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

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**FORM 10-Q**

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(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended **October 28, 2017**  
**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**
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**BARNES & NOBLE EDUCATION, INC.**  
(Exact Name of Registrant as Specified in Its Charter)

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|   |   |
|---|---|
| Delaware<br>(State or Other Jurisdiction of<br>Incorporation or Organization)   | 46-0599018<br>(I.R.S. Employer<br>Identification No.) |
| 120 Mountain View Blvd., Basking Ridge, NJ<br>(Address of Principal Executive Offices)  | 07920<br>(Zip Code)                                   |
| (Registrant's Telephone Number, Including Area Code): <b>(908) 991-2665</b><br>(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report) |   |

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

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

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

|                         |  |                           |                                     |
|-------------------------|--|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/>   | Accelerated filer         | <input checked="" type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/> (Do not check if a smaller reporting company) | 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 November 30, 2017, 46,914,248 shares of Common Stock, par value \$0.01 per share, were outstanding.

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**EXPLANATORY NOTE**

Effective with the acquisition of MBS Textbook Exchange, LLC ("MBS") on February 27, 2017, we determined that we have two reportable segments: Barnes & Noble College Booksellers, LLC ("BNC") and MBS, whereas BNC was previously our only reportable segment prior to the acquisition. The condensed consolidated financial statements for the 13 and 26 weeks ended October 28, 2017 include the financial results of MBS and all material intercompany accounts and transactions have been eliminated in consolidation. The condensed consolidated financial statements for the 13 and 26 weeks ended October 29, 2016 exclude the financial results of MBS.

On August 3, 2017, we acquired Student Brands, LLC ("Student Brands"), a leading direct-to-student subscription-based writing services business. The condensed consolidated financial statements for the 13 and 26 weeks ended October 28, 2017 include the financial results of Student Brands in the BNC segment from the date of acquisition, August 3, 2017, and the condensed consolidated financial statements for the 13 and 26 weeks ended October 29, 2016 exclude the financial results of Student Brands.

**BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES**  
**Fiscal Quarter Ended October 28, 2017**  
**Index to Form 10-Q**

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## PART I - FINANCIAL INFORMATION

Item 1: **Financial Statements**

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

|   | 13 weeks ended      |                     | 26 weeks ended      |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | October 28,<br>2017 | October 29,<br>2016 | October 28,<br>2017 | October 29,<br>2016 |
| <b>Sales:</b>   |                     |                     |                     |                     |
| Product sales and other                                     | \$ 817,825          | \$ 697,927          | \$ 1,152,327        | \$ 915,663          |
| Rental income   | 69,036              | 72,744              | 90,245              | 94,245              |
| <b>Total sales</b>  | <b>886,861</b>      | <b>770,671</b>      | <b>1,242,572</b>    | <b>1,009,908</b>    |
| <b>Cost of sales:</b>                                       |                     |                     |                     |                     |
| Product and other cost of sales                             | 628,839             | 554,498             | 906,580             | 732,492             |
| Rental cost of sales  | 41,464              | 44,659              | 54,721              | 58,489              |
| <b>Total cost of sales</b>                                  | <b>670,303</b>      | <b>599,157</b>      | <b>961,301</b>      | <b>790,981</b>      |
| <b>Gross profit</b>   | <b>216,558</b>      | <b>171,514</b>      | <b>281,271</b>      | <b>218,927</b>      |
| Selling and administrative expenses                         | 115,148             | 101,123             | 214,558             | 185,060             |
| Depreciation and amortization expense                       | 16,704              | 12,987              | 31,721              | 25,908              |
| Restructuring and other charges                             | 193                 | —                   | 5,429               | 1,790               |
| Transaction costs   | 1,257               | 644                 | 1,846               | 2,171               |
| <b>Operating income</b>                                     | <b>83,256</b>       | <b>56,760</b>       | <b>27,717</b>       | <b>3,998</b>        |
| Interest expense, net                                       | 1,836               | 630                 | 4,874               | 1,296               |
| <b>Income before income taxes</b>                           | <b>81,420</b>       | <b>56,130</b>       | <b>22,843</b>       | <b>2,702</b>        |
| Income tax expense  | 33,025              | 26,841              | 9,231               | 1,329               |
| <b>Net income</b>   | <b>\$ 48,395</b>    | <b>\$ 29,289</b>    | <b>\$ 13,612</b>    | <b>\$ 1,373</b>     |
| <b>Earnings per share of common stock:</b>                  |                     |                     |                     |                     |
| Basic   | \$ 1.04             | \$ 0.63             | \$ 0.29             | \$ 0.03             |
| Diluted   | \$ 1.03             | \$ 0.63             | \$ 0.29             | \$ 0.03             |
| <b>Weighted average shares of common stock outstanding:</b> |                     |                     |                     |                     |
| Basic   | 46,705              | 46,170              | 46,611              | 46,259              |
| Diluted   | 47,006              | 46,593              | 47,144              | 46,652              |

See accompanying notes to condensed consolidated financial statements.

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

|   | October 28,<br>2017 | October 29,<br>2016 | April 29,<br>2017   |
|---|---------------------|---------------------|---------------------|
|   | (unaudited)         | (unaudited)         | (audited)           |
| <b>ASSETS</b>   |                     |                     |                     |
| Current assets:   |                     |                     |                     |
| Cash and cash equivalents   | \$ 17,494           | \$ 176,578          | \$ 19,003           |
| Receivables, net  | 153,646             | 93,250              | 86,040              |
| Merchandise inventories, net  | 515,574             | 401,338             | 434,064             |
| Textbook rental inventories   | 78,062              | 86,704              | 52,826              |
| Prepaid expenses and other current assets   | 13,352              | 8,083               | 10,698              |
| Total current assets  | 778,128             | 765,953             | 602,631             |
| Property and equipment, net   | 115,318             | 108,499             | 116,613             |
| Intangible assets, net  | 229,498             | 194,562             | 209,885             |
| Goodwill  | 362,412             | 281,350             | 329,467             |
| Other noncurrent assets   | 41,885              | 38,226              | 41,236              |
| Total assets  | <u>\$ 1,527,241</u> | <u>\$ 1,388,590</u> | <u>\$ 1,299,832</u> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                     |                     |                     |
| Current liabilities:  |                     |                     |                     |
| Accounts payable  | \$ 458,833          | \$ 439,746          | \$ 192,742          |
| Accrued liabilities   | 184,283             | 140,779             | 120,478             |
| Short-term borrowings   | —                   | —                   | 100,000             |
| Total current liabilities   | 643,116             | 580,525             | 413,220             |
| Long-term deferred taxes, net   | 16,187              | 25,743              | 16,871              |
| Other long-term liabilities   | 96,294              | 75,962              | 96,433              |
| Long-term borrowings  | 41,800              | —                   | 59,600              |
| Total liabilities   | 797,397             | 682,230             | 586,124             |
| Commitments and contingencies   | —                   | —                   | —                   |
| Stockholders' equity:   |                     |                     |                     |
| Preferred stock, \$0.01 par value; authorized, 5,000 shares; issued and outstanding, none   | —                   | —                   | —                   |
| Common stock, \$0.01 par value; authorized, 200,000 shares; issued, 50,028, 48,972 and 49,372 shares, respectively; outstanding, 46,914, 46,276 and 46,517 shares, respectively | 500                 | 490                 | 494                 |
| Additional paid-in capital  | 713,018             | 703,966             | 708,871             |
| Retained earnings   | 45,975              | 28,375              | 32,363              |
| Treasury stock, at cost   | (29,649)            | (26,471)            | (28,020)            |
| Total stockholders' equity  | 729,844             | 706,360             | 713,708             |
| Total liabilities and stockholders' equity  | <u>\$ 1,527,241</u> | <u>\$ 1,388,590</u> | <u>\$ 1,299,832</u> |

See accompanying notes to condensed consolidated financial statements.

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

|  | 26 weeks ended      |                     |
|--|---------------------|---------------------|
|  | October 28,<br>2017 | October 29,<br>2016 |
| Cash flows from operating activities:  |                     |                     |
| Net income   | \$ 13,612           | \$ 1,373            |
| Adjustments to reconcile net income to net cash flows from operating activities: |                     |                     |
| Depreciation and amortization expense  | 31,721              | 25,908              |
| Amortization of deferred financing costs   | 751                 | 325                 |
| Deferred taxes   | (684)               | (4,122)             |
| Stock-based compensation expense   | 4,153               | 4,458               |
| Change in other long-term liabilities  | (426)               | 582                 |
| Changes in other operating assets and liabilities, net                           | 150,493             | 150,805             |
| Net cash flows provided by operating activities                                  | <u>199,620</u>      | <u>179,329</u>      |
| Cash flows from investing activities:  |                     |                     |
| Purchases of property and equipment  | (22,422)            | (17,470)            |
| Acquisition of business, net of cash acquired                                    | (58,259)            | (917)               |
| Net increase in other noncurrent assets  | (1,018)             | (5,076)             |
| Net cash flows used in investing activities                                      | <u>(81,699)</u>     | <u>(23,463)</u>     |
| Cash flows from financing activities:  |                     |                     |
| Proceeds from borrowings under Credit Agreement                                  | 225,400             | 47,400              |
| Repayments of borrowings under Credit Agreement                                  | (343,200)           | (47,400)            |
| Purchase of treasury shares  | (1,629)             | (7,856)             |
| Net cash flows used in financing activities                                      | <u>(119,429)</u>    | <u>(7,856)</u>      |
| Net (decrease) increase in cash, cash equivalents and restricted cash            | (1,508)             | 148,010             |
| Cash, cash equivalents and restricted cash at beginning of period                | 21,697              | 30,866              |
| Cash, cash equivalents and restricted cash at end of period                      | <u>\$ 20,189</u>    | <u>\$ 178,876</u>   |
| Changes in other operating assets and liabilities, net:                          |                     |                     |
| Receivables, net   | \$ (67,256)         | \$ (41,794)         |
| Merchandise inventories  | (81,510)            | (88,591)            |
| Textbook rental inventories  | (25,236)            | (38,944)            |
| Prepaid expenses and other current assets  | (2,157)             | (1,532)             |
| Accounts payable and accrued liabilities   | 326,652             | 321,666             |
| Changes in other operating assets and liabilities, net                           | <u>\$ 150,493</u>   | <u>\$ 150,805</u>   |

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        | Retained         | Treasury Stock |                    | Total             |
|---|---------------|---------------|-------------------|------------------|----------------|--------------------|-------------------|
|   | Shares        | Amount        | Paid-In Capital   | Earnings         | Shares         | Amount             | Equity            |
| Balance at April 30, 2016                                       | 48,645        | \$ 486        | \$ 699,513        | \$ 27,002        | 1,890          | \$ (18,615)        | \$ 708,386        |
| Stock-based compensation expense                                |               |               | 4,457             |                  |                |                    | 4,457             |
| Vested equity awards  | 327           | 4             | (4)               |                  |                |                    | —                 |
| Common stock repurchased  |               |               |                   |                  | 689            | (6,718)            | (6,718)           |
| Shares repurchased for tax withholdings for vested stock awards |               |               |                   |                  | 117            | (1,138)            | (1,138)           |
| Net income  |               |               |                   | 1,373            |                |                    | 1,373             |
| Balance at October 29, 2016                                     | <u>48,972</u> | <u>\$ 490</u> | <u>\$ 703,966</u> | <u>\$ 28,375</u> | <u>2,696</u>   | <u>\$ (26,471)</u> | <u>\$ 706,360</u> |

|   | Common Stock  |               | Additional        | Retained         | Treasury Stock |                    | Total             |
|---|---------------|---------------|-------------------|------------------|----------------|--------------------|-------------------|
|   | Shares        | Amount        | Paid-In Capital   | Earnings         | Shares         | Amount             | Equity            |
| Balance at April 29, 2017                                       | 49,372        | \$ 494        | \$ 708,871        | \$ 32,363        | 2,855          | \$ (28,020)        | \$ 713,708        |
| Stock-based compensation expense                                |               |               | 4,153             |                  |                |                    | 4,153             |
| Vested equity awards  | 656           | 6             | (6)               |                  |                |                    | —                 |
| Shares repurchased for tax withholdings for vested stock awards |               |               |                   |                  | 259            | (1,629)            | (1,629)           |
| Net income  |               |               |                   | 13,612           |                |                    | 13,612            |
| Balance at October 28, 2017                                     | <u>50,028</u> | <u>\$ 500</u> | <u>\$ 713,018</u> | <u>\$ 45,975</u> | <u>3,114</u>   | <u>\$ (29,649)</u> | <u>\$ 729,844</u> |

See accompanying notes to condensed consolidated financial statements.

**BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements**  
**For the 13 and 26 weeks ended October 28, 2017 and October 29, 2016**  
**(Thousands of dollars, except share and per share data)**  
**(unaudited)**

*Unless the context otherwise indicates, references to “we,” “us,” “our”, and “the Company” refer to Barnes & Noble Education, Inc., a Delaware corporation. References to “Barnes & Noble College” or “BNC” refer to our college bookstore business operated through our subsidiary Barnes & Noble College Booksellers, LLC. References to “MBS” refer to our virtual bookstore and wholesale textbook distribution business operated through our subsidiary MBS Textbook Exchange, LLC, a Delaware corporation.*

This Form 10-Q should be read in conjunction with our Audited Consolidated Financial Statements and accompanying Notes to consolidated financial statements in our Annual Report on Form 10-K for the year ended April 29, 2017, which includes consolidated financial statements for the Company for each of the three fiscal years ended April 29, 2017, April 30, 2016 and May 2, 2015 (Fiscal 2017, Fiscal 2016 and Fiscal 2015, respectively) and the unaudited condensed consolidated financial statements in our Form 10-Q for the 13 weeks ended July 29, 2017.

**Note 1. Organization**

***Description of Business***

Barnes & Noble Education, Inc. (“BNE”) is one of the largest contract operators of physical and virtual bookstores for higher education and K-12 institutions across the United States, one of the largest textbook wholesalers, and a leading provider of digital education services. Through its Barnes & Noble College (“BNC”) and MBS Textbook Exchange (“MBS”) subsidiaries, Barnes & Noble Education operates 1,483 physical and virtual bookstores and serves more than 6 million students, delivering essential educational content and tools within a dynamic retail environment. We have two reportable segments: BNC and MBS.

BNC operates 777 physical campus bookstores as of October 28, 2017, the majority of which also have school-branded e-commerce sites operated by BNC. Our campus stores are a social and academic hub through which students can access affordable course materials and affinity products, including new and used print and digital textbooks, which are available for sale or rent, emblematic apparel and gifts, trade books, computer products, school and dorm supplies, café offerings, convenience food and beverages, and graduation products. BNC product offerings also include a suite of digital content, software, and services through our LoudCloud platform, such as predictive analytics, a variety of open educational resources (“OER”) courseware, and competency-based learning solutions and a learning management system. Additionally, through Student Brands, LLC, a leading direct-to-student subscription-based writing services business, BNC offers services focused on study tools, writing help, and literary research, all centered around assisting students with the writing process.

Our MBS subsidiary operates two highly integrated businesses. The MBS Direct business is the largest contract operator of virtual bookstores for college and university campuses and private/parochial K-12 schools. MBS Direct operates 706 virtual bookstores as of October 28, 2017, offering new and used print and digital textbooks, which are available for sale or rent. Additionally, MBS Direct sells textbooks directly to students through textbooks.com<sup>SM</sup>, one of the largest e-commerce sites for new and used textbooks. MBS Wholesale is one of the largest textbook wholesalers in the country, providing a comprehensive selection of new and used textbooks at a low cost of supply to more than 3,700 physical bookstores (as of April 29, 2017), including BNC’s 777 campus bookstores.

Educational institutions increasingly are outsourcing bookstore operations, investing in data-driven analytical tools, and offering students more affordable options for textbooks and other learning tools. Given these continuing trends, we are well-positioned to capture new market share and partner with an increasing number of schools across the country. As demand for new, improved, and more affordable products and services increase in the rapidly changing education landscape, we are working to evolve our business model and enhance our solutions. We aim to be an even stronger partner for schools and meet customer needs by expanding our physical and virtual bookstore service capabilities, courseware offerings and digital platform services. We believe that our recent strategic actions, including the acquisition of LoudCloud, Promoversity, MBS, and Student Brands and development of courseware, have substantially enhanced our competitive position. We continue to aggressively innovate and collaborate with our partners to provide solutions that extend well beyond course materials sourcing and sales to include new digital services that support successful student outcomes.

**BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements**  
**For the 13 and 26 weeks ended October 28, 2017 and October 29, 2016**  
**(Thousands of dollars, except share and per share data)**  
**(unaudited)**

On August 3, 2017, we acquired Student Brands, LLC ("Student Brands"). Student Brands operates multiple direct-to-student businesses focused on Study Tools, Writing Help, and Literary Research, all centered around assisting students with the writing process. Student Brands has a substantial and growing community of online learners, with over 20 million unique monthly users across its digital properties, which include 123HelpMe.com, Bartleby.com and StudyMode.com in the United States and TrabalhosFeitos.com, Etudier.com and Monografias.com in Brazil, France and Mexico, respectively. Student Brands utilizes deep data analytics and artificial intelligence to drive its content management system, the Content Brain. The Content Brain sifts through millions of pieces of content and provides the best answer for virtually any assignment a student is tackling. Student Brands generates revenue predominantly through its subscription-based services and digital advertisements.

***Growth Drivers***

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

- Increasing market share with new accounts.
- Adapting our merchandising strategy and product and service offerings.
- Providing a scalable and leading digital product and solution set.
- Expanding strategic opportunities through acquisitions and partnerships.

For additional information related to the growth drivers for our business, see *Part I - Item 1. Business - Overview - Growth Drivers* in our Annual Report on Form 10-K for the year ended April 29, 2017.

**Note 2. Summary of Significant Accounting Policies**

***Basis of Presentation***

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.

The condensed consolidated financial statements are presented on a consolidated basis for the 13 and 26 weeks ended October 28, 2017 and include the financial results of MBS (which was acquired on February 27, 2017) and Student Brands (which was acquired on August 3, 2017). All material intercompany accounts and transactions have been eliminated in consolidation. The condensed consolidated financial statements for the 13 and 26 weeks ended October 29, 2016 exclude the financial results of MBS and Student Brands.

Our fiscal year is comprised of 52 or 53 weeks, ending on the Saturday closest to the last day of April. Our retail business (BNC and MBS Direct) sales are generally highest in the second and third fiscal quarters, when college students generally purchase textbooks for the upcoming semesters, and lowest in the first and fourth fiscal quarters. Sales attributable to the MBS wholesale business are generally highest in our first, second and third quarter as it sells textbooks for retail distribution, which somewhat offsets the decreased first quarter sales attributable to our retail business. MBS has significantly lower operating profit or operating loss realized during the fourth quarter. Due to the seasonal nature of the business, the results of operations for the 13 and 26 weeks ended October 28, 2017 are not indicative of the results expected for the 52 weeks ending April 28, 2018 (Fiscal 2018).

***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.

**BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements**  
**For the 13 and 26 weeks ended October 28, 2017 and October 29, 2016**  
**(Thousands of dollars, except share and per share data)**  
**(unaudited)**

***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 BNC segment and last-in first out, or “LIFO”, method for our MBS segment. Our textbook inventories, for BNC and MBS, 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 BNC segment, we also estimate and accrue shortage for the period between the last physical count of inventory and the balance sheet date. Shortage rates are estimated and accrued based on historical rates and can be affected by changes in merchandise mix and changes in actual shortage trends.

***Textbook Rental Inventories***

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

***Revenue Recognition and Deferred Revenue***

Revenue from sales of our products at physical locations is recognized at the time of sale. Revenue from sales of products ordered through our websites is recognized upon receipt of our products by our customers. Revenue from the sale of physical textbooks from our wholesale and virtual bookstores is recognized at the time of shipment. Additional revenue is recognized for shipping charges billed to customers.

We rent both physical and digital textbooks. Revenue from the rental of physical textbooks is deferred and recognized over the rental period commencing at point of sale. We offer a buyout option to allow the purchase of a rented physical textbook at the end of the rental period. We record the buyout purchase when the customer exercises and pays the buyout option price. In these instances, we would accelerate any remaining deferred rental revenue at the point of sale.

Revenue from the rental of digital textbooks is recognized at the time of sale. A software feature is embedded within the content of our digital textbooks, such that upon expiration of the rental term the customer is no longer able to access the content. While the digital rental allows the customer to access digital content for a fixed period of time, once the digital content is delivered to the customer, our performance obligation is complete. We primarily record digital textbook rental sales on a net basis in accordance with *ASC 605-45-45, Reporting Revenue Gross as a Principal versus Net as an Agent*.

We provide direct-to-student subscription-based writing services. Subscription revenue is deferred and recognized over the service period. The majority of subscriptions sold are one month in duration.

Sales taxes collected from our customers are excluded from reported revenues. All of our sales are recognized as revenue on a “net” basis, including sales in connection with any periodic promotions offered to customers. We do not treat any promotional offers as expenses.

***Cost of Sales***

Our cost of sales primarily include costs such as merchandise costs, textbook rental amortization, warehouse costs related to inventory management and order fulfillment, 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 executive oversight, merchandising, field support, finance, human resources, benefits, training, legal, and information technology, as well as our investments in our digital platform and subscription-based services.

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**Goodwill**

The costs in excess of net assets of businesses acquired are carried as goodwill in the accompanying condensed consolidated balance sheets. As of October 28, 2017, we had \$362,412 of goodwill.

ASC No. 350-30, *Goodwill and Other Intangible Assets* ("ASC 350-30"), requires that goodwill be tested for impairment at least annually or earlier if there are impairment indicators. We completed our annual goodwill impairment test as of the first day of the third quarter of Fiscal 2017. In performing the valuation, we used cash flows that reflected management's forecasts and discount rates that included risk adjustments consistent with the current market conditions. Based on the results of the Step 1 testing, fair value of the one reporting unit exceeded its carrying value; therefore, the second step of the impairment test was not required to be performed and no goodwill impairment was recognized.

As of the date of our Fiscal 2017 annual goodwill impairment test, the excess fair value over carrying value was approximately 5%. Goodwill is subject to further risk of impairment if comparable store sales decline, store closings accelerate or digital projections fall short of expectations. Additionally, changes in the structure of our business as a result of future reorganizations, acquisitions or divestitures of assets or businesses could result in future impairments of goodwill. For additional information related to key assumptions used in our testing, refer to *Part II - Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates* in our Annual Report on Form 10-K for the year ended April 29, 2017.

As disclosed in *Note 3. Recent Accounting Pronouncements*, we have elected to early adopt the guidance of ASU 2017-04 for our forthcoming Fiscal 2018 annual goodwill impairment test. Subsequent to the early adoption of ASU 2017-04, Step 2 of the goodwill impairment test has been eliminated and, if required, an impairment charge would be recognized for the amount by which the carrying amount of the reporting unit exceeds its fair value, up to the total amount of goodwill allocated to the reporting unit.

**Income Taxes**

As of October 28, 2017, other long-term liabilities includes \$77,051 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 inventory levels. Given recent trends relating to the pricing and rental of textbooks, management believes that a portion of the long-term tax payable associated with the LIFO reserve could be payable within the next twelve months. The LIFO reserve 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. 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 January 2017, the Financial Accounting Standards Board ("FASB") issued *Accounting Standard Update ("ASU") No. 2017-04, Intangibles - Goodwill and Other (Topic 350)* to simplify the test for Goodwill Impairment. The revised guidance eliminates the existing Step 2 of the goodwill impairment test which required an entity to compute the implied fair value of its goodwill at the testing date in order to measure the amount of the impairment charge when the fair value of the reporting unit failed Step 1 of the goodwill impairment test. Under the revised guidance, an entity would recognize an impairment charge for the amount by which the carrying amount of the reporting unit exceeds its fair value; however, the loss recognized would not exceed the total amount of goodwill allocated to the reporting unit. The guidance will be applied on a prospective basis. We are required to adopt this standard in the first quarter of Fiscal 2021 and early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We have elected to early adopt this standard in the second quarter of Fiscal 2018.

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

In May 2014, the FASB issued *ASU No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09")*. The standard provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes

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current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. New disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers are also required. In 2016, the FASB issued final amendments to clarify the implementation guidance for principal versus agent considerations, identifying performance obligations and the accounting for licenses of intellectual property. In August 2015, FASB issued *ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which effectively delayed the adoption date by one year. We are required to adopt ASU 2014-09 in the first quarter of Fiscal 2019 and early adoption is permitted. The new standard is required to be applied retrospectively to each prior reporting period (full retrospective method) or retrospectively with the cumulative effect of initially applying the standard recognized as an adjustment to opening retained earnings at the date of initial adoption (modified retrospective method).

We are in the process of analyzing the impacts of the guidance across all of our revenue streams. This includes reviewing current accounting policies and practices to identify potential differences that would result from applying the guidance. The majority of our revenue is generated from sales of finished products, which will continue to be recognized when control is transferred to the customer. Our assessment includes an evaluation of the impact that the guidance will have on our accounting for marketing revenue and other income streams. We are evaluating the guidance for our software license revenue, which is currently not material and is recognized over time, but may be recognized at a point in time under the new guidance. We are continuing to evaluate our revenue streams related to our digital product offerings and subscription-based services. We do not have loyalty programs or gift cards. While our assessment of the impacts of the guidance is still in process, we believe the adoption of the guidance is not expected to have a material impact on our condensed consolidated financial statements, other than the additional disclosure requirements. We plan to adopt the standard in the first quarter of Fiscal 2019 using the modified retrospective method.

#### **Note 4. Acquisitions**

##### ***Student Brands, LLC***

On August 3, 2017, we acquired 100% of the equity interests of Student Brands. Student Brands operates multiple direct-to-student businesses focused on Study Tools, Writing Help, and Literary Research, all centered around assisting students with the writing process.

We completed the purchase for cash consideration of \$61,997, including cash acquired of \$4,626, and the transaction was funded from cash on-hand and availability under our existing Credit Agreement. We are still in the process of valuing the assets acquired and liabilities assumed; thus, allocation of the acquisition consideration is subject to change and considered preliminary. The preliminary purchase price was allocated primarily as follows: \$28,300 intangible assets, \$1,593 acquired working capital and \$31,782 goodwill. This acquisition is not material to our consolidated financial statements and therefore, disclosure of pro forma financial information has not been presented. The results of operations reflect the period of ownership of the acquired business. Identified intangible assets include the following:

| Type of Intangible        | Amount           | Estimated Useful Life |
|---------------------------|------------------|-----------------------|
| Content                   | \$ 14,500        | 5                     |
| Technology                | 8,000            | 5                     |
| Non-Compete Agreements    | 4,000            | 3                     |
| Subscriber List           | 1,800            | 2                     |
| <b>Total Intangibles:</b> | <b>\$ 28,300</b> |                       |

##### ***MBS Textbook Exchange, LLC***

On February 27, 2017, we completed the purchase of all issued and outstanding units of MBS Textbook Exchange, LLC. MBS operates two highly integrated businesses. The MBS Direct business is the largest contract operator of virtual bookstores, operating 706 virtual bookstores for college and university campuses and private/parochial K-12 schools as of October 28, 2017. MBS Wholesale is one of the largest textbook wholesalers in the country, providing a comprehensive selection of new and used textbooks at a low cost of supply to more than 3,700 physical bookstores (as of April 29, 2017), including BNC's 777 campus bookstores. Refer to *Note 1. Organization* of this Form 10-Q for additional information about MBS.

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We acquired 100% of the equity interests of MBS for cash consideration of \$187,862, including cash and restricted cash acquired of \$1,171, and the acquisition was financed with cash from operations as well as proceeds from our existing credit facility. During the 13 weeks ended October 28, 2017, we finalized the valuation and recorded adjustments to the acquired liabilities which resulted in an increase to goodwill of \$1,163. These adjustments were related to a final reconciliation of the pre-acquisition tax liability due to the seller of \$888 under the purchase agreement, as well as a net \$275 increase in other long-term liabilities.

The following is a summary of consideration paid for the acquisition:

|  |    |          |
|--|----|----------|
| Cash paid to Seller or escrow  | \$ | 165,499  |
| Consideration to Seller for pre-closing costs                                  |    | 4,657    |
| Cash paid for Seller closing costs   |    | 4,044    |
| Contract purchase price  | \$ | 174,200  |
| Consideration for payment to settle Seller's outstanding short-term borrowings |    | 24,437   |
| Consideration for reimbursement of pre-acquisition tax liability to Seller     |    | 15,556   |
| Less: Consideration to Seller for pre-closing costs                            |    | (4,657)  |
| Less: Consideration for settlement of pre-existing payable to Seller           |    | (21,674) |
| Total value of consideration transferred                                       | \$ | 187,862  |

The following is a summary of the fair values of the net assets acquired:

|                                 |    |         |
|---------------------------------|----|---------|
| Total consideration transferred | \$ | 187,862 |
| Cash and cash equivalents       | \$ | 472     |
| Accounts receivable, net        |    | 28,177  |
| Merchandise inventory           |    | 128,431 |
| Property and equipment          |    | 12,403  |
| Intangible assets               |    | 21,576  |
| Prepaid and other assets        |    | 4,748   |
| Total assets                    | \$ | 195,807 |
| Accounts payable                | \$ | 35,383  |
| Accrued expenses                |    | 8,799   |
| Other long-term liabilities     |    | 13,044  |
| Total liabilities               | \$ | 57,226  |
| Net assets acquired             | \$ | 138,581 |
| Goodwill                        | \$ | 49,281  |

Identified intangible assets include the following:

| Type of Intangible           | Amount    | Estimated Useful Life |
|------------------------------|-----------|-----------------------|
| Favorable Lease              | \$ 1,076  | 6.5                   |
| Trade Name                   | 3,500     | 10                    |
| Technology                   | 1,500     | 3                     |
| Book Store Relationship      | 13,000    | 13                    |
| Direct Customer Relationship | 2,000     | 15                    |
| Non-Compete Agreements       | 500       | 3                     |
| Total Intangibles:           | \$ 21,576 |                       |

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**Note 5. Segment Reporting**

We identified our segments based on the way our business is managed (focusing on the financial information distributed) and the manner in which our chief operating decision maker allocates resources and assesses financial performance. Effective with the acquisition of MBS on February 27, 2017, we have determined that we operate two reportable segments: BNC and MBS. Prior to the acquisition of MBS, BNC was our only reportable segment. Our international operations are not material and the majority of the revenue and total assets are within the United States. For a description of the BNC and MBS businesses, refer to *Note 1. Organization* of this Form 10-Q.

The condensed consolidated financial statements for the 13 and 26 weeks ended October 28, 2017 include the financial results of MBS and all material intercompany accounts and transactions have been eliminated in consolidation. The eliminations are primarily related to the following intercompany activities:

- BNC purchases new and used textbooks from MBS for distribution at BNC's physical college bookstores. We eliminate the net sales from MBS and the intercompany profit in ending inventory, and
- MBS pays commissions to BNC for certain textbooks its sells to MBS that cannot be returned to suppliers or used in their stores. The commission is based on the volume of textbooks sold to MBS and with respect to the textbook requirements of certain distance learning programs that MBS fulfills on BNC's behalf.

*Intercompany Eliminations*

Sales eliminations represent the elimination of MBS sales to BNC and the elimination of BNC commissions earned from MBS. Cost of sales eliminations represent (i) the recognition of intercompany profit for BNC inventory that was purchased from MBS in a prior period that was subsequently sold to external customers during the current period, net of (ii) the elimination of intercompany profit for MBS inventory purchases by BNC that remain in ending inventory at the end of the current period. Gross margin eliminations reflect the net impact of the sales eliminations and cost of sales eliminations.

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Summarized financial information for our reportable segments is reported below:

|  | 13 weeks ended      |                     | 26 weeks ended      |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | October 28,<br>2017 | October 29,<br>2016 | October 28, 2017    | October 29, 2016    |
| <b>Sales:</b>                              |                     |                     |                     |                     |
| BNC  | \$ 761,787          | \$ 770,671          | \$ 1,011,764        | \$ 1,009,908        |
| MBS  | 134,851             | —                   | 274,652             | —                   |
| Elimination                                | (9,777)             | —                   | (43,844)            | —                   |
| <b>Total Sales</b>                         | <b>\$ 886,861</b>   | <b>\$ 770,671</b>   | <b>\$ 1,242,572</b> | <b>\$ 1,009,908</b> |
| <b>Gross Profit</b>                        |                     |                     |                     |                     |
| BNC  | \$ 171,725          | \$ 171,514          | \$ 220,462          | \$ 218,927          |
| MBS  | 33,175              | —                   | 60,764              | —                   |
| Elimination                                | 11,658              | —                   | 45                  | —                   |
| <b>Total Gross Profit</b>                  | <b>\$ 216,558</b>   | <b>\$ 171,514</b>   | <b>\$ 281,271</b>   | <b>\$ 218,927</b>   |
| <b>Depreciation and Amortization</b>       |                     |                     |                     |                     |
| BNC  | \$ 15,086           | \$ 12,987           | \$ 28,468           | \$ 25,908           |
| MBS  | 1,618               | —                   | 3,253               | —                   |
| <b>Total Depreciation and Amortization</b> | <b>\$ 16,704</b>    | <b>\$ 12,987</b>    | <b>\$ 31,721</b>    | <b>\$ 25,908</b>    |
| <b>Operating Income</b>                    |                     |                     |                     |                     |
| BNC <sup>(a),(b)</sup>                     | \$ 55,062           | \$ 56,760           | \$ (1,050)          | \$ 3,998            |
| MBS  | 16,536              | —                   | 28,722              | —                   |
| Elimination                                | 11,658              | —                   | 45                  | —                   |
| <b>Total Operating Income</b>              | <b>\$ 83,256</b>    | <b>\$ 56,760</b>    | <b>\$ 27,717</b>    | <b>\$ 3,998</b>     |

The following is a reconciliation of segment Operating Income to consolidated Income Before Income Taxes:

|   |                  |                  |                  |                 |
|---|------------------|------------------|------------------|-----------------|
| Total Operating Income                  | \$ 83,256        | \$ 56,760        | \$ 27,717        | \$ 3,998        |
| Interest Expense, net                   | (1,836)          | (630)            | (4,874)          | (1,296)         |
| <b>Total Income Before Income Taxes</b> | <b>\$ 81,420</b> | <b>\$ 56,130</b> | <b>\$ 22,843</b> | <b>\$ 2,702</b> |

(a) During the 26 weeks ended October 28, 2017, we recognized expenses totaling approximately \$5,361 related to the resignation of Mr. Max J. Roberts as Chief Executive Officer of the Company and the appointment of Mr. Michael P. Huseby to the position of Chief Executive Officer and Chairman of the Board, both effective as of September 19, 2017. For additional information, refer to *Note 9. Supplemental Information - Restructuring and Other Charges* of this Form 10-Q.

(b) On August 3, 2017, we acquired Student Brands, LLC, a leading direct-to-student subscription-based writing services business. The condensed consolidated financial statements for the 13 and 26 weeks ended October 28, 2017 include the financial results of Student Brands in the BNC segment from the date of acquisition, August 3, 2017, and the condensed consolidated financial statements for the 13 and 26 weeks ended October 29, 2016 exclude the financial results of Student Brands.

**Note 6. Equity and Earnings Per Share**

**Equity**

**Share Repurchases**

On December 14, 2015, our Board of Directors authorized a stock repurchase program of up to \$50,000, in the aggregate, of our outstanding Common Stock. The stock repurchase program is carried out at the direction of management (which 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.

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During the 26 weeks ended October 28, 2017, we did not repurchase shares of our common stock. As of October 28, 2017, approximately \$26,669 remains available under the stock repurchase program.

**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 and 26 weeks ended October 28, 2017, average shares of 918 and 506 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 loss per share calculation:

|   | 13 weeks ended      |                     | 26 weeks ended      |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | October 28,<br>2017 | October 29,<br>2016 | October 28,<br>2017 | October 29,<br>2016 |
| <b>Numerator for basic and diluted earnings per share:</b>      |                     |                     |                     |                     |
| Net income  | \$ 48,395           | \$ 29,289           | \$ 13,612           | \$ 1,373            |
| Less allocation of earnings to participating securities         | (16)                | (19)                | (4)                 | (1)                 |
| Net income available to common shareholders                     | \$ 48,379           | \$ 29,270           | \$ 13,608           | \$ 1,372            |
| <b>Numerator for diluted earnings per share:</b>                |                     |                     |                     |                     |
| Net income available to common shareholders                     | \$ 48,379           | \$ 29,270           | \$ 13,608           | \$ 1,372            |
| Allocation of earnings to participating securities              | 16                  | 19                  | 4                   | 1                   |
| Less diluted allocation of earnings to participating securities | (16)                | (19)                | (4)                 | (1)                 |
| Net income available to common shareholders                     | \$ 48,379           | \$ 29,270           | \$ 13,608           | \$ 1,372            |
| <b>Denominator for basic earnings per share:</b>                |                     |                     |                     |                     |
| Basic weighted average shares of Common Stock                   | 46,705              | 46,170              | 46,611              | 46,259              |
| <b>Denominator for diluted earnings per share:</b>              |                     |                     |                     |                     |
| Basic weighted average shares of Common Stock                   | 46,705              | 46,170              | 46,611              | 46,259              |
| Average dilutive restricted stock units                         | 162                 | 364                 | 389                 | 339                 |
| Average dilutive performance shares                             | 113                 | 35                  | 127                 | 24                  |
| Average dilutive restricted shares                              | 7                   | 24                  | 8                   | 30                  |
| Average dilutive performance share units                        | 19                  | —                   | 9                   | —                   |
| Average dilutive options  | —                   | —                   | —                   | —                   |
| Diluted weighted average shares of Common Stock                 | 47,006              | 46,593              | 47,144              | 46,652              |
| <b>Earnings per share of Common Stock:</b>                      |                     |                     |                     |                     |
| Basic   | \$ 1.04             | \$ 0.63             | \$ 0.29             | \$ 0.03             |
| Diluted   | \$ 1.03             | \$ 0.63             | \$ 0.29             | \$ 0.03             |

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**Note 7. Fair Values of Financial Instruments**

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

These tiers include:

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

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

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

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

**Note 8. Credit Facility**

On August 3, 2015, we and certain of our subsidiaries, entered into a credit agreement (the "Credit Agreement") under which the lenders committed to provide a five-year asset-backed revolving credit facility in an aggregate committed principal amount of \$400,000 (the "Credit Facility"). The Company has the option to request an increase in commitments under the Credit Facility of up to \$100,000 subject to certain restrictions.

On February 27, 2017, in connection with the acquisition of MBS, we amended the Credit Agreement with our current lenders to add a new \$100,000 incremental first in, last out seasonal loan facility (the "FILO Facility") increasing the maximum availability under the Credit Agreement to \$500,000.

For additional information including interest terms and covenant requirements related to the Credit Facility, refer to *Part II - Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity* in our Annual Report on Form 10-K for the year ended April 29, 2017.

During the 26 weeks ended October 28, 2017, we borrowed \$225,400 and repaid \$343,200 under the Credit Agreement, for a net total of \$41,800 of outstanding borrowings as of October 28, 2017, comprised of outstanding borrowings of \$41,800 and \$0 under the Credit Facility and FILO Facility, respectively. As of October 28, 2017, we have issued \$4,759 in letters of credit under the Credit Facility.

**Note 9. Supplementary Information**

**Restructuring and other charges**

***Restructuring***

In Fiscal 2016, we implemented a plan to restructure our digital education operations which was completed in the first quarter of Fiscal 2017, and was primarily comprised of costs related to employee matters. We recorded restructuring costs of \$68 and \$1,790 during the 26 weeks ended October 28, 2017 and October 29, 2016, respectively.

***Other Charges***

On July 19, 2017, Mr. Max J. Roberts resigned as Chief Executive Officer of the Company and Mr. Michael P. Huseby was appointed to the position of Chief Executive Officer and Chairman of the Board, both effective as of September 19, 2017. Pursuant to the terms of the Retirement Letter Agreement, Mr. Roberts received an aggregate payment of approximately \$4,424, comprised of salary, bonus and benefits. In addition, the Company paid Mr. Roberts and Mr. Huseby a one-time cash transition payment of approximately \$562 and \$250, respectively, at the time of the transition. During the 26 weeks ended October 28, 2017, we recognized expenses totaling approximately \$5,361, which is comprised of the severance and transition payments. For additional information, see the Form 8-K dated July 19, 2017, filed with the SEC on July 20, 2017.

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**Note 10. Barnes & Noble, Inc. Transactions**

***Our History with Barnes & Noble, Inc.***

On August 2, 2015, we completed the legal separation from Barnes & Noble, Inc. ("Spin-Off") at which time we began to operate as an independent publicly-traded company. In connection with the separation from Barnes & Noble, we entered into a Separation and Distribution Agreement with Barnes & Noble which governs the relationship between the parties after the separation and allocates between the parties various assets, liabilities, rights and obligations following the separation, including inventory purchases, employee benefits, intellectual property, information technology, insurance and tax-related assets and liabilities. The agreements also describe Barnes & Noble's future commitments to provide us with certain transition services following the Spin-Off. For information about our history with Barnes & Noble, Inc., see *Part II - Item 8. Financial Statements and Supplementary Data - Note 10. Barnes & Noble, Inc. Transactions* in our Annual Report on Form 10-K for the year ended April 29, 2017.

***Summary of Transactions with Barnes & Noble, Inc.***

During the 13 weeks ended October 28, 2017 and October 29, 2016, we were billed \$8,195 and \$7,928, respectively, for purchases of inventory and direct costs incurred under the agreements discussed above which are included as cost of sales, and selling and administrative expenses in the condensed consolidated statement of operations.

During the 26 weeks ended October 28, 2017 and October 29, 2016, we were billed \$15,023 and \$16,141, respectively, for purchases of inventory and direct costs incurred under the agreements discussed above which are included as cost of sales, and selling and administrative expenses in the condensed consolidated statement of operations.

As of October 28, 2017 and October 29, 2016, amounts due to Barnes & Noble, Inc. for book purchases and direct costs incurred under the agreements discussed above of \$9,619 and \$8,951 were included in accounts payable in the condensed consolidated balance sheets, respectively.

**Note 11. Related Party Transactions**

Prior to the acquisition of MBS on February 27, 2017, MBS was considered a related-party as it was majority-owned by Leonard Riggio, who is a principal owner holding a substantial percentage of shares of our common stock, and other members of the Riggio family.

Prior to the acquisition (as discussed in *Note 4. Acquisitions* of this Form 10Q), we had a long-term supply agreement ("Supply Agreement") with MBS, under which and subject to availability and competitive terms and conditions, we purchased new and used printed textbooks for a given academic term from MBS prior to buying them from other suppliers, other than in connection with student buy-back programs. During the 13 and 26 weeks ended October 29, 2016, total net purchases from MBS were \$15,034 and \$70,039, respectively. Additionally, the Supply Agreement provided that we may sell to MBS certain textbooks that we cannot return to suppliers or use in our stores. MBS paid us commissions based on the volume of these textbooks sold to MBS each year and with respect to the textbook requirements of certain distance learning programs that MBS fulfills on our behalf. During the 13 and 26 weeks ended October 29, 2016, MBS paid us \$2,055 and \$3,925, respectively, related to these commissions. In addition, the Supply Agreement contained restrictive covenants that limited our ability to become a used textbook wholesaler and that placed certain limitations on MBS's business activities. We also previously entered into an agreement with MBS pursuant to which MBS purchased books, which have no resale value for a flat rate per box, from us. During the 13 and 26 weeks ended October 29, 2016, total sales to MBS under this program were \$111 and \$165, respectively. Total outstanding amounts payable to MBS for all arrangements net of any amounts due was \$85,054 as of October 29, 2016.

Subsequent to the acquisition, the condensed consolidated financial statements include the accounts of MBS and all material intercompany accounts and transactions have been eliminated in consolidation.

MBS leases its main warehouse and distribution facility located in Columbia, Missouri from MBS Realty Partners L.P. which is majority-owned by Leonard Riggio, with the remaining ownership by other sellers of MBS. The lease was originally entered into in 1991 and included a renewal option which extended the lease through September 1, 2023. Based upon a valuation performed as of the acquisition date, the lease was determined to be favorable from a lessee perspective with below market rent. For additional information, see *Note 4. Acquisitions* of this Form 10Q. Rent payments to MBS Realty Partners L.P. were approximately \$345 and \$690 during the 13 and 26 weeks ended October 28, 2017, respectively.

**BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements**  
**For the 13 and 26 weeks ended October 28, 2017 and October 29, 2016**  
**(Thousands of dollars, except share and per share data)**  
**(unaudited)**

**Note 12. Employee Benefit Plans**

***BNC***

BNC has a defined contribution plan for its employees ("Savings Plan"). BNC is responsible for employer contributions to the Savings Plan and to fund the contributions directly. Total contributions charged to employee benefit expenses for this plan was \$998 and \$991 during the 13 weeks ended October 28, 2017 and October 29, 2016, respectively, and \$2,209 and \$2,240 during the 26 weeks ended October 28, 2017 and October 29, 2016, respectively.

***MBS***

MBS maintains a defined contribution and profit sharing plan ("Profit Sharing Plan") covering substantially all full-time employees of MBS. MBS transfers employee contributions to the account balances of their employees and is responsible to fund the employer contributions directly. Total employee benefit expenses for the Profit Sharing Plan was \$767 and \$1,555 during the 13 and 26 weeks ended October 28, 2017, respectively.

**Note 13. 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.

During the 26 weeks ended October 28, 2017, we granted the following awards:

- 537,756 performance share units ("PSU") awards to employees that will only vest based upon the achievement of pre-established performance goals related to Adjusted EBITDA and new business achieved measured over a period of time. The PSU awards will vest based on company performance during Fiscal 2018 - Fiscal 2019 with one additional year of time-based vesting. The number of PSU awards that will vest range from 0%-150% of the target award based on actual performance.
- 1,562,110 RSU awards were granted to employees with a three year vesting period in accordance with the Equity Incentive Plan;
- 78,816 RSU awards and 19,704 RS awards were granted to the current Board of Directors ("BOD") members for annual compensation with a one year vesting period in accordance with the Equity Incentive Plan.

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

|  | 13 weeks ended      |                     | 26 weeks ended      |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | October 28,<br>2017 | October 29,<br>2016 | October 28,<br>2017 | October 29,<br>2016 |
| Restricted stock expense                       | \$ 30               | \$ 70               | \$ 60               | \$ 220              |
| Restricted stock units expense <sup>(a)</sup>  | 2,140               | 2,282               | 4,040               | 3,878               |
| Performance shares expense <sup>(b)</sup>      | (265)               | 216                 | (333)               | 360                 |
| Performance share units expense <sup>(b)</sup> | 268                 | —                   | 386                 | —                   |
| Stock-based compensation expense               | <u>\$ 2,173</u>     | <u>\$ 2,568</u>     | <u>\$ 4,153</u>     | <u>\$ 4,458</u>     |

(a) The stock-based compensation expense for the restricted stock units reflect the forfeiture adjustment for unvested shares related to the CEO transition. See *Note 9. Supplementary Information - Restructuring and Other Charges* of this Form 10-Q for additional information.

(b) The performance shares and performance share units expenses reflect a cumulative adjustment to reflect changes to the expected level of achievement of the respective grants.

Total unrecognized compensation cost related to unvested awards as of October 28, 2017 was \$20,137 and is expected to be recognized over a weighted-average period of 2.3 years.

**BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements**  
**For the 13 and 26 weeks ended October 28, 2017 and October 29, 2016**  
**(Thousands of dollars, except share and per share data)**  
**(unaudited)**

**Note 14. Income Taxes**

We recorded an income tax expense of \$33,025 on pre-tax income of \$81,420 during the 13 weeks ended October 28, 2017, which represented an effective income tax rate of 40.6% and an income tax expense of \$26,841 on pre-tax income of \$56,130 during the 13 weeks ended October 29, 2016, which represented an effective income tax rate of 47.8%.

We recorded an income tax expense of \$9,231 on pre-tax income of \$22,843 during the 26 weeks ended October 28, 2017, which represented an effective income tax rate of 40.4% and an income tax expense of \$1,329 on pre-tax income of \$2,702 during the 26 weeks ended October 29, 2016, which represented an effective income tax rate of 49.2%

Management expects nondeductible compensation expense for the current fiscal year to be significantly lower compared to the prior fiscal year as components of our executive compensation program now qualify as deductible under Section 162(m) of the Internal Revenue Code. In addition, our income tax provision for the preceding two fiscal years reflected certain non-recurring tax benefits arising from the Spin-Off. Management does not expect any similar non-recurring tax benefits associated with the Spin-Off to impact our effective tax rate either in the current fiscal year or in future fiscal years.

**Note 15. Legal Proceedings**

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

## **Item 2: Management’s Discussion and Analysis of Financial Condition and Results of Operations**

*Unless the context otherwise indicates, references to “we,” “us,” “our” and “the Company” refer to Barnes & Noble Education, Inc., a Delaware corporation. References to “Barnes & Noble College” or “BNC” refer to our college bookstore business operated through our subsidiary Barnes & Noble College Booksellers, LLC. References to “MBS” refer to our virtual bookstore and wholesale textbook distribution business operated through our subsidiary MBS Textbook Exchange, LLC, a Delaware corporation.*

### **Overview**

#### ***Description of business***

Barnes & Noble Education, Inc. (“BNED”) is one of the largest contract operators of physical and virtual bookstores for higher education and K-12 institutions across the United States, one of the largest textbook wholesalers, and a leading provider of digital education services. Through its Barnes & Noble College (“BNC”) and MBS Textbook Exchange (“MBS”) subsidiaries, Barnes & Noble Education operates 1,483 physical and virtual bookstores and serves more than 6 million students, delivering essential educational content and tools within a dynamic retail environment. Through LoudCloud, its digital education platform, Barnes & Noble Education offers a suite of digital software, content and services that include predictive analytics, open educational resources (“OER”) courseware, competency-based solutions, and a learning management system. Additionally, through Student Brands, LLC, a leading direct-to-student subscription-based writing services business, BNC offers services focused on study tools, writing help, and literary research, all centered around assisting students with the writing process.

We believe our product offerings and services for students, faculty and administrators enable a more personalized learning experience, which improves student success rates and retention. We strive to be the first stop for students, educators and administrators by offering the most comprehensive resources available with our flexible physical and/or virtual bookstore options. The strengths of our business include our large footprint with well-recognized brand; our ability to meet students’ affordability needs; our comprehensive suite of course materials; our well-established, deep relationships with partners; direct access to students and faculty; integrated systems with our customers; and stable, long-term contracts. We expect to continue to grow our business by increasing market share with new accounts, introducing scalable and advanced digital solutions and expanding our strategic opportunities through acquisitions and partnerships.

Educational institutions increasingly are outsourcing bookstore operations, investing in data-driven analytical tools, and offering students more affordable options for textbooks and other learning tools. Given these continuing trends, we are well-positioned to capture new market share and partner with an increasing number of schools across the country. As demand for new, improved, and more affordable products and services increase in the rapidly changing education landscape, we are working to evolve our business model and enhance our solutions. We aim to be an even stronger partner for schools and meet customer needs by expanding our physical and virtual bookstore service capabilities, courseware offerings and digital platform services. We believe that our strategic actions, including the acquisition of LoudCloud, Promoversity, MBS, and Student Brands (discussed below) and development of courseware, have substantially enhanced our competitive position. We continue to aggressively innovate and collaborate with our partners to provide solutions that extend well beyond course materials sourcing and sales to include new digital services that support successful student outcomes.

For additional information related to our business, see *Part I - Item 1. Business* in our Annual Report on Form 10-K for the year ended April 29, 2017.

#### ***Acquisition of Student Brands, LLC***

On August 3, 2017, we acquired Student Brands. Student Brands is an education technology company that operates multiple direct-to-student businesses focused on Study Tools, Writing Help, and Literary Research, all centered around assisting students with the writing process. Student Brands generates revenue predominantly through its subscription-based services and digital advertisements. Student Brands has over 20 million unique monthly users across its digital properties, which include 123HelpMe.com, Bartleby.com and StudyMode.com in the United States and TrabalhosFeitos.com, Etudier.com and Monografias.com in Brazil, France and Mexico, respectively.

### **Segments**

We have two reportable segments: BNC and MBS.

BNC operates 777 physical campus bookstores as of October 28, 2017, the majority of which also have school-branded e-commerce sites operated by BNC, and BNC also includes our digital education operations and subscription-based writing services business. Our campus stores are a social and academic hub through which students can access affordable course materials and affinity products, including new and used print and digital textbooks, which are available for sale or rent, emblematic apparel and gifts, trade books, computer products, school and dorm supplies, café offerings, convenience food and beverages, and graduation products. BNC product offerings also include a suite of digital content, software, and services through our LoudCloud platform,

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such as predictive analytics, a variety of open educational resources ("OER") courseware, and competency-based learning solutions and a learning management system. Additionally, through Student Brands, BNC offers services focused on study tools, writing help, and literary research, all centered around assisting students with the writing process. During the 26 weeks ended October 28, 2017, BNC opened 24 stores, with estimated annual first year sales of \$49 million.

Our MBS subsidiary operates two highly integrated businesses. The MBS Direct business is the largest contract operator of virtual bookstores for college and university campuses and private/parochial K-12 schools. MBS Direct operates 706 virtual bookstores as of October 28, 2017, offering new and used print and digital textbooks, which are available for sale or rent. Additionally, MBS Direct sells textbooks directly to students through textbooks.com<sup>SM</sup>, one of the largest e-commerce sites for new and used textbooks. MBS Wholesale is one of the largest textbook wholesalers in the country, providing a comprehensive selection of new and used textbooks at a low cost of supply to more than 3,700 physical bookstores (as of April 29, 2017), including BNC's 777 campus bookstores. During the 26 weeks ended October 28, 2017, MBS Direct opened 14 stores, with estimated annual first year sales of \$3.8 million.

For additional information related to product and platform offerings for BNC and MBS, see *Part I - Item 1. Business* in our Annual Report on Form 10-K for the year ended April 29, 2017.

### **Trends and Other Factors Affecting Our Business**

Current trends and other factors affecting our business include:

- *Overall Economic Environment, College Enrollment and Consumer Spending Patterns:* Our business is affected by funding levels at colleges and universities, by changes in enrollments at colleges and universities, and spending on textbooks and general merchandise. The growth of our business depends on our ability to attract new students and to increase the level of engagement by existing students. For the 26 weeks ended October 28, 2017, our comparable store sales were impacted by lower average selling prices of course materials driven by lower publisher prices resulting from a shift to lower cost options and more affordable solutions, including digital. Additionally, comparable store sales declined for textbooks due to lower community college enrollment, increased consumer purchases directly from publishers and other online providers, and general weakness in the retail environment.
- *Supply Chain and Inventory:* Since the demand for used and new textbooks has historically been greater than the available supply, our financial results are highly dependent upon MBS Wholesale's ability to build its textbook inventory from suppliers in advance of the selling season. Some textbook publishers have begun to supply textbooks on consignment or rental programs which could impact used textbook supplies in the future.
- *Demand for Digital Offerings:* Over the longer-term, we anticipate significant new opportunities for our digital product offerings. Through our LoudCloud platform, we address the growing demand for alternative forms of educational materials and learning tools.
- *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 expect to continue to successfully renew our current contracts on favorable terms.
- *Campus Bookstore Outsourcing:* We continue to see increasing trends towards outsourcing in the campus bookstore market, including virtual bookstores and online marketplace websites. We also continue to see a variety of business models being pursued for the provision of textbooks, course materials and general merchandise. Contract costs, which are included in cost of sales, and primarily consist of the payments we make to the colleges and universities to operate their official bookstores (management service agreement costs), including rent expense, have generally increased as a percentage of sales as a result of increased competition for renewals and new store contracts.
- *Course Materials Market:* In addition to the competition in the services we provide to our customers, our textbook business faces significant price competition. Many students purchase from multiple textbook providers, are highly price sensitive and can easily shift spending from one provider or format to another. Some of our competitors have adopted, and may continue to adopt, aggressive pricing policies and devote substantial resources to marketing, website and systems development. As we expanded our textbook rental offerings, students have been shifting away from higher priced textbook purchases to lower priced rental options, which has resulted in lower textbook sales and increasing rental income.
- *Retail Environment:* BNC general merchandise sales, which are subject to short-term fluctuations driven by the broader retail environment, 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. During the 26 weeks ended October 28, 2017, our comparable store sales trends improved for general merchandise.

For additional information related to factors affecting our business, see *Part I - Item 1. Business - Trends and Other Factors Affecting Our Business* in our Annual Report on Form 10-K for the year ended April 29, 2017.

**Elements of Results of Operations**

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”). On February 27, 2017, we acquired MBS Textbook Exchange, LLC and on August 3, 2017 we acquired Student Brands, LLC. The results of operations for the 13 and 26 weeks ended October 28, 2017 include the financial results of both MBS and Student Brands and all material intercompany accounts and transactions have been eliminated in consolidation. The results of operations for the 13 and 26 weeks ended October 29, 2016 exclude the financial results of MBS and Student Brands.

Our sales are primarily derived from the sale of course materials (which include new and used textbooks and digital textbooks). Our rental income is primarily derived from the rental of physical and digital textbooks. At college and university bookstores which we operate, we sell emblematic apparel and gifts, trade books, computer products, school and dorm supplies, convenience and café items and graduation products. We also derive revenue from sales related to inventory management, hardware and point-of-sale software and direct-to-student subscription-based writing services.

Our cost of sales primarily include costs such as merchandise costs, textbook rental amortization, payroll costs, as well as warehouse costs related to inventory management and order fulfillment, 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 executive oversight, merchandising, procurement, field support, finance, human resources, benefits, training, legal, and information technology, as well as our investments in our digital platform and subscription-based writing services.

**Results of Operations - Summary**

| <i>Dollars in thousands</i>                        | 13 weeks ended    |                   | 26 weeks ended      |                     |
|--|-------------------|-------------------|---------------------|---------------------|
|  | October 28, 2017  | October 29, 2016  | October 28, 2017    | October 29, 2016    |
| <b>Sales:</b>                                      |                   |                   |                     |                     |
| Product sales and other                            | \$ 817,825        | \$ 697,927        | \$ 1,152,327        | \$ 915,663          |
| Rental income                                      | 69,036            | 72,744            | 90,245              | 94,245              |
| <b>Total sales</b>                                 | <b>\$ 886,861</b> | <b>\$ 770,671</b> | <b>\$ 1,242,572</b> | <b>\$ 1,009,908</b> |
| <b>Net income</b>                                  | <b>\$ 48,395</b>  | <b>\$ 29,289</b>  | <b>\$ 13,612</b>    | <b>\$ 1,373</b>     |
| <b>Adjusted Earnings (non-GAAP) <sup>(a)</sup></b> | <b>\$ 49,914</b>  | <b>\$ 29,683</b>  | <b>\$ 20,137</b>    | <b>\$ 3,798</b>     |
| <b>Adjusted EBITDA (non-GAAP) <sup>(a)</sup></b>   |                   |                   |                     |                     |
| BNC  | \$ 71,598         | \$ 70,391         | \$ 34,693           | \$ 33,867           |
| MBS  | 19,179            | —                 | 35,248              | —                   |
| Elimination  | 11,658            | —                 | 45                  | —                   |
| <b>Total Adjusted EBITDA (non-GAAP)</b>            | <b>\$ 102,435</b> | <b>\$ 70,391</b>  | <b>\$ 69,986</b>    | <b>\$ 33,867</b>    |

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

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**Store Count**

| Number of Stores:                     | 13 weeks ended October 28, 2017 |                   | 13 weeks ended October 29, 2016 |
|---------------------------------------|---------------------------------|-------------------|---------------------------------|
|                                       | BNC Stores                      | MBS Direct Stores | BNC Stores                      |
| Opened                                | —                               | 4                 | 1                               |
| Closed                                | 4                               | 12                | —                               |
| Opened at end of period               | 777                             | 706               | 771                             |
| Comparable store sales <sup>(a)</sup> | (4.4)%                          | N/A               | (3.2)%                          |

| Number of Stores:                     | 26 weeks ended October 28, 2017 |                   | 26 weeks ended October 29, 2016 |
|---------------------------------------|---------------------------------|-------------------|---------------------------------|
|                                       | BNC Stores                      | MBS Direct Stores | BNC Stores                      |
| Opened                                | 24                              | 14                | 34                              |
| Closed                                | 16                              | 20                | 14                              |
| Opened at end of period               | 777                             | 706               | 771                             |
| Comparable store sales <sup>(a)</sup> | (3.9)%                          | N/A               | (3.3)%                          |

(a) For BNC, effective for the first quarter of Fiscal 2017, comparable store sales includes sales from stores that have been open for an entire fiscal year period, does not include sales from closed stores for all periods presented, and digital agency sales are included on a gross basis. We believe the current comparable store sales calculation method better reflects the manner in which management views comparable sales, as well as the seasonal nature of our business. Prior year comparable store sales have been updated to exclude store inventory sales to MBS, which are reflected as intercompany inventory transfers since the acquisition.

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

|  | 13 weeks ended   |                  | 26 weeks ended   |                  |
|--|------------------|------------------|------------------|------------------|
|  | October 28, 2017 | October 29, 2016 | October 28, 2017 | October 29, 2016 |
| <b>Sales:</b>                                  |                  |                  |                  |                  |
| Product sales and other                        | 92.2%            | 90.6%            | 92.7%            | 90.7%            |
| Rental income                                  | 7.8              | 9.4              | 7.3              | 9.3              |
| Total sales                                    | 100.0            | 100.0            | 100.0            | 100.0            |
| <b>Cost of sales:</b>                          |                  |                  |                  |                  |
| Product and other cost of sales <sup>(a)</sup> | 76.9             | 79.4             | 78.7             | 80.0             |
| Rental cost of sales <sup>(a)</sup>            | 60.1             | 61.4             | 60.6             | 62.1             |
| Total cost of sales                            | 75.6             | 77.7             | 77.4             | 78.3             |
| Gross margin                                   | 24.4             | 22.3             | 22.6             | 21.7             |
| Selling and administrative expenses            | 13.0             | 13.1             | 17.3             | 18.3             |
| Depreciation and amortization expense          | 1.9              | 1.7              | 2.6              | 2.6              |
| Restructuring and other charges                | —                | —                | 0.4              | 0.2              |
| Transaction costs                              | 0.1              | 0.1              | 0.1              | 0.2              |
| Operating Income                               | 9.4%             | 7.4%             | 2.2%             | 0.4%             |

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

**Results of Operations - 13 and 26 weeks ended October 28, 2017 compared with the 13 and 26 weeks ended October 29, 2016**

| <i>Dollars in thousands</i>           | 13 weeks ended, October 28, 2017 |                    |                  | October 28,<br>2017 <sup>(a),(b)</sup> | 13 weeks ended      |
|---------------------------------------|----------------------------------|--------------------|------------------|--|---------------------|
|                                       | BNC <sup>(a)</sup>               | MBS <sup>(b)</sup> | Eliminations     |  | October 29,<br>2016 |
| <b>Sales:</b>                         |                                  |                    |                  |  |                     |
| Product sales and other               | \$ 694,585                       | \$ 133,017         | \$ (9,777)       | \$ 817,825                             | \$ 697,927          |
| Rental income                         | 67,202                           | 1,834              | —                | 69,036                                 | 72,744              |
| <b>Total sales</b>                    | <b>761,787</b>                   | <b>134,851</b>     | <b>(9,777)</b>   | <b>886,861</b>                         | <b>770,671</b>      |
| <b>Cost of sales:</b>                 |                                  |                    |                  |  |                     |
| Product and other cost of sales       | 549,625                          | 100,649            | (21,435)         | 628,839                                | 554,498             |
| Rental cost of sales                  | 40,437                           | 1,027              | —                | 41,464                                 | 44,659              |
| <b>Total cost of sales</b>            | <b>590,062</b>                   | <b>101,676</b>     | <b>(21,435)</b>  | <b>670,303</b>                         | <b>599,157</b>      |
| Gross profit                          | 171,725                          | 33,175             | 11,658           | 216,558                                | 171,514             |
| Selling and administrative expenses   | 100,127                          | 15,021             | —                | 115,148                                | 101,123             |
| Depreciation and amortization expense | 15,086                           | 1,618              | —                | 16,704                                 | 12,987              |
| Restructuring and other charges       | 193                              | —                  | —                | 193                                    | —                   |
| Transaction costs                     | 1,257                            | —                  | —                | 1,257                                  | 644                 |
| <b>Operating income</b>               | <b>\$ 55,062</b>                 | <b>\$ 16,536</b>   | <b>\$ 11,658</b> | <b>\$ 83,256</b>                       | <b>\$ 56,760</b>    |

| <i>Dollars in thousands</i>           | 26 weeks ended, October 28, 2017 |                    |                 | October 28,<br>2017 <sup>(a),(b)</sup> | 26 weeks ended      |
|---------------------------------------|----------------------------------|--------------------|-----------------|--|---------------------|
|                                       | BNC <sup>(a)</sup>               | MBS <sup>(b)</sup> | Eliminations    |  | October 29,<br>2016 |
| <b>Sales:</b>                         |                                  |                    |                 |  |                     |
| Product sales and other               | \$ 924,128                       | \$ 272,043         | \$ (43,844)     | \$ 1,152,327                           | \$ 915,663          |
| Rental income                         | 87,636                           | 2,609              | —               | 90,245                                 | 94,245              |
| <b>Total sales</b>                    | <b>1,011,764</b>                 | <b>274,652</b>     | <b>(43,844)</b> | <b>1,242,572</b>                       | <b>1,009,908</b>    |
| <b>Cost of sales:</b>                 |                                  |                    |                 |  |                     |
| Product and other cost of sales       | 738,014                          | 212,455            | (43,889)        | 906,580                                | 732,492             |
| Rental cost of sales                  | 53,288                           | 1,433              | —               | 54,721                                 | 58,489              |
| <b>Total cost of sales</b>            | <b>791,302</b>                   | <b>213,888</b>     | <b>(43,889)</b> | <b>961,301</b>                         | <b>790,981</b>      |
| Gross profit                          | 220,462                          | 60,764             | 45              | 281,271                                | 218,927             |
| Selling and administrative expenses   | 185,769                          | 28,789             | —               | 214,558                                | 185,060             |
| Depreciation and amortization expense | 28,468                           | 3,253              | —               | 31,721                                 | 25,908              |
| Restructuring and other charges       | 5,429                            | —                  | —               | 5,429                                  | 1,790               |
| Transaction costs                     | 1,846                            | —                  | —               | 1,846                                  | 2,171               |
| <b>Operating (loss) income</b>        | <b>\$ (1,050)</b>                | <b>\$ 28,722</b>   | <b>\$ 45</b>    | <b>\$ 27,717</b>                       | <b>\$ 3,998</b>     |

(a) On August 3, 2017, we acquired Student Brands, LLC, a leading direct-to-student subscription-based writing services business. The condensed consolidated financial statements for the 13 and 26 weeks ended October 28, 2017 include the financial results of Student Brands in the BNC segment from the date of acquisition, August 3, 2017, and the condensed consolidated financial statements for the 13 and 26 weeks ended October 29, 2016 exclude the financial results of Student Brands.

(b) On February 27, 2017, we acquired MBS. The results of operations for the 13 and 26 weeks ended October 28, 2017 include the financial results of MBS and all material intercompany accounts and transactions have been eliminated in consolidation. The results of operations for the 13 and 26 weeks ended October 29, 2016 exclude the financial results of MBS.

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**Sales**

The following table summarizes our sales for the 13 and 26 weeks ended October 28, 2017 and October 29, 2016:

| <i>Dollars in thousands</i> | 13 weeks ended    |                   |              | 26 weeks ended      |                     |              |
|-----------------------------|-------------------|-------------------|--------------|---------------------|---------------------|--------------|
|                             | October 28, 2017  | October 29, 2016  | %            | October 28, 2017    | October 29, 2016    | %            |
| Product sales and other     | \$ 817,825        | \$ 697,927        | 17.2%        | \$ 1,152,327        | \$ 915,663          | 25.8%        |
| Rental income               | 69,036            | 72,744            | (5.1)%       | 90,245              | 94,245              | (4.2)%       |
| <b>Total Sales</b>          | <b>\$ 886,861</b> | <b>\$ 770,671</b> | <b>15.1%</b> | <b>\$ 1,242,572</b> | <b>\$ 1,009,908</b> | <b>23.0%</b> |

Our sales increased \$116.2 million, or 15.1%, to \$886.9 million during the 13 weeks ended October 28, 2017 from \$770.7 million during the 13 weeks ended October 29, 2016. Our sales increased \$232.7 million, or 23.0%, to \$1,242.6 million during the 26 weeks ended October 28, 2017 from \$1,009.9 million during the 26 weeks ended October 29, 2016. Sales increased primarily due to the acquisition of MBS and Student Brands, partially offset by BNC comparable sales declines primarily due to lower student enrollment, specifically in two-year community colleges, increased consumer purchases directly from publishers and other online providers, and general weakness in the retail environment. The components of the variances for the 13 and 26 week periods are reflected in the table below.

| <i>Dollars in millions</i>         | 13 weeks ended   |                  |  | 26 weeks ended   |                  |  |
|------------------------------------|------------------|------------------|--|------------------|------------------|--|
|                                    | October 28, 2017 | October 29, 2016 |  | October 28, 2017 | October 29, 2016 |  |
| <b>Sales variances</b>             |                  |                  |  |                  |                  |  |
| <b>MBS Sales <sup>(a)</sup></b>    |                  |                  |  |                  |                  |  |
| Wholesale                          | \$ 47.5          | \$ —             |  | \$ 140.0         | \$ —             |  |
| Direct                             | 87.4             | —                |  | 134.7            | —                |  |
| <b>MBS Sales subtotal:</b>         | <b>\$ 134.9</b>  | <b>\$ —</b>      |  | <b>\$ 274.7</b>  | <b>\$ —</b>      |  |
| <b>BNC Sales</b>                   |                  |                  |  |                  |                  |  |
| New stores                         | \$ 26.3          | \$ 50.0          |  | \$ 41.7          | \$ 58.5          |  |
| Closed stores                      | (5.2)            | (10.7)           |  | (7.5)            | (12.5)           |  |
| Comparable stores                  | (33.8)           | (24.5)           |  | (38.6)           | (32.6)           |  |
| Textbook rental deferral           | 2.2              | (3.6)            |  | 3.6              | (2.2)            |  |
| Service revenue <sup>(b)</sup>     | 4.5              | 2.3              |  | 6.4              | 2.4              |  |
| Other <sup>(c)</sup>               | (2.9)            | 1.3              |  | (3.7)            | 1.5              |  |
| <b>BNC Sales subtotal:</b>         | <b>\$ (8.9)</b>  | <b>\$ 14.8</b>   |  | <b>\$ 1.9</b>    | <b>\$ 15.1</b>   |  |
| <b>Eliminations <sup>(d)</sup></b> | <b>\$ (9.8)</b>  | <b>\$ —</b>      |  | <b>\$ (43.9)</b> | <b>\$ —</b>      |  |
| <b>Total sales variance</b>        | <b>\$ 116.2</b>  | <b>\$ 14.8</b>   |  | <b>\$ 232.7</b>  | <b>\$ 15.1</b>   |  |

(a) Represents sales for MBS for the 13 and 26 weeks ended October 28, 2017. MBS's business is highly seasonal. For MBS's retail operations (virtual bookstores), a major portion of sales and operating profit are realized during the second and third quarters, when students generally purchase and rent textbooks for the upcoming semesters. For MBS's wholesale business, a major portion of sales and operating profit is realized during the first, second and third fiscal quarters, as it sells textbooks for retail distribution, which somewhat offsets the decreased first quarter sales attributable to our retail business. MBS has significantly lower operating profit or operating loss realized during the fourth quarter.

(b) Service revenue includes Student Brands, brand partnerships, Promoversity, LoudCloud, shipping and handling and revenue from other programs.

(c) Other includes certain adjusting items related to return reserves and other deferred items.

(d) Eliminates MBS sales to BNC and BNC commissions earned from MBS. See *Part I - Item 1. Financial Statements - Note 5. Segment Reporting* of this Form 10-Q for a discussion of intercompany activities and eliminations.

Rental income for BNC for the 13 and 26 weeks ended October 28, 2017 decreased by \$5.5 million, or 7.6%, and \$6.6 million, or 7.0%, respectively. For the 13 and 26 weeks ended October 28, 2017, rental income for BNC was impacted by an increase in the recognition of our previously deferred rental revenue of \$2.2 million and \$3.6 million, respectively, and decreased rental activity. Excluding the impact of the deferred revenue, rental income decreased by \$7.8 million, or 6.5% and \$10.2 million, or 7.5%, respectively.

BNC added 24 new stores and closed 16 stores during the 26 weeks ended October 28, 2017, ending the period with a total of 777 stores.

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Comparable store sales variances for BNC by category for the 13 and 26 week periods are as follows:

| <b>Comparable Store Sales variances-BNC</b> | 13 weeks ended   |               |                  |               | 26 weeks ended   |               |                  |               |
|---|------------------|---------------|------------------|---------------|------------------|---------------|------------------|---------------|
|   | October 28, 2017 |               | October 29, 2016 |               | October 28, 2017 |               | October 29, 2016 |               |
| <i>Dollars in millions</i>                  |                  |               |                  |               |                  |               |                  |               |
| Textbooks                                   | \$ (28.9)        | (5.0)%        | \$ (21.2)        | (3.7)%        | \$ (36.5)        | (5.5)%        | \$ (30.0)        | (4.4)%        |
| General Merchandise                         | (3.4)            | (1.9)%        | (2.3)            | (1.3)%        | 0.2              | 0.1 %         | (0.7)            | (0.2)%        |
| Trade Books                                 | (1.5)            | (11.2)%       | (0.8)            | (5.6)%        | (2.2)            | (8.3)%        | (1.5)            | (5.2)%        |
| Other                                       | —                | — %           | (0.2)            | (88.0)%       | (0.1)            | (88.2)%       | (0.4)            | (88.7)%       |
| <b>Total Comparable Store Sales</b>         | <b>\$ (33.8)</b> | <b>(4.4)%</b> | <b>\$ (24.5)</b> | <b>(3.2)%</b> | <b>\$ (38.6)</b> | <b>(3.9)%</b> | <b>\$ (32.6)</b> | <b>(3.3)%</b> |

Comparable store sales for BNC decreased for the 13 and 26 week sales periods. Comparable store sales were impacted primarily due to lower average selling prices of course materials driven by lower publisher prices resulting from a shift to lower cost options and more affordable solutions, including digital. Comparable store sales were also impacted by lower student enrollment, specifically in two-year community colleges, increased consumer purchases directly from publishers and other online providers, and other recent negative retail trends. The components of the variances are reflected in the table above.

Textbook revenue for BNC for the 13 and 26 weeks ended October 28, 2017 decreased primarily due to lower new and used textbook sales and rentals as discussed above, while eTextbook revenue increased. General merchandise sales for BNC decreased for the 13 weeks ended October 28, 2017 primarily due to a decrease in school supplies, computer and convenience product sales, partially offset by higher emblematic apparel and graduation products sales. General merchandise sales for BNC increased for the 26 weeks ended October 28, 2017 primarily due to higher emblematic apparel and graduation products sales, partially offset by a decrease in convenience and computer product sales.

**Cost of Sales and Gross Margin**

Our cost of sales decreased as a percentage of sales to 75.6% during the 13 weeks ended October 28, 2017 compared to 77.7% during the 13 weeks ended October 29, 2016. Our gross margin increased by \$45.0 million, or 26.3%, to \$216.6 million, or 24.4% of sales, during the 13 weeks ended October 28, 2017 from \$171.5 million, or 22.3% of sales, during the 13 weeks ended October 29, 2016.

Our cost of sales decreased as a percentage of sales to 77.4% during the 26 weeks ended October 28, 2017 compared to 78.3% during the 26 weeks ended October 29, 2016. Our gross margin increased by \$62.3 million, or 28.5%, to \$281.3 million, or 22.6% of sales, during the 26 weeks ended October 28, 2017 from \$218.9 million, or 21.7% of sales, during the 26 weeks ended October 29, 2016.

*Intercompany Eliminations*

During the 13 and 26 weeks ended October 28, 2017, our sales eliminations were \$(9.8) million and \$(43.8) million, respectively. These sales eliminations represent the elimination of MBS sales to BNC and the elimination of BNC commissions earned from MBS.

During the 13 and 26 weeks ended October 28, 2017, the cost of sales eliminations were \$(21.4) million and \$(43.9) million, respectively. These cost of sales eliminations represent (i) the recognition of intercompany profit for BNC inventory that was purchased from MBS in a prior period that was subsequently sold to external customers during the current period, net of (ii) the elimination of intercompany profit for MBS inventory purchases by BNC that remain in ending inventory at the end of the current period.

The \$11.7 million and \$0.1 million of gross margin elimination reflects the net impact of the sales eliminations and cost of sales eliminations during the 13 and 26 weeks ended October 28, 2017, respectively.

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*MBS*

The cost of sales and gross margin for MBS was \$101.7 million or 75.4% of sales and \$33.2 million or 24.6% of sales, respectively, during the 13 weeks ended October 28, 2017. The cost of sales and gross margin for MBS was \$213.9 million or 77.9% of sales and \$60.8 million or 22.1% of sales, respectively, during the 26 weeks ended October 28, 2017. The MBS gross margin as a percentage of sales is impacted by the seasonality of their business. For MBS's retail operations (virtual bookstores), a major portion of sales and operating profit are realized during the second and third quarters, when students generally purchase and rent textbooks for the upcoming semesters. For MBS's wholesale business, a major portion of sales and operating profit is realized during the first, second and third fiscal quarters, as it sells textbooks for retail distribution, which somewhat offsets the decreased first quarter sales attributable to our retail business. For the 13 and 26 weeks ended October 28, 2017, the margin impact was primarily due to certain fixed warehouse facility and operation costs, as well as the incremental cost of sales of \$1.0 million and \$3.3 million during the 13 weeks and 26 weeks ended October 28, 2017, respectively, related to recording MBS inventory at fair value as of the acquisition date. The non-cash fair value inventory adjustment of \$3.7 million for MBS was recognized over six months from the date of acquisition and was allocated based on monthly sales. Excluding the \$1.0 million inventory fair value amortization, cost of sales and gross margin for MBS was \$100.7 million or 74.6% of sales and \$34.2 million or 25.4% of sales, respectively, during the 13 weeks ended October 28, 2017. Excluding the \$3.3 million inventory fair value amortization, cost of sales and gross margin for MBS was \$210.6 million or 76.7% of sales and \$64.0 million or 23.3% of sales, respectively, during the 26 weeks ended October 28, 2017.

*BNC*

The following table summarizes the BNC cost of sales for the 13 and 26 weeks ended October 28, 2017 and October 29, 2016:

| <i>Dollars in thousands</i>     | 13 weeks ended      |                       |                     |                       | 26 weeks ended      |                       |                     |                       |
|---------------------------------|---------------------|-----------------------|---------------------|-----------------------|---------------------|-----------------------|---------------------|-----------------------|
|                                 | October 28,<br>2017 | % of<br>Related Sales | October 29,<br>2016 | % of<br>Related Sales | October 28,<br>2017 | % of<br>Related Sales | October 29,<br>2016 | % of<br>Related Sales |
| Product and other cost of sales | \$ 549,625          | 79.1%                 | \$ 554,498          | 79.4%                 | \$ 738,014          | 79.9%                 | \$ 732,492          | 80.0%                 |
| Rental cost of sales            | 40,437              | 60.2%                 | 44,659              | 61.4%                 | 53,288              | 60.8%                 | 58,489              | 62.1%                 |
| <b>Total Cost of Sales</b>      | <b>\$ 590,062</b>   | <b>77.5%</b>          | <b>\$ 599,157</b>   | <b>77.7%</b>          | <b>\$ 791,302</b>   | <b>78.2%</b>          | <b>\$ 790,981</b>   | <b>78.3%</b>          |

The following table summarizes the BNC gross margin for the 13 and 26 weeks ended October 28, 2017 and October 29, 2016:

| <i>Dollars in thousands</i>    | 13 weeks ended      |                       |                     |                       | 26 weeks ended      |                       |                     |                       |
|--------------------------------|---------------------|-----------------------|---------------------|-----------------------|---------------------|-----------------------|---------------------|-----------------------|
|                                | October 28,<br>2017 | % of<br>Related Sales | October 29,<br>2016 | % of<br>Related Sales | October 28,<br>2017 | % of<br>Related Sales | October 29,<br>2016 | % of<br>Related Sales |
| Product and other gross margin | \$ 144,960          | 20.9%                 | \$ 143,429          | 20.6%                 | \$ 186,114          | 20.1%                 | \$ 183,171          | 20.0%                 |
| Rental gross margin            | 26,765              | 39.8%                 | 28,085              | 38.6%                 | 34,348              | 39.2%                 | 35,756              | 37.9%                 |
| <b>Gross Margin</b>            | <b>\$ 171,725</b>   | <b>22.5%</b>          | <b>\$ 171,514</b>   | <b>22.3%</b>          | <b>\$ 220,462</b>   | <b>21.8%</b>          | <b>\$ 218,927</b>   | <b>21.7%</b>          |

For the 13 weeks ended October 28, 2017, the BNC gross margin as a percentage of sales increased as discussed below:

- Product and other gross margin increased (30 basis points), driven primarily by high margin Student Brands subscription service revenue earned (65 basis points), and lower costs related to our college and university contracts (20 basis points) resulting from contract renewals and new store contracts. This increase was partially offset by an unfavorable sales mix (50 basis points) resulting from a decrease in higher margin used textbooks and general merchandise as a percentage of sales and lower margin rates (5 basis points) related to increased markdowns on textbooks.
- Rental gross margin increased (125 basis points), driven primarily by higher rental margin rates (155 basis points) and lower costs related to our college and university contracts (10 basis points) resulting from contract renewals and new store contracts, partially offset by an unfavorable rental mix (40 basis points).

For the 26 weeks ended October 28, 2017, the BNC gross margin as a percentage of sales increased as discussed below:

- Product and other gross margin increased (15 basis points), driven primarily by Student Brands subscription service revenue earned (50 basis points), and lower costs related to our college and university contracts (20 basis points) resulting from contract renewals and new store contracts. This increase was partially offset by lower margin rates (40 basis points) related to increased markdowns on textbooks and an unfavorable sales mix (15 basis points) resulting from a decrease in higher margin used textbooks as a percentage of sales.

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- Rental gross margin increased (125 basis points), driven primarily by higher rental margin rates (195 basis points), partially offset by higher costs related to our college and university contracts (30 basis points) resulting from contract renewals and new store contracts and an unfavorable rental mix (40 basis points).

**Selling and Administrative Expenses**

| <i>Dollars in thousands</i>               | 13 weeks ended   |            |                  |            | 26 weeks ended   |            |                  |            |
|---|------------------|------------|------------------|------------|------------------|------------|------------------|------------|
|   | October 28, 2017 | % of Sales | October 29, 2016 | % of Sales | October 28, 2017 | % of Sales | October 29, 2016 | % of Sales |
| Total Selling and Administrative Expenses | \$ 115,148       | 13.0%      | \$ 101,123       | 13.1%      | \$ 214,558       | 17.3%      | \$ 185,060       | 18.3%      |

During the 13 weeks ended October 28, 2017, selling and administrative expenses increased by \$14.0 million, or 13.9%, to \$115.1 million from \$101.1 million during the 13 weeks ended October 29, 2016. During the 26 weeks ended October 28, 2017, selling and administrative expenses increased by \$29.5 million, or 15.9%, to \$214.6 million from \$185.1 million during the 26 weeks ended October 29, 2016. The increase for the 13 and 26 weeks was primarily due to the selling and administrative expenses for MBS of \$15.0 million and \$28.8 million, respectively (which includes a \$1.7 million and \$3.4 million selling and administrative expense allocation from BNC for shared corporate overhead, during the 13 and 26 weeks ended October 28, 2017, respectively).

During the 13 weeks ended October 28, 2017, BNC's selling and administrative expenses decreased by \$1.0 million, or 1.0%, to \$100.1 million from \$101.1 million. The decrease was primarily due to a \$2.6 million decrease in comparable store payroll and operating expenses and \$1.7 million of shared corporate overhead costs allocated to MBS. These decreases were partially offset by a \$1.4 million increase in new store payroll and operating expenses (net of closed stores), as a result of a \$21.1 million increase in new store sales (net of closed stores), and a \$1.9 million increase in Student Brands expenses.

During the 26 weeks ended October 28, 2017, BNC's selling and administrative expenses increased by \$0.7 million, or 0.4%, to \$185.8 million from \$185.1 million. The increase was primarily due a \$3.6 million increase in new store payroll and operating expenses (net of closed stores), as a result of a \$34.2 million increase in new store sales (net of closed stores), and a \$2.0 million increase in corporate overhead, including digital expenses, and a \$1.9 increase due to Student Brands. These increases were partially offset by a \$3.4 million decrease in comparable store payroll and operating expenses and \$3.4 million of shared corporate overhead costs allocated to MBS.

**Depreciation and Amortization Expense**

| <i>Dollars in thousands</i>                 | 13 weeks ended   |            |                  |            | 26 weeks ended   |            |                  |            |
|---|------------------|------------|------------------|------------|------------------|------------|------------------|------------|
|   | October 28, 2017 | % of Sales | October 29, 2016 | % of Sales | October 28, 2017 | % of Sales | October 29, 2016 | % of Sales |
| Total Depreciation and Amortization Expense | \$ 16,704        | 1.9%       | \$ 12,987        | 1.7%       | \$ 31,721        | 2.6%       | \$ 25,908        | 2.6%       |

Depreciation and amortization expense increased by \$3.7 million, or 28.6%, to \$16.7 million during the 13 weeks ended October 28, 2017 from \$13.0 million during the 13 weeks ended October 29, 2016. Depreciation and amortization expense increased by \$5.8 million, or 22.4%, to \$31.7 million during the 26 weeks ended October 28, 2017 from \$25.9 million during the 26 weeks ended October 29, 2016. This increase was primarily attributable to incremental depreciation and amortization expense resulting from the acquisitions of MBS and Student Brands associated with the property and equipment and identified intangibles recorded at fair value as of the respective acquisition dates and additional capital expenditures for BNC.

**Restructuring and other charges**

**Restructuring**

In Fiscal 2016, in our BNC segment, we implemented a plan to restructure our digital education operations and we announced a reduction in staff and closure of the facilities in Mountain View, California, and Redmond, Washington, which was completed during the first quarter of Fiscal 2017. We recorded restructuring costs of \$0.2 million and \$1.8 million during the 26 weeks ended October 28, 2017 and October 29, 2016, respectively.

**Other Charges**

On July 19, 2017, Mr. Max J. Roberts resigned as Chief Executive Officer of the Company and Mr. Michael P. Huseby was appointed to the position of Chief Executive Officer and Chairman of the Board, both effective as of September 19, 2017. During the 26 weeks ended October 28, 2017, we recognized expenses totaling approximately \$5.4 million, which is comprised of the severance and transition payments as well as related expenses. For additional information, see *Part I - Item 1. Financial Statements - Note 9. Supplementary Information* in this Form 10-Q or the Form 8-K dated July 19, 2017, filed with the SEC on July 20, 2017.

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**Transaction Costs**

Transaction costs were \$1.3 million and \$1.8 million during the 13 and 26 weeks ended October 28, 2017 compared to \$0.6 million and \$2.2 million during the 13 and 26 weeks ended October 29, 2016, respectively. We incur transaction costs for business development and acquisitions as discussed above. For additional information related to our recent acquisitions, see *Part I - Item 1. Financial Statements - Note 4. Acquisitions* in this Form 10-Q.

**Operating Income**

| <i>Dollars in thousands</i> | 13 weeks ended   |            |                  |            | 26 weeks ended   |            |                  |            |
|-----------------------------|------------------|------------|------------------|------------|------------------|------------|------------------|------------|
|                             | October 28, 2017 | % of Sales | October 29, 2016 | % of Sales | October 28, 2017 | % of Sales | October 29, 2016 | % of Sales |
| Total Operating Income      | \$ 83,256        | 9.4%       | \$ 56,760        | 7.4%       | \$ 27,717        | 2.2%       | \$ 3,998         | 0.4%       |

Our operating income was \$83.3 million during the 13 weeks ended October 28, 2017 compared to operating income of \$56.8 million during the 13 weeks ended October 29, 2016. This increase was due to the matters discussed above. For the 13 weeks ended October 28, 2017, excluding the \$1.0 million of incremental cost of sales related to amortization of the MBS inventory fair value adjustment, restructuring and other charges of \$0.2 million and transaction costs of \$1.3 million, all discussed above, operating income was \$85.8 million (or 9.7% of sales). For the 13 weeks ended October 29, 2016, excluding the transaction costs of \$0.6 million, discussed above, operating income was \$57.4 million (or 7.4% of sales) during the 13 weeks ended October 29, 2016.

Our operating income was \$27.7 million during the 26 weeks ended October 28, 2017 compared to operating income of \$4.0 million during the 26 weeks ended October 29, 2016. This increase was due to the matters discussed above. For the 26 weeks ended October 28, 2017, excluding the \$3.3 million of incremental cost of sales related to amortization of the MBS inventory fair value adjustment, the restructuring and other charges of \$5.4 million and transaction costs of \$1.8 million, all discussed above, operating income was \$38.2 million (or 3.1% of sales). For the 26 weeks ended October 29, 2016, excluding the transaction costs of \$2.2 million and restructuring costs and other charges of \$1.8 million, discussed above, operating income was \$8.0 million (or 0.8% of sales) during the 26 weeks ended October 29, 2016.

**Interest Expense, Net**

| <i>Dollars in thousands</i> | 13 weeks ended   |                  | 26 weeks ended   |                  |
|-----------------------------|------------------|------------------|------------------|------------------|
|                             | October 28, 2017 | October 29, 2016 | October 28, 2017 | October 29, 2016 |
| Interest Expense, Net       | \$ 1,836         | \$ 630           | \$ 4,874         | \$ 1,296         |

Net interest expense increased by \$1.2 million to \$1.8 million during the 13 weeks ended October 28, 2017 from \$0.6 million during the 13 weeks ended October 29, 2016. Net interest expense increased by \$3.6 million to \$4.9 million during the 26 weeks ended October 28, 2017 from \$1.3 million during the 26 weeks ended October 29, 2016. The increase was primarily due to increased borrowings under the Credit Facility and the FILO Facility (which was entered into during Fiscal 2017).

**Income Tax Expense**

| <i>Dollars in thousands</i> | 13 weeks ended   |                |                  |                | 26 weeks ended   |                |                  |                |
|-----------------------------|------------------|----------------|------------------|----------------|------------------|----------------|------------------|----------------|
|                             | October 28, 2017 | Effective Rate | October 29, 2016 | Effective Rate | October 28, 2017 | Effective Rate | October 29, 2016 | Effective Rate |
| Income Tax Expense          | \$ 33,025        | 40.6%          | \$ 26,841        | 47.8%          | \$ 9,231         | 40.4%          | \$ 1,329         | 49.2%          |

We recorded an income tax expense of \$33.0 million on pre-tax income \$81.4 million of during the 13 weeks ended October 28, 2017, which represented an effective income tax rate of 40.6% and an income tax expense of \$26.8 million on pre-tax income of \$56.1 million during the 13 weeks ended October 29, 2016, which represented an effective income tax rate of 47.8%.

We recorded an income tax expense of \$9.2 million on pre-tax income \$22.8 million of during the 26 weeks ended October 28, 2017, which represented an effective income tax rate of 40.4% and an income tax expense of \$1.3 million on pre-tax income of \$2.7 million during the 26 weeks ended October 29, 2016, which represented an effective income tax rate of 49.2%.

Management expects nondeductible compensation expense for the current fiscal year to be significantly lower compared to the prior fiscal year as components of our executive compensation program now qualify as deductible under Section 162(m) of the Internal Revenue Code. In addition, our income tax provision for the preceding two fiscal years reflected certain non-recurring tax benefits arising from the Spin-Off. Management does not expect any similar non-recurring tax benefits associated with the Spin-Off to impact our effective tax rate either in the current fiscal year or in future fiscal years.

**Net Income**

| <i>Dollars in thousands</i> | 13 weeks ended   |                  | 26 weeks ended   |                  |
|-----------------------------|------------------|------------------|------------------|------------------|
|                             | October 28, 2017 | October 29, 2016 | October 28, 2017 | October 29, 2016 |
| Net Income                  | \$ 48,395        | \$ 29,289        | \$ 13,612        | \$ 1,373         |

As a result of the factors discussed above, we reported net income of \$48.4 million during the 13 weeks ended October 28, 2017, compared with a net income of \$29.3 million during the 13 weeks ended October 29, 2016. Adjusted Earnings (non-GAAP) is \$49.9 million during the 13 weeks ended October 28, 2017, compared with \$29.7 million during the 13 weeks ended October 29, 2016. See *Adjusted Earnings (non-GAAP)* discussion below.

As a result of the factors discussed above, we reported net income of \$13.6 million during the 26 weeks ended October 28, 2017, compared with a net income of \$1.4 million during the 26 weeks ended October 29, 2016. Adjusted Earnings (non-GAAP) is \$20.1 million during the 26 weeks ended October 28, 2017, compared with \$3.8 million during the 26 weeks ended October 29, 2016. 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 EBITDA and Adjusted Earnings, which are non-GAAP financial measures under Securities and Exchange Commission (the "SEC") regulations. We define Adjusted EBITDA as net income plus (1) depreciation and amortization; (2) interest expense and (3) income taxes, (4) as adjusted for additional items that are subtracted from or added to net income. We define Adjusted Earnings as net income as adjusted for additional items that are subtracted from or added to net income.

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

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

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

**Adjusted Earnings (non-GAAP)**

| <i>Dollars in thousands</i>                                      | 13 weeks ended   |                  | 26 weeks ended   |                  |
|--|------------------|------------------|------------------|------------------|
|  | October 28, 2017 | October 29, 2016 | October 28, 2017 | October 29, 2016 |
| Net income   | \$ 48,395        | \$ 29,289        | \$ 13,612        | \$ 1,373         |
| Reconciling items, after-tax (below)                             | 1,519            | 394              | 6,525            | 2,425            |
| Adjusted Earnings (non-GAAP) <sup>(a)</sup>                      | <u>\$ 49,914</u> | <u>\$ 29,683</u> | <u>\$ 20,137</u> | <u>\$ 3,798</u>  |
| <b>Reconciling items, pre-tax</b>                                |                  |                  |                  |                  |
| Inventory valuation amortization (MBS) (non-cash) <sup>(a)</sup> | \$ 1,025         | \$ —             | \$ 3,273         | \$ —             |
| Restructuring and other charges <sup>(a)</sup>                   | 193              | —                | 5,429            | 1,790            |
| Transaction costs <sup>(a)</sup>                                 | 1,257            | 644              | 1,846            | 2,171            |
| Reconciling items, pre-tax                                       | 2,475            | 644              | 10,548           | 3,961            |
| Less: Pro forma income tax impact <sup>(b)</sup>                 | 956              | 250              | 4,023            | 1,536            |
| Reconciling items, after-tax                                     | <u>\$ 1,519</u>  | <u>\$ 394</u>    | <u>\$ 6,525</u>  | <u>\$ 2,425</u>  |

(a) See *Management Discussion and Analysis - 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    |                  | 26 weeks ended   |                  |
|--|-------------------|------------------|------------------|------------------|
|  | October 28, 2017  | October 29, 2016 | October 28, 2017 | October 29, 2016 |
| Net income   | \$ 48,395         | \$ 29,289        | \$ 13,612        | \$ 1,373         |
| Add:   |                   |                  |                  |                  |
| Depreciation and amortization expense                            | 16,704            | 12,987           | 31,721           | 25,908           |
| Interest expense, net  | 1,836             | 630              | 4,874            | 1,296            |
| Income tax expense   | 33,025            | 26,841           | 9,231            | 1,329            |
| Inventory valuation amortization (MBS) (non-cash) <sup>(a)</sup> | 1,025             | —                | 3,273            | —                |
| Restructuring and other charges <sup>(a)</sup>                   | 193               | —                | 5,429            | 1,790            |
| Transaction costs <sup>(a)</sup>                                 | 1,257             | 644              | 1,846            | 2,171            |
| Adjusted EBITDA (non-GAAP) <sup>(a)</sup>                        | <u>\$ 102,435</u> | <u>\$ 70,391</u> | <u>\$ 69,986</u> | <u>\$ 33,867</u> |

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

The following is Adjusted EBITDA by segment for the 13 and 26 weeks ended October 28, 2017. Prior to the acquisition of MBS on February 27, 2017, we had only one reportable segment.

**Adjusted EBITDA - by Segment**

| <i>Dollars in thousands</i>  | 13 weeks ended, October 28, 2017 |                  |                            |                   |
|--|----------------------------------|------------------|----------------------------|-------------------|
|  | BNC                              | MBS              | Elimination <sup>(a)</sup> | Total             |
| Sales  | \$ 761,787                       | \$ 134,851       | \$ (9,777)                 | \$ 886,861        |
| Cost of sales (MBS excludes \$1,025 related to inventory fair value amortization) <sup>(a)</sup> | 590,062                          | 100,651          | (21,435)                   | 669,278           |
| Gross profit   | 171,725                          | 34,200           | 11,658                     | 217,583           |
| Selling and administrative expenses  | 100,127                          | 15,021           | —                          | 115,148           |
| Adjusted EBITDA (non-GAAP)   | <u>\$ 71,598</u>                 | <u>\$ 19,179</u> | <u>\$ 11,658</u>           | <u>\$ 102,435</u> |

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**Adjusted EBITDA - by Segment**

| <i>Dollars in thousands</i>  | <b>26 weeks ended, October 28, 2017</b> |            |                            |              |
|--|---|------------|----------------------------|--------------|
|  | BNC                                     | MBS        | Elimination <sup>(a)</sup> | Total        |
| Sales  | \$ 1,011,764                            | \$ 274,652 | \$ (43,844)                | \$ 1,242,572 |
| Cost of sales (MBS excludes \$3,273 related to inventory fair value amortization) <sup>(a)</sup> | 791,302                                 | 210,615    | (43,889)                   | 958,028      |
| Gross profit   | 220,462                                 | 64,037     | 45                         | 284,544      |
| Selling and administrative expenses  | 185,769                                 | 28,789     | —                          | 214,558      |
| Adjusted EBITDA (non-GAAP)   | \$ 34,693                               | \$ 35,248  | \$ 45                      | \$ 69,986    |

(a) See *Management Discussion and Analysis - 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 October 28, 2017, we had a total of \$41.8 million of outstanding borrowings under the Credit Agreement. See *Financing Arrangements* discussion below.

**Sources and Uses of Cash Flow**

| <i>Dollars in thousands</i>  | 26 weeks ended   |                  |
|--|------------------|------------------|
|  | October 28, 2017 | October 29, 2016 |
| Cash, cash equivalents, and restricted cash at beginning of period | \$ 21,697        | \$ 30,866        |
| Net cash flows provided by operating activities                    | 199,620          | 179,329          |
| Net cash flows used in investing activities                        | (81,699)         | (23,463)         |
| Net cash flows used in financing activities                        | (119,429)        | (7,856)          |
| Cash, cash equivalents, and restricted cash at end of period       | \$ 20,189        | \$ 178,876       |

*Cash Flow from Operating Activities*

Our business is highly seasonal. For our retail operations (BNC and MBS Direct), cash flows from operating activities are typically a source of cash in the second and third fiscal quarters, when students generally purchase and rent textbooks for the upcoming semesters. For MBS Wholesale, 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 for retail distribution. For both BNC and MBS, 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. Our quarterly cash flows also may fluctuate depending on the timing of the start of the various school's semesters, as well as shifts in fiscal calendar dates. These shifts in timing may affect the comparability of our results across periods.

Cash flows provided by operating activities during the 26 weeks ended October 28, 2017 were \$199.6 million compared to \$179.3 million during the 26 weeks ended October 29, 2016. This increase of \$20.3 million was primarily due to the increase of net income .

*Cash Flow from Investing Activities*

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

Cash flows used in investing activities during the 26 weeks ended October 28, 2017 were \$(82.0) million compared to \$(23.5) million during the 26 weeks ended October 29, 2016. The increase is primarily due to the acquisition of Student Brands for \$57.4 million (cash consideration of \$62.0 million, including cash acquired of \$4.6 million) during the 26 weeks ended October 28, 2017, higher capital expenditures primarily for MBS and contractual capital investments associated with renewing existing contracts, and new store construction for BNC, offset by lower deferred contract costs related to our bookstore contracts. Capital expenditures totaled \$22.4 million and \$17.5 million during the 26 weeks ended October 28, 2017 and October 29, 2016, respectively.

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### *Cash Flow from Financing Activities*

Cash flows used in financing activities during the 26 weeks ended October 28, 2017 were \$(119.4) million compared \$(7.9) million during the 26 weeks ended October 29, 2016. This net change of \$111.6 is primarily due to increased net borrowings under the credit agreement of \$117.8 million (primarily to fund recent acquisitions), and decreased payments for common stock repurchased of \$6.2 million during the 26 weeks ended October 28, 2017.

### **Financing Arrangements**

On August 3, 2015, we and certain of our subsidiaries, entered into a credit agreement (the "Credit Agreement") under which the lenders committed to provide a five-year asset-backed revolving credit facility in an aggregate committed principal amount of \$400.0 million (the "Credit Facility"). The Company has the option to request an increase in commitments under the Credit Facility of up to \$100.0 million, subject to certain restrictions. On February 27, 2017, in connection with the acquisition of MBS, we amended our existing Credit Agreement to add a new \$100 million incremental first in, last out seasonal loan facility (the "FILO Facility").

During the 26 weeks ended October 28, 2017, we borrowed \$225.4 million and repaid \$343.2 million under the Credit Agreement, for a net total of \$41.8 million of outstanding borrowings as of October 28, 2017, comprised entirely of outstanding borrowings under the Credit Facility. As of October 28, 2017, we have issued \$4.8 million in letters of credit under the facility. During the 26 weeks ended October 29, 2016, we borrowed and repaid \$47.4 million under the Credit Facility.

For additional information including interest terms and covenant requirements related to the Credit Facility and FILO Facility, refer to *Part II - Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources* in our Annual Report on Form 10-K for the year ended April 29, 2017.

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

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

As of October 28, 2017, other long-term liabilities includes \$77.1 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 inventory levels. Given recent trends relating to the pricing and rental of textbooks, management believes that a portion of the long-term tax payable associated with the LIFO reserve could be payable within the next twelve months. The LIFO reserve 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. 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 26 weeks ended October 28, 2017, we did not repurchase any of our common stock. As of October 28, 2017, approximately \$26.7 million remains available under the stock repurchase program.

### **Contractual Obligations**

Our projected contractual obligations are consistent with amounts disclosed in *Part II - Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources* in our Annual Report on Form 10-K for the year ended April 29, 2017.

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

As of October 28, 2017, we have no off-balance sheet arrangements as defined in Item 303 of Regulation S-K.

### **Critical Accounting Policies**

Our policies regarding the use of estimates and other critical accounting policies are consistent with the disclosures in *Part II - Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates* in our Annual Report on Form 10-K for the year ended April 29, 2017.

## Recent Accounting Pronouncements

See *Item 1. Financial Statements — Note 3. Recent Accounting Pronouncements* of this Form 10-Q for information related to new accounting pronouncements.

## Disclosure Regarding Forward-Looking Statements

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

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

- general competitive conditions, including actions our competitors and content providers may take to grow their businesses;
- a decline in college enrollment or decreased funding available for students;
- decisions by colleges and universities to outsource their physical and/or online bookstore operations or change the operation of their bookstores;
- the general economic environment and consumer spending patterns;
- decreased consumer demand for our products, low growth or declining sales;
- our ability to continue to successfully integrate the operations of MBS Textbook Exchange, LLC into our Company;
- the strategic objectives, 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 MBS Textbook Exchange, LLC’s operations into our own may also increase the risk of our internal controls being found ineffective;
- risks associated with operation or performance of MBS Textbook Exchange, LLC’s point-of-sales systems that are sold to college bookstore customers;
- 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;
- our ability to successfully implement our strategic initiatives including our ability to identify, compete for and execute upon additional acquisitions and strategic investments;
- 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;
- the risk of price reduction or change in format of course materials by publishers, which could negatively impact revenues and margin;
- changes to purchase or rental general terms, payment terms, return policies, the discount or margin on products or other terms with our suppliers;
- risks associated with data privacy, information security and intellectual property;

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- 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 risks associated with merchandise sourced indirectly from outside the United States;
- changes in law or regulation;
- enactment of laws which may restrict or prohibit our use of emails or similar marketing 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 or tax-related proceedings or audits;
- changes in accounting standards; and
- the other risks and uncertainties detailed in the section titled “*Risk Factors*” in *Part I - Item 1A* in our Annual Report on Form 10-K for the year ended April 29, 2017.

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

### **Item 3: Quantitative and Qualitative Disclosures About Market Risk**

There have been no material changes to the items discussed in *Part II - Item 7A. Quantitative and Qualitative Disclosures About Market Risk* in our Annual Report on Form 10-K for the year ended April 29, 2017.

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

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

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

Management has not identified any changes in the Company’s internal control over financial reporting that occurred during the quarter that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting other than changes in controls that may be required as a result of the integration of MBS Textbook Exchange, LLC into the Company’s internal controls.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

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

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

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

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

On July 24, 2015, the Court granted B&N’s post trial application to invalidate one of the two patents (the ‘501 patent) the jury found to have been infringed. The Court heard oral argument on September 28, 2015 on the post-trial motions on the jury’s infringement and validity determinations. On February 24, 2016, the Court issued a decision upholding the jury’s determination of infringement and validity with respect to the ‘703 patent and ordered a new trial on damages with respect to ‘703 patent since the original damages award was a total award for both the ‘501 patent and the ‘703 patent. The court held a trial on June 23-24 and July 15, 2016 to determine the damage award related to the ‘703 patent. The Court awarded Adrea \$266,832 for B&N’s non-willful infringement of the ‘703 patent. By order dated January 12, 2017, the Court granted Adrea \$3,000 in prejudgment interest; initially final judgment was entered against defendants in the total amount of \$269,832. On February 2, 2017, Adrea filed a motion for supplemental damages seeking royalties on all Nook devices sold through the date of final judgment and for an ongoing royalty with respect to post-final judgment sales. B&N filed its responsive brief on February 16, 2017. On March 22, 2017, the court awarded \$12,606 in supplemental damages on old devices only. On April 5, 2017, Adrea re-filed its Bill of Costs seeking to recover costs as the prevailing party. There has been no appeal by either party on the merits and the Court has issued final judgment in the amount of \$282,438, plus post-judgment interest (all totaling \$283,576), which been paid in full. Litigation continues with respect to the award of costs to the plaintiff in the amount of \$45,228.

As reported above, final judgment has been rendered in this case and there has been no appeal by either party on the merits. The final judgment plus post-judgment interest has been paid in full. Litigation continues only with respect to the award of costs to the plaintiff. We do not intend to report on this case in future periodic reports in light of the immateriality of this amount.

### Item 1A. Risk Factors

There have been no material changes during the 26 weeks ended October 28, 2017 to the risk factors discussed in *Part I - Item 1A. Risk Factors* in our Annual Report on Form 10-K for the year ended April 29, 2017.

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

*Issuer Purchases of Equity Securities*

The following table provides information as of October 28, 2017 with respect to shares of common stock we purchased during the second quarter of Fiscal 2018:

| 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 |
|--------------------------------------|----------------------------------|----------------------------------|--|--|
| July 30, 2017 - August 26, 2017      | —                                | \$ —                             | —  | \$ 26,669,324  |
| August 27, 2017 - September 30, 2017 | —                                | \$ —                             | —  | \$ 26,669,324  |
| October 1, 2017 - October 28, 2017   | —                                | \$ —                             | —  | \$ 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 26 weeks ended October 28, 2017, we did not repurchase any shares of our common stock.

**Item 6. Exhibits**

[31.1](#) [Certification by the Chief Executive Officer pursuant to Rule 13a-14\(a\)/15\(d\)-14\(a\) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)

[31.2](#) [Certification by the Chief Financial Officer pursuant to Rule 13a-14\(a\)/15\(d\)-14\(a\) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)

[32.1](#) [Certification of Chief Executive Officer pursuant to Rule 13a-14\(b\) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)

[32.2](#) [Certification of Chief Financial Officer pursuant to Rule 13a-14\(b\) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)

|         |  |
|---------|--|
| 101.INS | XBRL Instance Document                                 |
| 101.SCH | XBRL Taxonomy Extension Schema Document                |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document        |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**BARNES & NOBLE EDUCATION, INC.**

(Registrant)

By:  /s/ BARRY BROVER  
Barry Brover  
*Chief Financial Officer*  
*(principal financial officer)*

By:  /s/ SEEMA PAUL  
Seema Paul  
*Chief Accounting Officer*  
*(principal accounting officer)*

December 5, 2017

**EXHIBIT INDEX**

|                      |   |
|----------------------|---|
| <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>            |
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| 101.DEF              | XBRL Taxonomy Extension Definition Linkbase Document  |
| 101.LAB              | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE              | XBRL Taxonomy Extension Presentation Linkbase Document  |



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

I, Barry Brover, certify that:

1. I have reviewed this report on Form 10-Q for the quarterly period ended October 28, 2017 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: December 5, 2017

By: /s/ Barry Brover

Barry Brover

*Chief Financial Officer*

*Barnes & Noble Education, Inc.*

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

In connection with the quarterly report of Barnes & Noble Education, Inc. (the "Company") on Form 10-Q for the period ended October 28, 2017, 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

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Michael P. Huseby

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

December 5, 2017

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 October 28, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Barry Brover, Chief Financial Officer of the Company, certify, to the best of my knowledge, pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Barry Brover

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Barry Brover

*Chief Financial Officer  
Barnes & Noble Education, Inc.*

December 5, 2017

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.

