

**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 August 1, 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 | <input type="checkbox"/> | Accelerated filer         | <input checked="" type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/>            |
|                         |                          | Emerging Growth Company   | <input type="checkbox"/>            |

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

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

As of August 21, 2020, 48,633,117 shares of Common Stock, par value \$0.01 per share, were outstanding.

**BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES**  
**Fiscal Quarter Ended August 1, 2020**  
**Index to Form 10-Q**

|                  | <u>Page No.</u>                                                                                                           |
|------------------|---------------------------------------------------------------------------------------------------------------------------|
| <b>PART I -</b>  | <b>FINANCIAL INFORMATION</b>                                                                                              |
| <b>Item 1.</b>   | <b>Financial Statements (Unaudited)</b>                                                                                   |
|                  | <a href="#">Condensed Consolidated Statements of Operations – For the 13 weeks ended August 1, 2020 and July 27, 2019</a> |
|                  | <a href="#">3</a>                                                                                                         |
|                  | <a href="#">Condensed Consolidated Balance Sheets – As of August 1, 2020, July 27, 2019, and May 2, 2020</a>              |
|                  | <a href="#">4</a>                                                                                                         |
|                  | <a href="#">Condensed Consolidated Statements of Cash Flows – For the 13 weeks ended August 1, 2020 and July 27, 2019</a> |
|                  | <a href="#">5</a>                                                                                                         |
|                  | <a href="#">Condensed Consolidated Statements of Equity – As of August 1, 2020 and July 27, 2019</a>                      |
|                  | <a href="#">6</a>                                                                                                         |
|                  | <a href="#">Notes to Condensed Consolidated Financial Statements</a>                                                      |
|                  | <a href="#">7</a>                                                                                                         |
|                  | <a href="#">Note 1. Organization</a>                                                                                      |
|                  | <a href="#">7</a>                                                                                                         |
|                  | <a href="#">Note 2. Summary of Significant Accounting Policies</a>                                                        |
|                  | <a href="#">8</a>                                                                                                         |
|                  | <a href="#">Note 3. Recent Accounting Pronouncements</a>                                                                  |
|                  | <a href="#">11</a>                                                                                                        |
|                  | <a href="#">Note 4. Revenue</a>                                                                                           |
|                  | <a href="#">12</a>                                                                                                        |
|                  | <a href="#">Note 5. Leases</a>                                                                                            |
|                  | <a href="#">13</a>                                                                                                        |
|                  | <a href="#">Note 6. Segment Reporting</a>                                                                                 |
|                  | <a href="#">14</a>                                                                                                        |
|                  | <a href="#">Note 7. Equity and Earnings Per Share</a>                                                                     |
|                  | <a href="#">16</a>                                                                                                        |
|                  | <a href="#">Note 8. Fair Values of Financial Instruments</a>                                                              |
|                  | <a href="#">17</a>                                                                                                        |
|                  | <a href="#">Note 9. Credit Facility</a>                                                                                   |
|                  | <a href="#">17</a>                                                                                                        |
|                  | <a href="#">Note 10. Supplementary Information</a>                                                                        |
|                  | <a href="#">17</a>                                                                                                        |
|                  | <a href="#">Note 11. Employee Benefit Plans</a>                                                                           |
|                  | <a href="#">18</a>                                                                                                        |
|                  | <a href="#">Note 12. Stock-Based Compensation</a>                                                                         |
|                  | <a href="#">18</a>                                                                                                        |
|                  | <a href="#">Note 13. Income Taxes</a>                                                                                     |
|                  | <a href="#">18</a>                                                                                                        |
|                  | <a href="#">Note 14. Legal Proceedings</a>                                                                                |
|                  | <a href="#">18</a>                                                                                                        |
| <b>Item 2.</b>   | <b>Management’s Discussion and Analysis of Financial Condition and Results of Operations</b>                              |
|                  | <a href="#">20</a>                                                                                                        |
|                  | <a href="#">Overview</a>                                                                                                  |
|                  | <a href="#">20</a>                                                                                                        |
|                  | <a href="#">Results of Operations</a>                                                                                     |
|                  | <a href="#">23</a>                                                                                                        |
|                  | <a href="#">Adjusted Earnings (Non-GAAP)</a>                                                                              |
|                  | <a href="#">30</a>                                                                                                        |
|                  | <a href="#">Adjusted EBITDA (Non-GAAP)</a>                                                                                |
|                  | <a href="#">31</a>                                                                                                        |
|                  | <a href="#">Liquidity and Capital Resources</a>                                                                           |
|                  | <a href="#">31</a>                                                                                                        |
| <b>Item 3.</b>   | <b>Quantitative and Qualitative Disclosures About Market Risk</b>                                                         |
|                  | <a href="#">35</a>                                                                                                        |
| <b>Item 4.</b>   | <b>Controls and Procedures</b>                                                                                            |
|                  | <a href="#">36</a>                                                                                                        |
| <b>PART II -</b> | <b>OTHER INFORMATION</b>                                                                                                  |
| <b>Item 1.</b>   | <b>Legal Proceedings</b>                                                                                                  |
|                  | <a href="#">36</a>                                                                                                        |
| <b>Item 1A.</b>  | <b>Risk Factors</b>                                                                                                       |
|                  | <a href="#">36</a>                                                                                                        |
| <b>Item 2.</b>   | <b>Unregistered Sales of Equity Securities and Use of Proceeds</b>                                                        |
|                  | <a href="#">37</a>                                                                                                        |
| <b>Item 5.</b>   | <b>Other Information</b>                                                                                                  |
|                  | <a href="#">37</a>                                                                                                        |
| <b>Item 6.</b>   | <b>Exhibits</b>                                                                                                           |
|                  | <a href="#">37</a>                                                                                                        |
|                  | <b>SIGNATURES</b>                                                                                                         |
|                  | <a href="#">38</a>                                                                                                        |

# 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     |                    |
|------------------------------------------------------|--------------------|--------------------|
|                                                      | August 1,<br>2020  | July 27,<br>2019   |
| Sales:                                               |                    |                    |
| Product sales and other                              | \$ 193,210         | \$ 302,227         |
| Rental income                                        | 10,804             | 17,430             |
| Total sales                                          | 204,014            | 319,657            |
| Cost of sales:                                       |                    |                    |
| Product and other cost of sales                      | 165,765            | 238,331            |
| Rental cost of sales                                 | 7,387              | 9,669              |
| Total cost of sales                                  | 173,152            | 248,000            |
| Gross profit                                         | 30,862             | 71,657             |
| Selling and administrative expenses                  | 70,043             | 97,691             |
| Depreciation and amortization expense                | 14,063             | 15,879             |
| Impairment loss (non-cash)                           | —                  | 433                |
| Restructuring and other charges                      | 5,671              | 1,466              |
| Operating loss                                       | (58,915)           | (43,812)           |
| Interest expense, net                                | 2,653              | 2,532              |
| Loss before income taxes                             | (61,568)           | (46,344)           |
| Income tax benefit                                   | (14,916)           | (14,189)           |
| Net loss                                             | <u>\$ (46,652)</u> | <u>\$ (32,155)</u> |
| Loss per share of common stock:                      |                    |                    |
| Basic                                                | \$ (0.96)          | \$ (0.68)          |
| Diluted                                              | \$ (0.96)          | \$ (0.68)          |
| Weighted average shares of common stock outstanding: |                    |                    |
| Basic                                                | 48,411             | 47,582             |
| Diluted                                              | 48,411             | 47,582             |

See accompanying notes to condensed consolidated financial statements.

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

|                                                                                                                                                                                 | August 1,<br>2020 | July 27,<br>2019 | May 2,<br>2020 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|------------------|----------------|
|                                                                                                                                                                                 | (unaudited)       | (unaudited)      | (audited)      |
| <b>ASSETS</b>                                                                                                                                                                   |                   |                  |                |
| Current assets:                                                                                                                                                                 |                   |                  |                |
| Cash and cash equivalents                                                                                                                                                       | \$ 7,471          | \$ 8,222         | \$ 8,242       |
| Receivables, net                                                                                                                                                                | 107,522           | 98,547           | 90,851         |
| Merchandise inventories, net                                                                                                                                                    | 575,246           | 717,765          | 428,939        |
| Textbook rental inventories                                                                                                                                                     | 16,482            | 5,221            | 40,710         |
| Prepaid expenses and other current assets                                                                                                                                       | 22,415            | 18,069           | 16,177         |
| Total current assets                                                                                                                                                            | 729,136           | 847,824          | 584,919        |
| Property and equipment, net                                                                                                                                                     | 94,102            | 105,902          | 97,739         |
| Operating lease right-of-use assets                                                                                                                                             | 320,287           | 314,355          | 250,837        |
| Intangible assets, net                                                                                                                                                          | 170,466           | 189,183          | 175,125        |
| Goodwill                                                                                                                                                                        | 4,700             | 4,700            | 4,700          |
| Deferred tax assets, net                                                                                                                                                        | 8,459             | —                | 7,805          |
| Other noncurrent assets                                                                                                                                                         | 33,646            | 40,457           | 35,307         |
| Total assets                                                                                                                                                                    | \$ 1,360,796      | \$ 1,502,421     | \$ 1,156,432   |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                                     |                   |                  |                |
| Current liabilities:                                                                                                                                                            |                   |                  |                |
| Accounts payable                                                                                                                                                                | \$ 291,496        | \$ 443,134       | \$ 143,678     |
| Accrued liabilities                                                                                                                                                             | 75,084            | 75,876           | 95,420         |
| Current operating lease liabilities                                                                                                                                             | 131,525           | 111,155          | 92,571         |
| Short-term borrowings                                                                                                                                                           | —                 | 100,000          | 75,000         |
| Total current liabilities                                                                                                                                                       | 498,105           | 730,165          | 406,669        |
| Long-term deferred taxes, net                                                                                                                                                   | —                 | 598              | —              |
| Long-term operating lease liabilities                                                                                                                                           | 209,867           | 226,534          | 186,142        |
| Other long-term liabilities                                                                                                                                                     | 45,986            | 50,270           | 46,170         |
| Long-term borrowings                                                                                                                                                            | 234,560           | 74,100           | 99,700         |
| Total liabilities                                                                                                                                                               | 988,518           | 1,081,667        | 738,681        |
| Commitments and contingencies                                                                                                                                                   | —                 | —                | —              |
| Stockholders' equity:                                                                                                                                                           |                   |                  |                |
| Preferred stock, \$0.01 par value; authorized, 5,000 shares; 0 shares issued and 0 shares outstanding                                                                           | —                 | —                | —              |
| Common stock, \$0.01 par value; authorized, 200,000 shares; issued, 52,654, 51,086 and 52,140 shares, respectively; outstanding, 48,633, 47,607 and 48,298 shares, respectively | 526               | 511              | 521            |
| Additional paid-in capital                                                                                                                                                      | 734,474           | 728,651          | 732,958        |
| Accumulated deficit                                                                                                                                                             | (329,479)         | (276,732)        | (282,827)      |
| Treasury stock, at cost                                                                                                                                                         | (33,243)          | (31,676)         | (32,901)       |
| Total stockholders' equity                                                                                                                                                      | 372,278           | 420,754          | 417,751        |
| Total liabilities and stockholders' equity                                                                                                                                      | \$ 1,360,796      | \$ 1,502,421     | \$ 1,156,432   |

See accompanying notes to condensed consolidated financial statements.

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

|                                                                                | 13 weeks ended    |                  |
|--------------------------------------------------------------------------------|-------------------|------------------|
|                                                                                | August 1,<br>2020 | July 27,<br>2019 |
| Cash flows from operating activities:                                          |                   |                  |
| Net loss                                                                       | \$ (46,652)       | \$ (32,155)      |
| Adjustments to reconcile net loss to net cash flows from operating activities: |                   |                  |
| Depreciation and amortization expense                                          | 14,063            | 15,879           |
| Content amortization expense                                                   | 1,164             | 911              |
| Amortization of deferred financing costs                                       | 270               | 270              |
| Impairment loss (non-cash)                                                     | —                 | 433              |
| Deferred taxes                                                                 | (654)             | 3,023            |
| Stock-based compensation expense                                               | 1,521             | 2,321            |
| Changes in other long-term liabilities                                         | (266)             | (3,244)          |
| Changes in operating lease right-of-use assets and liabilities                 | (6,770)           | 5,614            |
| Changes in other operating assets and liabilities, net                         | (17,515)          | (33,295)         |
| Net cash flows used in operating activities                                    | (54,839)          | (40,243)         |
| Cash flows from investing activities:                                          |                   |                  |
| Purchases of property and equipment                                            | (7,055)           | (8,309)          |
| Net change in other noncurrent assets                                          | 1,605             | 2,204            |
| Net cash flows used in investing activities                                    | (5,450)           | (6,105)          |
| Cash flows from financing activities:                                          |                   |                  |
| Proceeds from borrowings under Credit Agreement                                | 186,700           | 120,300          |
| Repayments of borrowings under Credit Agreement                                | (126,840)         | (79,700)         |
| Purchase of treasury shares                                                    | (342)             | (40)             |
| Net cash flows provided by financing activities                                | 59,518            | 40,560           |
| Net decrease in cash, cash equivalents and restricted cash                     | (771)             | (5,788)          |
| Cash, cash equivalents and restricted cash at beginning of period              | 9,008             | 14,768           |
| Cash, cash equivalents and restricted cash at end of period                    | \$ 8,237          | \$ 8,980         |
| Changes in other operating assets and liabilities, net:                        |                   |                  |
| Receivables, net                                                               | \$ (16,671)       | \$ (377)         |
| Merchandise inventories                                                        | (146,307)         | (297,443)        |
| Textbook rental inventories                                                    | 24,228            | 41,780           |
| Prepaid expenses and other current assets                                      | (6,238)           | (6,291)          |
| Accounts payable and accrued liabilities                                       | 127,473           | 229,036          |
| Changes in other operating assets and liabilities, net                         | \$ (17,515)       | \$ (33,295)      |

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<br>Paid-In<br>Capital | Accumulated<br>Deficit | Treasury Stock |                    | Total<br>Equity   |
|--------------------------------------------------------------------|---------------|---------------|----------------------------------|------------------------|----------------|--------------------|-------------------|
|                                                                    | Shares        | Amount        |                                  |                        | Shares         | Amount             |                   |
| <b>Balance at April 27, 2019</b>                                   | 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<br>vested stock awards |               |               |                                  |                        | 12             | (40)               | (40)              |
| Net loss                                                           |               |               |                                  | (32,155)               |                |                    | (32,155)          |
| <b>Balance at July 27, 2019</b>                                    | <u>51,086</u> | <u>\$ 511</u> | <u>\$ 728,651</u>                | <u>\$ (276,732)</u>    | <u>3,479</u>   | <u>\$ (31,676)</u> | <u>\$ 420,754</u> |

  

|                                                                    | Common Stock  |               | Additional<br>Paid-In<br>Capital | Accumulated<br>Deficit | Treasury Stock |                    | Total<br>Equity   |
|--------------------------------------------------------------------|---------------|---------------|----------------------------------|------------------------|----------------|--------------------|-------------------|
|                                                                    | Shares        | Amount        |                                  |                        | Shares         | Amount             |                   |
| <b>Balance at May 2, 2020</b>                                      | 52,140        | \$ 521        | \$ 732,958                       | \$ (282,827)           | 3,842          | \$ (32,901)        | \$ 417,751        |
| Stock-based compensation expense                                   |               |               | 1,521                            |                        |                |                    | 1,521             |
| Vested equity awards                                               | 514           | 5             | (5)                              |                        |                |                    | —                 |
| Shares repurchased for tax withholdings for<br>vested stock awards |               |               |                                  |                        | 179            | (342)              | (342)             |
| Net loss                                                           |               |               |                                  | (46,652)               |                |                    | (46,652)          |
| <b>Balance August 1, 2020</b>                                      | <u>52,654</u> | <u>\$ 526</u> | <u>\$ 734,474</u>                | <u>\$ (329,479)</u>    | <u>4,021</u>   | <u>\$ (33,243)</u> | <u>\$ 372,278</u> |

See accompanying notes to condensed consolidated financial statements.

**BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements**  
**For the 13 weeks ended August 1, 2020 and July 27, 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 or “BNED”, Inc., a Delaware corporation. References to “Barnes & Noble College” refer to our college bookstore business operated through our subsidiary Barnes & Noble College Booksellers, LLC. References to “MBS” refer to our virtual bookstore and wholesale textbook distribution business operated through our subsidiary MBS Textbook Exchange, LLC. References to “Student Brands” refer to our direct-to-student subscription-based writing services business operated through our subsidiary Student Brands, LLC.*

This Form 10-Q should be read in conjunction with our Audited Consolidated Financial Statements and accompanying Notes to consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended May 2, 2020, which includes consolidated financial statements for the Company for each of the three fiscal years ended May 2, 2020, April 27, 2019 and April 28, 2018 (Fiscal 2020, Fiscal 2019 and Fiscal 2018, respectively).

**Note 1. Organization**

***Description of Business***

Barnes & Noble Education, Inc. (“BNED”) is one of the largest contract operators of physical and virtual bookstores for college and university campuses and K-12 institutions across the United States. We are also one of the largest textbook wholesalers, inventory management hardware and software providers, and a leading provider of digital education solutions. We operate 1,442 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 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.

We believe the BNC and MBS brands are synonymous with innovation in bookselling and campus retail, and, 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.

We have 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 fiscal year ended May 2, 2020.

In Fiscal 2020, we retained Morgan Stanley & Co. LLC to serve as a financial advisor in connection with our review of strategic opportunities. The review was 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. On August 24, 2020, we announced that we had concluded our review of strategic opportunities. After extensive evaluation and deliberation, and in consultation with its financial and legal advisors, the Board unanimously determined that the continued execution of the Company’s current business plan is the best path forward for the Company and its shareholders.

**COVID-19 Business Impact**

Our business experienced an unprecedented and significant impact as a result of COVID-19 related campus store closures. Beginning in March 2020, colleges and universities nationwide began to close their campuses in light of safety concerns and as a result of local and state issued stay-at-home orders. By mid-March, during our fiscal fourth quarter, we closed the majority of our physical campus stores to protect the health and safety of our customers and employees.

**BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements**  
**For the 13 weeks ended August 1, 2020 and July 27, 2019**  
**(Thousands of dollars, except share and per share data)**  
**(unaudited)**

While our campus stores were closed, we continued to serve institutions and students through our campus websites, providing free shipping on all orders and an expanded digital content offering to provide immediate access to course materials to students at our campuses that closed due to COVID-19. We developed and implemented plans to safely reopen our campus stores based on national, state and local guidelines, as well as the campus policies set by the school administration. Colleges and universities in the United States continue to adjust their plans for the upcoming fall term, with some implementing shortened semesters or choosing to remain fully virtual in order to best protect students and faculty.

The first quarter is historically a low revenue period and our first quarter results were significantly impacted by the COVID-19 pandemic. As many schools shifted from an on-campus to a remote learning model, we were able to serve students through our Custom Store Solutions “CSS” model, virtual bookstores, individual school websites and digital offerings to ensure students were equipped with their course materials to continue their education, wherever they may be. The COVID-19 impact on higher education remains a fluid situation, and we are committed to supporting our campus partners through our flexible offerings and our ability to quickly pivot to ensure uninterrupted service as institutions manage the safety of their campuses.

**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 seasonal nature of the business, the results of operations for the 13 weeks ended August 1, 2020 are not indicative of the results expected for the 52 weeks ending May 1, 2021 (Fiscal 2021).

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.

**BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements**  
**For the 13 weeks ended August 1, 2020 and July 27, 2019**  
**(Thousands of dollars, except share and per share data)**  
**(unaudited)**

***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***

We recognize 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 as required by *Accounting Standards Codification ("ASC") Topic 842, Leases*. 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. 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*.

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.

**BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements**  
**For the 13 weeks ended August 1, 2020 and July 27, 2019**  
**(Thousands of dollars, except share and per share data)**  
**(unaudited)**

*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, 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 August 1, 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.

During the third quarter of Fiscal 2020, we completed our annual goodwill impairment test and concluded that 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. 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.

Our other long-lived assets include property and equipment and amortizable intangibles. As of August 1, 2020, we had \$94,102 and \$170,466 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 fourth quarter of Fiscal 2020, in conjunction with COVID-19 related campus store closures, we evaluated certain of our long-lived assets associated with our Retail and Wholesale segments for impairment. Based on the results of the tests, for the Retail segment, we recognized an impairment loss of \$587 during the fourth quarter of Fiscal 2020, related to store-level assets in restructuring and other charges. These long-lived assets were not recoverable and had a de minimis fair value, as determined using an income approach (Level 3 input), resulting in a non-cash impairment charge for the full carrying value of those long-lived assets.

**BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements**  
**For the 13 weeks ended August 1, 2020 and July 27, 2019**  
**(Thousands of dollars, except share and per share data)**  
**(unaudited)**

During the 13 weeks ended August 1, 2020, COVID-19 related closed campus stores began to re-open with sales fulfilled either from the stores, from our Wholesale operations, or drop ship programs, as well as online direct-to-student services. We believe indicators of impairment do not exist and the carrying amount of our long-lived assets and property and equipment are recoverable and the fair value of the DSS reporting unit continues to exceed the carrying value of the reporting unit resulting in no goodwill impairment during the quarter.

During the 13 weeks ended July 27, 2019, we recorded an impairment loss (non-cash) of \$433 in the Retail segment related to net capitalized development costs for a project which are not recoverable.

### **Income Taxes**

As of August 1, 2020, other long-term liabilities includes \$25,748 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 \$7,597 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 June 2016, the Financial Accounting Standards Board ("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. We adopted this guidance during the first quarter of Fiscal 2021 with no cumulative-effect adjustment to retained earnings. The guidance does not have a material impact on our condensed consolidated financial statements.

In December 2019, the 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 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.

**BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements**  
**For the 13 weeks ended August 1, 2020 and July 27, 2019**  
**(Thousands of dollars, except share and per share data)**  
**(unaudited)**

**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 Policies* 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.

**Disaggregation of Revenue**

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

|                                          | 13 weeks ended    |                   |
|------------------------------------------|-------------------|-------------------|
|                                          | August 1, 2020    | July 27, 2019     |
| <b>Retail</b>                            |                   |                   |
| Product Sales                            | \$ 141,826        | \$ 246,375        |
| Rental Income                            | 10,804            | 17,430            |
| Service and Other Revenue <sup>(a)</sup> | 6,146             | 10,851            |
| <b>Retail Total Sales</b>                | <b>\$ 158,776</b> | <b>\$ 274,656</b> |
| Wholesale Sales                          | \$ 80,294         | \$ 72,309         |
| DSS Sales <sup>(b)</sup>                 | \$ 5,872          | \$ 5,374          |
| Eliminations <sup>(c)</sup>              | \$ (40,928)       | \$ (32,682)       |
| <b>Total Sales</b>                       | <b>\$ 204,014</b> | <b>\$ 319,657</b> |

(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 August 1, 2020, July 27, 2019 and May 2, 2020 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 \$16,270, \$14,188, and \$13,373 is recorded within Accrued Liabilities on our condensed consolidated balance sheets for the periods ended August 1, 2020, July 27, 2019 and May 2, 2020, respectively.

The following table presents changes in contract liabilities:

|                                                                         | 13 weeks ended   |                  |
|-------------------------------------------------------------------------|------------------|------------------|
|                                                                         | August 1, 2020   | July 27, 2019    |
| Deferred revenue at the beginning of period                             | \$ 13,373        | \$ 20,418        |
| Additions to deferred revenue during the period                         | 21,411           | 18,083           |
| Reductions to deferred revenue for revenue recognized during the period | (18,514)         | (24,313)         |
| Deferred revenue balance at the end of period                           | <b>\$ 16,270</b> | <b>\$ 14,188</b> |

As of August 1, 2020, we expect to recognize \$16,270 of the deferred revenue balance within the next 12 months.

**BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements**  
**For the 13 weeks ended August 1, 2020 and July 27, 2019**  
**(Thousands of dollars, except share and per share data)**  
**(unaudited)**

**Note 5. Leases**

We recognize lease assets and lease liabilities on the condensed consolidated balance sheets for substantially all lease arrangements as required by FASB *ASC 842, Leases* (Topic 842). 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 right of use ("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:

|                         | 13 weeks ended   |                  |
|-------------------------|------------------|------------------|
|                         | August 1, 2020   | July 27, 2019    |
| Variable lease expense  | \$ 7,407         | \$ 16,589        |
| Operating lease expense | 9,796            | 17,905           |
| Net lease expense       | <u>\$ 17,203</u> | <u>\$ 34,494</u> |

The decrease in lease expense is primarily due to lower sales for contracts based on a percentage of revenue and the impact of the timing and reduction of minimum contractual guarantees.

The following table summarizes our minimum fixed lease obligations, excluding variable commissions, as of August 1, 2020:

|                                           | As of             |
|-------------------------------------------|-------------------|
|                                           | August 1, 2020    |
| Remainder of Fiscal 2021                  | \$ 140,218        |
| Fiscal 2022                               | 52,489            |
| Fiscal 2023                               | 44,574            |
| Fiscal 2024                               | 36,159            |
| Fiscal 2025                               | 29,706            |
| Thereafter                                | 88,023            |
| Total lease payments                      | <u>391,169</u>    |
| Less: imputed interest                    | <u>(49,777)</u>   |
| Operating lease liabilities at period end | <u>\$ 341,392</u> |

**BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements**  
**For the 13 weeks ended August 1, 2020 and July 27, 2019**  
**(Thousands of dollars, except share and per share data)**  
**(unaudited)**

Future lease payment obligations related to leases that were entered into, but did not commence as of August 1, 2020, were not material.

The following summarizes additional information related to our operating leases:

|                                                                                | As of          |
|--------------------------------------------------------------------------------|----------------|
|                                                                                | August 1, 2020 |
| Weighted average remaining lease term (in years)                               | 5.4 years      |
| Weighted average discount rate                                                 | 4.4 %          |
| Supplemental cash flow information:                                            |                |
| Cash payments for lease liabilities within operating activities                | \$ 16,676      |
| ROU assets obtained in exchange for lease liabilities from initial recognition | \$ 89,167      |

**Note 6. Segment Reporting**

We have three reportable segments: Retail, Wholesale and DSS. 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 fiscal year ended May 2, 2020.

***Retail***

The *Retail Segment* operates 1,442 college, university, and K-12 school bookstores, comprised of 772 physical bookstores and 670 virtual bookstores. Our bookstores typically operate under agreements with the college, university, or K-12 schools to be the official bookstore and the exclusive seller of course materials and supplies, including physical and digital products. The majority of the physical campus bookstores have school-branded e-commerce sites which we operate and which offer students access to affordable course materials and affinity products, including emblematic apparel and gifts. The Retail Segment also offers inclusive access programs, in which course materials, including e-content, are offered at a reduced price through a course materials fee, and delivered to students on or before the first day of class. Additionally, the Retail Segment offers a suite of digital content and services to colleges and universities, including a variety of open educational resource-based courseware.

***Wholesale***

The *Wholesale Segment* is comprised of our wholesale textbook business and is one of the largest textbook wholesalers in the country. The Wholesale Segment centrally sources, sells, and distributes new and used textbooks to approximately 3,400 physical bookstores (including our Retail Segment's 772 physical bookstores) and sources and distributes new and used textbooks to our 670 virtual bookstores. Additionally, the Wholesale Segment sells hardware and a software suite of applications that provides inventory management and point-of-sale solutions to approximately 400 college bookstores.

***DSS***

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

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.

**BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements**  
**For the 13 weeks ended August 1, 2020 and July 27, 2019**  
**(Thousands of dollars, except share and per share data)**  
**(unaudited)**

### Intercompany Eliminations

The eliminations are primarily related to the following intercompany activities:

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

Our international operations are not material and the majority of the revenue and total assets are within the United States.

Summarized financial information for our reportable segments is reported below:

|                                            | 13 weeks ended     |                    |
|--------------------------------------------|--------------------|--------------------|
|                                            | August 1,<br>2020  | July 27,<br>2019   |
| <b>Sales:</b>                              |                    |                    |
| Retail                                     | \$ 158,776         | \$ 274,656         |
| Wholesale                                  | 80,294             | 72,309             |
| DSS                                        | 5,872              | 5,374              |
| Elimination                                | (40,928)           | (32,682)           |
| <b>Total Sales</b>                         | <b>\$ 204,014</b>  | <b>\$ 319,657</b>  |
| <b>Gross Profit</b>                        |                    |                    |
| Retail                                     | \$ 16,135          | \$ 62,139          |
| Wholesale                                  | 16,757             | 14,918             |
| DSS                                        | 4,746              | 4,414              |
| Elimination                                | (6,776)            | (9,814)            |
| <b>Total Gross Profit</b>                  | <b>\$ 30,862</b>   | <b>\$ 71,657</b>   |
| <b>Depreciation and Amortization</b>       |                    |                    |
| Retail                                     | \$ 10,570          | \$ 11,977          |
| Wholesale                                  | 1,295              | 1,565              |
| DSS                                        | 2,165              | 2,304              |
| Corporate Services                         | 33                 | 33                 |
| <b>Total Depreciation and Amortization</b> | <b>\$ 14,063</b>   | <b>\$ 15,879</b>   |
| <b>Operating Loss (Income)</b>             |                    |                    |
| Retail                                     | \$ (54,816)        | \$ (35,042)        |
| Wholesale                                  | 11,671             | 8,594              |
| DSS                                        | (1,455)            | (2,003)            |
| Corporate Services                         | (7,552)            | (5,550)            |
| Elimination                                | (6,763)            | (9,811)            |
| <b>Total Operating Loss</b>                | <b>\$ (58,915)</b> | <b>\$ (43,812)</b> |

**BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements**  
**For the 13 weeks ended August 1, 2020 and July 27, 2019**  
**(Thousands of dollars, except share and per share data)**  
**(unaudited)**

|                                                                                                       | 13 weeks ended    |                  |
|-------------------------------------------------------------------------------------------------------|-------------------|------------------|
|                                                                                                       | August 1,<br>2020 | July 27,<br>2019 |
| The following is a reconciliation of segment Operating Loss to consolidated Loss Before Income Taxes: |                   |                  |
| Total Operating Loss                                                                                  | \$ (58,915)       | \$ (43,812)      |
| Interest Expense, net                                                                                 | 2,653             | 2,532            |
| Loss Before Income Taxes                                                                              | \$ (61,568)       | \$ (46,344)      |

**Note 7. Equity and Earnings Per Share**

**Equity**

**Share Repurchases**

On December 14, 2015, our Board of Directors authorized a stock repurchase program of up to \$50,000, in the aggregate, of our outstanding Common Stock. The stock repurchase program is carried out at the direction of management (which may include a plan under Rule 10b5-1 of the Securities Exchange Act of 1934). The stock repurchase program may be suspended, terminated, or modified at any time. Any repurchased shares will be held as treasury stock and will be available for general corporate purposes. During the 13 weeks ended August 1, 2020, we did not repurchase shares of our Common Stock under the program and as of August 1, 2020, approximately \$26,669 remains available under the stock repurchase program.

During the 13 weeks ended August 1, 2020, we repurchased 178,669 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 August 1, 2020 and July 27, 2019 average shares of 2,665,779 and 3,746,663 were excluded from the diluted earnings per share calculation as their inclusion would have been antidilutive, respectively. The following is a reconciliation of the basic and diluted earnings (loss) per share calculation:

|                                                              | 13 weeks ended    |                  |
|--------------------------------------------------------------|-------------------|------------------|
| (shares in thousands)                                        | August 1,<br>2020 | July 27,<br>2019 |
| <b>Numerator for basic and diluted earnings per share:</b>   |                   |                  |
| Net loss available to common shareholders                    | \$ (46,652)       | \$ (32,155)      |
| <b>Denominator for basic and diluted earnings per share:</b> |                   |                  |
| Basic and diluted weighted average shares of Common Stock    | 48,411            | 47,582           |
| <b>Loss per share of Common Stock:</b>                       |                   |                  |
| Basic                                                        | \$ (0.96)         | \$ (0.68)        |
| Diluted                                                      | \$ (0.96)         | \$ (0.68)        |

**BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements**  
**For the 13 weeks ended August 1, 2020 and July 27, 2019**  
**(Thousands of dollars, except share and per share data)**  
**(unaudited)**

**Note 8. Fair Values of Financial Instruments**

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

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

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

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

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

**Note 9. Credit Facility**

We have a credit agreement (the "Credit Agreement"), amended March 1, 2019, under which the lenders committed to provide us with a 5-year asset-backed revolving credit facility in an aggregate committed principal amount of \$400,000 (the "Credit Facility") effective from the date of the amendment. 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. 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.

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 fiscal year ended May 2, 2020.

During the 13 weeks ended August 1, 2020, we borrowed \$186,700 and repaid \$126,840 under the Credit Agreement, with \$234,560 of outstanding borrowings as of August 1, 2020, comprised entirely of borrowings under the Credit Facility. During the 13 weeks ended July 27, 2019, we borrowed \$120,300 and repaid \$79,700 under the Credit Agreement, with \$174,100 of outstanding borrowings as of July 27, 2019, comprised of \$74,100 and \$100,000 under the Credit Facility and FILO Facility, respectively. As of both August 1, 2020 and July 27, 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 13 weeks ended July 27, 2019, we recognized an impairment loss (non-cash) of \$433 in the Retail segment related to net capitalized development costs for a project which are not recoverable.

**Restructuring and other charges**

During the 13 weeks ended August 1, 2020, we recognized restructuring and other charges totaling \$5,671 comprised of \$3,396 for severance and other employee termination and benefit costs associated with elimination of various positions as part of cost reduction objectives (\$10,562 is included in accrued liabilities in the consolidated balance sheet as of August 1, 2020), \$2,103 for professional service costs related to restructuring, process improvements, and shareholder activist activities, and \$172 related to liabilities for a facility closure.

During the 13 weeks ended July 27, 2019, we recognized restructuring and other charges totaling \$1,466 comprised of \$631 for severance and other employee termination and benefit costs associated with several management changes and the

**BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements**  
**For the 13 weeks ended August 1, 2020 and July 27, 2019**  
**(Thousands of dollars, except share and per share data)**  
**(unaudited)**

elimination of various positions as part of cost reduction objectives, and \$735 related to professional service costs related to restructuring and process improvements.

**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 \$0 and \$1,538 during the 13 weeks ended August 1, 2020 and July 27, 2019, respectively.

Effective April 2020, due to the significant impact as a result of COVID-19 related campus store closures, we have temporarily suspended employer matching contributions into our 401(k) plans through the end of December 2020 (the first 9 months of Fiscal 2021).

**Note 12. Stock-Based Compensation**

We recognize compensation expense for awards ratably over the requisite service period of the award, which is generally three years. We recognize compensation expense based on the number of awards expected to vest using an estimated average forfeiture rate. We calculate the fair value of stock-based awards based on the closing price on the date the award was granted for those awards with only service or performance conditions. For those awards with market conditions, we have determined the grant date fair value using the Monte Carlo simulation model.

During the 13 weeks ended August 1, 2020, no awards were granted under the Equity Incentive Plan. We recognized stock-based compensation expense for equity-based awards in selling and administrative expenses as follows:

|                                  | 13 weeks ended    |                  |
|----------------------------------|-------------------|------------------|
|                                  | August 1,<br>2020 | July 27,<br>2019 |
| Restricted stock expense         | \$ 30             | \$ 30            |
| Restricted stock units expense   | 1,359             | 1,990            |
| Performance shares expense       | —                 | 12               |
| Performance share units expense  | 132               | 289              |
| Stock-based compensation expense | <u>\$ 1,521</u>   | <u>\$ 2,321</u>  |

Total unrecognized compensation cost related to unvested awards as of August 1, 2020 was \$4,884 and is expected to be recognized over a weighted-average period of 1.5 years.

**Note 13. Income Taxes**

We recorded income tax benefit of \$(14,916) on a pre-tax loss of \$(61,568) during the 13 weeks ended August 1, 2020, which represented an effective income tax rate of 24.2% and income tax benefit of \$(14,189) on pre-tax loss of \$(46,344) during the 13 weeks ended July 27, 2019, which represented an effective income tax rate of 30.6%. The effective tax rate for the 13 weeks ended August 1, 2020 is lower 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.

Between January 22, 2020 and July 23, 2020, thirteen purported class action complaints were filed in the United States District Court for the District of Delaware, the United States District Court for the District of New Jersey, and the United States District Court for the Northern District of Illinois against the Company, along with several publishers, another collegiate bookstore retailer, and an industry association. The plaintiffs are retailers of collegiate course materials or current or former college students. Although the specific allegations vary, they claim, on their own behalf and on behalf of the purported classes,

**BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements**  
**For the 13 weeks ended August 1, 2020 and July 27, 2019**  
**(Thousands of dollars, except share and per share data)**  
**(unaudited)**

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. The United States Judicial Panel on Multidistrict Litigation has consolidated these and other related cases in a consolidated proceeding before the Hon. Denise L. Cote of the United States District Court for the Southern District of New York. We intend to vigorously defend this matter and are currently unable to estimate any potential losses.

## **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 1,442 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 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.

We believe the *BNC* and *MBS* brands are synonymous with innovation in bookselling and campus retail, and 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 fiscal year ended May 2, 2020.

In August 2020, we expanded our existing strategic partnership with VitalSource® to provide students with increased access to additional learning opportunities through a unique bundle of its *bartleby* homework help services, *bartleby learn*™ and *bartleby write*™. The VitalSource direct-to-student channel will now offer students unique access to the *bartleby* study bundle™ with the purchase of a qualifying VitalSource eBook.

In Fiscal 2020, we retained Morgan Stanley & Co. LLC to serve as a financial advisor in connection with our review of strategic opportunities. The review was 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. On August 24, 2020, we announced that we had concluded our review of strategic opportunities. After extensive evaluation and deliberation, and in consultation with its financial and legal advisors, the Board unanimously determined that the continued execution of the Company's current business plan is the best path forward for the Company and its shareholders.

#### **COVID-19 Business Impact**

Our business experienced an unprecedented and significant impact as a result of COVID-19 related campus store closures. Beginning in March 2020, colleges and universities nationwide began to close their campuses in light of safety concerns and as a result of local and state issued stay-at-home orders. By mid-March, during our fiscal fourth quarter, we closed the majority of our physical campus stores to protect the health and safety of our customers and employees.

While our campus stores were closed, we continued to serve institutions and students through our campus websites, providing free shipping on all orders and an expanded digital content offering to provide immediate access to course materials to students at our campuses that closed due to COVID-19. We developed and implemented plans to safely reopen our campus stores based on national, state and local guidelines, as well as the campus policies set by the school administration. Colleges and universities in the United States continue to adjust their plans for the upcoming fall term, with some implementing shortened semesters or choosing to remain fully virtual in order to best protect students and faculty.

The first quarter is historically a low revenue period and our first quarter results were significantly impacted by the COVID-19 pandemic. As many schools shifted from an on-campus to a remote learning model, we were able to serve students

through our Custom Store Solutions “CSS” model, virtual bookstores, individual school websites and digital offerings to ensure students were equipped with their course materials to continue their education, wherever they may be. The COVID-19 impact on higher education remains a fluid situation, and we are committed to supporting our campus partners through our flexible offerings and our ability to quickly pivot to ensure uninterrupted service as institutions manage the safety of their campuses.

## Segments

We have three reportable segments: Retail, Wholesale and DSS. 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 fiscal year ended May 2, 2020.

### ***Retail Segment***

The *Retail Segment* operates 1,442 college, university, and K-12 school bookstores, comprised of 772 physical bookstores and 670 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 3,400 physical bookstores (including our Retail Segment's 772 physical bookstores) and sources and distributes new and used textbooks to our 670 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 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*<sup>®</sup>, a direct-to-student subscription-based offering providing textbook solutions, expert questions and answers, writing and tutoring.

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.

## 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:

- *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.
  - *Impact of COVID-19:* The COVID-19 pandemic has materially and adversely impacted the U.S. economy and financial markets, with legislative and regulatory responses including unprecedented monetary and fiscal policy actions across all sectors, and there is significant uncertainty as to timing of stabilization and recovery. Many colleges and K-12 schools have been required to cease in-person classes in an attempt to limit the spread of the COVID-19 pandemic and ensure the safety of their students. Although many institutions have reopened, academic institutions are considering alternatives to traditional in-person instruction, including on-line learning and significantly reduced classroom size.
  - *Economic Environment:* Retail general merchandise sales are subject to short-term fluctuations driven by the broader retail environment.
  - *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, generally correlate with changes in the economy and unemployment factors, e.g. low unemployment tends to lead to low enrollment and higher unemployment rates tend to lead to higher enrollment trends, as students generally enroll to obtain skills that are in demand in the workforce. Enrollment trends may be negatively impacted overall by COVID-19 concerns at physical campuses, although there is some preliminary evidence that community college systems that rely more on "commuter" rather than "residential" students may experience less of a negative impact, or some may even experience an increase, in enrollment due to projected high unemployment rates in the Fall of 2021. A significant reduction in U.S. economic activity and increased unemployment, which could lead to decreased enrollment and consumer spending. Additionally, enrollment trends are impacted by the dip in the United States birth rate resulting in fewer students at the traditional 18-24 year-old college age. Online degree program enrollments continue to grow, even in the face of declining overall higher education enrollment.
- *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.
- *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 and also continue to see a variety of business models being pursued for the provision of course materials (such as inclusive access programs 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. We also expect that certain less

profitable or essential bookstores we operate may close. Such stores could be included in contracts for stores we operate that may be deemed non-essential; and such stores could be operated by others or independently by schools. The scope of any such store closures remains uncertain at this time, although we are not aware, at this time, of any significant volume of stores which we operate that are likely to close or have informed us of upcoming closures.

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 May 2, 2020.

## 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     |                    |
|----------------------------------------------------|--------------------|--------------------|
|                                                    | August 1,<br>2020  | July 27,<br>2019   |
| <i>Dollars in thousands</i>                        |                    |                    |
| <b>Sales:</b>                                      |                    |                    |
| Product sales and other                            | \$ 193,210         | \$ 302,227         |
| Rental income                                      | 10,804             | 17,430             |
| Total sales                                        | \$ 204,014         | \$ 319,657         |
| <b>Net loss</b>                                    | <b>\$ (46,652)</b> | <b>\$ (32,155)</b> |
| <b>Adjusted Earnings (non-GAAP) <sup>(a)</sup></b> | <b>\$ (41,716)</b> | <b>\$ (30,075)</b> |
| <b>Adjusted EBITDA (non-GAAP) <sup>(a)</sup></b>   |                    |                    |
| Retail                                             | \$ (40,640)        | \$ (21,492)        |
| Wholesale                                          | 12,966             | 10,159             |
| DSS                                                | 1,664              | 1,028              |
| Corporate Services                                 | (5,244)            | (5,007)            |
| Elimination                                        | (6,763)            | (9,811)            |
| <b>Total Adjusted EBITDA (non-GAAP)</b>            | <b>\$ (38,017)</b> | <b>\$ (25,123)</b> |

(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    |                  |
|------------------------------------------------|-------------------|------------------|
|                                                | August 1,<br>2020 | July 27,<br>2019 |
| Sales:                                         |                   |                  |
| Product sales and other                        | 94.7 %            | 94.5 %           |
| Rental income                                  | 5.3               | 5.5              |
| Total sales                                    | 100.0             | 100.0            |
| Cost of sales:                                 |                   |                  |
| Product and other cost of sales <sup>(a)</sup> | 85.8              | 78.9             |
| Rental cost of sales <sup>(a)</sup>            | 68.4              | 55.5             |
| Total cost of sales                            | 84.9              | 77.6             |
| Gross margin                                   | 15.1              | 22.4             |
| Selling and administrative expenses            | 34.3              | 30.6             |
| Depreciation and amortization expense          | 6.9               | 5.0              |
| Impairment loss (non-cash)                     | —                 | 0.1              |
| Restructuring and other charges                | 2.8               | 0.5              |
| Operating loss                                 | (28.9)%           | (13.8)%          |

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

***Results of Operations - 13 weeks ended August 1, 2020 compared with the 13 weeks ended July 27, 2019***

| <i>Dollars in thousands</i>           | 13 weeks ended, August 1, 2020 |           |            |                    |              |             |
|---------------------------------------|--------------------------------|-----------|------------|--------------------|--------------|-------------|
|                                       | Retail                         | Wholesale | DSS        | Corporate Services | Eliminations | Total       |
| Sales:                                |                                |           |            |                    |              |             |
| Product sales and other               | \$ 147,972                     | \$ 80,294 | \$ 5,872   | \$ —               | \$ (40,928)  | \$ 193,210  |
| Rental income                         | 10,804                         | —         | —          | —                  | —            | 10,804      |
| Total sales                           | 158,776                        | 80,294    | 5,872      | —                  | (40,928)     | 204,014     |
| Cost of sales:                        |                                |           |            |                    |              |             |
| Product and other cost of sales       | 135,254                        | 63,537    | 1,126      | —                  | (34,152)     | 165,765     |
| Rental cost of sales                  | 7,387                          | —         | —          | —                  | —            | 7,387       |
| Total cost of sales                   | 142,641                        | 63,537    | 1,126      | —                  | (34,152)     | 173,152     |
| Gross profit                          | 16,135                         | 16,757    | 4,746      | —                  | (6,776)      | 30,862      |
| Selling and administrative expenses   | 56,985                         | 3,791     | 4,036      | 5,244              | (13)         | 70,043      |
| Depreciation and amortization expense | 10,570                         | 1,295     | 2,165      | 33                 | —            | 14,063      |
| Sub-Total:                            | \$ (51,420)                    | \$ 11,671 | \$ (1,455) | \$ (5,277)         | \$ (6,763)   | (53,244)    |
| Restructuring and other charges       |                                |           |            |                    |              | 5,671       |
| Operating loss                        |                                |           |            |                    |              | \$ (58,915) |

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

## Sales

The following table summarizes our sales for the 13 ended August 1, 2020 and July 27, 2019:

|                             | 13 weeks ended |               |         |
|-----------------------------|----------------|---------------|---------|
| <i>Dollars in thousands</i> | August 1, 2020 | July 27, 2019 | %       |
| Product sales and other     | \$ 193,210     | \$ 302,227    | (36.1)% |
| Rental income               | 10,804         | 17,430        | (38.0)% |
| Total Sales                 | \$ 204,014     | \$ 319,657    | (36.2)% |

Our sales decreased by \$115.6 million, or 36.2%, to \$204.0 million during the 13 weeks ended August 1, 2020 from \$319.7 million during the 13 weeks ended July 27, 2019. The components of the variances for the 13 week periods are reflected in the table below.

|                                  | 13 weeks ended |               |
|----------------------------------|----------------|---------------|
| <i>Dollars in millions</i>       | August 1, 2020 | July 27, 2019 |
| <b>Retail Sales</b>              |                |               |
| New stores                       | \$ 7.9         | \$ 6.2        |
| Closed stores                    | (5.1)          | (5.6)         |
| Comparable stores <sup>(a)</sup> | (106.6)        | (10.9)        |
| Textbook rental deferral         | (6.4)          | 0.8           |
| Service revenue <sup>(b)</sup>   | (4.7)          | (0.5)         |
| Other <sup>(c)</sup>             | (1.0)          | (2.4)         |
| Retail sales subtotal:           | \$ (115.9)     | \$ (12.4)     |
| Wholesale Sales                  | \$ 8.0         | \$ (17.6)     |
| DSS Sales                        | \$ 0.5         | \$ (0.3)      |
| Eliminations <sup>(d)</sup>      | \$ (8.2)       | \$ 12.5       |
| Total sales variance:            | \$ (115.6)     | \$ (17.8)     |

(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 \$115.9 million, or 42.2%, to \$158.8 million during the 13 weeks ended August 1, 2020 from \$274.7 million during the 13 weeks ended July 27, 2019. The first quarter is typically a low sales activity period for Retail. Retail added 64 new stores and closed 41 stores (not including temporary store closings due to COVID-19) during the 13 weeks ended August 1, 2020, ending the period with a total of 1,442 stores.

|                                         | 13 weeks ended |         |               |         |
|-----------------------------------------|----------------|---------|---------------|---------|
|                                         | August 1, 2020 |         | July 27, 2019 |         |
|                                         | Physical       | Virtual | Physical      | Virtual |
| <i>Number of Stores:</i>                |                |         |               |         |
| Number of stores at beginning of period | 772            | 647     | 772           | 676     |
| Opened                                  | 24             | 40      | 38            | 46      |
| Closed                                  | 24             | 17      | 33            | 8       |
| Number of stores at end of period       | 772            | 670     | 777           | 714     |

Product and other sales for Retail for the 13 weeks ended August 1, 2020 decreased by \$109.2 million, or 42.5% to \$148.0 million from \$257.2 million during the 13 weeks ended July 27, 2019. The first quarter is typically a low sales activity period for Retail. Product and other sales are impacted by comparable store sales (as noted in the chart below), new store openings and store closings, as well as the impact from temporary store closings related to COVID-19. Textbook (Course Materials) revenue for Retail 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 primarily due to lower emblematic apparel sales (as many athletic events were canceled due to COVID-19), lower supply product sales and lower graduation product sales (primarily due to COVID-19 related campus closures). We have made continued progress in the development of our next generation e-commerce platform, which launched in Fiscal 2021 to deliver increased high-margin general merchandise sales.

Rental income for Retail for the 13 weeks ended August 1, 2020 decreased by \$6.6 million, or 38.0% to \$10.8 million from \$17.4 million during the 13 weeks ended July 27, 2019. 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 week sales period. Comparable store sales were impacted primarily by COVID-19 related campus store closures, a shift to lower cost options and more affordable solutions, including digital offerings, increased consumer purchases directly from publishers and other online providers, lower general merchandise sales (including graduation products and logo products for athletic events) and lower student enrollment, specifically in two-year community colleges. These decreases were partially offset by increased First Day, digital and eTextbook revenue. Comparable store sales variances for Retail by category for the 13 week periods are as follows:

| <b>Comparable Store Sales variances - Retail</b> | 13 weeks ended |         |               |         |
|--------------------------------------------------|----------------|---------|---------------|---------|
|                                                  | August 1, 2020 |         | July 27, 2019 |         |
| <i>Dollars in millions</i>                       |                |         |               |         |
| Textbooks (Course Materials)                     | \$ (11.3)      | (10.1)% | \$ (13.7)     | (11.0)% |
| General Merchandise                              | (87.6)         | (68.3)% | 5.9           | 4.9 %   |
| Trade Books                                      | (7.7)          | (85.2)% | (1.2)         | (11.8)% |
| Total Comparable Store Sales                     | \$ (106.6)     | (42.8)% | \$ (9.0)      | (3.5)%  |

### Wholesale

Wholesale sales increased by \$8.0 million, or 11.0%, to \$80.3 million during the 13 weeks ended August 1, 2020 from \$72.3 million during the 13 weeks ended July 27, 2019. The increase is primarily due to lower returns and allowances as a result of customer sales mix. During the 13 months ended August 1, 2020, the Wholesale operations assumed direct-to-student fulfillment of course material orders for the Retail Segment campus bookstores that were not fully operational due to COVID-19 campus store closures.

### DSS

DSS total sales increased by \$0.5 million or 9.3% to \$5.9 million during the 13 weeks ended August 1, 2020 from \$5.4 million during the 13 weeks ended July 27, 2019, primarily due to an increase in *bartleby* subscription sales, partially offset by lower Student Brands sales.

### Cost of Sales and Gross Margin

Our cost of sales increased as a percentage of sales to 84.9% during the 13 weeks ended August 1, 2020 compared to 77.6% during the 13 weeks ended July 27, 2019. Our gross margin decreased by \$40.8 million, or 56.9%, to \$30.9 million, or 15.1% of sales, during the 13 weeks ended August 1, 2020 from \$71.6 million, or 22.4% of sales during the 13 weeks ended July 27, 2019.

### Retail

The following table summarizes the Retail cost of sales for the 13 weeks ended August 1, 2020 and July 27, 2019:

| <i>Dollars in thousands</i>     | 13 weeks ended    |                       |                   |                       |
|---------------------------------|-------------------|-----------------------|-------------------|-----------------------|
|                                 | August 1, 2020    | % of<br>Related Sales | July 27, 2019     | % of<br>Related Sales |
| Product and other cost of sales | \$ 135,254        | 91.4%                 | \$ 202,848        | 78.9%                 |
| Rental cost of sales            | 7,387             | 68.4%                 | 9,669             | 55.5%                 |
| Total Cost of Sales             | <u>\$ 142,641</u> | <u>89.8%</u>          | <u>\$ 212,517</u> | <u>77.4%</u>          |

The following table summarizes the Retail gross margin for the 13 weeks ended August 1, 2020 and July 27, 2019:

| <i>Dollars in thousands</i>    | 13 weeks ended   |                       |                  |                       |
|--------------------------------|------------------|-----------------------|------------------|-----------------------|
|                                | August 1, 2020   | % of<br>Related Sales | July 27, 2019    | % of<br>Related Sales |
| Product and other gross margin | \$ 12,718        | 8.6%                  | \$ 54,378        | 21.1%                 |
| Rental gross margin            | 3,417            | 31.6%                 | 7,761            | 44.5%                 |
| Gross Margin                   | <u>\$ 16,135</u> | <u>10.2%</u>          | <u>\$ 62,139</u> | <u>22.6%</u>          |

For the 13 weeks ended August 1, 2020, the Retail gross margin as a percentage of sales decreased as discussed below:

- Product and other gross margin decreased (1250 basis points), driven primarily by an unfavorable sales mix (950 basis points) due to lower high-margin general merchandise sales of approximately \$87.6 million and the shift to lower margin digital courseware, and lower margin rates (550 basis points) due to higher markdowns, partially offset by lower contract costs as a percentage of sales related to our college and university contracts (255 basis points) resulting from contract renewals and new store contracts.
- Rental gross margin decreased (1290 basis points), driven primarily by higher contract costs as a percentage of sales related to our college and university contracts (1125 basis points) and unfavorable rental mix (255 basis points), partially offset by higher rental margin rates (90 basis points).

### Wholesale

The cost of sales and gross margin for Wholesale were \$63.5 million, or 79.1% of sales, and \$16.8 million, or 20.9% of sales, respectively, during the 13 weeks ended August 1, 2020. The cost of sales and gross margin for Wholesale was \$57.4 million or 79.4% of sales and \$14.9 million or 20.6% of sales, respectively, during the 13 weeks ended July 27, 2019.

The gross margin increased during the 13 weeks ended August 1, 2020 primarily due to the Wholesale operations assuming direct-to-student fulfillment of course material orders for the Retail Segment campus bookstores that were not fully operational due to COVID-19 campus store closures.

## DSS

The gross margin for the DSS segment was \$4.7 million, or 80.8% of sales, during the 13 weeks ended August 1, 2020 and \$4.4 million, or 82.1% of sales, during the 13 weeks ended July 27, 2019. The high gross margins are driven primarily by high margin subscription service revenue earned. The decrease in gross margin is primarily due to increased amortization of content development costs of \$0.3 million for *bartleby* textbook solutions.

### Intercompany Eliminations

During the 13 weeks ended August 1, 2020 and July 27, 2019, our sales eliminations were \$(40.9) million and \$(32.7) 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 August 1, 2020 and July 27, 2019, the cost of sales eliminations were \$(34.2) million and \$(22.9) 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 August 1, 2020 and July 27, 2019, the gross margin eliminations were \$(6.8) million and \$(9.8) million, respectively. The gross margin eliminations reflect the net impact of the sales eliminations and cost of sales eliminations during the above mentioned reporting periods.

## Selling and Administrative Expenses

|                                           | 13 weeks ended |            |               |            |
|-------------------------------------------|----------------|------------|---------------|------------|
|                                           | August 1, 2020 | % of Sales | July 27, 2019 | % of Sales |
| <i>Dollars in thousands</i>               |                |            |               |            |
| Total Selling and Administrative Expenses | \$ 70,043      | 34.3%      | \$ 97,691     | 30.6%      |

During the 13 weeks ended August 1, 2020, selling and administrative expenses decreased by \$27.7 million, or 28.3%, to \$70.0 million from \$97.7 million during the 13 weeks ended July 27, 2019.

The variances by segment are as follows:

### Retail

During the 13 weeks ended August 1, 2020, Retail selling and administrative expenses decreased by \$26.8 million, or 32.0%, to \$57.0 million from \$83.8 million during the 13 weeks ended July 27, 2019. This decrease was primarily due to a \$22.8 million decrease in stores payroll and operating expenses, including comparable stores, primarily due to furloughed store employees, lower virtual stores and new/closed stores payroll and operating expenses, and a decrease of \$4.0 million in corporate payroll, infrastructure costs, product development costs and digital operations costs.

### Wholesale

During the 13 weeks ended August 1, 2020, Wholesale selling and administrative expenses decreased by \$1.0 million or 20.4% to \$3.8 million from \$4.8 million during the 13 weeks ended July 27, 2019. The decrease in selling and administrative expenses was primarily driven by lower payroll and operating costs.

### DSS

During the 13 weeks ended August 1, 2020, DSS selling and administrative expenses decreased by \$0.1 million to \$4.0 million from \$4.1 million during the 13 weeks ended July 27, 2019. The decrease in costs was primarily driven by lower payroll.

### Corporate Services

During the 13 weeks ended August 1, 2020, Corporate Services' selling and administrative expenses increased by \$0.2 million or 4.7% to \$5.2 million from \$5.0 million during the 13 weeks ended July 27, 2019. The increase was primarily due to higher compensation-related expense and higher operating expenses, partially offset by lower stock-based compensation expense.

### Depreciation and Amortization Expense

| Dollars in thousands                        | 13 weeks ended |            |               |            |
|---------------------------------------------|----------------|------------|---------------|------------|
|                                             | August 1, 2020 | % of Sales | July 27, 2019 | % of Sales |
| Total Depreciation and Amortization Expense | \$ 14,063      | 6.9%       | \$ 15,879     | 5.0%       |

Depreciation and amortization expense decreased by \$1.8 million, or 11.4%, to \$14.1 million during the 13 weeks ended August 1, 2020 from \$15.9 million during the 13 weeks ended July 27, 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 13 weeks ended July 27, 2019, we recognized an impairment loss (non-cash) of \$0.4 million in the Retail segment related to net capitalized development costs for a project which are not recoverable.

### Restructuring and other charges

During the 13 weeks ended August 1, 2020, we recognized restructuring and other charges totaling \$5.7 million comprised of \$3.4 million for severance and other employee termination and benefit costs associated with elimination of various positions as part of cost reduction objectives, \$2.1 million for professional service costs related to restructuring, process improvements, and shareholder activist activities, and \$0.2 million related to liabilities for a facility closure.

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

### Operating Loss

| Dollars in thousands | 13 weeks ended |            |               |            |
|----------------------|----------------|------------|---------------|------------|
|                      | August 1, 2020 | % of Sales | July 27, 2019 | % of Sales |
| Total Operating Loss | \$ (58,915)    | (28.9)%    | \$ (43,812)   | (13.8)%    |

Our operating loss was \$(58.9) million during the 13 weeks ended August 1, 2020, compared to an operating loss of \$(43.8) million during the 13 weeks ended July 27, 2019. The increase in operating loss is due to the matters discussed above. For the 13 weeks ended August 1, 2020, excluding the \$5.7 million of restructuring and other charges, discussed above, operating loss was \$(53.2) million. For the 13 weeks ended July 27, 2019, excluding the \$1.5 million of restructuring and other charges and impairment loss of \$0.4 million, discussed above, operating loss was \$(41.9) million.

### Interest Expense, Net

| Dollars in thousands  | 13 weeks ended |               |
|-----------------------|----------------|---------------|
|                       | August 1, 2020 | July 27, 2019 |
| Interest Expense, Net | \$ 2,653       | \$ 2,532      |

Net interest expense increased by \$0.1 million, or 4.8%, to \$2.6 million during the 13 weeks ended August 1, 2020 from \$2.5 million during the 13 weeks ended July 27, 2019. The increase was primarily due to higher borrowings compared to the prior year.

### Income Tax Benefit

| Dollars in thousands | 13 weeks ended |                |               |                |
|----------------------|----------------|----------------|---------------|----------------|
|                      | August 1, 2020 | Effective Rate | July 27, 2019 | Effective Rate |
| Income Tax Benefit   | \$ (14,916)    | 24.2%          | \$ (14,189)   | 30.6%          |

We recorded an income tax benefit of \$(14.9) million on a pre-tax loss of \$(61.6) million of during the 13 weeks ended August 1, 2020, which represented an effective income tax rate of 24.2% and we recorded an income tax benefit of \$(14.2) million on a pre-tax loss of \$(46.3) million during the 13 weeks ended July 27, 2019, which represented an effective income tax rate of 30.6%.

The effective tax rate for the 13 weeks ended August 1, 2020 is lower as compared to the comparable prior year due to permanent differences.

### Net Loss

| Dollars in thousands | 13 weeks ended |               |
|----------------------|----------------|---------------|
|                      | August 1, 2020 | July 27, 2019 |
| Net loss             | \$ (46,652)    | \$ (32,155)   |

As a result of the factors discussed above, net loss was \$(46.7) million during the 13 weeks ended August 1, 2020, compared with net loss of \$(32.2) million during the 13 weeks ended July 27, 2019.

Adjusted Earnings (non-GAAP) is \$(41.7) million during the 13 weeks ended August 1, 2020, compared with \$(30.1) million during the 13 weeks ended July 27, 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 May 2, 2020, the reconciliation of Adjusted Earnings to net income and the reconciliation of Adjusted EBITDA to net income, the most directly comparable financial measure presented in accordance with GAAP, set forth in the tables below. All of the items included in the reconciliations below are either (i) non-cash items or (ii) items that management does not consider in assessing our on-going operating performance.

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

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

### Adjusted Earnings (non-GAAP)

| Dollars in thousands                             | 13 weeks ended |               |
|--------------------------------------------------|----------------|---------------|
|                                                  | August 1, 2020 | July 27, 2019 |
| Net loss                                         | \$ (46,652)    | \$ (32,155)   |
| Reconciling items, after-tax (below)             | 4,936          | 2,080         |
| Adjusted Earnings (non-GAAP)                     | \$ (41,716)    | \$ (30,075)   |
| Reconciling items, pre-tax                       |                |               |
| Impairment loss (non-cash) <sup>(a)</sup>        | \$ —           | \$ 433        |
| Content amortization (non-cash)                  | 1,164          | 911           |
| Restructuring and other charges <sup>(a)</sup>   | 5,671          | 1,466         |
| Reconciling items, pre-tax                       | 6,835          | 2,810         |
| Less: Pro forma income tax impact <sup>(b)</sup> | 1,899          | 730           |
| Reconciling items, after-tax                     | \$ 4,936       | \$ 2,080      |

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

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

## Adjusted EBITDA (non-GAAP)

| <i>Dollars in thousands</i>                    | 13 weeks ended     |                    |
|------------------------------------------------|--------------------|--------------------|
|                                                | August 1, 2020     | July 27, 2019      |
| Net loss                                       | \$ (46,652)        | \$ (32,155)        |
| Add:                                           |                    |                    |
| Depreciation and amortization expense          | 14,063             | 15,879             |
| Content amortization (non-cash)                | 1,164              | 911                |
| Interest expense, net                          | 2,653              | 2,532              |
| Income tax benefit                             | (14,916)           | (14,189)           |
| Impairment loss (non-cash) <sup>(a)</sup>      | —                  | 433                |
| Restructuring and other charges <sup>(a)</sup> | 5,671              | 1,466              |
| Adjusted EBITDA (non-GAAP) <sup>(a)</sup>      | <u>\$ (38,017)</u> | <u>\$ (25,123)</u> |

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

The following is Adjusted EBITDA by segment for the 13 weeks ended August 1, 2020 and July 27, 2019.

### Adjusted EBITDA - by Segment

| <i>Dollars in thousands</i>         | 13 weeks ended, August 1, 2020 |                  |                 |                    |                            |                    |
|-------------------------------------|--------------------------------|------------------|-----------------|--------------------|----------------------------|--------------------|
|                                     | Retail                         | Wholesale        | DSS             | Corporate Services | Elimination <sup>(b)</sup> | Total              |
| Sales                               | \$ 158,776                     | \$ 80,294        | \$ 5,872        | \$ —               | \$ (40,928)                | \$ 204,014         |
| Cost of sales <sup>(a)</sup>        | 142,431                        | 63,537           | 172             | —                  | (34,152)                   | 171,988            |
| Gross profit                        | 16,345                         | 16,757           | 5,700           | —                  | (6,776)                    | 32,026             |
| Selling and administrative expenses | 56,985                         | 3,791            | 4,036           | 5,244              | (13)                       | 70,043             |
| Adjusted EBITDA (non-GAAP)          | <u>\$ (40,640)</u>             | <u>\$ 12,966</u> | <u>\$ 1,664</u> | <u>\$ (5,244)</u>  | <u>\$ (6,763)</u>          | <u>\$ (38,017)</u> |

### Adjusted EBITDA - by Segment

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

(a) For the 13 weeks ended August 1, 2020, gross margin excludes \$0.2 million and \$1.0 million of amortization expense (non-cash) related to content development costs in the Retail Segment and DSS Segment, respectively. For the 13 weeks ended July 27, 2019, gross margin excludes \$0.2 million and \$0.7 million of amortization expense (non-cash) related to content development costs in the Retail Segment and DSS Segment, respectively.

(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 August 1, 2020, we had \$234.6 million outstanding borrowings under the Credit Agreement. See *Financing Arrangements* discussion below.

Our business experienced an unprecedented and significant impact as a result of COVID-19 related campus store closures. Beginning in March 2020, colleges and universities nationwide began to close their campuses in light of safety concerns and as a result of local and state issued stay-at-home orders. By mid-March, during our fiscal fourth quarter, we closed the majority of our physical campus stores to protect the health and safety of our customers and employees.

While our campus stores were closed, we continued to serve institutions and students through our campus websites, providing free shipping on all orders and an expanded digital content offering to provide immediate access to course materials to students at our campuses that closed due to COVID-19. We developed and implemented plans to safely reopen our campus stores based on national, state and local guidelines, as well as the campus policies set by the school administration. Colleges and universities in the United States continue to adjust their plans for the upcoming fall term, with some implementing shortened semesters or choosing to remain fully virtual in order to best protect students and faculty.

The first quarter is historically a low revenue period and our first quarter results were significantly impacted by the COVID-19 pandemic. As many schools shifted from an on-campus to a remote learning model, we were able to serve students through our Custom Store Solutions “CSS” model, virtual bookstores, individual school websites and digital offerings to ensure students were equipped with their course materials to continue their education, wherever they may be. The COVID-19 impact on higher education remains a fluid situation, and we are committed to supporting our campus partners through our flexible offerings and our ability to quickly pivot to ensure uninterrupted service as institutions manage the safety of their campuses.

We have implemented a significant cost reduction program designed to streamline our operations, maximize productivity and drive profitability. Certain elements of this plan were implemented in late Fiscal 2020, while other actions are planned for Fiscal 2021. We anticipate meaningful annualized cost savings from this program, the majority of which is expected to be realized beginning in Fiscal 2021. Additionally, we currently expect to see the most significant impacts of COVID-19 on our business in the first half of Fiscal 2021. However, we cannot accurately predict the duration or extent of the impact of COVID-19 on enrollments, university budgets, athletics and other areas that directly affect our business operations.

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.

### ***Sources and Uses of Cash Flow***

| <i>Dollars in thousands</i>                                        | 13 weeks ended |               |
|--------------------------------------------------------------------|----------------|---------------|
|                                                                    | August 1, 2020 | July 27, 2019 |
| Cash, cash equivalents, and restricted cash at beginning of period | \$ 9,008       | \$ 14,768     |
| Net cash flows used in operating activities                        | (54,839)       | (40,243)      |
| Net cash flows used in investing activities                        | (5,450)        | (6,105)       |
| Net cash flows provided by financing activities                    | 59,518         | 40,560        |
| Cash, cash equivalents, and restricted cash at end of period       | \$ 8,237       | \$ 8,980      |

#### ***Cash Flow from Operating Activities***

Our business is highly seasonal. For our retail operations, cash flows from operating activities are typically a source of cash in the second and third fiscal quarters, when students generally purchase and rent textbooks and other course materials for the upcoming semesters based on the typical academic semester. For our wholesale operations, cash flows from operating activities are typically a source of cash in the second and fourth fiscal quarters, as payments are received from the summer and winter selling season when they sell textbooks and other course materials for retail distribution. For both retail and wholesale, cash flows from operating activities are typically a use of cash in the fourth fiscal quarter, when sales volumes are materially lower than the other quarters. For our DSS segment, cash flows are not seasonal as cash flows from operating activities are typically consistent throughout the year. Our quarterly cash flows also may fluctuate depending on the timing of the start of the various school’s semesters, as well as shifts in our fiscal calendar dates. These shifts in timing may affect the comparability of our results across periods.

Cash flows used in operating activities during the 13 weeks ended August 1, 2020 were \$(54.8) million compared to \$(40.2) million during the 13 weeks ended July 27, 2019. This increase in cash used in operating activities of \$14.6 million was primarily due to higher net loss compared to the prior year and changes in working capital. As discussed above, our operations were highly impacted by COVID-19 related campus store closures.

#### *Cash Flow from Investing Activities*

Cash flows used in investing activities during the 13 weeks ended August 1, 2020 were \$(5.5) million compared to \$(6.1) million during the 13 weeks ended July 27, 2019. The decrease in cash used in investing activities is primarily due to lower capital expenditures and contractual capital investments associated with content development, digital initiatives, enhancements to internal systems, renewing existing contracts and new store construction and lower payments to acquire businesses and the change in other noncurrent assets for contractual obligations.

Our investing activities consist principally of capital expenditures for contractual capital investments associated with renewing existing contracts, new store construction, digital initiatives and enhancements to internal systems and our website. Capital expenditures totaled \$7.1 million and \$8.3 million during the 13 weeks ended August 1, 2020 and July 27, 2019, respectively.

#### *Cash Flow from Financing Activities*

Cash flows provided by financing activities during the 13 weeks ended August 1, 2020 were \$59.5 million compared to \$40.6 million during the 13 weeks ended July 27, 2019. This net change of \$18.9 million is primarily due to higher 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 5-year asset-backed revolving credit facility in an aggregate committed principal amount of \$400 million (the "Credit Facility") effective from the date of the amendment. 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. 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 million.

During the 13 weeks ended August 1, 2020, we borrowed \$186.7 million and repaid \$126.8 million under the Credit Agreement, with \$234.6 million of outstanding borrowings as of August 1, 2020, comprised entirely of outstanding borrowings under the Credit Facility. During the 13 weeks ended July 27, 2019, we borrowed \$120.3 million and repaid \$79.7 million under the Credit Agreement, with \$174.1 million of outstanding borrowings as of July 27, 2019, comprised of \$74.1 million and \$100.0 million under the Credit Facility and FILO Facility, respectively. As of both August 1, 2020 and July 27, 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 fiscal year ended May 2, 2020.

#### **Income Tax Implications on Liquidity**

As of August 1, 2020, other long-term liabilities includes \$25.7 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 \$7.6 million of the income taxes associated with the LIFO reserve becoming currently payable. Given recent trends relating to the pricing and rental of textbooks, management believes that an additional portion of the remaining long-term tax payable associated with the LIFO reserve could become payable within the next twelve months. We are unable to predict future trends for CPI and inventory levels, therefore it is difficult to project with reasonable certainty how much of this liability will become payable within the next twelve months.

#### **Share Repurchases**

On December 14, 2015, our Board of Directors authorized a stock repurchase program of up to \$50 million, in the aggregate, of our outstanding Common Stock. The stock repurchase program is carried out at the direction of management (which may include a plan under Rule 10b5-1 of the Securities Exchange Act of 1934). The stock repurchase program may be suspended, terminated, or modified at any time. Any repurchased shares will be held as treasury stock and will be available for general corporate purposes. During the 13 weeks ended August 1, 2020, we did not repurchase any of our Common Stock under the stock repurchase program. As of August 1, 2020, approximately \$26.7 million remains available under the stock repurchase program.

During the 13 weeks ended August 1, 2020, we repurchased 178,669 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 fiscal year ended May 2, 2020.

### **Off-Balance Sheet Arrangements**

As of August 1, 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 fiscal year ended May 2, 2020.

### **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:

- risks associated with COVID-19 and the governmental responses to it, including its impacts across our businesses on demand and operations, as well as on the operations of our suppliers and other business partners, and the effectiveness of our actions taken in response to these risks;
- 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 fiscal year ended May 2, 2020.

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 fiscal year ended May 2, 2020.

#### **Item 4: Controls and Procedures**

##### ***Evaluation of Disclosure Controls and Procedures***

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

Management has not identified any other changes in the Company's internal control over financial reporting that occurred during the first 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.

Between January 22, 2020 and July 23, 2020, thirteen purported class action complaints were filed in the United States District Court for the District of Delaware, the United States District Court for the District of New Jersey, and the United States District Court for the Northern District of Illinois against the Company, along with several publishers, another collegiate bookstore retailer, and an industry association. The plaintiffs are retailers of collegiate course materials or current or former college students. Although the specific allegations vary, they claim, on their own behalf and on behalf of the purported classes, 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. The United States Judicial Panel on Multidistrict Litigation has consolidated these and other related cases in a consolidated proceeding before the Hon. Denise L. Cote of the United States District Court for the Southern District of New York. 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 13 weeks ended August 1, 2020 to the risk factors discussed in *Part I - Item 1A. Risk Factors* in our Annual Report on Form 10-K for the fiscal year ended May 2, 2020.

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

### Issuer Purchases of Equity Securities

The following table provides information as of August 1, 2020 with respect to shares of Common Stock we purchased during the first quarter of Fiscal 2021:

| Period                        | Total Number of Shares Purchased | Average Price Paid per Share (a) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs |
|-------------------------------|----------------------------------|----------------------------------|----------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|
| May 3, 2020 - May 30, 2020    | —                                | \$ —                             | —                                                                                | \$ 26,669,324                                                                            |
| May 31, 2020 - July 4, 2020   | —                                | \$ —                             | —                                                                                | \$ 26,669,324                                                                            |
| July 5, 2020 - August 2, 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 13 weeks ended August 1, 2020, we did not repurchase any shares of our Common Stock under the program.

During the 13 weeks ended August 1, 2020, we repurchased 178,669 shares of our Common Stock outside of the stock repurchase program in connection with employee tax withholding obligations for vested stock awards.

## Item 5. Other Information

None

## Item 6. Exhibits

|                      |                                                                                                                                                                                                                                                                                                                                       |
|----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <a href="#">10.1</a> | <a href="#">Cooperation Agreement, dated July 20, 2020, entered between the Company and Outerbridge Capital Management, LLC, which currently owns approximately 13.5% of the Company's outstanding shares, filed as Exhibit 10.1 to Report on Form 8-K filed with the SEC on July 21, 2020, and incorporated herein by reference.</a> |
| <a href="#">31.1</a> | <a href="#">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.</a>                                                                                                                  |
| <a href="#">31.2</a> | <a href="#">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.</a>                                                                                                                  |
| <a href="#">32.1</a> | <a href="#">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.</a>                                                                                                       |
| <a href="#">32.2</a> | <a href="#">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.</a>                                                                                                       |
| 101.INS              | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.                                                                                                                                                                       |
| 101.SCH              | 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                                                                                                                                                                                                                                                                                |
| 104                  | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)                                                                                                                                                                                                                                              |

**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)*

September 3, 2020

**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 August 1, 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: September 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 August 1, 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: September 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 August 1, 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.*

September 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 August 1, 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.*

September 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.