. The decrease is due to the matters discussed above. For the 13 weeks ended January 25, 2020, excluding the \$0.2 million of restructuring and other charges, discussed above, operating loss was \$(2.8) million. For the 13 weeks ended January 26, 2019, excluding the \$2.5 million of restructuring and other charges and transaction costs of \$0.1 million, discussed above, operating income was \$5.6 million.

Our operating income was \$9.6 million during the 39 weeks ended January 25, 2020, compared to operating income of \$32.4 million during the 39 weeks ended January 26, 2019. The decrease is due to the matters discussed above. For the 39 weeks ended January 25, 2020, excluding the \$3.2 million of restructuring and other charges and impairment loss (non-cash) of \$0.4 million, discussed above, operating income was \$13.3 million (or 0.8% of sales). For the 39 weeks ended January 26, 2019, excluding the \$2.5 million of restructuring and other charges and the transaction costs of \$0.7 million, discussed above, operating income was \$35.6 million (or 2.1% of sales).

Interest Expense, Net

Dollars in thousands	13 weeks ended		39 weeks ended	
	January 25, 2020	January 26, 2019	January 25, 2020	January 26, 2019
Interest Expense, Net	\$ 1,904	\$ 2,546	\$ 5,882	\$ 7,904

Net interest expense decreased by \$0.6 million, or 25.2%, to \$1.9 million during the 13 weeks ended January 25, 2020 from \$2.5 million during the 13 weeks ended January 26, 2019. Net interest expense decreased by \$2.0 million, or 25.6%, to \$5.9 million during the 39 weeks ended January 25, 2020 from \$7.9 million during the 39 weeks ended January 26, 2019. The decrease was primarily due to lower borrowings compared to the prior year.

Income Tax (Benefit) Expense

Dollars in thousands	13 weeks ended				39 weeks ended			
	January 25, 2020	Effective Rate	January 26, 2019	Effective Rate	January 25, 2020	Effective Rate	January 26, 2019	Effective Rate
Income Tax (Benefit) Expense	\$ (3,182)	65.3%	\$ (294)	(61.9)%	\$ 1,683	44.7%	\$ 2,680	10.9%

We recorded an income tax benefit of \$(3.2) million on a pre-tax loss of \$(4.9) million of during the 13 weeks ended January 25, 2020, which represented an effective income tax rate of 65.3% and we recorded an income tax benefit of \$(0.3) million on pre-tax income of \$0.5 million during the 13 weeks ended January 26, 2019, which represented an effective income tax rate of (61.9)%.

We recorded income tax expense of \$1.7 million on pre-tax income of \$3.8 million of during the 39 weeks ended January 25, 2020, which represented an effective income tax rate of 44.7% and we recorded income tax expense of \$2.7 million on pre-tax income of \$24.5 million during the 39 weeks ended January 26, 2019, which represented an effective income tax rate of 10.9%.

The effective tax rate for the 13 and 39 weeks ended January 25, 2020 is higher as compared to the comparable prior year due to permanent differences.

Net (Loss) Income

Dollars in thousands	13 weeks ended		39 weeks ended	
	January 25, 2020	January 26, 2019	January 25, 2020	January 26, 2019
Net (loss) income	\$ (1,693)	\$ 769	\$ 2,083	\$ 21,844

As a result of the factors discussed above, net loss was \$(1.7) million during the 13 weeks ended January 25, 2020, compared with net income of \$0.8 million during the 13 weeks ended January 26, 2019 and net income was \$2.1 million during the 39 weeks ended January 25, 2020 compared with net income of \$21.8 million during the 39 weeks ended January 26, 2019.

Adjusted Earnings (non-GAAP) is \$(0.7) million during the 13 weeks ended January 25, 2020, compared with \$3.3 million during the 13 weeks ended January 26, 2019 and Adjusted Earnings (non-GAAP) is \$7.0 million during the 39 weeks ended January 25, 2020 compared with \$24.9 million during the 39 weeks ended January 26, 2019. 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)

<i>Dollars in thousands</i>	13 weeks ended		39 weeks ended	
	January 25, 2020	January 26, 2019	January 25, 2020	January 26, 2019
Net (loss) income	\$ (1,693)	\$ 769	\$ 2,083	\$ 21,844
Reconciling items, after-tax <i>(below)</i>	945	2,539	4,928	3,085
Adjusted Earnings (non-GAAP)	<u>\$ (748)</u>	<u>\$ 3,308</u>	<u>\$ 7,011</u>	<u>\$ 24,929</u>
Reconciling items, pre-tax				
Impairment loss (non-cash) ^(a)	\$ —	\$ —	\$ 433	\$ —
Content amortization (non-cash) ^(b)	1,064	212	2,973	360
Restructuring and other charges ^(a)	205	2,500	3,240	2,500
Transaction costs ^(a)	—	117	—	654
Reconciling items, pre-tax	1,269	2,829	6,646	3,514
Less: Pro forma income tax impact ^(b)	324	290	1,718	429
Reconciling items, after-tax	<u>\$ 945</u>	<u>\$ 2,539</u>	<u>\$ 4,928</u>	<u>\$ 3,085</u>

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

(b) For the 13 and 39 weeks ended January 25, 2020, 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		39 weeks ended	
	January 25, 2020	January 26, 2019	January 25, 2020	January 26, 2019
Net (loss) income	\$ (1,693)	\$ 769	\$ 2,083	\$ 21,844
Add:				
Depreciation and amortization expense	15,117	16,374	46,542	49,333
Content amortization (non-cash) ^(a)	1,064	212	2,973	360
Interest expense, net	1,904	2,546	5,882	7,904
Income tax (benefit) expense	(3,182)	(294)	1,683	2,680
Impairment loss (non-cash) ^(b)	—	—	433	—
Restructuring and other charges ^(b)	205	2,500	3,240	2,500
Transaction costs ^(b)	—	117	—	654
Adjusted EBITDA (non-GAAP) ^(b)	\$ 13,415	\$ 22,224	\$ 62,836	\$ 85,275

(a) For the 13 and 39 weeks ended January 25, 2020, 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 and 39 weeks ended January 25, 2020 and January 26, 2019.

Adjusted EBITDA - by Segment

<i>Dollars in thousands</i>	13 weeks ended, January 25, 2020					
	Retail	Wholesale	DSS	Corporate Services	Elimination ^(b)	Total
Sales	\$ 457,988	\$ 66,996	\$ 6,435	\$ —	\$ (29,127)	\$ 502,292
Cost of sales ^(a)	357,988	52,761	298	—	(28,354)	382,693
Gross profit	100,000	14,235	6,137	—	(773)	119,599
Selling and administrative expenses	91,860	4,312	4,987	5,154	(129)	106,184
Adjusted EBITDA (non-GAAP)	\$ 8,140	\$ 9,923	\$ 1,150	\$ (5,154)	\$ (644)	\$ 13,415

Adjusted EBITDA - by Segment

<i>Dollars in thousands</i>	13 weeks ended, January 26, 2019					
	Retail	Wholesale	DSS	Corporate Services	Elimination ^(b)	Total
Sales	\$ 498,146	\$ 78,508	\$ 5,237	\$ —	\$ (33,883)	\$ 548,008
Cost of sales ^(a)	391,771	55,769	187	—	(32,884)	414,843
Gross profit	106,375	22,739	5,050	—	(999)	133,165
Selling and administrative expenses	95,895	5,281	3,575	6,197	(7)	110,941
Adjusted EBITDA (non-GAAP)	\$ 10,480	\$ 17,458	\$ 1,475	\$ (6,197)	\$ (992)	\$ 22,224

Adjusted EBITDA - by Segment
39 weeks ended, January 25, 2020

<i>Dollars in thousands</i>	Retail	Wholesale	DSS	Corporate Services	Elimination ^(b)	Total
Sales	\$ 1,474,413	\$ 179,515	\$ 17,024	\$ —	\$ (76,775)	\$ 1,594,177
Cost of sales ^(a)	1,150,940	137,827	817	—	(75,522)	1,214,062
Gross profit	323,473	41,688	16,207	—	(1,253)	380,115
Selling and administrative expenses	274,253	13,664	13,715	15,829	(182)	317,279
Adjusted EBITDA (non-GAAP)	\$ 49,220	\$ 28,024	\$ 2,492	\$ (15,829)	\$ (1,071)	\$ 62,836

Adjusted EBITDA - by Segment
39 weeks ended, January 26, 2019

<i>Dollars in thousands</i>	Retail	Wholesale	DSS	Corporate Services	Elimination ^(b)	Total
Sales	\$ 1,569,137	\$ 209,282	\$ 15,848	\$ —	\$ (94,009)	\$ 1,700,258
Cost of sales (a)	1,227,392	152,723	455	—	(90,995)	1,289,575
Gross profit	341,745	56,559	15,393	—	(3,014)	410,683
Selling and administrative expenses	281,725	16,284	9,741	17,706	(48)	325,408
Adjusted EBITDA (non-GAAP)	\$ 60,020	\$ 40,275	\$ 5,652	\$ (17,706)	\$ (2,966)	\$ 85,275

(a) For the 13 weeks ended January 25, 2020, gross margin excludes \$0.2 million and \$0.9 million of amortization expense (non-cash) related to content development costs in the Retail Segment and DSS Segment, respectively. For the 39 weeks ended January 25, 2020, gross margin excludes \$0.6 million and \$2.4 million of amortization expense (non-cash) related to content development costs in the Retail Segment and DSS Segment, respectively. For the 13 weeks ended January 26, 2019, gross margin excludes \$0.1 million of amortization expense (non-cash) related to content development costs in both the Retail Segment and DSS Segment, respectively. For the 39 weeks ended January 26, 2019, gross margin excludes \$0.3 million and \$0.1 million 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 January 25, 2020, we had \$65.9 million outstanding borrowings under the Credit Agreement. See *Financing Arrangements* discussion below.

Sources and Uses of Cash Flow

<i>Dollars in thousands</i>	39 weeks ended	
	January 25, 2020	January 26, 2019
Cash, cash equivalents, and restricted cash at beginning of period	\$ 14,768	\$ 16,869
Net cash flows provided by operating activities	86,352	175,862
Net cash flows used in investing activities	(21,693)	(41,668)
Net cash flows used in financing activities	(68,865)	(128,271)
Cash, cash equivalents, and restricted cash at end of period	\$ 10,562	\$ 22,792

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 provided by operating activities during the 39 weeks ended January 25, 2020 were \$86.4 million compared to \$175.9 million during the 39 weeks ended January 26, 2019. This decrease of \$89.5 million was primarily due to changes in working capital, the change in operating lease right-of-use assets and lease liabilities, lower net income compared to prior year, and the change in deferred taxes. 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 39 weeks ended January 25, 2020 were \$(21.7) million compared to \$(41.7) million during the 39 weeks ended January 26, 2019. The decrease is primarily due to the change in other noncurrent assets for contractual obligations and the acquisition of PaperRater.com in Fiscal 2019.

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 \$26.8 million and \$31.7 million during the 39 weeks ended January 25, 2020 and January 26, 2019, respectively.

Cash Flow from Financing Activities

Cash flows used in financing activities during the 39 weeks ended January 25, 2020 were \$(68.9) million compared to \$(128.3) million during the 39 weeks ended January 26, 2019. This net change of \$59.4 million is primarily due to lower 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. As of January 25, 2020, we are in compliance with all debt covenants under the Credit Agreement. On March 2, 2020, we were granted a waiver to the condition to the upcoming draw under the FILO Facility, scheduled in April 2020, that Consolidated EBITDA (as defined in the Credit Agreement) minus Restricted Payments (as defined in the Credit Agreement) equal at least \$90 million. In connection with the waiver, the applicable margin for credit extensions made under the FILO Facility after March 2, 2020 through the end of 2020 was increased by 0.50% (to 3.25% per annum for LIBO rate loans and 2.25% for base rate loans).

During the 39 weeks ended January 25, 2020, we borrowed \$383.4 million and repaid \$451.0 million under the Credit Agreement, with \$65.9 million of outstanding borrowings as of January 25, 2020, comprised entirely of outstanding borrowings under the Credit Facility. During the 39 weeks ended January 26, 2019, we borrowed \$374.0 million and repaid \$500.3 million under the Credit Agreement, with \$70.1 million of outstanding borrowings as of January 26, 2019, comprised entirely of outstanding borrowings under the Credit Facility. As of both January 25, 2020 and January 26, 2019, 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 January 25, 2020, 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 39 weeks ended January 25, 2020, we did not repurchase any of our Common Stock under the stock repurchase program. As of January 25, 2020, approximately \$26.7 million remains available under the stock repurchase program.

During the 39 weeks ended January 25, 2020, we repurchased 374,733 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 January 25, 2020, 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' digital offerings and direct to student textbook consignment rental programs, as well as the risks associated with the impacts that public health crises may have on the ability of our suppliers to manufacture or source products, particularly from outside of 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 third 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.

On or about January 22, 2020, a purported class action complaint was filed in the United States District Court for the District of Delaware against the Company, along with several publishers, another collegiate bookstore retailer, and an industry association by Campus Book Company, Inc., BJJ Corporation, CBSKY, Inc., CBSNM, Inc., and Renttext.com, Inc. The plaintiffs claim, on their own behalf and on behalf of the purported class, that the Company and the other defendants violated Section 1 of the Sherman Act (15 U.S.C. § 1), Section 2 of the Sherman Act (15 U.S.C. § 2), Section 13(a) of the Robinson-Patman Act (15 U.S.C. §13(a)), and various state antitrust and unfair trade practices laws for alleged activities in connection with inclusive access and the sale of course materials to universities and their students. We intend to vigorously defend this matter and are currently unable to estimate any potential losses.

Item 1A. Risk Factors

There have been no material changes during the 39 weeks ended January 25, 2020 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 January 25, 2020 with respect to shares of Common Stock we purchased during the third 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
October 27, 2019 - November 23, 2019	—	\$ —	—	\$ 26,669,324
November 24, 2019 - December 28, 2019	—	\$ —	—	\$ 26,669,324
December 29, 2019 - January 25, 2020	—	\$ —	—	\$ 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 39 weeks ended January 25, 2020, we did not repurchase any shares of our Common Stock under the program.

During the 39 weeks ended January 25, 2020, we repurchased 374,733 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

Costs Associated with Cost Reduction Program.

In February 2020, the Company implemented a significant cost reduction program designed to streamline operations, maximize productivity and drive profitability. Certain elements of this plan have recently been implemented, while other actions are planned for Fiscal 2021, which begins in May 2020. The Company anticipates meaningful annualized cost savings from this program, the majority of which is expected to be realized beginning in Fiscal 2021. As a result of the personnel and related elements of this program, the Company expects to recognize a restructuring charge of \$10 million to \$15 million during the fourth quarter of Fiscal 2020.

This Item 5 contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements involve risks and uncertainties that could cause actual results to differ materially from expectations, and may relate to, among other things, statements regarding the Company’s current expectations and beliefs as to the timing and scope of the reduction in force plan and the amount and timing of the related costs. These forward-looking statements speak only as of the date they are made, and the Company does not undertake any obligation to revise or update such statements to reflect future events or circumstances, except as required by law.

Item 6. Exhibits

10.1	Limited Waiver Letter, dated March 2, 2020, related to the FILO Loan EBITDA Condition contained in the Company’s Credit Agreement, dated as of August 3, 2015 (as amended by that certain First Amendment, dated as of February 27, 2017, and by that certain Second Amendment, dated as of March 1, 2019).
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)

March 3, 2020

Execution Copy

Barnes & Noble Education, Inc.
120 Mountain View Boulevard
Basking Ridge, NJ 07920

March 2, 2020

Administrative Agent and Lenders under
that certain Credit Agreement described below
c/o: Bank of America, N.A.,
as Administrative Agent
100 Federal Street
Boston, Massachusetts 02110

Re: Limited Waiver of FILO Loan EBITDA Condition

Ladies and Gentlemen:

Reference is made to that certain Credit Agreement, dated as of August 3, 2015 (as amended by that certain First Amendment, dated as of February 27, 2017, and by that certain Second Amendment, Waiver and Consent to Credit Agreement, dated as of March 1, 2019, and as otherwise amended, restated, supplemented or modified from time to time, the “**Credit Agreement**”; capitalized terms used herein but not defined herein shall have the meanings specified in the Credit Agreement), by and among Barnes & Noble Education, Inc., a Delaware corporation (the “**Lead Borrower**”), the other Persons party thereto as borrowers (collectively with the Lead Borrower, the “**Borrowers**”), Bank of America, N.A., as administrative agent (in such capacity, the “**Administrative Agent**”), Collateral Agent and Swing Line Lender, and each of the financial institutions party thereto from time to time as Lenders (collectively, the “**Lenders**”) and/or agents.

Section 2.18(c)(v) of the Credit Agreement provides that it is a condition precedent to each Committed Borrowing of a FILO Loan that “*Consolidated EBITDA (adjusted to give pro forma effect to the First Amendment Acquisition in accordance with Section 1.07) minus Restricted Payments (excluding (x) Restricted Payments made by the Lead Borrower or the Acquired Companies prior to the First Amendment Effective Date and (y) Specified Tax Payments) shall have equaled at least the Applicable FILO Availability Threshold for the Measurement Period ended on the last day of the calendar month that most recently ended at least sixty (60) days prior to the first day of the applicable FILO Draw Period*” (the “**FILO Loan EBITDA Condition**” and the Consolidated EBITDA determined as of the Measurement Period ending January 25, 2020 and otherwise in accordance with Section 2.18(c)(v) of the Credit Agreement, the “**FILO Adjusted EBITDA (2020)**”). The Lead Borrower hereby requests on behalf of the Borrowers that the Administrative Agent and the Required Lenders waive compliance with the FILO Loan EBITDA Condition solely with respect to the proposed initial Committed Borrowing of FILO Loans on or about April 1, 2020 (the “**Initial 2020 FILO Loan Borrowing**”).

By executing and delivering this waiver letter, the Administrative Agent and each undersigned Lender, constituting at least the Required Lenders, hereby agrees that, subject to satisfaction of all the conditions set forth below and effective upon the occurrence of the Waiver Effective Date (as defined below), the undersigned Required Lenders hereby waive compliance with the FILO Loan EBITDA Condition solely as a condition precedent to the Initial 2020 FILO Loan Borrowing (the “**Limited Waiver**”). The foregoing waiver is strictly limited to the specified matters and does not constitute, nor should it be deemed to be, a waiver of (x) any other condition precedent to the making of the Initial 2020 FILO Loan Borrowing or (y)

any condition to any Committed Borrowing under the Credit Agreement other than the Initial 2020 FILO Loan Borrowing.

Except as expressly provided in the preceding paragraph with respect to the Limited Waiver, all of the other terms, provisions and conditions of the Credit Agreement and the other Loan Documents shall remain and continue in full force and effect. Except as expressly provided above, nothing contained in this waiver letter or any other communication between Administrative Agent and/or any of the other Secured Parties, on the one hand, and all or any of the Loan Parties, on the other hand, shall constitute a waiver of any past, present or future violation, Default or Event of Default under the Credit Agreement or any other Loan Documents. Similarly, each of the Administrative Agent and the Secured Parties hereby expressly reserves any rights, privileges, and remedies under the Credit Agreement and each other Loan Document that the Administrative Agent or the Secured Parties may have with respect to each violation, Default or Event of Default. The granting of the Limited Waiver as set forth herein shall not directly or indirectly in any way whatsoever either (i) impair, prejudice or otherwise adversely affect the rights of the Administrative Agent or the Lenders, except as expressly set forth herein with respect to the Limited Waiver, at any time to exercise any right, privilege or remedy in connection with the Credit Agreement or any other Loan Documents, or (ii) constitute (x) a permanent waiver of any terms or conditions under the Loan Documents (except solely with respect to the Limited Waiver with respect to the Initial 2020 FILO Loan Borrowing) or (y) any course of dealing or other basis for altering any obligation of the Loan Parties (except for the Limited Waiver) or any rights, privilege or remedy of the Administrative Agent or any other Secured Parties under the Credit Agreement or any other Loan Documents.

Please acknowledge your consent to the Limited Waiver upon the terms and conditions upon the terms and conditions set forth herein and otherwise in accordance with the Credit Agreement by executing and returning this waiver letter at your earliest convenience. The Limited Waiver and the 2020 FILO Margin Amendment (defined below) shall become effective on the date (the “**Waiver Effective Date**”) that the following conditions have been satisfied: (a) the Administrative Agent shall have received executed signature pages hereto from the Loan Parties, the Administrative Agent and the Required Lenders, and (b) the Lead Borrower shall have certified in writing to the Administrative Agent, for the benefit of the Secured Parties, that (i) as of the Measurement Period ended January 25, 2020, FILO Adjusted EBITDA (2020) shall equal at least \$75,000,000 and (ii) both immediately before and after giving effect to the Limited Waiver and the 2020 FILO Margin Amendment, no Default or Event of Default shall be continuing.

The Borrowers and Lenders party hereto hereby further agree that, in consideration of the Limited Waiver set forth herein, and notwithstanding anything set forth herein, in the definition of “Applicable Margin” in the Credit Agreement or in any other provision of the Credit Agreement or any other Loan Document to the contrary, solely with respect to Credit Extensions under the FILO Facility made during 2020 after the occurrence of the Waiver Effective Date (collectively, “**2020 FILO Credit Extensions**”), the Applicable Margin for all such 2020 FILO Credit Extensions shall mean (a) with respect to a LIBO Rate Loan, 3.25% per annum, and (b) with respect to a Base Rate Loan, 2.250% per annum (the “**2020 FILO Margin Amendment**”). For the avoidance of doubt, any Credit Extensions under the FILO Facility made in 2021 or thereafter in accordance with the Credit Agreement shall not be subject to the foregoing increase in the Applicable Margin, which only shall apply to 2020 FILO Credit Extensions.

Except as expressly provided with respect to Limited Waiver and 2020 FILO Margin Amendment set forth herein, the Credit Agreement and each of the Schedules and Exhibits and other Loan Documents related thereto shall remain in full force and effect and the Credit Agreement and each of the other Loan Documents are hereby ratified and confirmed in all respects. No delay or omission by the Administrative Agent or Lenders in exercising any power, right or remedy shall impair such power, right or remedy or be construed

as a waiver thereof or any acquiescence therein, and no single, periodic or partial exercise of any such power, right or remedy shall preclude other or further exercise thereof or the exercise of any other power, right or remedy under the Credit Agreement, the other Loan Documents or otherwise.

Upon the Waiver Effective Date, this waiver letter shall constitute a Loan Document under and as defined in the Credit Agreement and the 2020 FILO Margin Amendment immediately shall take effect without any further action by the parties to the Credit Agreement. This waiver letter may be executed in counterparts which, taken together, shall constitute an original. Delivery of an executed counterpart of this consent letter by email, PDF copy, facsimile or other electronic means shall be effective as delivery of a manually executed counterpart thereof.

THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WHETHER IN CONTRACT, IN TORT OR BY STATUTE OR REGULATION. SECTIONS 10.14 AND 10.15 OF THE CREDIT AGREEMENT SHALL APPLY TO THIS WAIVER LETTER AS THOUGH SET FORTH IN THEIR ENTIRETY HEREIN, MUTATIS MUTANDIS.

[Signature pages follow]

LEAD BORROWER:

BARNES & NOBLE EDUCATION, INC., a Delaware corporation

By: /s/ Thomas D. Donohue

Name: Thomas D. Donohue

Title: Executive Vice President, Chief Financial Officer

BNED Waiver Letter
Signature Page

BORROWERS:

B&N EDUCATION, LLC, a Delaware limited liability company
BARNES & NOBLE COLLEGE BOOKSELLERS, LLC, a Delaware limited liability company
BNED DIGITAL HOLDINGS, LLC, a Delaware limited liability company
BNED LOUDCLOUD, LLC, a Delaware limited liability company
BNED MBS HOLDINGS, LLC, a Delaware limited liability company
PROMOVERSITY LLC, a Delaware limited liability company
MBS AUTOMATION LLC, a Delaware limited liability company
MBS DIRECT, LLC, a Delaware limited liability company
MBS INTERNET, LLC, a Delaware limited liability company
MBS SERVICE COMPANY LLC, a Delaware limited liability company
MBS TEXTBOOK EXCHANGE, LLC, a Delaware limited liability company
TEXTBOOKCENTER LLC, a Delaware limited liability company
TXTB.COM, LLC, a Delaware limited liability company
STUDENT BRANDS, LLC, a Delaware limited liability company

By: /s/ Thomas D. Donohue

Name: Thomas D. Donohue

Title: Executive Vice President, Chief Financial Officer

*BNED Waiver Letter
Signature Page*

BORROWERS (CONT'D):

CRAM LLC, a Delaware limited liability company

EDUCATE AHORA LLC, a Delaware limited liability company

ETUDIER FACILE LLC, a Delaware limited liability company

STUDY MODE LLC, a California limited liability company

TRABALHOS FEITOS, LLC, a Delaware limited liability company

WORLDWIDE KNOWLEDGE LLC, a Delaware limited liability company

By: **STUDENT BRANDS, LLC**, a Delaware
limited liability company

By: /s/ Thomas D. Donohue

Name: Thomas D. Donohue

Title: Executive Vice President, Chief Financial Officer

PAPERRATER, LLC, a Delaware limited liability company

By: /s/ Thomas D. Donohue

Name: Thomas D. Donohue

Title: Executive Vice President, Chief Financial Officer

BNED Waiver Letter
Signature Page

ACKNOWLEDGED AND AGREED:

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

By: /s/ Andrew Cerussi

Name: Andrew Cerussi

Title: Sr. Vice President

BNED Waiver Letter
Signature Page

ACKNOWLEDGED AND AGREED:

BANK OF AMERICA, N.A.,
as a Lender, LC Issuer and Swing Line Lender

By: /s/ Andrew Cerussi
Name: Andrew Cerussi
Title: Sr. Vice President

BNED Waiver Letter
Signature Page

ACKNOWLEDGED AND AGREED:

JPMORGAN CHASE BANK, N.A.,
as a Lender

By: /s/ Hai Nguyen
Name: Hai Nguyen
Title: Authorized Officer

BNED Waiver Letter
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ACKNOWLEDGED AND AGREED:

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as a Lender

By: /s/ Lauren Murphy
Name: Lauren Murphy
Title: Director

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ACKNOWLEDGED AND AGREED:

TRUIST BANK, as successor by merger to SUNTRUST BANK

By: /s/ JC Fanning
Name: JC Fanning
Title: Vice President

BNED Waiver Letter
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ACKNOWLEDGED AND AGREED:

**CAPITAL ONE, NATIONAL ASSOCIATION, as
successor to CAPITAL ONE BUSINESS CREDIT CORP.,
as a Lender**

By: /s/ Julianne Low
Name: Julianne Low
Title: Senior Director

*BNED Waiver Letter
Signature Page*

ACKNOWLEDGED AND AGREED:

**CITIZENS BUSINESS CAPITAL,
A DIVISION OF CITIZENS ASSET FINANCE INC.,**
as a Lender

By: /s/ William Boyle

Name: William Boyle

Title: AVP

*BNED Waiver Letter
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ACKNOWLEDGED AND AGREED:

REGIONS BANK,
as a Lender

By: /s/ Kevin R. Rogers
Name: Kevin R. Rogers
Title: Managing Director

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ACKNOWLEDGED AND AGREED:

PNC BANK, NATIONAL ASSOCIATION
as a Lender

By: /s/ Michael Etienne

Name: Michael Etienne

Title: Senior Vice President

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ACKNOWLEDGED AND AGREED:

HSBC BANK USA, NATIONAL ASSOCIATION,
as a Lender

By: /s/ Stephen R. Santini

Name: Stephen R. Santini

Title: Vice President

BNED Waiver Letter
Signature Page

**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 January 25, 2020 of Barnes & Noble Education, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 3, 2020

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 January 25, 2020 of Barnes & Noble Education, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 3, 2020

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 January 25, 2020, 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.*

March 3, 2020

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

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
RULE 13a-14(b) UNDER THE SECURITIES EXCHANGE ACT OF 1934
AND 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Barnes & Noble Education, Inc. (the “Company”) on Form 10-Q for the period ended January 25, 2020, 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.

March 3, 2020

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.