BARNES & NOBLE EDUCATION, INC.

FORM 10-Q
(Quarterly Report)

Filed 03/01/18 for the Period Ending 01/27/18

Address	120 MOUNTAIN VIEW BOULEVARD
	BASKING RIDGE, NJ, 07920
Telephone	908-991-2665
CIK	0001634117
Symbol	BNED
SIC Code	5940 - Retail-Miscellaneous Shopping Goods Stores
Industry	Other Specialty Retailers
Sector	Consumer Cyclicals
Fiscal Year	04/29

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended January 27, 2018

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)**

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

(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	☐
			Emerging Growth Company	☐

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

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

As of February 16, 2018 , 46,914,466 shares of Common Stock, par value $0.01 per share, were outstanding.

EXPLANATORY NOTE

Effective with the acquisition of MBS Textbook Exchange, LLC ("MBS") on February 27, 2017, we determined that we have two reportable segments: Barnes & Noble College Booksellers, LLC ("BNC") and MBS, whereas BNC was previously our only reportable segment prior to the acquisition. The condensed consolidated financial statements for the 13 and 39 weeks ended January 27, 2018 include the financial results of MBS and all material intercompany accounts and transactions have been eliminated in consolidation. The condensed consolidated financial statements for the 13 and 39 weeks ended January 28, 2017 exclude the financial results of MBS.

On August 3, 2017, we acquired Student Brands, LLC ("Student Brands"), a leading direct-to-student subscription-based writing services business. The condensed consolidated financial statements for the 13 and 39 weeks ended January 27, 2018 include the financial results of Student Brands in the BNC segment from the date of acquisition, August 3, 2017, and the condensed consolidated financial statements for the 13 and 39 weeks ended January 28, 2017 exclude the financial results of Student Brands.

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Fiscal Quarter Ended January 27, 2018
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PART I - FINANCIAL INFORMATION

Item 1: Financial Statements

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

	13 weeks ended		39 weeks ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
Sales:				
Product sales and other	$ 540,903	$ 457,147	$ 1,693,230	$ 1,372,810
Rental income	62,488	64,477	152,733	158,722
Total sales	603,391	521,624	1,845,963	1,531,532
Cost of sales:				
Product and other cost of sales	419,641	366,190	1,326,221	1,098,682
Rental cost of sales	37,215	39,509	91,936	97,998
Total cost of sales	456,856	405,699	1,418,157	1,196,680
Gross profit	146,535	115,925	427,806	334,852
Selling and administrative expenses	111,974	97,111	326,532	282,171
Depreciation and amortization expense	17,007	13,149	48,728	39,057
Impairment loss (non-cash)	313,130	—	313,130	—
Restructuring and other charges	—	—	5,429	1,790
Transaction costs	49	467	1,895	2,638
Operating (loss) income	(295,625)	5,198	(267,908)	9,196
Interest expense, net	2,954	679	7,828	1,975
(Loss) income before income taxes	(298,579)	4,519	(275,736)	7,221
Income tax (benefit) expense	(15,344)	758	(6,113)	2,087
Net (loss) income	$ (283,235)	$ 3,761	$ (269,623)	$ 5,134
(Loss) Earnings per share of common stock:				
Basic	$ (6.04)	$ 0.08	$ (5.77)	$ 0.11
Diluted	$ (6.04)	$ 0.08	$ (5.77)	$ 0.11
Weighted average shares of common stock outstanding:				
Basic	46,914	46,276	46,712	46,265
Diluted	46,914	46,844	46,712	46,716

See accompanying notes to condensed consolidated financial statements.

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

	January 27, 2018	January 28, 2017	April 29, 2017
	(unaudited)	(unaudited)	(audited)
ASSETS			
Current assets:			
Cash and cash equivalents	$ 22,373	$ 132,061	$ 19,003
Receivables, net	243,434	178,825	86,040
Merchandise inventories, net	614,499	494,032	434,064
Textbook rental inventories	61,427	67,372	52,826
Prepaid expenses and other current assets	12,274	8,134	10,698
Total current assets	954,007	880,424	602,631
Property and equipment, net	110,987	107,272	116,613
Intangible assets, net	224,314	191,628	209,885
Goodwill	49,282	281,346	329,467
Other noncurrent assets	41,990	39,233	41,236
Total assets	$ 1,380,580	$ 1,499,903	$ 1,299,832
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 488,954	$ 480,378	$ 192,742
Accrued liabilities	252,202	207,731	120,478
Short-term borrowings	—	—	100,000
Total current liabilities	741,156	688,109	413,220
Long-term deferred taxes, net	4,278	22,709	16,871
Other long-term liabilities	73,468	76,196	96,433
Long-term borrowings	113,000	—	59,600
Total liabilities	931,902	787,014	586,124
Commitments and contingencies	—	—	—
Stockholders' equity:			
Preferred stock, $0.01 par value; authorized, 5,000 shares; issued and outstanding, none	—	—	—
Common stock, $0.01 par value; authorized, 200,000 shares; issued, 50,028, 48,972 and 49,372 shares, respectively; outstanding, 46,914, 46,276 and 46,517 shares, respectively	500	490	494
Additional paid-in capital	715,088	706,736	708,871
(Accumulated deficit) Retained earnings	(237,260)	32,136	32,363
Treasury stock, at cost	(29,650)	(26,473)	(28,020)
Total stockholders' equity	448,678	712,889	713,708
Total liabilities and stockholders' equity	$ 1,380,580	$ 1,499,903	$ 1,299,832

See accompanying notes to condensed consolidated financial statements.

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

	39 weeks ended	
	January 27, 2018	January 28, 2017
Cash flows from operating activities:		
Net (loss) income	$ (269,623)	$ 5,134
Adjustments to reconcile net (loss) income to net cash flows from operating activities:		
Depreciation and amortization expense	48,728	39,057
Amortization of deferred financing costs	1,127	488
Impairment loss (non-cash)	313,130	—
Deferred taxes	(12,594)	(7,156)
Stock-based compensation expense	6,223	7,227
Change in other long-term liabilities	(23,252)	815
Changes in other operating assets and liabilities, net	77,701	99,437
Net cash flows provided by operating activities	141,440	145,002
Cash flows from investing activities:		
Purchases of property and equipment	(30,101)	(26,488)
Acquisition of business, net of cash acquired	(58,259)	(917)
Net increase in other noncurrent assets	(1,479)	(6,246)
Net cash flows used in investing activities	(89,839)	(33,651)
Cash flows from financing activities:		
Proceeds from borrowings under Credit Agreement	481,600	116,100
Repayments of borrowings under Credit Agreement	(528,200)	(116,100)
Purchase of treasury shares	(1,630)	(7,858)
Net cash flows used in financing activities	(48,230)	(7,858)
Net increase in cash, cash equivalents and restricted cash	3,371	103,493
Cash, cash equivalents and restricted cash at beginning of period	21,697	30,866
Cash, cash equivalents and restricted cash at end of period	$ 25,068	$ 134,359
Changes in other operating assets and liabilities, net:		
Receivables, net	$ (157,043)	$ (127,369)
Merchandise inventories	(180,434)	(181,285)
Textbook rental inventories	(8,601)	(19,612)
Prepaid expenses and other current assets	(1,079)	(1,583)
Accounts payable and accrued liabilities	424,858	429,286
Changes in other operating assets and liabilities, net	$ 77,701	$ 99,437

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	Treasury Stock		Total
	Shares	Amount	Capital	Earnings	Shares	Amount	Equity
Balance at April 30, 2016	48,645	$ 486	$ 699,513	$ 27,002	1,890	$ (18,615)	$ 708,386
Stock-based compensation expense			7,227				7,227
Vested equity awards	327	4	(4)				—
Common stock repurchased					689	(6,718)	(6,718)
Shares repurchased for tax withholdings for vested stock awards					117	(1,140)	(1,140)
Net income				5,134			5,134
Balance at January 28, 2017	48,972	$ 490	$ 706,736	$ 32,136	2,696	$ (26,473)	$ 712,889

	Common Stock		Additional Paid-In	Accumulated	Treasury Stock		Total
	Shares	Amount	Capital	Deficit	Shares	Amount	Equity
Balance at April 29, 2017	49,372	$ 494	$ 708,871	$ 32,363	2,855	$ (28,020)	$ 713,708
Stock-based compensation expense			6,223				6,223
Vested equity awards	656	6	(6)				—
Shares repurchased for tax withholdings for vested stock awards					259	(1,630)	(1,630)
Net loss				(269,623)			(269,623)
Balance at January 27, 2018	50,028	$ 500	$ 715,088	$ (237,260)	3,114	$ (29,650)	$ 448,678

See accompanying notes to condensed consolidated financial statements.

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
For the 13 and 39 weeks ended January 27, 2018 and January 28, 2017
(Thousands of dollars, except share and per share data)
(unaudited)

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

This Form 10-Q should be read in conjunction with our Audited Consolidated Financial Statements and accompanying Notes to consolidated financial statements in our Annual Report on Form 10-K for the year ended April 29, 2017, which includes consolidated financial statements for the Company for each of the three fiscal years ended April 29, 2017 , April 30, 2016 and May 2, 2015 (Fiscal 2017 , Fiscal 2016 and Fiscal 2015 , respectively) and the unaudited condensed consolidated financial statements in our Form 10-Q for the 13 weeks ended July 29, 2017 and the unaudited condensed consolidated financial statements in our Form 10-Q for the 26 weeks ended October 28, 2017.

Note 1. Organization

Description of Business

Barnes & Noble Education, Inc. ("BNED") is one of the largest contract operators of physical and virtual bookstores for higher education and K-12 institutions across the United States, one of the largest textbook wholesalers, and a leading provider of digital education services. Through its Barnes & Noble College ("BNC") and MBS Textbook Exchange ("MBS") subsidiaries, Barnes & Noble Education operates 1,480 physical and virtual bookstores and serves more than 6 million students, delivering essential educational content and tools within a dynamic retail environment. We have two reportable segments: BNC and MBS.

BNC operates 782 physical campus bookstores as of January 27, 2018, the majority of which also have school-branded e-commerce sites operated by BNC. Our campus stores are a social and academic hub through which students can access affordable course materials and affinity products, including new and used print and digital textbooks, which are available for sale or rent, emblematic apparel and gifts, trade books, computer products, school and dorm supplies, café offerings, convenience food and beverages, and graduation products. BNC product offerings also include a suite of digital content, software, and services through our LoudCloud platform, such as predictive analytics, a variety of open educational resources ("OER") courseware, and competency-based learning solutions and a learning management system. Additionally, through Student Brands, LLC, a leading direct-to-student subscription-based writing services business, BNC offers services focused on study tools, writing help, and literary research, all centered on assisting students with the writing process.

Our MBS subsidiary operates two highly integrated businesses. The MBS Direct business is the largest contract operator of virtual bookstores for college and university campuses and private/parochial K-12 schools. MBS Direct operates 698 virtual bookstores as of January 27, 2018, offering new and used print and digital textbooks, which are available for sale or rent. Additionally, MBS Direct sells textbooks directly to students through textbooks.com SM , one of the largest e-commerce sites for new and used textbooks. MBS Wholesale is one of the largest textbook wholesalers in the country, providing a comprehensive selection of new and used textbooks at a low cost of supply to more than 3,700 physical bookstores (as of April 29, 2017) including BNC's 782 campus bookstores.

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

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
For the 13 and 39 weeks ended January 27, 2018 and January 28, 2017
(Thousands of dollars, except share and per share data)
(unaudited)

On August 3, 2017, we acquired Student Brands, LLC ("Student Brands"). Student Brands operates multiple direct-to-student businesses focused on study tools, writing help, and literary research, all centered on assisting students with the writing process. Student Brands has a substantial and growing community of online learners, with over 20 million unique monthly users across its digital properties, which include123HelpMe.com, Bartleby.com and StudyMode.com in the United States and TrabalhosFeitos.com, Etudier.com and Monografias.com in Brazil, France and Mexico, respectively. Student Brands utilizes deep data analytics and artificial intelligence to drive its content management system, the Content Brain. The Content Brain sifts through millions of pieces of content and provides the best answer for virtually any assignment a student is tackling. Student Brands generates revenue predominantly through its subscription-based services and digital advertisements. See *Note 4. Acquisitions.*

Growth Drivers

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

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

For additional information related to the growth drivers for our business, see *Part I - Item 2. Management Discussion and Analysis - Overview* in this Form 10-Q and *Part I - Item 1. Business - Overview - Growth Drivers* in our Annual Report on Form 10-K for the year ended April 29, 2017.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

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

The condensed consolidated financial statements are presented on a consolidated basis for the 13 and 39 weeks ended January 27, 2018 and include the financial results of MBS (which was acquired on February 27, 2017) and Student Brands (which was acquired on August 3, 2017). All material intercompany accounts and transactions have been eliminated in consolidation. The condensed consolidated financial statements for the 13 and 39 weeks ended January 28, 2017 exclude the financial results of MBS and Student Brands.

Our fiscal year is comprised of 52 or 53 weeks, ending on the Saturday closest to the last day of April. Our retail business (BNC and MBS Direct) sales are generally highest in the second and third fiscal quarters, when college students generally purchase textbooks for the upcoming semesters, and lowest in the first and fourth fiscal quarters. Sales attributable to the MBS wholesale business are generally highest in our first, second and third quarter as it sells textbooks for retail distribution, which somewhat offsets the decreased first quarter sales attributable to our retail business. MBS has significantly lower operating profit or operating loss realized during the fourth quarter. Due to the seasonal nature of the business, the results of operations for the 13 and 39 weeks ended January 27, 2018 are not indicative of the results expected for the 52 weeks ending April 28, 2018 (Fiscal 2018).

Use of Estimates

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

Merchandise Inventories

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

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

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

Textbook Rental Inventories

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

Revenue Recognition and Deferred Revenue

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

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

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

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

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

Cost of Sales

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

Selling and Administrative Expenses

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

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
For the 13 and 39 weeks ended January 27, 2018 and January 28, 2017
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Goodwill

In January 2017, the Financial Accounting Standards Board ("FASB") issued *Accounting Standard Update ("ASU") No. 2017-04, Intangibles - Goodwill and Other (Topic 350)* to simplify the test for goodwill impairment. The revised guidance eliminated the former Step 2 of the goodwill impairment test which required an entity to compute the implied fair value of its goodwill at the testing date in order to measure the amount of the impairment charge when the fair value of the reporting unit failed Step 1 of the goodwill impairment test. Under the revised guidance, an entity would recognize an impairment charge for the amount by which the carrying amount of the reporting unit exceeds its fair value; however, the loss recognized would not exceed the total amount of goodwill allocated to the reporting unit. The guidance will be applied on a prospective basis. We have early adopted this standard in the second quarter of Fiscal 2018.

We completed our annual goodwill impairment test with the assistance of a third-party valuation firm, as of the first day of the third quarter of Fiscal 2018. We completed the impairment evaluation process to compare the fair value of our reporting units to their respective carrying values. 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. We estimated the fair value of our reporting units using a weighting of fair values derived from the income approach and the market approach. Under the income approach, we calculate the fair value of the reporting unit based on the present value of estimated future cash flows. Inherent in our preparation of cash flow projections are assumptions and estimates derived from a review of our operating results, business plans, expected growth rates, cost of capital and tax rates. We also make certain forecasts about future economic conditions, interest rates, market data, and other observable trends, such as comparable store sales trends, recent changes in publisher relationships, and development of innovative digital products and services in the rapidly changing education landscape. The discount rate used is based on the weighted-average cost of capital adjusted for the relevant risk associated with business-specific characteristics and the uncertainty related to the business's ability to execute on the projected cash flows. Under the market approach, we estimate the fair value based on market multiples of cash flows and earnings derived from comparable publicly-traded companies with similar operating and investment characteristics as the reporting unit and considering a reasonable control premium. The decline of our stock price and the corresponding reduction in our market capitalization had a significant affect on the implied control premium. As a corroborative source of information, we reconcile the estimated aggregate fair values of its reporting units to within a reasonable range of its market capitalization, which includes an assumed control premium (an adjustment reflecting an estimated fair value on a control basis), to verify the reasonableness of the fair value of its reporting units obtained through the aforementioned methods.

The fair value of the MBS reporting unit exceeded its carrying value; therefore, no goodwill impairment was recognized for the MBS segment. The carrying value of the BNC reporting unit exceeded its fair value and we recorded a goodwill impairment (non-cash impairment loss) of $313,130 . As of January 27, 2018 , we had $49,282 and $0 of goodwill remaining related to our MBS and BNC reporting units, respectively.

Evaluation of Other Long-Lived Assets Impairment

Our other long-lived assets include property and equipment and amortizable intangibles. As of January 27, 2018, we had $110,987 and $224,314 of property and equipment and amortizable intangible assets, net of depreciation and amortization, respectively, on our consolidated balance sheet.

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with *ASC 360-10, Accounting for the Impairment or Disposal of Long-Lived Assets* . During the third quarter of Fiscal 2018, in conjunction with the goodwill impairment test noted above, we evaluated certain of our long-lived assets for impairment.

We evaluated long-lived assets for impairment at the lowest asset group level at which individual cash flows can be identified. When evaluating long-lived assets for potential impairment, we first compared the carrying amount of the asset group to the estimated future undiscounted cash flows. If the estimated future cash flows were less than the carrying amount of the asset group, an impairment loss calculation is prepared. Based on the results of the tests, an impairment loss calculation was not required as the estimated future undiscounted cash flows of the asset group exceeded the carrying amount of the asset group.

We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to calculate long-lived asset impairment losses. However, if actual results are not consistent with estimates and assumptions used in estimating future cash flows and asset fair values, we may be exposed to losses that could be material.

BARNES & NOBLE EDUCATION, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
For the 13 and 39 weeks ended January 27, 2018 and January 28, 2017
(Thousands of dollars, except share and per share data)
(unaudited)

Income Taxes

As of January 27, 2018, other long-term liabilities includes $54,370 related to the long-term tax payable associated with the LIFO reserve. The LIFO reserve is impacted by changes in the consumer price index ("CPI") and is dependent on the inventory levels at the end of our tax year (on or about January 31st) which is in the middle of our second largest selling cycle. At the end of the most recent tax year, inventory levels within our BNC segment declined as compared to the prior year resulting in approximately $13,754 of the LIFO reserve becoming currently payable. Given recent trends relating to the pricing and rental of textbooks, management believes that an additional portion of the remaining long-term tax payable associated with the LIFO reserve could be payable within the next twelve months. We are unable to predict future trends for CPI and inventory levels, therefore it is difficult to project with reasonable certainty how much of this liability will become payable within the next twelve months.

Note 3. Recent Accounting Pronouncements

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

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

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

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Note 4. Acquisitions

Student Brands, LLC

On August 3, 2017, we acquired 100% of the equity interests of Student Brands. Student Brands operates multiple direct-to-student businesses focused on study tools, writing help, and literary research, all centered on assisting students with the writing process.

We completed the purchase for cash consideration of $61,997 , including cash acquired of $4,626 , and the transaction was funded from cash on-hand and availability under our existing Credit Agreement. The Student Brands operations are part of the BNC segment. The final purchase price allocation was as follows: $28,300 intangible assets, $1,593 acquired working capital and $31,782 goodwill. This acquisition is not material to our consolidated financial statements and therefore, disclosure of pro forma financial information has not been presented. The results of operations reflect the period of ownership of the acquired business. Identified intangible assets include the following:

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

MBS Textbook Exchange, LLC

On February 27, 2017, we completed the purchase of all issued and outstanding units of MBS Textbook Exchange, LLC. MBS operates two highly integrated businesses, Wholesale and Direct. Refer to *Note 1. Organization* of this Form 10-Q for additional information about MBS. We acquired 100% of the equity interests of MBS for cash consideration of $187,862 , including cash and restricted cash acquired of $1,171 , and the acquisition was financed with cash from operations as well as proceeds from our existing credit facility. During the 13 weeks ended October 28, 2017, we finalized the valuation and recorded adjustments to the acquired liabilities which resulted in an increase to goodwill of $1,163 . These adjustments were related to a final reconciliation of the pre-acquisition tax liability due to the seller of $888 under the purchase agreement, as well as a net $275 increase in other long-term liabilities.

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

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

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

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

Identified intangible assets include the following:

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

Note 5. Segment Reporting

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

The condensed consolidated financial statements for the 13 and 39 weeks ended January 27, 2018 include the financial results of MBS and all material intercompany accounts and transactions have been eliminated in consolidation. The eliminations are primarily related to the following intercompany activities:

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

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Intercompany Eliminations

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

Summarized financial information for our reportable segments is reported below:

	13 weeks ended		39 weeks ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
Sales:				
BNC	$ 506,460	$ 521,624	$ 1,518,224	$ 1,531,532
MBS	138,927	—	413,579	—
Elimination	(41,996)	—	(85,840)	—
Total Sales	$ 603,391	$ 521,624	$ 1,845,963	$ 1,531,532
Gross Profit				
BNC	$ 117,413	$ 115,925	$ 337,875	$ 334,852
MBS	34,949	—	95,713	—
Elimination	(5,827)	—	(5,782)	—
Total Gross Profit	$ 146,535	$ 115,925	$ 427,806	$ 334,852
Depreciation and Amortization				
BNC	$ 15,411	$ 13,149	$ 43,879	$ 39,057
MBS	1,596	—	4,849	—
Total Depreciation and Amortization	$ 17,007	$ 13,149	$ 48,728	$ 39,057
Operating (Loss) Income				
BNC (a),(b),(c)	$ (308,954)	$ 5,198	$ (310,004)	$ 9,196
MBS	19,156	—	47,878	—
Elimination	(5,827)	—	(5,782)	—
Total Operating (Loss) Income	$ (295,625)	$ 5,198	$ (267,908)	$ 9,196
The following is a reconciliation of segment Operating (Loss) Income to consolidated (Loss) Income Before Income Taxes:				
Total Operating (Loss) Income	$ (295,625)	$ 5,198	$ (267,908)	$ 9,196
Interest Expense, net	(2,954)	(679)	(7,828)	(1,975)
Total (Loss) Income Before Income Taxes	$ (298,579)	$ 4,519	$ (275,736)	$ 7,221

(a) During the 39 weeks ended January 27, 2018, we recognized expenses totaling approximately $5,361 related to the resignation of Mr. Max J. Roberts as Chief Executive Officer of the Company and the appointment of Mr. Michael P. Huseby to the position of Chief Executive Officer and Chairman of the Board, both effective as of September 19, 2017. For additional information, refer to *Note 9. Supplemental Information - Restructuring and Other Charges* in this Form 10-Q .

(b) On August 3, 2017, we acquired Student Brands, LLC, a leading direct-to-student subscription-based writing services business. The condensed consolidated financial statements for the 13 and 39 weeks ended January 27, 2018 include the financial results of Student Brands in the BNC segment from the date of acquisition, August 3, 2017, and the condensed consolidated financial statements for the 13 and 39 weeks ended January 28, 2017 exclude the financial results of Student Brands.

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(c) During the 13 weeks ended January 27, 2018, we completed our annual goodwill impairment test. Based on the results of the impairment test, the carrying value of the BNC reporting unit exceeded its fair value and we recorded a goodwill impairment (non-cash impairment loss) of $313,130 for the BNC segment. For additional information, see *Note 2. Summary of Significant Accounting Policies* in this Form 10-Q.

Note 6. Equity and Earnings Per Share

Equity

Share Repurchases

On December 14, 2015, our Board of Directors authorized a stock repurchase program of up to $50,000 , in the aggregate, of our outstanding Common Stock. The stock repurchase program is carried out at the direction of management (which may include a plan under Rule 10b5-1 of the Securities Exchange Act of 1934). The stock repurchase program may be suspended, terminated, or modified at any time. Any repurchased shares will be held as treasury stock and will be available for general corporate purposes. During the 39 weeks ended January 27, 2018, we did not repurchase shares of our common stock. As of January 27, 2018 , approximately $26,669 remains available under the stock repurchase program.

During the 39 weeks ended January 27, 2018, we also repurchased 259 shares of our Common Stock in connection with employee tax withholding obligations for vested stock awards.

Earnings Per Share

Basic EPS is computed based upon the weighted average number of common shares outstanding for the year. Diluted EPS is computed based upon the weighted average number of common shares outstanding for the year plus the dilutive effect of common stock equivalents using the treasury stock method and the average market price of our common stock for the year. We include participating securities (unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents) in the computation of EPS pursuant to the two-class method. Our participating securities consist solely of unvested restricted stock awards, which have contractual participation rights equivalent to those of stockholders of unrestricted common stock. The two-class method of computing earnings per share is an allocation method that calculates earnings per share for common stock and participating securities. During periods of net loss, no effect is given to the participating securities because they do not share in the losses of the Company. During the 13 and 39 weeks ended January 27, 2018, average shares of 2,844 and 2,477 were excluded from the diluted earnings per share calculation as their inclusion would have been antidilutive, respectively. During the 13 and 39 weeks ended January 28, 2017, average shares of 339 and 395 were excluded from the diluted earnings per share calculation as their inclusion would have been antidilutive, respectively.

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

	13 weeks ended		39 weeks ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
Numerator for basic and diluted earnings per share:				
Net (loss) income	$ (283,235)	$ 3,761	$ (269,623)	$ 5,134
Less allocation of earnings to participating securities	—	(1)	—	(3)
Net (loss) income available to common shareholders	$ (283,235)	$ 3,760	$ (269,623)	$ 5,131
Numerator for diluted earnings per share:				
Net (loss) income available to common shareholders	$ (283,235)	$ 3,760	$ (269,623)	$ 5,131
Allocation of earnings to participating securities	—	1	—	3
Less diluted allocation of earnings to participating securities	—	(1)	—	(3)
Net (loss) income available to common shareholders	$ (283,235)	$ 3,760	$ (269,623)	$ 5,131
Denominator for basic earnings per share:				
Basic weighted average shares of Common Stock	46,914	46,276	46,712	46,265
Denominator for diluted earnings per share:				
Basic weighted average shares of Common Stock	46,914	46,276	46,712	46,265
Average dilutive restricted stock units	—	512	—	397
Average dilutive performance shares	—	52	—	33
Average dilutive restricted shares	—	4	—	21
Average dilutive performance share units	—	—	—	—
Average dilutive options	—	—	—	—
Diluted weighted average shares of Common Stock	46,914	46,844	46,712	46,716
(Loss) Earnings per share of Common Stock:				
Basic	$ (6.04)	$ 0.08	$ (5.77)	$ 0.11
Diluted	$ (6.04)	$ 0.08	$ (5.77)	$ 0.11

Note 7. <u>Fair Values of Financial Instruments</u>

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

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because of the short-term nature of these instruments, which are all considered Level 1. The fair value of short-term and long-term debt approximates its carrying value.

Note 8. Credit Facility

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

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

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

During the 39 weeks ended January 27, 2018 , we borrowed $481,600 and repaid $528,200 under the Credit Agreement. The net total outstanding borrowings of $113,000 as of January 27, 2018 is comprised entirely of outstanding borrowings under the Credit Facility. As of January 27, 2018 , we have issued $4,759 in letters of credit under the Credit Facility.

Note 9. Supplementary Information

Restructuring and other charges

Restructuring

In Fiscal 2016, we implemented a plan to restructure our digital education operations which was completed in the first quarter of Fiscal 2017, and was primarily comprised of costs related to employee matters. We recorded restructuring costs of $68 and $1,790 during the 39 weeks ended January 27, 2018 and January 28, 2017, respectively.

Other Charges

On July 19, 2017, Mr. Max J. Roberts resigned as Chief Executive Officer of the Company and Mr. Michael P. Huseby was appointed to the position of Chief Executive Officer and Chairman of the Board, both effective as of September 19, 2017. Pursuant to the terms of the Retirement Letter Agreement, Mr. Roberts received an aggregate payment of approximately $4,424 , comprised of salary, bonus and benefits. In addition, the Company paid Mr. Roberts and Mr. Huseby a one-time cash transition payment of approximately $562 and $250 , respectively, at the time of the transition. During the 39 weeks ended January 27, 2018, we recognized expenses totaling approximately $5,361 , which is comprised of the severance and transition payments. For additional information, see the Form 8-K dated July 19, 2017, filed with the SEC on July 20, 2017.

Note 10. Barnes & Noble, Inc. Transactions

Our History with Barnes & Noble, Inc.

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

Summary of Transactions with Barnes & Noble, Inc.

During the 13 weeks ended January 27, 2018 and January 28, 2017, we were billed $5,465 and $7,356 , respectively, for purchases of inventory and direct costs incurred under the agreements discussed above which are included as cost of sales, and selling and administrative expenses in the condensed consolidated statement of operations.

During the 39 weeks ended January 27, 2018 and January 28, 2017, we were billed $20,488 and $23,497 , respectively, for purchases of inventory and direct costs incurred under the agreements discussed above which are included as cost of sales, and selling and administrative expenses in the condensed consolidated statement of operations.

As of January 27, 2018 and January 28, 2017 , amounts due to Barnes & Noble, Inc. for book purchases and direct costs incurred under the agreements discussed above of $6,723 and $7,445 were included in accounts payable in the condensed consolidated balance sheets, respectively.

Note 11. Related Party Transactions

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

Prior to the acquisition (as discussed in *Note 4. Acquisitions* of this Form 10Q), we had a long-term supply agreement ("Supply Agreement") with MBS, under which and subject to availability and competitive terms and conditions, we purchased new and used printed textbooks for a given academic term from MBS prior to buying them from other suppliers, other than in connection with student buy-back programs. During the 13 and 39 weeks ended January 28, 2017, total net purchases from MBS were $22,044 and $92,083 , respectively. Additionally, the Supply Agreement provided that we could sell to MBS certain textbooks that we could not return to suppliers or use in our stores. MBS paid us commissions based on the volume of these textbooks sold to MBS each year and with respect to the textbook requirements of certain distance learning programs that MBS fulfilled on our behalf. During the 13 and 39 weeks ended January 28, 2017, MBS paid us $2,152 and $6,077 , respectively, related to these commissions. In addition, the Supply Agreement contained restrictive covenants that limited our ability to become a used textbook wholesaler and placed certain limitations on MBS's business activities. We also previously entered into an agreement with MBS pursuant to which MBS purchased books, which have no resale value for a flat rate per box, from us. During the 13 and 39 weeks ended January 28, 2017, total sales to MBS under this program were $88 and $253 , respectively. Total outstanding amounts payable to MBS for all arrangements net of any amounts due was $45,581 as of January 28, 2017.

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

MBS leases its main warehouse and distribution facility located in Columbia, Missouri from MBS Realty Partners L.P. which is majority-owned by Leonard Riggio, with the remaining ownership by other sellers of MBS. The lease was originally entered into in 1991 and included a renewal option which extended the lease through September 1, 2023. Based upon a valuation performed as of the acquisition date, the lease was determined to be favorable from a lessee perspective with below market rent. For additional information, see *Note 4. Acquisitions* of this Form 10Q. Rent payments to MBS Realty Partners L.P. were approximately $345 and $1,035 during the 13 and 39 weeks ended January 27, 2018, respectively.

Note 12. Employee Benefit Plans

BNC

BNC has a defined contribution plan for its employees ("Savings Plan"). BNC is responsible for employer contributions to the Savings Plan and to fund the contributions directly. Total contributions charged to employee benefit expenses for this plan was $887 and $919 during the 13 weeks ended January 27, 2018 and January 28, 2017 , respectively, and $3,096 and $3,159 during the 39 weeks ended January 27, 2018 and January 28, 2017 , respectively.

MBS

MBS maintains a defined contribution and profit sharing plan ("Profit Sharing Plan") covering substantially all full-time employees of MBS. MBS transfers employee contributions to the account balances of their employees and is responsible to fund the employer contributions directly. Total employee benefit expenses for the Profit Sharing Plan was $638 and $2,193 during the 13 and 39 weeks ended January 27, 2018 , respectively.

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Note 13. Stock-Based Compensation

We recognize compensation expense for awards ratably over the requisite service period of the award, which is generally three years. We recognize compensation expense based on the number of awards expected to vest using an estimated average forfeiture rate. We calculate the fair value of stock-based awards based on the closing price on the date the award was granted.

During the 39 weeks ended January 27, 2018, we granted the following awards:

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

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

	13 weeks ended		39 weeks ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
Restricted stock expense	$ 30	$ 30	$ 90	$ 250
Restricted stock units expense [(a)]	2,237	2,622	6,277	6,500
Performance shares expense [(b)]	58	117	(275)	477
Performance share units expense [(b)]	(255)	—	131	—
Stock-based compensation expense	$ 2,070	$ 2,769	$ 6,223	$ 7,227

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

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

Total unrecognized compensation cost related to unvested awards as of January 27, 2018 was $15,180 and is expected to be recognized over a weighted-average period of 2.1 years. Approximately $847 of the unrecognized compensation cost is related to performance shares and performance share units, which is subject to attaining the stated performance metrics.

Note 14. Income Taxes

We recorded an income tax benefit of $(15,344) on a pre-tax loss of $(298,579) during the 13 weeks ended January 27, 2018 , which represented an effective income tax rate of 5.1% and an income tax expense of $758 on pre-tax income of $4,519 during the 13 weeks ended January 28, 2017 , which represented an effective income tax rate of 16.8% .

We recorded an income tax benefit of $(6,113) on a pre-tax loss of $(275,736) during the 39 weeks ended January 27, 2018 , which represented an effective income tax rate of 2.2% and an income tax expense of $2,087 on pre-tax income of $7,221 during the 39 weeks ended January 28, 2017 , which represented an effective income tax rate of 28.9% .

The effective tax rates for the 13 and 39 weeks ended January 27, 2018 are significantly lower as compared to the comparable prior year periods due to the tax benefit of U.S. Tax Reform, partially offset by permanent differences, which in this quarter includes the nondeductible portion of the goodwill impairment.

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

Impact of U.S. Tax Reform

The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. The Act reduces the US federal corporate tax rate from 35% to 21% and requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, among other provisions. As of January 27, 2018, we had not completed the accounting for the tax effects of enactment of the Act; however, as described below, we have made a reasonable estimate of the effects on existing deferred tax balances and the one-time transition tax in accordance with SAB 118, " *Income Tax Accounting Implications of the Tax Cuts and Jobs Act* " (SAB 118). These amounts are provisional and subject to change within the measurement period proscribed by SAB 118 which is not to extend beyond one year from the enactment date. The most significant impact of the legislation for the Company was a $21,126 reduction of the value of the our net deferred (which represents future tax liabilities) and long-term tax liabilities as a result of lowering the U.S. corporate income tax rate from 35% to 21% . We have provisionally recorded a liability associated with the one-time transition tax, however, such amount is not material.

Note 15. Legal Proceedings

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

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

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

Overview

Description of business

Barnes & Noble Education, Inc. ("BNED") is one of the largest contract operators of physical and virtual bookstores for higher education and K-12 institutions across the United States, one of the largest textbook wholesalers, and a leading provider of digital education services. Through its Barnes & Noble College ("BNC") and MBS Textbook Exchange ("MBS") subsidiaries, Barnes & Noble Education operates 1,480 physical and virtual bookstores and serves more than 6 million students, delivering essential educational content and tools within a dynamic retail environment. Through LoudCloud, its digital education platform, Barnes & Noble Education offers a suite of digital software, content and services that include predictive analytics, open educational resources ("OER") courseware, competency-based solutions, and a learning management system. Additionally, through Student Brands, LLC, a leading direct-to-student subscription-based writing services business, BNC offers services focused on study tools, writing help, and literary research, all centered on assisting students with the writing process.

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

Educational institutions increasingly are outsourcing bookstore operations, investing in data-driven analytical tools, and offering students more affordable options for textbooks and other learning tools. Given these continuing trends, we are well-positioned to capture new market share and partner with an increasing number of schools across the country. As demand for new, improved, and more affordable products and services increase in the rapidly changing education landscape, we are working to evolve our business model and enhance our solutions. We aim to be an even stronger partner for schools and meet customer needs by expanding our physical and virtual bookstore service capabilities, courseware offerings and digital platform services. We have begun to offer the distribution of e-content via our First Day™, our inclusive access program, in which course materials are included in the cost of tuition and delivered to students digitally or through their Barnes & Noble College campus bookstore. We believe that our strategic actions, including the acquisition of LoudCloud, Promoversity, MBS, and Student Brands (discussed below) and development of courseware, have substantially enhanced our competitive position. We continue to aggressively innovate and collaborate with our partners to provide solutions that extend well beyond course materials sourcing and sales to include new digital services that support successful student outcomes. See *Fiscal Year 2018 Highlights* below for a discussion of recent activities to enhance our product offerings and services.

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

Fiscal Year 2018 Highlights

McGraw-Hill Education - In February 2018, we expanded our relationship with McGraw-Hill Education with two new initiatives to provide students, faculty and institutions greater access to more affordable course materials. The companies will partner on two initiatives: the distribution of McGraw-Hill Education e-content through our First Day™, our inclusive access program, in which course materials are included in the cost of tuition and delivered to students digitally or through their Barnes & Noble College campus bookstore, and the distribution of McGraw-Hill Education's new rental titles through our channels. MBS will act as a distributor for rental textbooks offered through McGraw-Hill Education's newly announced rental program. The program includes more than 250 titles, with plans for all future titles. Through its centrally located, advanced distribution center, MBS will offer a seamless integration of McGraw-Hill Education's rental program, providing a single point of entry for the rental titles and centralized administration and distribution to more than 3,700 stores.

Pearson - In February 2018, we announcement that we entered an agreement with Pearson to offer Pearson content through our inclusive access models at our 1,480 physical and virtual campus bookstores nationwide, serving more than 6 million students and their faculty. This collaboration provides students with affordable access to high-quality course materials, including MyLab™

and Mastering™, Revel™ and eTexts, on the first day of class. The seamless delivery is made possible by BNED's First Day™ inclusive access program and Pearson's technology integrations with campus systems.

Kentucky Community and Technical College System ("KCTCS") - This Fall, more than 1,000 KCTCS students used BNED Courseware in their classes. Three colleges in the KCTCS took part in our digital courseware program, as part of an ongoing KCTCS effort to provide students with more affordable course materials. BNED Courseware is digital course content that includes videos, activities and auto-graded practice assessments that faculty can easily personalize to align with class objectives. BNED Courseware was offered through First Day™. The First Day program, offered to the entire KCTCS system, ensures students have their course materials on the first day of class.

The Princeton Review - In November 2017, we entered into a strategic partnership with The Princeton Review. The partnership allows us to further expand our end-to-end offerings and fulfill the full breadth of student education needs by offering The Princeton Review's products and services to our network of more than 6 million students.

Portland State University ("PSU") - In October 2017, we announced our strategic partnership with PSU to co-develop a degree planning solution. Using insights generated by PSU's reTHINK initiative and leveraging our analytics platform, the solution will ultimately help more students graduate on time with better pathways to employment and provide the university with long-term demand planning tools.

Eastern Gateway Community College ("EGCC") - In August 2017, we announced that we signed a multi-year contract with EGCC to provide a full suite of solutions, including bookstore operations, an institution-wide learning management system (LMS), LoudSight, our predictive analytics offering, and digital courseware to the students, faculty and advisors of EGCC.

Acquisition of Student Brands, LLC - On August 3, 2017, we acquired Student Brands. Student Brands is an education technology company that operates multiple direct-to-student businesses focused on study tools, writing help, and literary research, all centered on assisting students with the writing process. Student Brands generates revenue predominantly through its subscription-based services and digital advertisements. Student Brands has over 20 million unique monthly users across its digital properties, which include123HelpMe.com, Bartleby.com and StudyMode.com in the United States and TrabalhosFeitos.com, Etudier.com and Monografias.com in Brazil, France and Mexico, respectively.

Unizin, Ltd. ("Unizin") - In May 2017, we entered into an agreement with Unizin to provide its 22 member universities with LoudCloud's predictive analytics solution, LoudSight. As a result, faculty and advisors will have access to a customized solution that helps educators identify, monitor, and support at-risk students, with the goal of improving student success rates and retention.

Integration of MBS Textbook Exchange, LLC. ("MBS") - Prior to the end of Fiscal 2017, in February 2017, we completed the purchase of all issued and outstanding units of MBS, which operates two highly integrated businesses, Wholesale and Direct. We continue our efforts to integrate the operations of MBS to achieve our strategic objectives and anticipated synergies.

Segments

We have two reportable segments: BNC and MBS.

BNC operates 782 physical campus bookstores as of January 27, 2018, the majority of which also have school-branded e-commerce sites operated by BNC, and BNC also includes our digital education operations and subscription-based writing services business. Our campus stores are a social and academic hub through which students can access affordable course materials and affinity products, including new and used print and digital textbooks, which are available for sale or rent, emblematic apparel and gifts, trade books, computer products, school and dorm supplies, café offerings, convenience food and beverages, and graduation products. BNC product offerings also include a suite of digital content, software, and services through our LoudCloud platform, such as predictive analytics, a variety of open educational resources ("OER") courseware, and competency-based learning solutions and a learning management system. Additionally, through Student Brands, BNC offers services focused on study tools, writing help, and literary research, all centered on assisting students with the writing process. During the 39 weeks ended January 27, 2018, BNC opened 30 stores, with estimated annual first year sales of $61.0 million.

Our MBS subsidiary operates two highly integrated businesses. The MBS Direct business is the largest contract operator of virtual bookstores for college and university campuses and private/parochial K-12 schools. MBS Direct operates 698 virtual bookstores as of January 27, 2018, offering new and used print and digital textbooks, which are available for sale or rent. Additionally, MBS Direct sells textbooks directly to students through textbooks.com SM , one of the largest e-commerce sites for new and used textbooks. MBS Wholesale is one of the largest textbook wholesalers in the country, providing a comprehensive selection of new and used textbooks at a low cost of supply to more than 3,700 physical bookstores (as of April 29, 2017), including BNC's 782 campus bookstores. During the 39 weeks ended January 27, 2018, MBS Direct opened 19 stores, with estimated annual first year sales of $5.7 million.

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

Trends and Other Factors Affecting Our Business

Current trends and other factors affecting our business include:

- *Overall Economic Environment, College Enrollment and Consumer Spending Patterns:* Our business is affected by funding levels at colleges and universities, by changes in enrollments at colleges and universities, and spending on textbooks and general merchandise. The growth of our business depends on our ability to attract new students and to increase the level of engagement by existing students. For the 39 weeks ended January 27, 2018, our comparable store sales were impacted by lower average selling prices of course materials driven by lower publisher prices resulting from a shift to lower cost options and more affordable solutions, including digital. Additionally, comparable store sales declined for textbooks due to lower community college enrollment, increased consumer purchases directly from publishers and other online providers, and general weakness in the retail environment.
- *Supply Chain and Inventory:* Since the demand for used and new textbooks has historically been greater than the available supply, our financial results are highly dependent upon MBS Wholesale's ability to build its textbook inventory from suppliers in advance of the selling season. Some textbook publishers have begun to supply textbooks on consignment or rental programs which could impact used textbook supplies in the future. In February 2018, BNED signed an agreement with McGraw-Hill Education, in which MBS would act as a distributor for rental textbooks offered through McGraw-Hill Education's newly announced rental program. The program includes more than 250 titles, with plans for all future titles. See *Fiscal Year 2018 Highlights* above for additional information.
- *Demand for Digital Offerings:* Over the longer-term, we anticipate significant new opportunities for our digital product offerings. Through our LoudCloud platform, we address the growing demand for alternative forms of educational materials and learning tools. In addition, our acquisition of Student Brands offers additional digital direct-to-student services, centered on assisting students with the writing process. See *Fiscal Year 2018 Highlights* above for additional information.
- *New and Existing Bookstore Contracts:* We expect awards of new accounts resulting in new physical and virtual store openings will continue to be an important driver of future growth in our business. We expect to continue to successfully renew our current contracts on favorable terms.
- *Campus Bookstore Outsourcing:* We continue to see increasing trends towards outsourcing in the campus bookstore market, including virtual bookstores and online marketplace websites. We also continue to see a variety of business models being pursued for the provision of textbooks, course materials and general merchandise. Contract costs, which are included in cost of sales, and primarily consist of the payments we make to the colleges and universities to operate their official bookstores (management service agreement costs), including rent expense, have generally increased as a percentage of sales as a result of increased competition for renewals and new store contracts. We continue to work on evolving our business model and enhance our solutions, as well as enforce our contract exclusivity, to combat increased competition.
- *Course Materials Market:* In addition to the competition in the services we provide to our customers, our textbook business faces significant price competition. Many students purchase from multiple textbook providers, are highly price sensitive and can easily shift spending from one provider or format to another. Some of our competitors have adopted, and may continue to adopt, aggressive pricing policies and devote substantial resources to marketing, website and systems development. As we expand our textbook rental offerings, students have been shifting away from higher priced textbook purchases to lower priced rental options, which has resulted in lower textbook sales and increasing rental income.
- *Retail Environment:* BNC general merchandise sales, which are subject to short-term fluctuations driven by the broader retail environment, continue to increase over the long term as our product assortments continue to emphasize and reflect the changing consumer trends, and we evolve our presentation concepts and merchandising of products in stores and online.

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

Elements of Results of Operations

Our condensed consolidated financial statements reflect our condensed consolidated financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States ("GAAP"). On February 27, 2017, we acquired MBS Textbook Exchange, LLC and on August 3, 2017 we acquired Student Brands, LLC. The results of operations for the 13 and 39 weeks ended January 27, 2018 include the financial results of both MBS and Student Brands and all material intercompany accounts and transactions have been eliminated in consolidation. The results of operations for the 13 and 39 weeks ended January 28, 2017 exclude the financial results of MBS and Student Brands.

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

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

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

Results of Operations - Summary

	13 weeks ended		39 weeks ended	
Dollars in thousands	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
Sales:				
Product sales and other	$ 540,903	$ 457,147	$ 1,693,230	$ 1,372,810
Rental income	62,488	64,477	152,733	158,722
Total sales	$ 603,391	$ 521,624	$ 1,845,963	$ 1,531,532
Net (loss) income	$ (283,235)	$ 3,761	$ (269,623)	$ 5,134
Adjusted Earnings (non-GAAP) [(a)]	$ 19,644	$ 4,047	$ 39,781	$ 7,848
Adjusted EBITDA (non-GAAP) [(a)]				
BNC	$ 19,636	$ 18,814	$ 54,329	$ 52,681
MBS	20,752	—	56,000	—
Elimination	(5,827)	—	(5,782)	—
Total Adjusted EBITDA (non-GAAP)	$ 34,561	$ 18,814	$ 104,547	$ 52,681

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

Store Count

	13 weeks ended January 27, 2018		13 weeks ended January 28, 2017
Number of Stores:	BNC Stores	MBS Direct Stores	BNC Stores
Opened	6	5	2
Closed	1	13	3
Opened at end of period	782	698	770
Comparable store sales [(a)]	(6.2)%	N/A	(5.3)%

	39 weeks ended January 27, 2018		39 weeks ended January 28, 2017
Number of Stores:	BNC Stores	MBS Direct Stores	BNC Stores
Opened	30	19	36
Closed	17	33	17
Opened at end of period	782	698	770
Comparable store sales [(a)]	(4.7)%	N/A	(4.0)%

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

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

	13 weeks ended		39 weeks ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
Sales:				
Product sales and other	89.6 %	87.6%	91.7 %	89.6%
Rental income	10.4	12.4	8.3	10.4
Total sales	100.0	100.0	100.0	100.0
Cost of sales:				
Product and other cost of sales [a]	77.6	80.1	78.3	80.0
Rental cost of sales [a]	59.6	61.3	60.2	61.7
Total cost of sales	75.7	77.8	76.8	78.1
Gross margin	24.3	22.2	23.2	21.9
Selling and administrative expenses	18.6	18.6	17.7	18.4
Depreciation and amortization expense	2.8	2.5	2.6	2.6
Impairment loss (non-cash)	51.9	—	17.0	—
Restructuring and other charges	—	—	0.3	0.1
Transaction costs	—	0.1	0.1	0.2
Operating (loss) income	(49.0)%	1.0%	(14.5)%	0.6%

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

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Results of Operations - 13 and 39 weeks ended January 27, 2018 compared with the 13 and 39 weeks ended January 28, 2017

	13 weeks ended, January 27, 2018				13 weeks ended
Dollars in thousands	BNC [a]	MBS [b]	Eliminations	January 27, 2018 [a],[b]	January 28, 2017
Sales:					
Product sales and other	$ 445,642	$ 137,257	$ (41,996)	$ 540,903	$ 457,147
Rental income	60,818	1,670		62,488	64,477
Total sales	506,460	138,927	(41,996)	603,391	521,624
Cost of sales:					
Product and other cost of sales	352,742	103,068	(36,169)	419,641	366,190
Rental cost of sales	36,305	910	—	37,215	39,509
Total cost of sales	389,047	103,978	(36,169)	456,856	405,699
Gross profit	117,413	34,949	(5,827)	146,535	115,925
Selling and administrative expenses	97,777	14,197	—	111,974	97,111
Depreciation and amortization expense	15,411	1,596	—	17,007	13,149
Impairment loss (non-cash)	313,130	—	—	313,130	
Restructuring and other charges	—	—	—	—	—
Transaction costs	49	—	—	49	467
Operating (loss) income	$ (308,954)	$ 19,156	$ (5,827)	$ (295,625)	$ 5,198

	39 weeks ended, January 27, 2018				39 weeks ended
Dollars in thousands	BNC(a)	MBS (b)	Eliminations	January 27, 2018 (a),(b)	January 28, 2017
Sales:					
Product sales and other	$ 1,369,770	$ 409,300	$ (85,840)	$ 1,693,230	$ 1,372,810
Rental income	148,454	4,279	—	152,733	158,722
Total sales	1,518,224	413,579	(85,840)	1,845,963	1,531,532
Cost of sales:					
Product and other cost of sales	1,090,756	315,523	(80,058)	1,326,221	1,098,682
Rental cost of sales	89,593	2,343	—	91,936	97,998
Total cost of sales	1,180,349	317,866	(80,058)	1,418,157	1,196,680
Gross profit	337,875	95,713	(5,782)	427,806	334,852
Selling and administrative expenses	283,546	42,986	—	326,532	282,171
Depreciation and amortization expense	43,879	4,849	—	48,728	39,057
Impairment loss (non-cash)	313,130	—	—	313,130	—
Restructuring and other charges	5,429	—	—	5,429	1,790
Transaction costs	1,895	—	—	1,895	2,638
Operating (loss) income	$ (310,004)	$ 47,878	$ (5,782)	$ (267,908)	$ 9,196

(a) On August 3, 2017, we acquired Student Brands, LLC. The condensed consolidated financial statements for the 13 and 39 weeks ended January 27, 2018 include the financial results of Student Brands in the BNC segment from the date of acquisition, August 3, 2017, and the condensed cons olidated financial statements for the 13 and 39 weeks ended January 28, 2017 exclude the financial results of Student Brands.

(b) On February 27, 2017, we acquired MBS. The results of operations for the 13 and 39 weeks ended January 27, 2018 include the financial results of MBS and all material intercompany accounts and transactions have been eliminated in consolidation. The results of operations for the 13 and 39 weeks ended January 28, 2017 exclude the financial results of MBS.

Sales

The following table summarizes our sales for the 13 and 39 weeks ended January 27, 2018 and January 28, 2017 :

	13 weeks ended			39 weeks ended		
Dollars in thousands	January 27, 2018	January 28, 2017	%	January 27, 2018	January 28, 2017	%
Product sales and other	$ 540,903	$ 457,147	18.3%	$ 1,693,230	$ 1,372,810	23.3%
Rental income	62,488	64,477	(3.1)%	152,733	158,722	(3.8)%
Total Sales	$ 603,391	$ 521,624	15.7%	$ 1,845,963	$ 1,531,532	20.5%

Our sales increased $81.7 million, or 15.7%, to $603.4 million during the 13 weeks ended January 27, 2018 from $521.6 million during the 13 weeks ended January 28, 2017 . Our sales increased $314.4 million, or 20.5%, to $1,846.0 million during the 39 weeks ended January 27, 2018 from $1,531.5 million during the 39 weeks ended January 28, 2017 . Sales increased primarily due to the acquisition of MBS and Student Brands, partially offset by BNC comparable sales declines primarily due to lower student enrollment, specifically in two-year community colleges, increased consumer purchases directly from publishers and other online providers, and general weakness in the retail environment. The components of the variances for the 13 and 39 week periods are reflected in the table below.

Sales variances	13 weeks ended		39 weeks ended	
Dollars in millions	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
MBS Sales [(a)]				
Wholesale	$ 92.2	$ —	$ 232.2	$ —
Direct	46.7	—	181.4	—
MBS Sales subtotal:	$ 138.9	$ —	$ 413.6	$ —
BNC Sales				
New stores	$ 14.1	$ 34.2	$ 55.8	$ 92.7
Closed stores	(2.2)	(8.0)	(9.7)	(20.6)
Comparable stores	(31.3)	(27.3)	(69.9)	(59.8)
Textbook rental deferral	2.6	2.3	6.2	0.1
Service revenue [(b)]	6.7	0.9	13.1	3.3
Other [(c)]	(5.1)	1.1	(8.8)	2.5
BNC Sales subtotal:	$ (15.2)	$ 3.2	$ (13.3)	$ 18.2
Eliminations [(d)]	$ (42.0)	$ —	$ (85.9)	$ —
Total sales variance	$ 81.7	$ 3.2	$ 314.4	$ 18.2

(a) Represents sales for MBS for the 13 and 39 weeks ended January 27, 2018. MBS’s business is highly seasonal. For MBS’s retail operations (virtual bookstores), a major portion of sales and operating profit are realized during the second and third quarters, when students generally purchase and rent textbooks for the upcoming semesters. For MBS’s wholesale business, a major portion of sales and operating profit is realized during the first, second and third fiscal quarters, as it sells textbooks for retail distribution, which somewhat offsets the decreased first quarter sales attributable to our retail business. MBS has significantly lower operating profit or operating loss realized during the fourth quarter.

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

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

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

Rental income for BNC for the 13 and 39 weeks ended January 27, 2018 decreased by $3.7 million, or 5.7%, and $10.3 million, or 6.5%, respectively. For the 13 and 39 weeks ended January 27, 2018 , rental income for BNC was impacted by an increase in the recognition of our previously deferred rental revenue of $2.6 million and $6.2 million, respectively, and decreased rental activity. Excluding the impact of the deferred revenue, rental income decreased by $6.3 million, or 7.5% and $16.5 million, or 7.5%, respectively.

BNC added 30 new stores and closed 17 stores during the 39 weeks ended January 27, 2018 , ending the period with a total of 782 stores.

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

Comparable Store Sales variances-BNC	13 weeks ended				39 weeks ended			
Dollars in millions	January 27, 2018		January 28, 2017		January 27, 2018		January 28, 2017	
Textbooks	$ (26.3)	(7.2)%	$ (25.4)	(6.7)%	$ (62.8)	(6.1)%	$ (55.3)	(5.3)%
General Merchandise	(3.5)	(2.8)%	(0.5)	(0.5)%	(3.3)	(0.8)%	(1.2)	(0.3)%
Trade Books	(1.5)	(11.9)%	(1.2)	(8.3)%	(3.8)	(9.5)%	(2.7)	(6.2)%
Other	—	— %	(0.2)	(86.7)%	—	— %	(0.6)	(88.3)%
Total Comparable Store Sales	$ (31.3)	(6.2)%	$ (27.3)	(5.3)%	$ (69.9)	(4.7)%	$ (59.8)	(4.0)%

Comparable store sales for BNC decreased for the 13 and 39 week sales periods. Comparable store sales were impacted primarily by lower average selling prices of course materials driven by lower publisher prices resulting from a shift to lower cost options and more affordable solutions, including digital. Comparable store sales were also impacted by the timing of the spring back-to-school rush season which extended past the close of our fiscal third quarter and lower student enrollment, specifically in two-year community colleges, increased consumer purchases directly from publishers and other online providers, and other recent negative retail trends. The components of the variances are reflected in the table above.

Textbook revenue for BNC for the 13 and 39 weeks ended January 27, 2018 decreased primarily due to lower new and used textbook sales and rentals as discussed above, while eTextbook revenue increased. General merchandise sales for BNC decreased for the 13 weeks ended January 27, 2018 primarily due to a decrease in school supplies, computer and convenience product sales, and emblematic apparel, partially offset by higher graduation products sales. General merchandise sales for BNC decreased for the 39 weeks ended January 27, 2018 primarily due to a decrease in school supplies, and computer and convenience product sales, partially offset by higher emblematic apparel and graduation products sales.

Cost of Sales and Gross Margin

Our cost of sales decreased as a percentage of sales to 75.7% during the 13 weeks ended January 27, 2018 compared to 77.8% during the 13 weeks ended January 28, 2017 . Our gross margin increased by $30.6 million, or 26.4%, to $146.5 million, or 24.3% of sales, during the 13 weeks ended January 27, 2018 from $115.9 million, or 22.2% of sales, during the 13 weeks ended January 28, 2017 .

Our cost of sales decreased as a percentage of sales to 76.8% during the 39 weeks ended January 27, 2018 compared to 78.1% during the 39 weeks ended January 28, 2017 . Our gross margin increased by $93.0 million, or 27.8%, to $427.8 million, or 23.2% of sales, during the 39 weeks ended January 27, 2018 from $334.9 million, or 21.9% of sales, during the 39 weeks ended January 28, 2017 .

Intercompany Eliminations

During the 13 and 39 weeks ended January 27, 2018, our sales eliminations were $42.0 million and $85.9 million, respectively. These sales eliminations represent the elimination of MBS sales to BNC and the elimination of BNC commissions earned from MBS.

During the 13 and 39 weeks ended January 27, 2018, the cost of sales eliminations were $36.2 million and $80.1 million, respectively. These cost of sales eliminations represent (i) the recognition of intercompany profit for BNC inventory that was purchased from MBS in a prior period that was subsequently sold to external customers during the current period, net of (ii) the elimination of intercompany profit for MBS inventory purchases by BNC that remain in ending inventory at the end of the current period.

The $5.8 million of gross margin elimination reflects the net impact of the sales eliminations and cost of sales eliminations during both the 13 and 39 weeks ended January 27, 2018.

MBS

The cost of sales and gross margin for MBS was $104.0 million or 74.8% of sales and $35.0 million or 25.2% of sales, respectively, during the 13 weeks ended January 27, 2018 . The cost of sales and gross margin for MBS was $317.9 million or 76.9% of sales and $95.7 million or 23.1% of sales, respectively, during the 39 weeks ended January 27, 2018 . The MBS gross margin as a percentage of sales is impacted by the seasonality of their business. For MBS's retail operations (virtual bookstores), a major portion of sales and operating profit are realized during the second and third quarters, when students generally purchase and rent textbooks for the upcoming semesters. For MBS's wholesale business, a major portion of sales and operating profit is realized during the first, second and third fiscal quarters, as it sells textbooks for retail distribution, which somewhat offsets the decreased first quarter sales attributable to our retail business. For the 13 and 39 weeks ended January 27, 2018, the margin impact was primarily due to certain fixed warehouse facility and operation costs. For the 39 weeks ended January 27, 2018, the margin was also impacted by the incremental cost of sales of $3.3 million related to recording MBS inventory at fair value as of the acquisition date. The non-cash fair value inventory adjustment of $3.7 million for MBS was recognized over six months from the date of acquisition and was allocated based on monthly sales. Excluding the $3.3 million inventory fair value amortization, cost of sales and gross margin for MBS was $314.6 million or 76.1% of sales and $99.0 million or 23.9% of sales, respectively, during the 39 weeks ended January 27, 2018.

BNC

The following table summarizes the BNC cost of sales for the 13 and 39 weeks ended January 27, 2018 and January 28, 2017 :

	13 weeks ended				39 weeks ended			
Dollars in thousands	January 27, 2018	% of Related Sales	January 28, 2017	% of Related Sales	January 27, 2018	% of Related Sales	January 28, 2017	% of Related Sales
Product and other cost of sales	$ 352,742	79.2%	$ 366,190	80.1%	$ 1,090,756	79.6%	$ 1,098,682	80.0%
Rental cost of sales	36,305	59.7%	39,509	61.3%	89,593	60.4%	97,998	61.7%
Total Cost of Sales	$ 389,047	76.8%	$ 405,699	77.8%	$ 1,180,349	77.7%	$ 1,196,680	78.1%

The following table summarizes the BNC gross margin for the 13 and 39 weeks ended January 27, 2018 and January 28, 2017 :

	13 weeks ended				39 weeks ended			
Dollars in thousands	January 27, 2018	% of Related Sales	January 28, 2017	% of Related Sales	January 27, 2018	% of Related Sales	January 28, 2017	% of Related Sales
Product and other gross margin	$ 92,900	20.8%	$ 90,957	19.9%	$ 279,014	20.4%	$ 274,128	20.0%
Rental gross margin	24,513	40.3%	24,968	38.7%	58,861	39.6%	60,724	38.3%
Gross Margin	$ 117,413	23.2%	$ 115,925	22.2%	$ 337,875	22.3%	$ 334,852	21.9%

For the 13 weeks ended January 27, 2018, the BNC gross margin as a percentage of sales increased as discussed below:

- Product and other gross margin increased (90 basis points), driven primarily by high margin Student Brands subscription service revenue earned (125 basis points), higher margin rates (20 basis points) related to decreased markdowns on textbooks, and lower costs related to our college and university contracts (5 basis points) resulting from contract renewals and new store contracts. This increase was partially offset by an unfavorable sales mix (60 basis points) resulting from a decrease in higher margin used textbooks and general merchandise as a percentage of sales.
- Rental gross margin increased (160 basis points), driven primarily by higher rental margin rates (185 basis points) and lower costs related to our college and university contracts (15 basis points) resulting from contract renewals and new store contracts, partially offset by an unfavorable rental mix (40 basis points).

For the 39 weeks ended January 27, 2018, the BNC gross margin as a percentage of sales increased as discussed below:

- Product and other gross margin increased (40 basis points), driven primarily by Student Brands subscription service revenue earned (75 basis points) and higher margin rates (15 basis points) related to decreased markdowns on textbooks. This increase was partially offset by an unfavorable sales mix (30 basis points) resulting from a decrease in higher margin used textbooks as a percentage of sales and lower costs related to our college and university contracts (15 basis points) resulting from contract renewals and new store contracts.
- Rental gross margin increased (130 basis points), driven primarily by higher rental margin rates (190 basis points), partially offset by higher costs related to our college and university contracts (15 basis points) resulting from contract renewals and new store contracts and an unfavorable rental mix (35 basis points).

Selling and Administrative Expenses

	13 weeks ended				39 weeks ended			
Dollars in thousands	January 27, 2018	% of Sales	January 28, 2017	% of Sales	January 27, 2018	% of Sales	January 28, 2017	% of Sales
Total Selling and Administrative Expenses	$ 111,974	18.6%	$ 97,111	18.6%	$ 326,532	17.7%	$ 282,171	18.4%

During the 13 weeks ended January 27, 2018 , selling and administrative expenses increased by $14.9 million, or 15.3%, to $112.0 million from $97.1 million during the 13 weeks ended January 28, 2017 . During the 39 weeks ended January 27, 2018 , selling and administrative expenses increased by $44.4 million, or 15.7%, to $326.5 million from $282.2 million during the 39 weeks ended January 28, 2017 . The increase for the 13 and 39 weeks was primarily due to the selling and administrative expenses for MBS of $14.2 million and $43.0 million, respectively (which includes a $1.7 million and $5.1 million selling and administrative expense allocation from BNC for shared corporate overhead, during the 13 and 39 weeks ended January 27, 2018 , respectively).

During the 13 weeks ended January 27, 2018 , BNC's selling and administrative expenses increased by $0.7 million, or 0.7%, to $97.8 million from $97.1 million. The increase was primarily due to a $0.7 million increase in new store payroll and operating expenses (net of closed stores), as a result of a $11.9 million increase in new store sales (net of closed stores), a $2.1 million increase in Student Brands expenses, and a $0.9 million increase in corporate overhead, including digital expenses. These increases were partially offset by a $1.7 million of shared corporate overhead costs allocated to MBS and a $1.3 million decrease in comparable store payroll and operating expenses.

During the 39 weeks ended January 27, 2018 , BNC's selling and administrative expenses increased by $1.4 million, or 0.5%, to $283.5 million from $282.2 million. The increase was primarily due a $4.3 million increase in new store payroll and operating expenses (net of closed stores), as a result of a $46.1 million increase in new store sales (net of closed stores), a $4.1 million increase in Student Brands expenses, and a $2.8 million increase in corporate overhead, including digital expenses. These increases were partially offset by a $5.1 million of shared corporate overhead costs allocated to MBS and a $4.7 million decrease in comparable store payroll and operating expenses.

Depreciation and Amortization Expense

	13 weeks ended				39 weeks ended			
Dollars in thousands	January 27, 2018	% of Sales	January 28, 2017	% of Sales	January 27, 2018	% of Sales	January 28, 2017	% of Sales
Total Depreciation and Amortization Expense	$ 17,007	2.8%	$ 13,149	2.5%	$ 48,728	2.6%	$ 39,057	2.6%

Depreciation and amortization expense increased by $3.9 million, or 29.3%, to $17.0 million during the 13 weeks ended January 27, 2018 from $13.1 million during the 13 weeks ended January 28, 2017 . Depreciation and amortization expense increased by $9.7 million, or 24.8%, to $48.7 million during the 39 weeks ended January 27, 2018 from $39.1 million during the 39 weeks ended January 28, 2017 . This increase was primarily attributable to incremental depreciation and amortization expense resulting from the acquisitions of MBS and Student Brands associated with the property and equipment and identified intangibles recorded at fair value as of the respective acquisition dates and additional capital expenditures for BNC.

Impairment loss (non-cash)

We completed our annual goodwill impairment test as of the first day of the third quarter of Fiscal 2018. 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. We estimated the fair value of our reporting units using a weighting of fair values derived from the income approach and the market approach. Based on the results of the test, the carrying value of the BNC reporting unit exceeded its fair value and we recorded a goodwill impairment (non-cash impairment loss) of $313.1 million. For information, see *Part I - Item 1. Financial Statements - Note 2. Summary of Significant Accounting Policies* in this Form 10-Q.

Restructuring and other charges

Restructuring

In Fiscal 2016, in our BNC segment, we implemented a plan to restructure our digital education operations and we announced a reduction in staff and closure of the facilities in Mountain View, California, and Redmond, Washington, which was completed during the first quarter of Fiscal 2017. We recorded restructuring costs of $0.07 million and $1.8 million during the 39 weeks ended January 27, 2018 and January 28, 2017 , respectively.

Other Charges

On July 19, 2017, Mr. Max J. Roberts resigned as Chief Executive Officer of the Company and Mr. Michael P. Huseby was appointed to the position of Chief Executive Officer and Chairman of the Board, both effective as of September 19, 2017. During the 39 weeks ended January 27, 2018, we recognized expenses totaling approximately $5.4 million, which is comprised of the severance and transition payments as well as related expenses. For additional information, see *Part I - Item 1. Financial Statements - Note 9. Supplementary Information* in this Form 10-Q or the Form 8-K dated July 19, 2017, filed with the SEC on July 20, 2017.

Transaction Costs

Transaction costs were $0.05 million and $1.9 million during the 13 and 39 weeks ended January 27, 2018 compared to $0.5 million and $2.6 million during the 13 and 39 weeks ended January 28, 2017 , respectively. We incur transaction costs for business development and acquisitions as discussed above. For additional information related to our recent acquisitions, see *Part I - Item 1. Financial Statements - Note 4. Acquisitions* in this Form 10-Q.

Operating (Loss) Income

Dollars in thousands	13 weeks ended				39 weeks ended			
	January 27, 2018	% of Sales	January 28, 2017	% of Sales	January 27, 2018	% of Sales	January 28, 2017	% of Sales
Total Operating (Loss) Income	$ (295,625)	(49.0)%	$ 5,198	1.0%	$ (267,908)	(14.5)%	$ 9,196	0.6%

Our operating loss was $295.6 million during the 13 weeks ended January 27, 2018 compared to operating income of $5.2 million during the 13 weeks ended January 28, 2017 . This increase was due to the matters discussed above. For the 13 weeks ended January 27, 2018 , excluding the $313.1 million of goodwill impairment and transaction costs of $0.05 million, operating income was $17.6 million (or 2.9% of sales). For the 13 weeks ended January 28, 2017 , excluding the transaction costs of $0.5 million, discussed above, operating income was $5.7 million (or 1.1% of sales) during the 13 weeks ended January 28, 2017 .

Our operating loss was $268.0 million during the 39 weeks ended January 27, 2018 compared to operating income of $9.2 million during the 39 weeks ended January 28, 2017 . This increase was due to the matters discussed above. For the 39 weeks ended January 27, 2018 , excluding the $313.1 million of goodwill impairment, the $3.3 million of incremental cost of sales related to amortization of the MBS inventory fair value adjustment, the restructuring and other charges of $5.4 million and transaction costs of $1.9 million, all discussed above, operating loss was $55.8 million (or 3.0% of sales). For the 39 weeks ended January 28, 2017 , excluding the transaction costs of $2.6 million and restructuring costs and other charges of $1.8 million, discussed above, operating income was $13.6 million (or 0.9% of sales) during the 39 weeks ended January 28, 2017 .

Interest Expense, Net

Dollars in thousands	13 weeks ended		39 weeks ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
Interest Expense, Net	$ 2,954	$ 679	$ 7,828	$ 1,975

Net interest expense increased by $2.3 million to $3.0 million during the 13 weeks ended January 27, 2018 from $0.7 million during the 13 weeks ended January 28, 2017 . Net interest expense increased by $5.9 million to $7.8 million during the 39 weeks ended January 27, 2018 from $2.0 million during the 39 weeks ended January 28, 2017 . The increase was primarily due to increased borrowings under the Credit Facility and the FILO Facility (which was entered into during Fiscal 2017).

Income Tax (Benefit) Expense

Dollars in thousands	13 weeks ended				39 weeks ended			
	January 27, 2018	Effective Rate	January 28, 2017	Effective Rate	January 27, 2018	Effective Rate	January 28, 2017	Effective Rate
Income Tax (Benefit) Expense	$ (15,344)	5.1%	$ 758	16.8%	$ (6,113)	2.2%	$ 2,087	28.9%

We recorded an income tax benefit of $(15.3) million on a pre-tax loss of $(298.6) million of during the 13 weeks ended January 27, 2018 , which represented an effective income tax rate of 5.1% and an income tax expense of $0.7 million on pre-tax income of $4.5 million during the 13 weeks ended January 28, 2017 , which represented an effective income tax rate of 16.8%.

We recorded an income tax benefit of $(6.1) million on a pre-tax loss of $(275.7) million of during the 39 weeks ended January 27, 2018 , which represented an effective income tax rate of 2.2% and an income tax expense of $2.1 million on pre-tax income of $7.2 million during the 39 weeks ended January 28, 2017 , which represented an effective income tax rate of 28.9%.

The effective tax rates for the 13 and 39 weeks ended January 27, 2018 are significantly lower as compared to the comparable prior year periods due to the tax benefit of U.S. Tax Reform, partially offset by permanent differences, which in this quarter includes the nondeductible portion of the goodwill impairment.

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

Impact of U.S. Tax Reform

The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. The Act reduces the US federal corporate tax rate from 35% to 21% and requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, among other provisions. As of January 27, 2018, we had not completed the accounting for the tax effects of enactment of the Act; however, as described below, we have made a reasonable estimate of the effects on existing deferred tax balances and the one-time transition tax in accordance with SAB 118, " *Income Tax Accounting Implications of the Tax Cuts and Jobs Act* " (SAB 118). These amounts are provisional and subject to change within the measurement period proscribed by SAB 118 which is not to extend beyond one year from the enactment date. The most significant impact of the legislation for the Company was a $21.1 million reduction of the value of the our net deferred (which represents future tax liabilities) and long-term tax liabilities as a result of lowering the U.S. corporate income tax rate from 35% to 21%. We have provisionally recorded a liability associated with the one-time transition tax, however, such amount is not material.

Net (Loss) Income

	13 weeks ended		39 weeks ended	
Dollars in thousands	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
Net (Loss) Income	$ (283,235)	$ 3,761	$ (269,623)	$ 5,134

As a result of the factors discussed above, we reported net loss of $(283.2) million during the 13 weeks ended January 27, 2018 , compared with a net income of $3.8 million during the 13 weeks ended January 28, 2017 . Adjusted Earnings (non-GAAP) is $19.6 million during the 13 weeks ended January 27, 2018 , compared with $4.0 million during the 13 weeks ended January 28, 2017 . See *Adjusted Earnings (non-GAAP)* discussion below.

As a result of the factors discussed above, we reported net loss of $(269.6) million during the 39 weeks ended January 27, 2018 , compared with a net income of $5.1 million during the 39 weeks ended January 28, 2017 . Adjusted Earnings (non-GAAP) is $39.8 million during the 39 weeks ended January 27, 2018 , compared with $7.8 million during the 39 weeks ended January 28, 2017 . See *Adjusted Earnings (non-GAAP)* discussion below.

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

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

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

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

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

Adjusted Earnings (non-GAAP)

	13 weeks ended		39 weeks ended	
Dollars in thousands	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
Net (loss) income	$ (283,235)	$ 3,761	$ (269,623)	$ 5,134
Reconciling items, after-tax *(below)*	302,879	286	309,404	2,714
Adjusted Earnings (non-GAAP) [(a)]	$ 19,644	$ 4,047	$ 39,781	$ 7,848
Reconciling items, pre-tax				
Impairment loss (non-cash) [(a)]	$ 313,130	$ —	$ 313,130	$ —
Inventory valuation amortization (MBS) (non-cash) [(a)]	—	—	3,273	—
Restructuring and other charges [(a)]	—	—	5,429	1,790
Transaction costs [(a)]	49	467	1,895	2,638
Reconciling items, pre-tax	313,179	467	323,727	4,428
Less: Pro forma income tax impact [(b)]	10,300	181	14,323	1,714
Reconciling items, after-tax	$ 302,879	$ 286	$ 309,404	$ 2,714

(a) See *Management Discussion and Analysis - Results of Operations* discussion above.
(b) Represents the income tax effects of the non-GAAP items.

Adjusted EBITDA (non-GAAP)

	13 weeks ended		39 weeks ended	
Dollars in thousands	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
Net (loss) income	$ (283,235)	$ 3,761	$ (269,623)	$ 5,134
Add:				
Depreciation and amortization expense	17,007	13,149	48,728	39,057
Interest expense, net	2,954	679	7,828	1,975
Income tax expense	(15,344)	758	(6,113)	2,087
Impairment loss (non-cash) [(a)]	313,130	—	313,130	—
Inventory valuation amortization (MBS) (non-cash) [(a)]	—	—	3,273	—
Restructuring and other charges [(a)]	—	—	5,429	1,790
Transaction costs [(a)]	49	467	1,895	2,638
Adjusted EBITDA (non-GAAP) [(a)]	$ 34,561	$ 18,814	$ 104,547	$ 52,681

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

The following is Adjusted EBITDA by segment for the 13 and 39 weeks ended January 27, 2018. Prior to the acquisition of MBS on February 27, 2017, we had only one reportable segment.

Adjusted EBITDA - by Segment	**13 weeks ended, January 27, 2018**			
Dollars in thousands	BNC	MBS	Elimination [(a)]	Total
Sales	$ 506,460	$ 138,927	$ (41,996)	$ 603,391
Cost of sales	389,047	103,978	(36,169)	456,856
Gross profit	117,413	34,949	(5,827)	146,535
Selling and administrative expenses	97,777	14,197	—	111,974
Adjusted EBITDA (non-GAAP)	$ 19,636	$ 20,752	$ (5,827)	$ 34,561

Adjusted EBITDA - by Segment	**39 weeks ended, January 27, 2018**			
Dollars in thousands	BNC	MBS	Elimination [(a)]	Total
Sales	$ 1,518,224	$ 413,579	$ (85,840)	$ 1,845,963
Cost of sales (MBS excludes $3,273 related to inventory fair value amortization) [(a)]	1,180,349	314,593	(80,058)	1,414,884
Gross profit	337,875	98,986	(5,782)	431,079
Selling and administrative expenses	283,546	42,986	—	326,532
Adjusted EBITDA (non-GAAP)	$ 54,329	$ 56,000	$ (5,782)	$ 104,547

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

Liquidity and Capital Resources

Our primary sources of cash are net cash flows from operating activities, funds available under our credit agreement and short-term vendor financing. As of January 27, 2018 , we had a total of $113.0 million of outstanding borrowings under the Credit Agreement. See *Financing Arrangements* discussion below.

Sources and Uses of Cash Flow

	39 weeks ended	
Dollars in thousands	January 27, 2018	January 28, 2017
Cash, cash equivalents, and restricted cash at beginning of period	$ 21,697	$ 30,866
Net cash flows provided by operating activities	141,440	145,002
Net cash flows used in investing activities	(89,839)	(33,651)
Net cash flows used in financing activities	(48,230)	(7,858)
Cash, cash equivalents, and restricted cash at end of period	$ 25,068	$ 134,359

Cash Flow from Operating Activities

Our business is highly seasonal. For our retail operations (BNC and MBS Direct), cash flows from operating activities are typically a source of cash in the second and third fiscal quarters, when students generally purchase and rent textbooks for the upcoming semesters. For MBS Wholesale, cash flows from operating activities are typically a source of cash in the second and fourth fiscal quarters, as payments are received from the summer and winter selling season when they sell textbooks for retail distribution. For both BNC and MBS, cash flows from operating activities are typically a use of cash in the fourth fiscal quarter, when sales volumes are materially lower than the other quarters. Our quarterly cash flows also may fluctuate depending on the timing of the start of the various schools' semesters, as well as shifts in our fiscal calendar dates. These shifts in timing may affect the comparability of our results across periods.

Cash flows provided by operating activities during the 39 weeks ended January 27, 2018 were $141.4 million compared to $145.0 million during the 39 weeks ended January 28, 2017 . This decrease of $3.6 million was primarily due to changes in working capital (including cash income tax payment), and changes in other long-term liabilities and deferred tax balances (primarily driven by the December 22, 2017 enactment of the U.S. Tax Cuts and Jobs Act).

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 39 weeks ended January 27, 2018 were $(89.8) million compared to $(33.7) million during the 39 weeks ended January 28, 2017 . The increase is primarily due to the acquisition of Student Brands for $57.4 million (cash consideration of $62.0 million, including cash acquired of $4.6 million) during the 39 weeks ended January 27, 2018, higher capital expenditures primarily for MBS and contractual capital investments associated with renewing existing contracts, and new store construction for BNC, offset by lower deferred contract costs related to our bookstore contracts. Capital expenditures totaled $30.1 million and $26.5 million during the 39 weeks ended January 27, 2018 and January 28, 2017 , respectively.

Cash Flow from Financing Activities

Cash flows used in financing activities during the 39 weeks ended January 27, 2018 were $(48.2) million compared $(7.9) million during the 39 weeks ended January 28, 2017 . This net change of $40.3 is primarily due to increased net borrowings under the credit agreement of $46.6 million (primarily to fund recent acquisitions), and decreased payments for Common Stock repurchased of $6.2 million during the 39 weeks ended January 27, 2018 .

Financing Arrangements

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

During the 39 weeks ended January 27, 2018 , we borrowed $481.6 million and repaid $528.2 million under the Credit Agreement. Net total outstanding borrowings of $113.0 million as of January 27, 2018 is comprised entirely of outstanding borrowings under the Credit Facility. As of January 27, 2018 , we have issued $4.8 million in letters of credit under the facility. During the 39 weeks ended January 28, 2017, we borrowed and repaid $116.1 million under the Credit Facility.

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

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

Income Tax Implications on Liquidity

As of January 27, 2018, other long-term liabilities includes $54.4 million related to the long-term tax payable associated with the LIFO reserve. The LIFO reserve is impacted by changes in the consumer price index ("CPI") and is dependent on the inventory levels at the end of our tax year (on or about January 31st) which is in the middle of our second largest selling cycle. At the end of the most recent tax year, inventory levels within our BNC segment declined as compared to the prior year resulting in approximately $13.8 million of the LIFO reserve becoming currently payable. Given recent trends relating to the pricing and rental of textbooks, management believes that an additional portion of the remaining long-term tax payable associated with the LIFO reserve could be payable within the next twelve months. We are unable to predict future trends for CPI and inventory levels, therefore it is difficult to project with reasonable certainty how much of this liability will become payable within the next twelve months.

Share Repurchases

On December 14, 2015, our Board of Directors authorized a stock repurchase program of up to $50 million, in the aggregate, of our outstanding Common Stock. The stock repurchase program is carried out at the direction of management (which may include a plan under Rule 10b5-1 of the Securities Exchange Act of 1934). The stock repurchase program may be suspended, terminated, or modified at any time. Any repurchased shares will be held as treasury stock and will be available for general corporate purposes. During the 39 weeks ended January 27, 2018, we did not repurchase any of our Common Stock. As of January 27, 2018, approximately $26.7 million remains available under the stock repurchase program.

Contractual Obligations

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

Off-Balance Sheet Arrangements

As of January 27, 2018 , we have no off-balance sheet arrangements as defined in Item 303 of Regulation S-K.

Critical Accounting Policies

With the exception of the *Evaluation of Goodwill Impairment* discussion, our policies regarding the use of estimates and other critical accounting policies are consistent with the disclosures in *Part II - Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates* in our Annual Report on Form 10-K for the year ended April 29, 2017. For current information related to our *Evaluation of Goodwill Impairment* , see *Part I - Item*

1. Financial Statements - Note 2. Summary of Significant Accounting Policies in this Form 10-Q.

Recent Accounting Pronouncements

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

Disclosure Regarding Forward-Looking Statements

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

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

- general competitive conditions, including actions our competitors and content providers may take to grow their businesses;
- a decline in college enrollment or decreased funding available for students;
- decisions by colleges and universities to outsource their physical and/or online bookstore operations or change the operation of their bookstores;
- the general economic environment and consumer spending patterns;
- decreased consumer demand for our products, low growth or declining sales;
- the strategic objectives, successful integration, anticipated synergies, and/or other expected potential benefits of various acquisitions, including MBS Textbook Exchange, LLC and Student Brands, LLC, may not be fully realized or may take longer than expected;
- the integration of MBS Textbook Exchange, LLC’s operations into our own may also increase the risk of our internal controls being found ineffective;
- implementation of our digital strategy may not result in the expected growth in our digital sales and/or profitability;
- risk that digital sales growth does not exceed the rate of investment spend;
- the performance of our online, digital and other initiatives, integration of and deployment of, additional products and services including new digital channels, and enhancements to higher education digital products, and the inability to achieve the expected cost savings;
- our ability to successfully implement our strategic initiatives including our ability to identify, compete for and execute upon additional acquisitions and strategic investments;
- risks associated with operation or performance of MBS Textbook Exchange, LLC’s point-of-sales systems that are sold to college bookstore customers;
- changes to purchase or rental general terms, payment terms, return policies, the discount or margin on products or other terms with our suppliers;
- technological changes;
- risks associated with counterfeit and piracy of digital and print materials;
- our international operations could result in additional risks;
- our ability to attract and retain employees;
- the risk of price reduction or change in format of course materials by publishers, which could negatively impact revenues and margin;

- risks associated with data privacy, information security and intellectual property;
- trends and challenges to our business and in the locations in which we have stores;
- non-renewal of managed bookstore, physical and/or online store contracts and higher-than-anticipated store closings;
- disruptions to our information technology systems, infrastructure and data due to computer malware, viruses, hacking and phishing attacks, resulting in harm to our business and results of operations;
- disruption of or interference with third party web service providers and our own proprietary technology;
- work stoppages or increases in labor costs;
- possible increases in shipping rates or interruptions in shipping service;
- product shortages, including risks associated with merchandise sourced indirectly from outside the United States;
- changes in domestic and international laws or regulations, including U.S. tax reform, changes in tax rates, laws and regulations, as well as related guidance;
- enactment of laws which may restrict or prohibit our use of emails or similar marketing activities;
- the amount of our indebtedness and ability to comply with covenants applicable to any future debt financing;
- our ability to satisfy future capital and liquidity requirements;
- our ability to access the credit and capital markets at the times and in the amounts needed and on acceptable terms;
- adverse results from litigation, governmental investigations, tax-related proceedings, or audits;
- changes in accounting standards; and
- the other risks and uncertainties detailed in the section titled *"Risk Factors"* in *Part I - Item 1A* in our Annual Report on Form 10-K for the year ended April 29, 2017.

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

Item 3: Quantitative and Qualitative Disclosures About Market Risk

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

Item 4: Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes during the 39 weeks ended January 27, 2018 to the risk factors discussed in *Part I - Item 1A. Risk Factors* in our Annual Report on Form 10-K for the year ended April 29, 2017.

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

Issuer Purchases of Equity Securities

The following table provides information as of January 27, 2018 with respect to shares of Common Stock we purchased during the third quarter of Fiscal 2018:

Period	Total Number of Shares Purchased	Average Price Paid per Share (a)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
October 29, 2017 - November 25, 2017	—	$ —	—	$ 26,669,324
November 26, 2017 - December 30, 2017	—	$ —	—	$ 26,669,324
December 31, 2017 - January 27, 2018	—	$ —	—	$ 26,669,324
	—	$ —	—	

(a) This amount represents the average price paid per common share. This price includes a per share commission paid for all repurchases.

On December 14, 2015, our Board of Directors authorized a stock repurchase program of up to $50 million, in the aggregate, of our outstanding Common Stock. The stock repurchase program is carried out at the direction of management (which may include a plan under Rule 10b5-1 of the Securities Exchange Act of 1934). The stock repurchase program may be suspended, terminated, or modified at any time. Any repurchased shares will be held as treasury stock and will be available for general corporate purposes. During the 39 weeks ended January 27, 2018, we did not repurchase any shares of our Common Stock.

During the 39 weeks ended January 27, 2018, we also repurchased 259,348 shares of our Common Stock in connection with employee tax withholding obligations for vested stock awards.

Item 6. Exhibits

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

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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)

March 1, 2018

EXHIBIT INDEX

31.1	Certification by the Chief Executive Officer pursuant to Rule 13a-14(a)/15(d)-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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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, Michael P. Huseby, certify that:

1. I have reviewed this report on Form 10-Q for the quarterly period ended January 27, 2018 of Barnes & Noble Education, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: March 1, 2018

By: /s/ Michael P. Huseby

Michael P. Huseby
Chairman and 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 January 27, 2018 of Barnes & Noble Education, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2018

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 January 27, 2018 , as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michael P. Huseby, Chairman and Chief Executive Officer of the Company, certify, to the best of my knowledge, pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Michael P. Huseby

Michael P. Huseby
Chairman and Chief Executive Officer
Barnes & Noble Education, Inc.

March 1, 2018

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 January 27, 2018 , 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.

March 1, 2018

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.