BARNES & NOBLE EDUCATION, INC.

FORM 10-Q
(Quarterly Report)

Filed 12/06/16 for the Period Ending 10/29/16

Address	120 MOUNTAIN VIEW BOULEVARD
	BASKING RIDGE, NJ 07920
Telephone	908-991-2665
CIK	0001634117
Symbol	BNED
SIC Code	5940 - Miscellaneous Shopping Goods Stores
Industry	Other Specialty Retailers
Sector	Consumer Cyclicals
Fiscal Year	04/30

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

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended October 29, 2016

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________to __________

Commission File Number: 1-37499

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

Delaware	**46-0599018**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
120 Mountain View Blvd., Basking Ridge, NJ	**07920**
(Address of Principal Executive Offices)	**(Zip Code)**

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

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

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

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

Large accelerated filer	☐		Accelerated filer	☐
Non-accelerated filer	☒	(Do not check if a smaller reporting company)	Smaller reporting company	☐

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

As of November 30, 2016 , 46,276,111 shares of Common Stock, par value $0.01 per share, were outstanding.

EXPLANATORY NOTE

On February 26, 2015, Barnes & Noble, Inc. (“Barnes & Noble”) announced plans for the complete legal and structural separation of Barnes & Noble Education, Inc. (the “Company”) from Barnes & Noble (the “Spin-Off”). Under the Separation and Distribution Agreement between Barnes & Noble and the Company, Barnes & Noble distributed all of its equity interest in us, consisting of all of the outstanding shares of our Common Stock, to Barnes & Noble’s stockholders on a pro rata basis.

On July 14, 2015, Barnes & Noble approved the final distribution ratio and declared a pro rata dividend of the outstanding shares of our Common Stock, par value $0.01 per share ("Common Stock"), to Barnes & Noble’s existing stockholders. The pro rata dividend was made on August 2, 2015 to the Barnes & Noble stockholders of record (as of July 27, 2015). Each Barnes & Noble stockholder of record received a distribution of 0.632 shares of our Common Stock for each share of Barnes & Noble common stock held on the record date. Following the Spin-Off, Barnes & Noble does not own any equity interest in us.

On August 2, 2015, we completed the legal separation from Barnes & Noble, at which time we began to operate as an independent publicly-traded company. Our Common Stock began to trade on a “when-issued” basis on the NYSE under the symbol “BNED WI” beginning on July 23, 2015. On August 3, 2015, when-issued trading of our Common Stock ended, our Common Stock began “regular-way” trading under the symbol “BNED.”

The results of operations for the 13 weeks ended August 1, 2015 reflected in our condensed consolidated financial statements are presented on a stand-alone basis since we were still part of Barnes & Noble, Inc. until the consummation of the Spin-Off on August 2, 2015, and the results of operations for the 13 and 26 weeks ended October 29, 2016 and 13 weeks ended October 31, 2015 reflected in our condensed consolidated financial statements are presented on a consolidated basis as we became a separate consolidated entity.

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Fiscal Quarter Ended October 29, 2016
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PART I - FINANCIAL INFORMATION

Item 1: Financial Statements

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

	13 weeks ended		26 weeks ended	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Sales:				
Product sales and other	$ 697,927	$ 684,006	$ 915,663	$ 902,722
Rental income	72,744	71,858	94,245	92,125
Total sales	770,671	755,864	1,009,908	994,847
Cost of sales:				
Product and other cost of sales	554,498	537,380	732,492	712,289
Rental cost of sales	44,659	43,363	58,489	55,893
Total cost of sales	599,157	580,743	790,981	768,182
Gross profit	171,514	175,121	218,927	226,665
Selling and administrative expenses	101,767	102,439	187,231	189,123
Depreciation and amortization expense	12,987	13,169	25,908	26,269
Restructuring costs	—	—	1,790	—
Operating income	56,760	59,513	3,998	11,273
Interest expense, net	630	554	1,296	557
Income before income taxes	56,130	58,959	2,702	10,716
Income tax expense	26,841	25,558	1,329	4,233
Net income	$ 29,289	$ 33,401	$ 1,373	$ 6,483
Earnings per share of Common Stock:				
Basic	$ 0.63	$ 0.69	$ 0.03	$ 0.14
Diluted	$ 0.63	$ 0.69	$ 0.03	$ 0.14
Weighted average shares of Common Stock outstanding:				
Basic	46,170	48,207	46,259	44,816
Diluted	46,593	48,562	46,652	45,023

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 29, 2016	October 31, 2015	April 30, 2016
	(unaudited)	(unaudited)	(audited)
ASSETS			
Current assets:			
Cash and cash equivalents	$ 176,578	$ 88,649	$ 28,568
Receivables, net	93,250	91,383	50,924
Merchandise inventories, net	401,338	431,023	312,747
Textbook rental inventories	86,704	83,846	47,760
Prepaid expenses and other current assets	8,083	6,304	6,453
Total current assets	765,953	701,205	446,452
Property and equipment, net	108,499	110,949	111,185
Intangible assets, net	194,562	193,113	199,663
Goodwill	281,350	274,070	280,911
Other noncurrent assets	38,226	46,335	33,472
Total assets	$ 1,388,590	$ 1,325,672	$ 1,071,683
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 439,746	$ 349,440	$ 152,175
Accrued liabilities	140,779	137,412	105,877
Total current liabilities	580,525	486,852	258,052
Long-term deferred taxes, net	25,743	39,557	29,865
Other long-term liabilities	75,962	69,585	75,380
Total liabilities	682,230	595,994	363,297
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, 48,972, 48,219 and 48,645 shares, respectively; outstanding, 46,276, 48,217 and 46,755 shares, respectively	490	482	486
Additional paid-in capital	703,966	695,816	699,513
Retained earnings	28,375	33,401	27,002
Treasury stock, at cost	(26,471)	(21)	(18,615)
Total stockholders' equity	706,360	729,678	708,386
Total liabilities and stockholders' equity	$ 1,388,590	$ 1,325,672	$ 1,071,683

See accompanying notes to condensed consolidated financial statements.

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

	26 weeks ended	
	October 29, 2016	October 31, 2015
Cash flows from operating activities:		
Net income	$ 1,373	$ 6,483
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization expense	25,908	26,269
Amortization of deferred financing costs	325	163
Deferred taxes	(4,122)	(2,176)
Stock-based compensation expense	4,458	2,970
Change in other long-term liabilities	582	97
Changes in other operating assets and liabilities, net	150,805	47,675
Net cash flows provided by operating activities	179,329	81,481
Cash flows from investing activities:		
Purchases of property and equipment	(17,470)	(24,541)
Acquisition of business	(917)	—
Net increase in other noncurrent assets	(5,076)	(3,412)
Net cash flows used in investing activities	(23,463)	(27,953)
Cash flows from financing activities:		
Net changes in Barnes & Noble, Inc. Investment	—	(6,423)
Proceeds from borrowings on Credit Facility	47,400	8,700
Repayments of borrowings on Credit Facility	(47,400)	(8,700)
Payment of deferred financing costs	—	(3,251)
Purchase of treasury shares	(7,856)	(21)
Net cash flows used in financing activities	(7,856)	(9,695)
Net increase in cash and cash equivalents	148,010	43,833
Cash and cash equivalents at beginning of period	28,568	44,816
Cash and cash equivalents at end of period	$ 176,578	$ 88,649
Changes in other operating assets and liabilities, net:		
Receivables, net	$ (41,794)	$ (14,832)
Merchandise inventories	(88,591)	(133,599)
Textbook rental inventories	(38,944)	(36,296)
Prepaid expenses and other current assets	(1,532)	(1,681)
Accounts payable and accrued liabilities	321,666	234,083
Changes in other operating assets and liabilities, net	$ 150,805	$ 47,675

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock		Additional Paid-In	Retained	Parent Company	Treasury Stock		Total
	Shares	Amount	Capital	Earnings	Investment	Shares	Amount	Equity
Balance at May 2, 2015	—	$ —	$ —	$ —	$ 726,669	—	$ —	$ 726,669
Net loss					(26,918)			(26,918)
Stock-based compensation expense					953			953
Net change in Barnes & Noble, Inc. Investment					(28,868)			(28,868)
Balance at August 2, 2015 (Spin-Off)	—	—	—	—	671,836	—	—	671,836
Net change in Barnes & Noble, Inc. Investment					22,445			22,445
Capitalization at Spin-Off	48,187	482	693,799		(694,281)			—
Stock-based compensation expense			2,017					2,017
Vested equity awards	32	—						—
Shares repurchased for tax withholdings for vested stock awards						2	(21)	(21)
Net income				33,401				33,401
Balance at October 31, 2015	48,219	$ 482	$ 695,816	$ 33,401	$ —	2	$ (21)	$ 729,678

	Common Stock		Additional Paid-In	Retained	Parent Company	Treasury Stock		Total
	Shares	Amount	Capital	Earnings	Investment	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	48,972	$ 490	$ 703,966	$ 28,375	$ —	2,696	$ (26,471)	$ 706,360

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 29, 2016 and October 31, 2015
(Thousands of dollars, except share and per share data)
(unaudited)

Unless the context otherwise indicates, references in these Notes to the accompanying condensed consolidated financial statements to "we," "us," "our" and "the Company" refer to Barnes & Noble Education, Inc., a Delaware corporation. References to "Barnes & Noble" refer to Barnes & Noble, Inc., a Delaware corporation, and its consolidated subsidiaries (other than Barnes & Noble Education, Inc. and its consolidated subsidiaries) unless the context otherwise requires. References to "Barnes & Noble College" refer to our college bookstore business operated through our subsidiary Barnes & Noble College Booksellers, LLC.

This Form 10-Q should be read in conjunction with our Audited Consolidated Financial Statements and accompanying Notes to consolidated financial statements in our Annual Report on Form 10-K for the year ended April 30, 2016, which includes consolidated financial statements for the Company for each of the three fiscal years ended April 30, 2016 , May 2, 2015 and May 3, 2014 (Fiscal 2016 , Fiscal 2015 and Fiscal 2014 , respectively) and the unaudited condensed consolidated financial statements in our Form 10-Q for the 13 weeks ended July 30, 2016.

Note 1. Organization

Description of Business

Barnes & Noble Education, Inc., one of the largest contract operators of bookstores on college and university campuses across the United States and a leading provider of digital education services, enhances the academic and social purpose of educational institutions. As a strategic partner, we are committed to offering a complete support system and an unmatched retail and digital learning experience to foster student success in higher education. Through our wholly-owned subsidiary, Barnes & Noble College, we operate 771 campus bookstores and the school-branded e-commerce sites for each store, serving more than 5 million college students and their faculty nationwide. On August 2, 2015, we completed the legal separation from Barnes & Noble, Inc., at which time we began to operate as an independent publicly-traded company.

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

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

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

As of April 30, 2016, we operated 751 stores nationwide, which reached 26% of the total number of students enrolled at colleges and universities in the United States. During the 26 weeks ended October 29, 2016 , we opened 34 stores and closed 14 stores. As of October 29, 2016 , we operated 771 stores nationwide.

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

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
For the 13 and 26 weeks ended October 29, 2016 and October 31, 2015
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(unaudited)

Growth Drivers

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

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

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

Separation from Barnes & Noble, Inc.

On February 26, 2015, Barnes & Noble announced plans to spin-off its 100% equity interest in our Company ("Spin-Off"). At the time of the Spin-Off on August 2, 2015, Barnes & Noble distributed all of its equity interest in us, consisting of all of the outstanding shares of our Common Stock, to Barnes & Noble's stockholders on a pro rata basis (the "Distribution"). Following the Spin-Off, Barnes & Noble does not own any equity interest in us. On August 2, 2015, we completed the legal separation from Barnes & Noble, at which time we began to operate as an independent publicly-traded company. For details related to the Distribution of our Common Stock, see *Note 6. Equity and Earnings Per Share* .

In connection with the separation from Barnes & Noble, we entered into several agreements that govern the relationship between the parties after the separation and allocate between the parties various assets, liabilities, rights and obligations following the separation and also describe Barnes & Noble's future commitments to provide us with certain transition services following the Spin-Off. For additional information related to these agreements, see *Note 10. Barnes & Noble, Inc. Transactions* .

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

Our condensed consolidated financial statements reflect our consolidated financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States ("GAAP"). In the opinion of the Company's management, the accompanying unaudited condensed consolidated financial statements of the Company contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly its consolidated financial position and the results of its operations and cash flows for the periods reported. These consolidated financial statements are condensed and therefore do not include all of the information and footnotes required by GAAP.

Our fiscal year is comprised of 52 or 53 weeks, ending on the Saturday closest to the last day of April. Our business is highly seasonal, with the major portion of sales and operating profit realized during the second and third fiscal quarters, when college students generally purchase and rent textbooks for the upcoming semesters. Due to the seasonal nature of the business, the results of operations for the 13 and 26 weeks ended October 29, 2016 are not indicative of the results expected for the 52 weeks ending April 29, 2017 (Fiscal 2017).

Stand-alone basis financial statements

The results of operations for the 13 weeks ended August 1, 2015 (i.e., first quarter of Fiscal 2016, which is referred to as the "stand-alone period") reflected in our condensed consolidated financial statements are presented on a stand-alone basis since we were still part of Barnes & Noble, Inc. Our condensed consolidated financial statements were derived from the consolidated financial statements and accounting records of Barnes & Noble. Our condensed consolidated financial statements include certain assets and liabilities that have historically been held at the Barnes & Noble corporate level but are specifically identifiable or otherwise attributable to us. For additional information, see *Note 10. Barnes & Noble, Inc. Transactions* .

Consolidated basis financial statements

The Spin-Off from Barnes & Noble, Inc. occurred on August 2, 2015 and therefore, the results of operations are presented on a consolidated basis for the 13 and 26 weeks ended October 29, 2016 (i.e. first and second quarter of Fiscal 2017) and the 13 weeks ended October 31, 2015 (i.e., second quarter of Fiscal 2016) which includes direct costs incurred with Barnes & Noble under various agreements. Certain corporate and shared service functions historically provided by Barnes & Noble (as described above) will continue to be provided by Barnes & Noble under the Transition Services Agreement. For additional information, see *Note 10. Barnes & Noble, Inc. Transactions* .

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

In preparing financial statements in conformity with GAAP, we are required to make estimates and assumptions that affect the reported amounts in the condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Merchandise Inventories

Merchandise inventories, which consist of finished goods, are stated at the lower of cost or market. Cost is determined primarily by the retail inventory method. Our textbook and trade book inventories are valued using the last-in first out, or “LIFO”, method and the related reserve was not material to the recorded amount of our inventories.

Market value of our inventory is determined based on its estimated net realizable value, which is generally the selling price. Reserves for non-returnable inventory are based on our history of liquidating non-returnable inventory.

We also estimate and accrue shortage for the period between the last physical count of inventory and the balance sheet date. Shortage rates are estimated and accrued based on historical rates and can be affected by changes in merchandise mix and changes in actual shortage trends.

Textbook Rental Inventories

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

Revenue Recognition and Deferred Revenue

Revenue from sales of our products at physical locations is recognized at the time of sale. Revenue from sales of products ordered through our websites is recognized upon receipt of the shipment by our customers. Sales taxes collected from our customers are excluded from reported revenues. All of our sales are recognized as revenue on a “net” basis, including sales in connection with any periodic promotions offered to customers. We do not treat any promotional offers as expenses.

We rent both physical and digital textbooks. Revenue from the rental of physical textbooks is deferred and recognized over the rental period commencing at point of sale. Revenue from the rental of digital textbooks is recognized at time of sale. A software feature is embedded within the content of our digital textbooks, such that upon expiration of the rental term the customer is no longer able to access the content. While the digital rental allows the customer to access digital content for a fixed period of time, once the digital content is delivered to the customer our performance obligation is complete. We offer a buyout option to allow the purchase of a rented book at the end of the rental period. We record the buyout purchase when the customer exercises and pays the buyout option price. In these instances, we would accelerate any remaining deferred rental revenue at the point of sale.

Cost of Sales

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

Selling and Administrative Expenses

Our selling and administrative expenses consist primarily of store payroll and store operating expenses. Selling and administrative expenses also include stock-based compensation and general office expenses, such as executive oversight, merchandising, field support, finance, human resources, benefits, training, legal, and information technology, as well as our investments in digital.

Goodwill

The costs in excess of net assets of businesses acquired are carried as goodwill in the accompanying condensed consolidated balance sheets. As of October 29, 2016 , we had $281,350 of goodwill. ASC No. 350-30, *Goodwill and Other Intangible Assets* ("ASC 350-30"), requires that goodwill be tested for impairment at least annually or earlier if there are impairment indicators. We perform a two-step process for impairment testing of goodwill as required by ASC 350-30. The first step of this test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount. The second step (if necessary) measures the amount of the impairment.

We completed our annual goodwill impairment test as of the first day of the third quarter of Fiscal 2016. In performing the valuation, we used cash flows that reflected management's forecasts and discount rates that included risk adjustments consistent with the current market conditions. Based on the results of the step one testing, fair value of the one reporting unit exceeded its carrying value; therefore, the second step of the impairment test was not required to be performed and no goodwill impairment was recognized.

As of the date of our annual goodwill impairment test, the excess fair value over carrying value was approximately 9% . Goodwill is subject to further risk of impairment if comparable store sales decline, store closings accelerate or digital projections fall short of expectations. Additionally, changes in the structure of our business as a result of future reorganizations, acquisitions or divestitures of assets or businesses could result in future impairments of goodwill. Refer to *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates* in our Annual Report on Form 10-K for the year ended April 30, 2016 for a discussion of key assumptions used in our testing.

Change in Accounting Principle and Error Corrections

During the fourth quarter of Fiscal 2016, we adopted Accounting Standard Update *("ASU") No. 2015-17, Income Taxes (Topic 740) - Balance Sheet Classification of Deferred Taxes ("ASU 2015-17")* retrospectively to simplify the presentation of deferred income taxes. The amendments in this update require that deferred tax liabilities and assets be classified as non-current in a classified statement of financial position. We reclassified our net current deferred tax asset of $24,182 to the net non-current deferred tax liability in our condensed consolidated balance sheet as of October 31, 2015.

During the fourth quarter of Fiscal 2016, we identified an immaterial balance sheet error correction for cash and accounts payable amounts for prior periods reported. This correction was to record outstanding payments and overdraft cash concentration balances as part of cash and cash equivalents account from the previously recorded accounts payable account. We corrected the balance sheet for the period ended October 31, 2015 by decreasing cash and accounts payable by $125,632 as a result of the immaterial balance sheet error correction. Management has assessed both quantitative and qualitative factors discussed in *ASC No. 250, Accounting Changes and Error Corrections* and *Staff Accounting Bulletin 1.M, Materiality (SAB Topic 1.M)* to determine that this misstatement qualifies as an immaterial balance sheet error correction. We concluded that this balance sheet misstatement is not material to an investor as it did not affect pre-tax income, net income, or earnings per share reported in the financial statements for any prior period financial statements. Additionally, this balance sheet misstatement did not affect the debt covenants under our Credit Facility.

Note 3. Recent Accounting Pronouncements

In November 2016, the Financial Accounting Standards Board ("FASB") issued *Accounting Standard Update ("ASU") No. 2016-18, Statement of Cash Flows (Topic 230)* to reduce diversity in practice related to the classification and presentation of changes in restricted cash on the statement of cash flows under Topic 230, Statement of Cash Flows. The revised guidance requires that amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The guidance will be applied on a retrospective basis beginning with the earliest period presented. We are required to adopt this standard in the first quarter of Fiscal 2019 and early adoption is permitted. We do not anticipate a material change to our condensed consolidated financial statements as a result of adopting this guidance.

In August 2016, the FASB issued *ASU No. 2016-15, Statement of Cash Flow (Topic 230) ("ASU 2016-15")* to reduce diversity in practice over the presentation and classification of certain types of cash receipts and cash payments. The revised guidance seeks to achieve this objective by providing specific guidance over eight identified cash flow issues. We are required to adopt this standard in the first quarter of Fiscal 2019 and early adoption is permitted. The guidance will be applied on a retrospective basis beginning with the earliest period presented. We have evaluated the guidance of this new standard to determine the impact of adoption on our condensed consolidated financial statements and concluded that there is no impact. We elected to early adopt this guidance in the first quarter of Fiscal 2017.

In February 2016, the FASB issued *ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02")* to increase transparency and comparability by providing additional information to users of financial statements regarding an entity's leasing activities. The revised guidance seeks to achieve this objective by requiring reporting entities to recognize lease assets and lease liabilities on the

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
For the 13 and 26 weeks ended October 29, 2016 and October 31, 2015
(Thousands of dollars, except share and per share data)
(unaudited)

balance sheet for substantially all lease arrangements. We are required to adopt this standard in the first quarter of Fiscal 2020 and early adoption is permitted. The guidance will be applied on a modified retrospective basis beginning with the earliest period presented. We are currently evaluating this standard to determine the impact of adoption on our condensed consolidated financial statements.

In May 2014, the FASB issued *ASU No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09")* . The standard provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue when control of the goods or services transfers to the customer, as opposed to recognizing revenue when the risks and rewards transfer to the customer under the existing revenue guidance. In 2016, the FASB issued final amendments to clarify the implementation guidance for principal versus agent considerations, identifying performance obligations and the accounting for licenses of intellectual property. In August 2015, FASB issued *ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* , which effectively delayed the adoption date by one year. We are required to adopt ASU 2014-09 in the first quarter of Fiscal 2019 and early adoption is permitted. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. We have not yet selected a transition method nor have we determined the impact of adoption on our condensed consolidated financial statements.

Note 4. Acquisition

Promoversity

In June 2016, we completed the purchase of substantially all of the assets of Promoversity, a custom merchandise supplier and e-commerce storefront solution serving the collegiate bookstore business and its customers. The acquisition will enable us to customize our e-commerce offerings and drive on-campus apparel sales. The acquisition purchase price was $1,417 , including working capital, and was financed with cash from operations. The preliminary allocation of the purchase price was based upon a valuation and our estimates and assumptions are subject to change within the purchase price allocation period (generally one year from the acquisition date). The preliminary purchase price was allocated primarily as follows: $741 intangible assets (with a five year amortization period), $441 goodwill, $221 net current assets, and $500 future performance-based obligations. This acquisition is not material to our condensed consolidated financial statements and therefore, disclosure of pro forma financial information has not been presented. The results of operations reflect the period of ownership of the acquired business.

Note 5. Segment Reporting

We have determined that we operate within one reportable segment. We identified our single operating segment based on the way our business is managed (focusing on the financial information distributed) and the manner in which our chief operating decision maker allocates resources and assesses financial performance. Our international operations are not material and the majority of the revenue and total assets are within the United States.

Note 6. Equity and Earnings Per Share

Equity

Share Repurchases

On December 14, 2015, our Board of Directors authorized a stock repurchase program of up to $50,000 , in the aggregate, of our outstanding Common Stock. The stock repurchase program is carried out at the direction of management (which includes a plan under Rule 10b5-1 of the Securities Exchange Act of 1934). The stock repurchase program may be suspended, terminated, or modified at any time. Any repurchased shares will be held as treasury stock and will be available for general corporate purposes. During the 26 weeks ended October 29, 2016 , we repurchased 688,948 shares for approximately $6,718 at an average cost per share of $10.10 . As of October 29, 2016 , approximately $26,669 remains available under the stock repurchase program.

During the 26 weeks ended October 29, 2016 , we also repurchased 116,914 shares of our Common Stock in connection with employee tax withholding obligations for vested stock awards.

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Earnings Per Share

For periods prior to the Spin-Off from Barnes & Noble on August 2, 2015, basic earnings per share and weighted-average basic shares outstanding are based on the number of shares of Barnes & Noble, Inc. common stock outstanding as of the end of the period, adjusted for the distribution ratio of 0.632 shares of our Common Stock for every one share of Barnes & Noble, Inc. common stock held on the record date for the Spin-Off.

For periods prior to the Spin-Off, diluted earnings per share and weighted-average diluted shares outstanding reflect potential common shares from Barnes & Noble equity plans in which our employees participated. Certain of our employees held restricted stock units and stock options granted by Barnes & Noble, Inc. which were considered participating securities.

Basic EPS is computed based upon the weighted average number of common shares outstanding for the year. Diluted EPS is computed based upon the weighted average number of common shares outstanding for the year plus the dilutive effect of common stock equivalents using the treasury stock method and the average market price of our common stock for the year. We include participating securities (unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents) in the computation of EPS pursuant to the two-class method. Our participating securities consist solely of unvested restricted stock awards, which have contractual participation rights equivalent to those of stockholders of unrestricted common stock. The two-class method of computing earnings per share is an allocation method that calculates earnings per share for common stock and participating securities. During periods of net loss, no effect is given to the participating securities because they do not share in the losses of the Company. The following is a reconciliation of the basic and diluted loss per share calculation:

	13 weeks ended		26 weeks ended	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Numerator for basic earnings per share:				
Net income	$ 29,289	33,401	1,373	$ 6,483
Less allocation of earnings to participating securities	(19)	(22)	(1)	(26)
Net income available to common shareholders	$ 29,270	$ 33,379	$ 1,372	$ 6,457
Numerator for diluted earnings per share:				
Net income available to common shareholders	$ 29,270	$ 33,379	$ 1,372	$ 6,457
Allocation of earnings to participating securities	19	22	1	26
Less diluted allocation of earnings to participating securities	(19)	(22)	(1)	(26)
Net income available to common shareholders	$ 29,270	$ 33,379	$ 1,372	$ 6,457
Denominator for basic earnings per share:				
Basic weighted average shares of Common Stock	46,170	48,207	46,259	44,816
Denominator for diluted earnings per share:				
Basic weighted average shares of Common Stock	46,170	48,207	46,259	44,816
Average dilutive restricted stock units	364	355	339	178
Average dilutive performance shares	35	—	24	—
Average dilutive restricted shares	24	—	30	—
Average dilutive options	—	—	—	29
Diluted weighted average shares of Common Stock	46,593	48,562	46,652	45,023
Earnings per share of Common Stock:				
Basic	$ 0.63	$ 0.69	$ 0.03	$ 0.14
Diluted	$ 0.63	$ 0.69	$ 0.03	$ 0.14

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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.

Note 8. Credit Facility

Until August 3, 2015, we were party to an amended and restated credit facility with Barnes & Noble, Inc. as the lead borrower (as amended and modified to date, the "B&N Credit Facility"). All outstanding debt under the B&N Credit Facility was recorded on Barnes & Noble's balance sheet as of August 1, 2015.

On August 3, 2015, we and certain of our subsidiaries, entered into a credit agreement (the "Credit Agreement") with Bank of America, N.A., as administrative agent, collateral agent and swing line lender, and other lenders from time to time party thereto, under which the lenders committed to provide a five-year asset-backed revolving credit facility in an aggregate committed principal amount of $400,000 (the "BNED Credit Facility"). The Company has the option to request an increase in commitments under the BNED Credit Facility of up to $100,000 subject to certain restrictions. For additional information including interest terms and covenant requirements related to the BNED Credit Facility, refer to *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity* in our Annual Report on Form 10-K for the year ended April 30, 2016.

As of October 29, 2016 , we had no outstanding borrowings under the BNED Credit Facility. During the 26 weeks ended October 29, 2016 , we borrowed and repaid $47,400 under the BNED Credit Facility. As of October 29, 2016 , we have issued $4,298 in letters of credit under the facility.

Note 9. Supplementary Information

Restructuring Costs

In Fiscal 2016, we implemented a plan to restructure our digital operations. Additionally, we announced a reduction in staff and closure of the facilities in Mountain View, California, and Redmond, Washington that supported the Yuzu ® eTextbook platform. We recorded restructuring costs of $8,830 in Fiscal 2016 comprised of $3,216 in employee-related costs (including severance and retention), facility exit costs of $5,046 and $568 related to specific contracts. During the 26 weeks ended October 29, 2016, we recorded $1,790 in additional restructuring costs primarily for employee related costs (including severance and retention), respectively. The majority of the restructuring related to employee matters was completed during the first quarter of Fiscal 2017.

Other Long-Term Liabilities

Other long-term liabilities consist primarily of tax liabilities related to the long-term tax payable associated with the LIFO reserve and deferred management service agreement costs related to college and university contracts. We provide for minimum contract expense over the lease terms on a straight-line basis. The excess of such minimum contract expense over actual contract payments (net of school allowances) is reflected in other long-term liabilities and accrued liabilities in the condensed consolidated balance sheets.

(Thousands of dollars, except share and per share data)

Long-term liabilities were comprised of the following:

	October 29, 2016	October 31, 2015	April 30, 2016
Tax liabilities and reserves	$ 69,371	$ 63,459	$ 69,345
Deferred contract obligations [a]	4,144	4,255	4,164
Other	2,447	1,871	1,871
Total other long-term liabilities	$ 75,962	$ 69,585	$ 75,380

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

Management believes it is remote that the long-term tax payable associated with the LIFO reserve will be payable or will result in a cash tax payment in the foreseeable future, assuming that LIFO will continue to be an acceptable inventory method for tax purposes.

Note 10. Barnes & Noble, Inc. Transactions

Our History with Barnes & Noble, Inc.

On February 26, 2015, Barnes & Noble announced plans to Spin-Off its 100% equity interest in our Company. At the time of the Spin-Off on August 2, 2015, Barnes & Noble distributed all of its equity interest in us, consisting of all of the outstanding shares of our Common Stock, to Barnes & Noble's stockholders on a pro rata basis (the "Distribution"). Following the Spin-Off, Barnes & Noble does not own any equity interest in us. On August 2, 2015, we completed the legal separation from Barnes & Noble, at which time we began to operate as an independent publicly-traded company. For information about our history with Barnes & Noble, Inc. prior to the Spin-Off, see *Part I - Item 1. Financial Statements - Note 10. Barnes & Noble, Inc. Transactions* in our Annual Report on Form 10-K for the year ended April 30, 2016.

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

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

Our condensed consolidated financial statements were derived from the consolidated financial statements and accounting records of Barnes & Noble. Our condensed consolidated financial statements include certain assets and liabilities that have historically been held at the Barnes & Noble corporate level but are specifically identifiable or otherwise attributable to us.

All intercompany transactions between us and Barnes & Noble have been included in our condensed consolidated financial statements and are considered to be effectively settled for cash in our condensed consolidated financial statements at the time the Spin-Off became effective. The total net effect of the settlement of these intercompany transactions was reflected in our condensed consolidated statements of cash flow as a financing activity and in our condensed consolidated balance sheets as "Parent company investment."

The condensed consolidated financial statements for the stand-alone periods include an allocation for certain corporate and shared service functions historically provided by Barnes & Noble, including, but not limited to, executive oversight, accounting, treasury, tax, legal, human resources, occupancy, procurement, information technology and other shared services. These expenses have been allocated to us on the basis of direct usage when identifiable, with the remainder allocated on a pro rata basis of consolidated sales, headcount, tangible assets or other measures considered to be a reasonable reflection of the historical utilization levels of these services. Following the Spin-Off on August 2, 2015, we began to perform these functions using our own resources or contracted services, certain of which may be provided by Barnes & Noble during a transitional period pursuant to the Transition Services Agreement.

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Direct Costs Incurred Related to On-going Agreements with Barnes & Noble After the Spin-Off

The Spin-Off from Barnes & Noble, Inc. occurred on August 2, 2015 and therefore, the results of operations are presented on a consolidated basis for the 13 and 26 weeks ended October 29, 2016 (i.e. first and second quarter of Fiscal 2017) and the 13 weeks ended October 31, 2015 (i.e., second quarter of Fiscal 2016) which includes direct costs incurred with Barnes & Noble under various agreements.

In connection with the separation from Barnes & Noble, we entered into a Separation and Distribution Agreement with Barnes & Noble on July 14, 2015 and several other ancillary agreements on August 2, 2015. These agreements govern the relationship between the parties after the separation and allocate between the parties various assets, liabilities, rights and obligations following the separation, including inventory purchases, employee benefits, intellectual property, information technology, insurance and tax-related assets and liabilities. The agreements also describe Barnes & Noble's future commitments to provide us with certain transition services following the Spin-Off. For information about these agreements, see *Part I - Item 1. Financial Statements - Note 10. Barnes & Noble, Inc. Transactions* in our Annual Report on Form 10-K for the year ended April 30, 2016.

Summary of Transactions with Barnes & Noble

During the 26 weeks ended October 29, 2016 (i.e., first and second quarter of Fiscal 2017) and the 13 weeks ended October 31, 2015 (i.e. second quarter of Fiscal 2016), we were billed $16,141 and $9,663 , respectively, for purchases of inventory and direct costs incurred under the agreements discussed above which are included as cost of sales and selling, general and administrative expense in the condensed consolidated statement of operations.

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

As of October 29, 2016 and October 31, 2015 , amounts due to Barnes & Noble, Inc. for book purchases and direct costs incurred under the agreements discussed above of $8,951 and $10,453 were included in accounts payable and accrued liabilities in the condensed consolidated balance sheets, respectively.

Note 11. Employees' Defined Contribution Plan

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

Subsequent to the Spin-Off, we established a defined contribution plan for our employees ("Savings Plan") and Barnes & Noble, Inc. transferred to it the plan assets relating to the account balances of our employees. Additionally, we are responsible for employer contributions to the Savings Plan and fund the contributions directly.

Total contributions charged to employee benefit expenses for these plans were $991 and $1,020 during the 13 weeks ended October 29, 2016 and October 31, 2015 , respectively, and $2,240 and $2,295 during the 26 weeks ended October 29, 2016 and October 31, 2015 , respectively.

Note 12. Stock-Based Compensation

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

When initially adopted, 2,409,345 shares of our Common Stock were reserved for grants under the Barnes & Noble Education Inc. Equity Incentive Plan (the "Equity Incentive Plan"). During the second quarter of Fiscal 2017, shareholders approved an amendment to the Equity Incentive Plan to increase the number of shares available for issuance by an additional 4,000,000 shares of our Common Stock, for an aggregate total of 6,409,345 shares. Types of equity awards that can be granted under the Equity Incentive Plan include options, restricted stock ("RS"), restricted stock units ("RSU") and performance shares ("PS").

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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 29, 2016, we granted the following awards:

- 406,078 PS awards were granted 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 PS will vest based on company performance during Fiscal 2017 - Fiscal 2018 with one additional year of time-based vesting. The targets for achievement range from 0%-150%.
- 1,157,586 RSU awards were granted to employees with a three year vesting period in accordance with Equity Incentive Plan;
- 49,484 RSU awards and 12,371 RS awards were granted to the current Board of Directors ("BOD") members for annual compensation with a one year vesting period in accordance with 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 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Restricted stock expense	$ 70	$ 460	$ 220	$ 540
Restricted stock units expense	2,282	1,557	3,878	2,310
Performance shares expense	216	—	360	—
Stock option expense	—	—	—	120
Stock-based compensation expense	$ 2,568	$ 2,017	$ 4,458	$ 2,970

Total unrecognized compensation cost related to unvested awards as of October 29, 2016 was $20,315 and is expected to be recognized over a weighted-average period of 2.4 years.

Note 13. Income Taxes

We recorded an income tax expense of $26,841 on pre-tax income $56,130 of during the 13 weeks ended October 29, 2016 , which represented an effective income tax rate of 47.8% and an income tax expense of $25,558 on pre-tax income of $58,959 during the 13 weeks ended October 31, 2015 , which represented an effective income tax rate of 43.4% .

We recorded 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% and an income tax expense of $4,233 on pre-tax income of $10,716 during the 26 weeks ended October 31, 2015 , which represented an effective income tax rate of 39.5% .

The income tax provision for the 13 and 26 weeks ended October 29, 2016 reflects the impact of nondeductible expenses, principally nondeductible compensation expense, partially offset by income tax credits. Management expects nondeductible compensation expense for the current fiscal year to be significantly higher than in previous years because of limitations on deductibility of certain elements of our compensation program imposed by Section 162(m) of the Internal Revenue Code. Management expects that nondeductible compensation in future fiscal years will be lower than the current fiscal year as our compensation plans are brought in alignment with performance based requirements.

Note 14. Legal Proceedings

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

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

Overview

Description of business

Barnes & Noble Education, Inc., one of the largest contract operators of bookstores on college and university campuses across the United States and a leading provider of digital education services, enhances the academic and social purpose of educational institutions. As a strategic partner, we are committed to offering a complete support system and an unmatched retail and digital learning experience to foster student success in higher education. Through our wholly-owned subsidiary, Barnes & Noble College, we operate 771 campus bookstores and the school-branded e-commerce sites for each store, serving more than 5 million college students and their faculty nationwide. On August 2, 2015, we completed the legal separation from Barnes & Noble, Inc., at which time we began to operate as an independent publicly-traded company.

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

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

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

As of April 30, 2016, we operated 751 stores nationwide, which reached 26% of the total number of students enrolled at colleges and universities in the United States. During the 26 weeks ended October 29, 2016 , we opened 34 stores and closed 14 stores, with estimated annual net incremental sales of $88 million. As of October 29, 2016 , we operated 771 stores nationwide.

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

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

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

Strength of Our Business

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

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

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

Growth Drivers

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

- *Increasing Market Share with New Accounts* : Historically, new store openings have been an important driver of growth. From Fiscal 2012 to the end of Fiscal 2016, we increased the number of stores we serve from 636 to 751, or 18%. During the 26 weeks ended October 29, 2016 , we opened 34 stores and closed 14 stores. As of October 29, 2016 , we operated 771 stores nationwide. Currently, approximately 52% of college and university affiliated bookstores in the United States are operated by their respective institutions. As of the end of Fiscal 2016, we operated only 19% of all college and university affiliated bookstores in the United States. Based on the anticipated continuing trend towards outsourcing in the campus bookstore market, we intend to aggressively pursue these opportunities and bid on these contracts. We expect new store openings will be the most important driver of future growth in our business.
- *Adapting our Merchandising Strategy and Product and Service Offerings* : We create on campus and online retail destinations with services students want, and capture market share through new product offerings; enhanced marketing efforts using mobile, search and other technologies; increased local social and promotional offerings; and a broad category assortment of general merchandise, including school spirit apparel and gifts, school supplies, computer and technology products, dorm furnishings, graduation products, and café, convenience food and beverage offerings, marketed to our growing student and alumni base. We also are actively working with publishers by offering them access to FacultyEnlight ®, our proprietary online platform, to expedite and better coordinate textbook adoption.

- *Scalable and Advanced Digital Product and Solution Set* : We leverage our digital technology platform to provide product and service offerings designed to address the most pressing issues in higher education, such as affordable and accessible course materials, retention solutions driven by our analytics platform, and products designed to drive and improve student outcomes.
- *Expanding Strategic Opportunities through Acquisitions and Partnerships* : We intend to pursue strategic relationships with companies that enhance our educational services or distribution platform, or create compelling content offerings. In Fiscal 2016, we acquired LoudCloud Systems, Inc., a sophisticated digital platform and analytics provider. We may also expand our current suite of digital content offerings and platform through acquisitions, internal or third-party software development and strategic partnerships. Expansion into new educational verticals and markets, such as K-12, vocational and international markets, will be opportunistically evaluated. During the first quarter of Fiscal 2017, we acquired Promoversity, a custom merchandise supplier and e-commerce storefront solution serving the collegiate bookstore business and its customers. The acquisition will enable us to customize our e-commerce offerings and drive on-campus apparel sales.

Product and Service Offering

Our full suite of product offerings includes:

- *Textbook and Course Material Sales* : Textbooks are a core product offering of our business. We work directly with faculty to ensure the correct textbooks are available in required formats before the start of classes. We provide students with affordable textbook solutions and educate them about each format through various means. During Fiscal 2016, we offered over 220,000 unique textbook titles for sale to support the course offerings on our campuses.
- *Textbook and Course Material Rentals* : Students are increasingly turning to renting as the most affordable way to obtain their textbooks, and we are an industry leader in textbook rentals. The majority of our robust title list is available for rent, including custom course packs and adaptive learning materials, along with traditional textbooks. We also offer a convenient buyout option to allow the customer to purchase the rented book at the end of the semester, thereby enhancing our revenue and improving our inventory management processes.
- *General Merchandise* : General merchandise sales are generated in-store, on campus at sporting and other events, as well as online through school-branded e-commerce sites. Our stores feature collegiate and athletic apparel relating to a school and/or its athletic programs and other custom-branded school spirit products, technology, supplies and convenience items. With our recent acquisition of Promoversity, a custom merchandise supplier and e-commerce storefront solution serving the collegiate bookstore business and its customers, we will be able to customize our e-commerce offerings and drive on-campus apparel sales. Other merchandise, such as laptops and other technology products, notebooks, backpacks, school and dormitory supplies and related items are also offered. In addition, as of April 30, 2016, we operated 80 customized cafés, featuring Starbucks Coffee ®, and 18 stand-alone convenience stores, as well as diverse grab-and-go options including organic, vegan and gluten-free, and ethnic fare for students on the move. These offerings increase traffic and time spent in our stores.
- *Trade* : In our stores located on larger campuses, we carry an extensive selection of trade, academic and reference books, along with educational toys and games, and schedule store events, such as author signings, that extend beyond the academic community. The majority of our stores carry the most popular campus bestsellers, along with academically relevant titles.
- *Digital Education:* Through our suite of digital products (as described below), we offer a digital software platform and learning materials to supplement our traditional products (textbooks and course materials) and help faculty provide a more robust educational experience for students. We enable educators to mix and author many forms of content, including eTextbooks and rich media, and provide them with adaptive analytics and assessment capabilities that, when combined, drive improved outcomes and better experiences for students.
- *Brand Partnerships:* United States college students spend billions on discretionary purchases each year in categories such as technology, clothing, entertainment, and food. As the official partner to the colleges and universities we serve, we are in a unique position to provide leading brands direct access to 5 million students who shop at our stores. We operate not just as a retailer, but as a media channel for these brands looking to target the college demographic. We are experts in creating strategic solutions and customer programs for brand partners, creating live touch points during the academic year through digital marketing, custom content, store brand building product sampling and live engagement at our locations in the center of campus life. We conduct business with a wide range of companies, including Adobe ®, Verizon ®, Nutella ®, Visa Checkout ®, West Elm ® and Kind ®.

Platform Services

- *FacultyEnlight ®* : Our proprietary online platform enhances content search, discovery and adoption (i.e. textbook selection) by faculty on each campus. Thus far, over 275,000 faculty members use FacultyEnlight ® to compare and contrast key decision-making factors, such as cost savings to students and format availability (including rental and digital options); read and write peer product reviews; and see what textbooks are being used by colleagues at other colleges and universities. This wealth of available information enables faculty to find and select the course materials that are both relevant to their subject matter and affordable to their students. FacultyEnlight ® also provides us with a communication platform to connect with faculty directly, allowing us to better understand their needs, preferences and challenges when it comes to the textbook adoption process, and deliver our affordability message.
- *Campus Connect Technologies ™* : We enhance the academic and social purpose of higher education institutions by integrating our technology and systems with the school's technology and organizational infrastructure to forge a bond with the school with a particular emphasis on the needs of students and faculty. Our customizable technology delivers a seamless experience that enables faculty to research and select, and enables students to find and purchase, the most affordable course materials, maximizing savings and sales. Campus Connect Technologies ™ platform includes:
    - *Simple Registration Integration* : By linking the online course registration process to the bookstore's e-commerce site, students can easily find their specific required course materials and purchase those materials immediately. They can view the list of necessary course materials and select their preferred format, delivery and payment method.
    - *Seamless LMS Integration* : By tying directly into the school's Learning Management System ("LMS"), faculty and students can easily purchase their course materials and leverage our single-sign on functionality - enabling a stronger connection between student, faculty and campus bookstore.
    - *Real-Time Financial Aid Platform* : To help simplify financial aid transactions, we provide a sophisticated, real-time Student Financial Aid ("SFA") platform that is fully-integrated with any college or university's financial aid systems and point-of-sale technology. This integration provides a direct and simple way for students to use their financial aid dollars in our stores and online, even before the start of classes.
    - *Dynamic Point of Sale ("POS") Platform* : We build a secure, highly customized checkout experience for each campus, greatly expediting and simplifying a student's shopping experience. Campus debit cards, financial aid and all major forms of tender are fully integrated, allowing students to check out from any register.
    - *Flexible Course Fee Solution* : Through this model, all required course materials for a particular course or program are included in the cost of tuition. Students are guaranteed the course materials they need in the format they prefer. Course materials can be picked up at the campus store, shipped directly to the student or delivered digitally.
- *Digital Products:* Our digital products include a sophisticated digital learning management platform that has competency based features, analytics capabilities, courseware offering and a digital eTextbook reading product.
    - *Learning Management System:* Our LMS is a next-generation platform that delivers both traditional and competency based learning models. This highly flexible platform is designed to enable all learning environments; traditional, online or hybrid. The platform can improve learning outcomes by enabling engagement and collaboration among students and faculty.
    - *Learning Analytics:* Our learning analytics solution is designed to make sense of complex data systems to deliver real-time insights to advisors and faculty. This solution captures and analyzes key behavioral and performance metrics, identifies vital predictors of success, and surfaces key focus areas in a manner intended to deliver better learning outcomes for students and improve retention for colleges and universities.
    - *Courseware:* Our courseware offering makes it easier for faculty to adopt Open Educational Resources ("OER"). Built on the foundation of industry recognized OER, including OpenStax, we have created a courseware solution intended to lower costs for students, make it easier for faculty to implement, and help drive better learning outcomes.

Segment

We have determined that we operate within a single reportable segment. We identified our single operating segment based on the way our business is managed (focusing on the financial information distributed) and the manner in which our chief operating decision maker allocates resources and assesses financial performance.

Seasonality

Our business is highly seasonal, with the major portion of sales and operating profit realized during the second and third fiscal quarters ("rush season"), when college students generally purchase and rent textbooks for the upcoming semesters. Our fiscal year is comprised of 52 or 53 weeks, ending on the Saturday closest to the last day of April.

Trends and Other Factors Affecting Our Business

Our business is dependent on the overall economic environment, college enrollment and consumer spending patterns. Our business is affected by funding levels at colleges and universities, by changes in enrollments at colleges and universities, and spending on textbooks and general merchandise. The growth of our business depends on our ability to attract new students and to increase the level of engagement by existing students.

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

We expect awards of new accounts resulting in new store openings will continue to be an important driver of future growth in our business. We are awarded additional contracts for stores as colleges and universities decide to outsource their bookstore, and we also obtain new contracts for stores that were previously operated by competitors. Sales trends are primarily impacted by new store openings, increasing the students and faculty served, as well as changes in comparable store sales and store closings. We close stores at the end of their contract terms due to low profitability or because the new contract has been awarded to a competitor. Over the last four years, we have consistently opened new stores increasing our total number of stores open from 636 at the beginning of Fiscal 2012 to 751 at the end of Fiscal 2016. As of October 29, 2017, we operated 771 nationwide.

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

As we expanded our textbook rental offerings, students have been shifting away from higher priced textbook purchases to lower priced rental options, which has resulted in lower textbook sales and increasing rental income. After several years of comparable store sales declines, primarily due to lower textbook unit volume, during the 52 weeks ended May 2, 2015, our comparable store sales trends improved for both textbooks and general merchandise. For the 52 weeks ended April 30, 2016 and the 26 weeks ended October 29, 2016, our comparable store sales declined primarily due to lower community college enrollment.

General merchandise sales have continued to increase as our product assortments continue to emphasize and reflect the changing consumer trends and we evolve our presentation concepts and merchandising of products in stores and online.

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

Prior to the recent restructuring of our digital operation, selling and administrative expenses had generally increased primarily as a result of our investments in Yuzu ®, our eTextbook platform. Additionally, selling and administrative expenses had increased due to infrastructure costs to support growth and costs associated with being an independent publicly-traded company. In an effort to reduce and manage digital expenditures, while at the same time maintaining high quality digital products, we restructured our digital operations in Fiscal 2016. Additionally, we announced a reduction in staff and closure of the facilities in Mountain View, California, and Redmond, Washington that support the Yuzu ® eTextbook platform. We recorded restructuring costs of $8.8 million in Fiscal 2016 comprised of employee-related costs (including severance and retention) and facility exit costs. During the 26 weeks ended October 29, 2016, we recorded $1.8 million in additional restructuring costs primarily for employee related costs. The majority of the restructuring related to employee matters was completed in the first quarter of Fiscal 2017.

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

Elements of Results of Operations

Our condensed consolidated financial statements reflect our consolidated financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States (“GAAP”).

Our sales are primarily derived from the sale of course materials (which include new and used textbooks and digital textbooks), emblematic apparel and gifts, trade books, computer products, school and dorm supplies, convenience and café items and graduation products. Our rental income is primarily derived from the rental of physical and digital textbooks.

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

Our selling and administrative expenses consist primarily of store payroll and store operating expenses. Selling and administrative expenses also include stock-based compensation and general office expenses, such as executive oversight, merchandising, field support, finance, human resources, benefits, training, legal, and information technology, as well as our investments in our digital platform.

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

The results of operations for the 13 weeks ended August 1, 2015 (i.e. first quarter of Fiscal 2016, which is referred to as the "stand-alone period") reflected in our condensed consolidated financial statements are presented on a stand-alone basis since we were still part of Barnes & Noble, Inc. Our condensed consolidated financial statements were derived from the consolidated financial statements and accounting records of Barnes & Noble. Our condensed consolidated financial statements include certain assets and liabilities that have historically been held at the Barnes & Noble corporate level but are specifically identifiable or otherwise attributable to us. For additional information, see *Part I - Item 1. Financial Statements - Note 10. Barnes & Noble, Inc. Transactions* .

Consolidated financial statements (Subsequent to the Spin-Off)

The Spin-Off from Barnes & Noble, Inc. occurred on August 2, 2015 and therefore, the results of operations are presented on a consolidated basis for the 13 and 26 weeks ended October 29, 2016 (i.e. first and second quarter of Fiscal 2017) and the 13 weeks ended October 31, 2015 (i.e., second quarter of Fiscal 2016) which includes direct costs incurred with Barnes & Noble under various agreements. Certain corporate and shared service functions historically provided by Barnes & Noble will continue to be provided by Barnes & Noble under the Transition Services Agreement. For additional information, see *Part I - Item 1. Financial Statements - Note 10. Barnes & Noble, Inc. Transactions* .

Results of Operations - Summary

	13 weeks ended		26 weeks ended	
Dollars in thousands	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Sales:				
Product sales and other	$ 697,927	$ 684,006	$ 915,663	$ 902,722
Rental income	72,744	71,858	94,245	92,125
Total sales	$ 770,671	$ 755,864	$ 1,009,908	$ 994,847
Net income	$ 29,289	$ 33,401	$ 1,373	$ 6,483
Adjusted EBITDA (non-GAAP) [a]	$ 70,391	$ 72,682	$ 33,867	$ 37,542
Adjusted Earnings (non-GAAP) [b]	$ 29,683	$ 33,401	$ 3,798	$ 6,483
Comparable store sales decrease [c]	(2.9)%	(3.0)%	(2.9)%	(1.9)%
Stores opened	1	7	34	28
Stores closed	—	—	14	9
Number of stores open at end of period	771	743	771	743

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

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

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

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

	13 weeks ended		26 weeks ended	
	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Sales:				
Product sales and other	90.6%	90.5%	90.7%	90.7%
Rental income	9.4	9.5	9.3	9.3
Total sales	100.0	100.0	100.0	100.0
Cost of sales:				
Product and other cost of sales (a)	79.4	78.6	80.0	78.9
Rental cost of sales (a)	61.4	60.3	62.1	60.7
Total cost of sales	77.7	76.8	78.3	77.2
Gross margin	22.3	23.2	21.7	22.8
Selling and administrative expenses	13.2	13.6	18.5	19.0
Depreciation and amortization expense	1.7	1.7	2.6	2.6
Restructuring costs	—	—	0.2	—
Operating income	7.4	7.9	0.4	1.2
Interest expense, net	0.1	0.1	0.1	0.1
Income before income taxes	7.3	7.8	0.3	1.1
Income tax expense	3.5	3.4	0.1	0.4
Net income	3.8%	4.4%	0.2%	0.7%

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

13 and 26 weeks ended October 29, 2016 compared with the 13 and 26 weeks ended October 31, 2015

Sales

The following table summarizes our sales for the 13 and 26 weeks ended October 29, 2016 and October 31, 2015 :

	13 weeks ended			26 weeks ended		
Dollars in thousands	October 29, 2016	October 31, 2015	%	October 29, 2016	October 31, 2015	%
Product sales and other	$ 697,927	$ 684,006	2.0%	$ 915,663	$ 902,722	1.4%
Rental income	72,744	71,858	1.2%	94,245	92,125	2.3%
Total Sales	$ 770,671	$ 755,864	2.0%	$ 1,009,908	$ 994,847	1.5%

Our sales increased $14.8 million, or 2.0%, to $770.7 million during the 13 weeks ended October 29, 2016 from $755.9 million during the 13 weeks ended October 31, 2015 . Our sales increased $15.1 million, or 1.5%, to $1,009.9 million during the 26 weeks ended October 29, 2016 from $994.8 million during the 26 weeks ended October 31, 2015 . The components of the variances are reflected in the table below.

The components of the sales variances for the 13 and 26 week periods are as follows:

Sales variances *Dollars in millions*	13 weeks ended	26 weeks ended
New stores	$ 50.0	$ 58.5
Closed stores	(10.7)	(12.5)
Comparable stores	(22.4)	(28.6)
Textbook rental deferral	(3.6)	(2.2)
Other revenue [(a)]	2.3	2.4
Other [(b)]	(0.8)	(2.5)
Total sales variance	$ 14.8	$ 15.1

(a) Other revenue includes Promoversity, LoudCloud, brand partnerships, shipping & handling and revenue from other programs.
(b) Other includes certain adjusting items related to return reserves and other deferred items.

Rental income for the 13 and 26 weeks ended October 29, 2016 increased $0.9 million, or 1.2%, and $2.1 million, or 2.3%, respectively. Rental income for the 13 and 26 weeks ended October 29, 2016 was impacted by an increase in our rental deferral of $3.6 million and $2.2 million, respectively, due to the delayed timing of rush and will reverse by the end of the fall semester. Excluding the impact of the deferred revenue, rental income increased $4.5 million, or 3.9%, and $4.3 million, or 3.3%, respectively.

We added 34 new stores and closed 14 stores during the 26 weeks ended October 29, 2016 , ending the period with a total of 771 stores.

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

Comparable Store Sales variances	13 weeks ended				26 weeks ended			
Dollars in millions	October 29, 2016		October 31, 2015		October 29, 2016		October 31, 2015	
Textbooks	$ (19.1)	(3.3)%	$ (24.4)	(4.2)%	$ (26.0)	(3.8)%	$ (27.9)	(4.1)%
General Merchandise	(2.3)	(1.3)%	2.2	1.3 %	(0.7)	(0.2)%	9.2	3.5 %
Trade Books	(0.8)	(5.6)%	0.3	1.8 %	(1.5)	(5.2)%	0.4	1.4 %
Other	(0.2)	(88.0)%	(0.7)	(72.4)%	(0.4)	(88.7)%	(0.6)	(51.8)%
Total Comparable Store Sales	$ (22.4)	(2.9)%	$ (22.6)	(3.0)%	$ (28.6)	(2.9)%	$ (18.9)	(1.9)%

Comparable store sales decreased for the 13 and 26 week sales periods primarily due to lower student enrollment, specifically in two-year community colleges and other recent negative retail trends. The components of the variances are reflected in the table above.

New and used textbook revenue for both the 13 and 26 week periods decreased primarily due to lower new and used textbook sales, while eTextbook revenue increased due to expanded eTexbook title offerings. General merchandise sales decreased for both the 13 and 26 week periods primarily due to lower school supplies, computer product and convenience sales, partially offset by higher emblematic apparel sales. The decrease in general merchandise sales for the 26 week period ended October 29, 2016 was also offset by higher graduation product sales.

Cost of Sales and Gross Margin

The following table summarizes our cost of sales for the 13 and 26 weeks ended October 29, 2016 and October 31, 2015 :

	13 weeks ended				26 weeks ended			
Dollars in thousands	October 29, 2016	% of Related Sales	October 31, 2015	% of Related Sales	October 29, 2016	% of Related Sales	October 31, 2015	% of Related Sales
Product and other cost of sales	$ 554,498	79.4%	$ 537,380	78.6%	$ 732,492	80.0%	$ 712,289	78.9%
Rental cost of sales	44,659	61.4%	43,363	60.3%	58,489	62.1%	55,893	60.7%
Total Cost of Sales	$ 599,157	77.7%	$ 580,743	76.8%	$ 790,981	78.3%	$ 768,182	77.2%

The following table summarizes our gross margin for the 13 and 26 weeks ended October 29, 2016 and October 31, 2015 :

	13 weeks ended				26 weeks ended			
Dollars in thousands	October 29, 2016	% of Related Sales	October 31, 2015	% of Related Sales	October 29, 2016	% of Related Sales	October 31, 2015	% of Related Sales
Product and other gross margin	$ 143,429	20.6%	$ 146,626	21.4%	$ 183,171	20.0%	$ 190,433	21.1%
Rental gross margin	28,085	38.6%	28,495	39.7%	35,756	37.9%	36,232	39.3%
Gross Margin	$ 171,514	22.3%	$ 175,121	23.2%	$ 218,927	21.7%	$ 226,665	22.8%

Our cost of sales increased as a percentage of sales to 77.7% during the 13 weeks ended October 29, 2016 compared to 76.8% during the 13 weeks ended October 31, 2015 . This was due to the factors discussed below.

Our gross margin decreased $3.6 million, or 2.1%, to $171.5 million, or 22.3% of sales, during the 13 weeks ended October 29, 2016 from $175.1 million, or 23.2% of sales, during the 13 weeks ended October 31, 2015 . Gross margin as a percentage of sales decreased as discussed below:

- Product and other gross margin decreased (80 basis points), driven primarily by lower margin rates (40 basis points), primarily related to increased markdowns on textbooks, including the impact of our price-matching program (15 basis points), and the prior year benefit from the inventory management strategies for used textbooks. The decrease is also attributable to increased costs related to our college and university contracts (30 basis points) resulting from contract renewals and new store contracts and an unfavorable sales mix (10 basis points) resulting from a decrease in higher margin used textbooks as a percentage of sales.
- Rental gross margin decreased (110 basis points), driven primarily by increased costs related to our college and university contracts (80 basis points) resulting from contract renewals and new store contracts and lower rental margin rates (65 basis points), including the impact of our price-matching program (50 basis points) and the increased rental deferral (20 basis points) which is due to the delayed timing of rush and will reverse by the end of the fall semester. These decreases were partially offset by a favorable rental mix (35 basis points).

Our cost of sales increased as a percentage of sales to 78.3% during the 26 weeks ended October 29, 2016 compared to 77.2% during the 26 weeks ended October 31, 2015 . This was due to the factors discussed below.

Our gross margin decreased $7.8 million, or 3.4%, to $218.9 million, or 21.7% of sales, during the 26 weeks ended October 29, 2016 from $226.7 million, or 22.8% of sales, during the 26 weeks ended October 31, 2015 . Gross margin as a percentage of sales decreased as discussed below:

- Product and other gross margin decreased (110 basis points), driven primarily by lower margin rates (80 basis points), primarily related to increased markdowns on textbooks, including the impact of our price-matching program (10 basis points), and the prior year benefit from the inventory management strategies for used textbooks. The decrease is also attributable to increased costs related to our college and university contracts (30 basis points) resulting from contract renewals and new store contracts.
- Rental gross margin decreased (140 basis points), driven primarily by increased costs related to our college and university contracts (95 basis points) resulting from contract renewals and new store contracts and lower rental margin rates (70 basis points), including the impact of our price-matching program (40 basis points) and the increased rental deferral (10 basis points) which is due to the delayed timing of rush and will reverse by the end of the fall semester. These decreases were partially offset by a favorable rental mix (25 basis points).

Selling and Administrative Expenses

	13 weeks ended				26 weeks ended			
Dollars in thousands	October 29, 2016	% of Sales	October 31, 2015	% of Sales	October 29, 2016	% of Sales	October 31, 2015	% of Sales
Total Selling and Administrative Expenses	$ 101,767	13.2%	$ 102,439	13.6%	$ 187,231	18.5%	$ 189,123	19.0%

During the 13 weeks ended October 29, 2016 , selling and administrative expenses decreased $0.6 million, or 0.7%, to $101.8 million from $102.4 million during the 13 weeks ended October 31, 2015 . The decrease was due primarily to a $3.9 million decrease in digital expenses related to Yuzu ® and LoudCloud, a $1.4 million decrease in comparable store payroll and operating expenses and a $0.4 million decrease in corporate payroll and infrastructure costs (including increased costs associated with an acquired business). These decreases were partially offset by a $4.5 million increase in new store payroll and operating expenses (net of closed stores), as a result of a $39.3 million increase in new store sales (net of closed stores), and $0.6 million of transaction costs incurred for business development and acquisitions.

During the 26 weeks ended October 29, 2016 , selling and administrative expenses decreased $1.9 million, or 1.0%, to $187.2 million from $189.1 million during the 26 weeks ended October 31, 2015 . The decrease was due primarily to a $7.0 million decrease in digital expenses related to Yuzu ® and LoudCloud and a $4.0 million decrease in comparable store payroll and operating expenses. These decreases were partially offset by a $6.9 million increase in new store payroll and operating expenses (net of closed stores), as a result of a $46.0 million increase in new store sales (net of closed stores), and $2.2 million of transaction costs incurred for business development and acquisitions. Corporate payroll and infrastructure costs were flat to last year, including increased costs associated with an acquired business.

Depreciation and Amortization Expense

	13 weeks ended				26 weeks ended			
Dollars in thousands	October 29, 2016	% of Sales	October 31, 2015	% of Sales	October 29, 2016	% of Sales	October 31, 2015	% of Sales
Total Depreciation and Amortization Expense	$ 12,987	1.7%	$ 13,169	1.7%	$ 25,908	2.6%	$ 26,269	2.6%

Depreciation and amortization remained flat during the 13 and 26 weeks ended October 29, 2016 compared to the comparative prior year periods ended October 31, 2015 .

Restructuring Costs

In Fiscal 2016, we implemented a plan to restructure our digital operations. Additionally, we announced a reduction in staff and closure of the facilities in Mountain View, California, and Redmond, Washington that supported the Yuzu ® eTextbook platform. We recorded restructuring costs of $8.8 million in Fiscal 2016 comprised of employee-related costs (including severance and retention) and facility exit costs. During the 26 weeks ended October 29, 2016, we recorded $1.8 million in additional restructuring costs primarily for employee related costs (including severance and retention). The majority of the restructuring related to employee matters was completed in the first quarter of Fiscal 2017.

Operating Income

	13 weeks ended				26 weeks ended			
Dollars in thousands	October 29, 2016	% of Sales	October 31, 2015	% of Sales	October 29, 2016	% of Sales	October 31, 2015	% of Sales
Total Operating Income	$ 56,760	7.4%	$ 59,513	7.9%	$ 3,998	0.4%	$ 11,273	1.2%

Our operating income was $56.8 million during the 13 weeks ended October 29, 2016 compared to operating income of $59.5 million during the 13 weeks ended October 31, 2015 . This decrease was due to the matters discussed above. Excluding the transaction costs (included in selling and administrative expenses) of $0.6 million, operating income was $57.4 million (or 7.4% of sales) during the 13 weeks ended October 29, 2016 , compared with operating income of $59.5 million during the 13 weeks ended October 31, 2015 .

Our operating income was $4.0 million during the 26 weeks ended October 29, 2016 compared to operating income of $11.3 million during the 26 weeks ended October 31, 2015 . This decrease was due to the matters discussed above. Excluding the restructuring costs of $1.8 million, and transaction costs (included in selling and administrative expenses) of $2.2 million, operating income was $8.0 million (or 0.8% of sales) during the 26 weeks ended October 29, 2016 , compared with operating income of $11.3 million during the 26 weeks ended October 31, 2015 .

Interest Expense, Net

	13 weeks ended		26 weeks ended	
Dollars in thousands	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Interest Expense, Net	$ 630	$ 554	$ 1,296	$ 557

Net interest expense increased during the 13 and 26 weeks ended October 29, 2016 primarily due to increased borrowings under the Credit Facility entered into during Fiscal 2016.

Income Tax Expense

	13 weeks ended				26 weeks ended			
Dollars in thousands	October 29, 2016	Effective Rate	October 31, 2015	Effective Rate	October 29, 2016	Effective Rate	October 31, 2015	Effective Rate
Income Tax Expense	$ 26,841	47.8%	$ 25,558	43.4%	$ 1,329	49.2%	$ 4,233	39.5%

We recorded an income tax expense of $26,841 on pre-tax income $56,130 of during the 13 weeks ended October 29, 2016 , which represented an effective income tax rate of 47.8% and an income tax expense of $25,558 on pre-tax income of $58,959 during the 13 weeks ended October 31, 2015 , which represented an effective income tax rate of 43.4% .

We recorded 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% and an income tax expense of $4,233 on pre-tax income of $10,716 during the 26 weeks ended October 31, 2015 , which represented an effective income tax rate of 39.5% .

The income tax provision for the 26 weeks ended October 29, 2016 reflects the impact of nondeductible expenses, principally nondeductible compensation expense, partially offset by income tax credits. Management expects nondeductible compensation expense for the current fiscal year to be significantly higher than in previous years because of limitations on deductibility of certain elements of our compensation program imposed by Section 162(m) of the Internal Revenue Code. Management expects that nondeductible compensation in future fiscal years will be lower than the current fiscal year as our compensation plans are brought in alignment with performance based requirements.

Net Income

	13 weeks ended		26 weeks ended	
Dollars in thousands	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Net Income	$ 29,289	$ 33,401	$ 1,373	$ 6,483

As a result of the factors discussed above, we reported net income of $29.3 million during the 13 weeks ended October 29, 2016 , compared with net income of $33.4 million during the 13 weeks ended October 31, 2015 . Adjusted Earnings (non-GAAP) is $29.7 million during the 13 weeks ended October 29, 2016 , compared with $33.4 million during the 13 weeks ended October 31, 2015 . See *Adjusted Earnings (non-GAAP)* discussion below.

As a result of the factors discussed above, we reported net income of $1.4 million during the 26 weeks ended October 29, 2016 , compared with net income of $6.5 million during the 26 weeks ended October 31, 2015 . Adjusted Earnings (non-GAAP) is $4.0 million during the 26 weeks ended October 29, 2016 , compared with $6.5 million during the 26 weeks ended October 31, 2015 . See *Adjusted Earnings (non-GAAP)* discussion below.

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

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

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

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

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

Adjusted EBITDA (non-GAAP)

	13 weeks ended		26 weeks ended	
Dollars in thousands	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Net income	$ 29,289	$ 33,401	$ 1,373	$ 6,483
Add:				
Depreciation and amortization expense	12,987	13,169	25,908	26,269
Interest expense, net	630	554	1,296	557
Income tax expense	26,841	25,558	1,329	4,233
Restructuring costs [(a)]	—	—	1,790	—
Transaction costs [(b)]	644	—	2,171	—
Adjusted EBITDA (non-GAAP) [(c)]	$ 70,391	$ 72,682	$ 33,867	$ 37,542

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

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

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

Adjusted Earnings (non-GAAP)

	13 weeks ended		26 weeks ended	
Dollars in thousands	October 29, 2016	October 31, 2015	October 29, 2016	October 31, 2015
Net income	$ 29,289	$ 33,401	$ 1,373	$ 6,483
Reconciling items, after-tax *(below)*	394	—	2,425	—
Adjusted Earnings (non-GAAP) [(a)]	$ 29,683	$ 33,401	$ 3,798	$ 6,483

Reconciling items, pre-tax				
Restructuring costs [(b)]	$ —	$ —	$ 1,790	$ —
Transaction costs [(c)]	644	—	2,171	—
Reconciling items, pre-tax	644	—	3,961	—
Less: Pro forma income tax impact [(d)]	250	—	1,536	—
Reconciling items, after-tax	$ 394	$ —	$ 2,425	$ —

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

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

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

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

Liquidity and Capital Resources

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

Prior to the Spin-Off on August 2, 2015, we were party to the Credit Facility held by Barnes & Noble, Inc. ("B&N Credit Facility"). All outstanding debt under the B&N Credit Facility was recorded on Barnes & Noble's balance sheet prior to the Spin-Off on August 2, 2015. On August 3, 2015, in connection with the Spin-Off, we entered into a new five-year $400 million asset-backed revolving credit facility (the "BNED Credit Facility"), the proceeds of which will be used for general corporate purposes, including seasonal working capital needs. See *Financing Arrangements* discussion below. As of October 29, 2016 , we had no outstanding borrowings under the BNED Credit Facility.

As of October 29, 2016 , Other long-term liabilities includes $69.4 million related to the long-term tax payable associated with the LIFO reserve. Management believes it is remote that the long-term tax payable associated with the LIFO reserve will be payable or will result in a cash tax payment in the foreseeable future, assuming that LIFO will continue to be an acceptable inventory method for tax purposes.

Share Repurchases

On December 14, 2015, our Board of Directors authorized a stock repurchase program of up to $50 million, in the aggregate, of our outstanding Common Stock. The stock repurchase program is carried out at the direction of management (which 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 29, 2016 , we repurchased 688,948 shares for approximately $6.7 million at an average cost per share of $10.10. As of October 29, 2016 , approximately $26.7 million remains available under the stock repurchase program.

During the 26 weeks ended October 29, 2016 , we also repurchased 116,914 shares of our Common Stock in connection with employee tax withholding obligations for vested stock awards.

Sources and Uses of Cash Flow

	26 weeks ended	
Dollars in thousands	October 29, 2016	October 31, 2015
Cash and cash equivalents at beginning of period	$ 28,568	$ 44,816
Net cash flows provided by operating activities	179,329	81,481
Net cash flows used in investing activities	(23,463)	(27,953)
Net cash flows used in financing activities	(7,856)	(9,695)
Cash and cash equivalents at end of period	$ 176,578	$ 88,649

Cash Flow from Operating Activities

Our business is highly seasonal. Cash flows from operating activities are typically a source of cash in the second and third fiscal quarters, when students generally purchase and rent textbooks for the upcoming semesters. Cash flows from operating activities are typically a use of cash in the first and fourth fiscal quarters, when sales volumes are materially lower than the other quarters. Our quarterly cash flows also may fluctuate depending on the timing of the start of the various school's semesters, as well as shifts in fiscal calendar dates. These shifts in timing may affect the comparability of our results across periods.

Cash flows provided by operating activities during the 26 weeks ended October 29, 2016 were $179.3 million compared to cash flows provided by operating activities of $81.5 million during the 26 weeks ended October 31, 2015 . This net change of $97.8 million was primarily due to changes in working capital and changes in deferred tax balances.

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 29, 2016 were $23.5 million compared to $28.0 million during the 26 weeks ended October 31, 2015 . Capital expenditures totaled $17.5 million and $24.5 million during the 26 weeks ended October 29, 2016 and October 31, 2015 , respectively.

Cash Flow from Financing Activities

Cash flows used in financing activities during the 26 weeks ended October 29, 2016 were $7.9 million compared $9.7 million during the 26 weeks ended October 31, 2015 . This net change of $1.9 is primarily due to the net change in the Barnes & Noble, Inc. investment of $6.4 million and lower payments for deferred financing costs of $3.3 million, offset by increased payments for Common Stock repurchased of $7.9 million.

Financing Arrangements

Until August 3, 2015, we were party to an amended and restated credit facility with Barnes & Noble, Inc. as the lead borrower (as amended and modified to date, the "B&N Credit Facility"). All outstanding debt under the B&N Credit Facility was recorded on Barnes & Noble's balance sheet as of August 1, 2015.

On August 3, 2015, we and certain of our subsidiaries, entered into a credit agreement (the "Credit Agreement") with Bank of America, N.A., as administrative agent, collateral agent and swing line lender, and other lenders from time to time party thereto, under which the lenders committed to provide a five-year asset-backed revolving credit facility in an aggregate committed principal amount of $400.0 million (the "BNED Credit Facility"). The Company has the option to request an increase in commitments under the BNED Credit Facility of up to $100.0 million, subject to certain restrictions. For additional information including interest terms and covenant requirements related to the BNED Credit Facility, refer to *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity* in our Annual Report on Form 10-K for the year ended April 30, 2016.

As of October 29, 2016 , we had no outstanding borrowings under the BNED Credit Facility. During the 26 weeks ended October 29, 2016 , we borrowed and repaid $47.4 million under the BNED Credit Facility. As of October 29, 2016 , we have issued $4.3 million in letters of credit under the facility.

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

Contractual Obligations

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

Off-Balance Sheet Arrangements

As of October 29, 2016 , we have no off-balance sheet arrangements as defined in Item 303 of Regulation S-K.

Critical Accounting Policies

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

Recent Accounting Pronouncements

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

Disclosure Regarding Forward-Looking Statements

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

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

- general competitive conditions, including actions our competitors may take to grow their businesses;
- a decline in college enrollment or decreased funding available for students;
- decisions by colleges and universities to outsource their bookstore operations or change the operation of their bookstores;
- the general economic environment and consumer spending patterns;
- decreased consumer demand for our products, low growth or declining sales;
- restructuring of our digital strategy may not result in the expected growth in our digital sales and/or profitability;
- risk that digital sales growth does not exceed the rate of investment spend;
- the performance of our online, digital and other initiatives, integration of and deployment of, additional products and services, and further enhancements to Yuzu ® and any future higher education digital products, and the inability to achieve the expected cost savings;
- our ability to successfully implement our strategic initiatives including our ability to identify and execute upon additional acquisitions and strategic investments;
- technological changes;
- our international expansion could result in additional risks;
- our ability to attract and retain employees;
- changes to payment terms, return policies, the discount or margin on products or other terms with our suppliers;
- risks associated with data privacy, information security and intellectual property;
- trends and challenges to our business and in the locations in which we have stores;
- non-renewal of contracts and higher-than-anticipated store closings;
- disruptions to our computer systems, data lines, telephone systems or supply chain, including the loss of suppliers;
- work stoppages or increases in labor costs;
- possible increases in shipping rates or interruptions in shipping service, effects of competition;
- obsolete or excessive inventory;
- product shortages;
- changes in law or regulation;
- the amount of our indebtedness and ability to comply with covenants applicable to any future debt financing;
- our ability to satisfy future capital and liquidity requirements;
- our ability to access the credit and capital markets at the times and in the amounts needed and on acceptable terms;
- adverse results from litigation, governmental investigations or tax-related proceedings or audits;
- changes in accounting standards;
- challenges to running our company independently from Barnes & Noble, Inc. following the Spin-Off;
- the potential adverse impact on our business resulting from the Spin-Off; and
- the other risks and uncertainties detailed in the section titled *"Risk Factors"* in Part I - Item 1A in our Annual Report on Form 10-K for the year ended April 30, 2016.

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

Item 3: Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to the items discussed in *Item 7A. Quantitative and Qualitative Disclosures About Market Risk* in our Annual Report on Form 10-K for the year ended April 30, 2016.

Item 4: Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Management has not identified any changes in the Company's internal control over financial reporting that occurred during the quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

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

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

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

On July 24, 2015, the Court granted B&N's post trial application to invalidate one of the two patents (the '501 patent) the jury found to have been infringed. The Court heard oral argument on September 28, 2015 on the post-trial motions on the jury's infringement and validity determinations. On February 24, 2016, the Court issued a decision upholding the jury's determination of infringement and validity with respect to the '703 patent and ordered a new trial on damages with respect to '703 patent since the original damages award was a total award for both the '501 patent and the '703 patent. The court held a trial on June 23-24 and July 15, 2016 to determine the damage award related to the '703 patent. Adrea filed its post-trial brief on August 5, 2016, B&N filed its response brief on August 26, 2016, and Adrea filed its reply brief on September 8, 2016.

Item 1A. Risk Factors

There have been no material changes during the 26 weeks ended October 29, 2016 to the risk factors discussed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended April 30, 2016.

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

Issuer Purchases of Equity Securities

The following table provides information as of October 29, 2016 with respect to shares of common stock we purchased during the second quarter of Fiscal 2017:

Period	Total Number of Shares Purchased	Average Price Paid per Share (a)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
July 31, 2016 - August 27, 2016	12,900	$ 11.67	12,900	$ 26,669,324
August 28, 2016 - October 1, 2016	—	$ —	—	$ 26,669,324
October 2, 2016 - October 29, 2016	—	$ —	—	$ 26,669,324
	12,900	$ 11.67	12,900	

(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 29, 2016, we also repurchased 116,914 shares of our Common Stock in connection with employee tax withholding obligations for vested stock awards.

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Item 6. Exhibits

10. 1 †	Barnes & Noble Education, Inc. Equity Incentive Plan, as amended (incorporated herein by reference to Appendix A in the Company's Definitive Proxy Statement on Schedule 14A filed with the SEC on August 17, 2016).
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

† Previously filed.

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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 6, 2016

EXHIBIT INDEX

10.1 †	Barnes & Noble Education, Inc. Equity Incentive Plan, as amended (incorporated herein by reference to Appendix A in the Company's Definitive Proxy Statement on Schedule 14A filed with the SEC on August 17, 2016).
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101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

† Previously filed.

Exhibit 31.1

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

I, Max J. Roberts, certify that:

1. I have reviewed this report on Form 10-Q for the quarterly period ended October 29, 2016 of Barnes & Noble Education, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 6, 2016

By: /s/ Max J. Roberts

Max J. Roberts
Chief Executive Officer
Barnes & Noble Education, Inc.

Exhibit 31.2

**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 29, 2016 of Barnes & Noble Education, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 6, 2016

By: /s/ Barry Brover

Barry Brover
Chief Financial Officer
Barnes & Noble Education, Inc.

Exhibit 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

In connection with the quarterly report of Barnes & Noble Education, Inc. (the “Company”) on Form 10-Q for the period ended October 29, 2016 , as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Max J. Roberts, Chief Executive Officer of the Company, certify, to the best of my knowledge, pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Max J. Roberts

Max J. Roberts
Chief Executive Officer
Barnes & Noble Education, Inc.

December 6, 2016

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

Exhibit 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

In connection with the quarterly report of Barnes & Noble Education, Inc. (the "Company") on Form 10-Q for the period ended October 29, 2016 , as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Barry Brover, Chief Financial Officer of the Company, certify, to the best of my knowledge, pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Barry Brover

Barry Brover
Chief Financial Officer
Barnes & Noble Education, Inc.

December 6, 2016

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