

BARNES & NOBLE INC

FORM 10-K (Annual Report)

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Symbol	BKS
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Industry	Other Specialty Retailers
Sector	Consumer Cyclical
Fiscal Year	05/03

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

FORM 10-K

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

For the fiscal year ended April 29, 2017

OR

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

For the transition period from _____ to _____

Commission File No. 1-12302

Barnes & Noble, Inc.
(Exact name of registrant as specified in its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

06-1196501
(I.R.S. Employer
Identification No.)

122 Fifth Avenue, New York, NY
(Address of principal executive offices)

10011
(Zip Code)

Registrant's telephone number, including area code: (212) 633-3300

Securities registered pursuant to Section 12(b) of the Act:

Title of Class

Name of Exchange on which registered

Common Stock, \$0.001 par value per share

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definition of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a
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

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant was approximately \$605,779,469 based upon the closing market price of \$10.25 per share of Common Stock on the New York Stock Exchange as of October 29, 2016.

As of May 31, 2017, 72,512,722 shares of Common Stock, par value \$0.001 per share, were outstanding, which number includes 76,706 shares of unvested restricted stock that have voting rights and are held by members of the Board of Directors and the Company's employees.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2017 Annual Meeting of Shareholders are incorporated by reference into Part III.

Portions of the Registrant's Annual Report to Shareholders for the fiscal year ended April 29, 2017 are incorporated by reference into Parts II and IV.

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FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K contains certain forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended) and information relating to Barnes & Noble that are based on the beliefs of the management of Barnes & Noble as well as assumptions made by and information currently available to the management of Barnes & Noble. When used in this communication, the words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “will,” “forecasts,” “projections,” and similar expressions, as they relate to Barnes & Noble or the management of Barnes & Noble, identify forward-looking statements.

Such statements reflect the current views of Barnes & Noble with respect to future events, the outcome of which is subject to certain risks, including, among others, the general economic environment and consumer spending patterns, decreased consumer demand for Barnes & Noble’s products, low growth or declining sales and net income due to various factors, including store closings, higher-than-anticipated or increasing costs, including with respect to store closings, relocation, occupancy (including in connection with lease renewals) and labor costs, the effects of competition, the risk of insufficient access to financing to implement future business initiatives, risks associated with data privacy and information security, risks associated with Barnes & Noble’s supply chain, including possible delays and disruptions and increases in shipping rates, various risks associated with the digital business, including the possible loss of customers, declines in digital content sales, risks and costs associated with ongoing efforts to rationalize the digital business and the digital business not being able to perform its obligations under the Samsung commercial agreement and the consequences thereof, the risk that financial and operational forecasts and projections are not achieved, the performance of Barnes & Noble’s initiatives, including, but not limited to, its new store concept and eCommerce initiatives, unanticipated adverse litigation results or effects, potential infringement of Barnes & Noble’s intellectual property by third parties or by Barnes & Noble of the intellectual property of third parties, and other factors, including those factors discussed in detail in Item 1A, “Risk Factors,” and in Barnes & Noble’s other filings made hereafter from time to time with the Securities and Exchange Commission (SEC).

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 Barnes & Noble or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements in this paragraph. Barnes & Noble undertakes 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-K.

PART I

ITEM 1. BUSINESS

General

Barnes & Noble, Inc. (Barnes & Noble or the Company), one of the nation's largest booksellers,¹ provides customers a unique experience across its multi-channel distribution platform. As of April 29, 2017, the Company operates 633 bookstores in 50 states, maintains an eCommerce site, develops digital reading products and operates NOOK, one of the largest digital bookstores. Barnes & Noble is utilizing the strength of its retail footprint in combination with its online and digital businesses to provide an omni-channel experience for its customers, fulfilling its commitment to offer customers any book, anytime, anywhere and in any format.

Barnes & Noble Retail (B&N Retail) operates 633 retail bookstores, primarily under the Barnes & Noble Booksellers® trade name, and includes the Company's eCommerce site. B&N Retail also includes Sterling Publishing Co., Inc. (Sterling or Sterling Publishing), a leader in general trade book publishing. The NOOK segment represents the Company's digital business, offering digital books and magazines for sale and consumption online, NOOK®² reading devices, co-branded NOOK® tablets and reading software for iOS, Android and Windows. The Company employed approximately 26,000 employees (11,000 full-time and 15,000 part-time employees) as of April 29, 2017.

The Company's principal business is the sale of trade books (generally hardcover and paperback titles), mass market paperbacks (such as mystery, romance, science fiction and other popular fiction), children's books, eBooks and other digital content, NOOK® and related accessories, bargain books, magazines, gifts, café products and services, educational toys & games, music and movies direct to customers through its bookstores or on www.barnesandnoble.com. The Company offers its customers a full suite of textbook options (new, used, digital and rental).

Recently, Barnes & Noble has experienced declining sales trends due primarily to lower store traffic and the challenging retail environment. Despite sales declines, the Company has been able to sustain profit levels on cost reductions.

While the Company believes it has lost share on its recent sales performance, it also sees opportunities in an industry that has become more stable.

To grow sales, the Company will leverage the strength of its Barnes & Noble brand, knowledgeable booksellers, vast selections and retail footprint to attract customers to its omni-channel offerings. Merchandising initiatives are focused on increasing the number of value offers, improving SKU productivity, improving inventory management processes, testing changes to existing store layouts and remerchandising select business units in stores. The Company believes there is opportunity to increase conversion by improving navigation and discovery throughout the store, including a customer friendly and more intuitive organization of books and improved signage for easier browsing within and across sections.

In-store events also drive traffic, reinforcing Barnes & Noble as a community center where customers can meet, browse and discover. The Company is also utilizing social media, where booksellers communicate events, promotions and new product offerings with customers at the local level.

¹ Based upon sales reported in trade publications and public filings.

² Any references to NOOK® include the Company's NOOK® Tablet, Samsung Galaxy Tab® A NOOK®, Samsung Galaxy Tab® S2 NOOK®, Samsung Galaxy Tab® E NOOK® and NOOK GlowLight™ Plus devices, each of which includes the trademark symbol (® or ™, as applicable) even if a trademark symbol is not included.

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In addition to initiatives focused on growing sales through its existing store base, the Company is also testing new bookstore formats, which it believes could foster sales growth in the future.

BN.com and NOOK are important components of the Company's omni-channel strategy. The Company believes that in the long term, enhancements to its BN.com platform will enable it to be more competitive in the marketplace. The Company continues to improve its overall eCommerce user experience across channels, including desktop, tablet, mobile and app based, with the goal of providing a great device agnostic user experience. For customers interested in eBooks, the Company continues to judiciously bring new NOOK devices and apps to market.

The Company's Membership program provides the Company with valuable data and insights into its customer base, enabling the Company to better understand and market to its customers. Members are more productive than Non-Members, as they spend more and visit more often. The Company continues to test programs to grow sales to both Members and Non-Members, increase Membership, improve price perception and enhance its overall customer value proposition.

In light of the declining sales trends, the Company remains committed to right sizing its cost structure. The Company is focused on simplification throughout its organization to create efficiencies and reinvest resources to support sales growth. At B&N Retail, the Company is focused on increasing store and supply chain productivity, streamlining operations and eliminating non-productive spend. At NOOK, the Company exited non-core businesses and outsourced certain functions, which enabled it to close its Santa Clara, CA and Taipei offices. NOOK expects to continue to re-calibrate its cost structure commensurate with sales, further reducing its losses.

Separation of Barnes & Noble Education, Inc.

On February 26, 2015, Barnes & Noble announced plans for the legal and structural separation of Barnes & Noble Education, Inc. (Barnes & Noble Education or B&N Education) (formerly known as NOOK Media Inc.) from Barnes & Noble into an independent public company (the Spin-Off).

On July 14, 2015, the Barnes & Noble board of directors (the Board) approved the final distribution ratio and declared a pro rata dividend of the outstanding shares of B&N Education common stock, which resulted in the complete legal and structural separation of the two companies. The distribution was subject to the satisfaction or waiver of certain conditions as set forth in B&N Education's Registration Statement on Form S-1, which was filed with the SEC on February 26, 2015 and was amended on April 29, 2015, June 4, 2015, June 29, 2015, July 13, 2015, July 14, 2015 and July 15, 2015.

On August 2, 2015, Barnes & Noble completed the Spin-Off of Barnes & Noble Education and distributed, on a pro rata basis, all of the shares of B&N Education common stock to the Company's stockholders of record as of July 27, 2015. These Barnes & Noble stockholders of record as of July 27, 2015 received a distribution of 0.632 shares of B&N Education common stock for each share of Barnes & Noble common stock held as of the record date. Immediately following the completion of the Spin-Off, the Company's stockholders owned 100% of the outstanding shares of common stock of B&N Education. Following the Spin-Off, B&N Education operates as an independent public company and as the parent of Barnes & Noble College, trading on New York Stock Exchange under the ticker symbol "BNED".

In connection with the separation of B&N Education, the Company and B&N Education entered into a Separation and Distribution Agreement on July 14, 2015 and several other ancillary agreements on August 2, 2015. These agreements govern the relationship between the Company and B&N Education after the separation and allocate between the Company and B&N Education various assets, liabilities, rights and obligations following the separation, including employee benefits, intellectual property, information technology, insurance and tax-related assets and liabilities. The agreements also describe the Company's future commitments to provide B&N Education with certain transition services.

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This Spin-Off is expected to be a non-taxable event for Barnes & Noble and its shareholders, and Barnes & Noble's U.S. shareholders (other than those subject to special rules) generally will not recognize gain or loss as a result of the distribution of B&N Education shares.

History of Barnes & Noble Education, Inc.

On September 30, 2009, Barnes & Noble acquired Barnes & Noble College Booksellers, LLC (B&N College) from Leonard and Louise Riggio. From that date until October 4, 2012, B&N College was wholly owned by Barnes & Noble Booksellers, Inc. B&N Education was initially incorporated under the name NOOK Media Inc. in July 2012 to hold Barnes & Noble's B&N College and NOOK digital businesses. On October 4, 2012, Microsoft Corporation (Microsoft) acquired a 17.6% non-controlling preferred membership interest in B&N Education's subsidiary B&N Education, LLC (formerly NOOK Media LLC) (the LLC), and through B&N Education, Barnes & Noble maintained an 82.4% controlling interest of the B&N College and NOOK digital businesses.

On January 22, 2013, Pearson Education, Inc. (Pearson) acquired a 5% non-controlling preferred membership interest in the LLC, entered into a commercial agreement with the LLC relating to the B&N College business and received warrants to purchase an additional preferred membership interest in the LLC.

On December 4, 2014, B&N Education re-acquired Microsoft's interest in the LLC in exchange for cash and common stock of Barnes & Noble and the Microsoft commercial agreement was terminated effective as of such date. On December 22, 2014, B&N Education also re-acquired Pearson's interest in the LLC and certain related warrants previously issued to Pearson. In connection with these transactions, Barnes & Noble entered into contingent payment agreements with Microsoft and Pearson providing for additional payments upon the occurrence of certain events, including upon a sale of the NOOK digital business. As a result of these transactions, Barnes & Noble owned, prior to the Spin-Off, 100% of B&N Education.

On May 1, 2015, B&N Education distributed to Barnes & Noble all of the membership interests in B&N Education's NOOK digital business. As a result, B&N Education ceased to own any interest in the NOOK digital business, which remains a wholly owned subsidiary of Barnes & Noble.

Discontinued Operations of Barnes & Noble Education, Inc.

The Company has recognized the separation of B&N Education in accordance with Accounting Standards Codification (ASC) 205-20, *Discontinued Operations*. As such, the historical results of Barnes & Noble Education for fiscal 2015 have been adjusted to include pre-spin B&N Education results and separation-related costs and exclude corporate allocations with B&N Retail, and have been classified as discontinued operations. Additionally, discontinued operations for fiscal 2016 included investment banking fees (as they directly related to the Spin-Off), as well as pre-spin B&N Education results and separation-related costs, and excluded corporate allocation adjustments with B&N Retail.

Series J Preferred Stock

On August 18, 2011, the Company entered into an investment agreement between the Company and Liberty GIC, Inc. (Liberty), pursuant to which the Company issued and sold to Liberty, and Liberty purchased, 204,000 shares of the Company's Series J Preferred Stock, par value \$0.001 per share (Preferred Stock), for an aggregate purchase price of \$204.0 million in a private placement exempt from the registration requirements of the 1933 Act. The shares of Preferred Stock were convertible, at the option of the holders, into shares of Common Stock representing 16.6% of the Common Stock

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outstanding as of August 29, 2011 (after giving pro forma effect to the issuance of the Preferred Stock) based on the initial conversion rate. The initial conversion rate reflected an initial conversion price of \$17.00 and was subject to adjustment in certain circumstances. The initial dividend rate for the Preferred Stock was equal to 7.75% per annum of the initial liquidation preference of the Preferred Stock paid quarterly and subject to adjustment in certain circumstances.

On April 8, 2014, Liberty sold the majority of its shares to qualified institutional buyers in reliance on Rule 144A under the Securities Act and had retained an approximate 10% stake of its initial investment. As a result, Liberty no longer had the right to elect two preferred stock directors to the Company's Board. Additionally, the consent rights and pre-emptive rights, to which Liberty was previously entitled, ceased to apply.

On June 5, 2015, the Company entered into conversion agreements with five beneficial owners (Series J Holders) of its Preferred Stock, pursuant to which each of the Series J Holders had agreed to convert (Conversion) shares of Preferred Stock it beneficially owned into shares of the Company's common stock, par value \$0.001 per share (Company Common Stock), and additionally received a cash payment from the Company in connection with the Conversion.

On July 9, 2015, the Company completed the Conversion. Pursuant to the terms of the Conversion Agreements, the Series J Holders converted an aggregate of 103,995 shares of Preferred Stock into 6,117,342 shares of Company Common Stock, and made an aggregate cash payment to the Series J Holders of \$3.7 million plus cash in lieu of fractional shares in connection with the Conversion.

On July 10, 2015, the Company gave notice of its exercise of the right to force conversion of all outstanding shares of its Senior Convertible Redeemable Series J Preferred Stock into Company Common Stock pursuant to Section 9 of the Certificate of Designations, Preferences and Relative Participating, Optional and Other Special Rights and Qualifications, Limitations and Restrictions of Series J Preferred Stock, dated as of August 18, 2011 (the Forced Conversion). The effective date of the Forced Conversion was July 24, 2015. On the date of the Forced Conversion, each share of Series J Preferred Stock was automatically converted into 59.8727 shares of Company Common Stock, which included shares of Company Common Stock reflecting accrued and unpaid dividends on Series J Preferred Stock. Each holder of Series J Preferred Stock received whole shares of Company Common Stock and a cash amount in lieu of fractional shares of Company Common Stock.

As a result of the transactions described above, all shares of Series J Preferred Stock were retired by the Company and are no longer outstanding.

The Company was incorporated in Delaware in 1986.

Segments

The Company identifies its operating segments based on the way the business is managed (focusing on the financial information distributed) and the manner in which the chief operating decision maker interacts with other members of management and makes decisions on the allocation of resources. The Company's two operating segments are B&N Retail and NOOK.

B&N Retail

This segment includes 633 bookstores as of April 29, 2017, primarily under the Barnes & Noble Booksellers trade name. These Barnes & Noble stores generally offer a comprehensive trade book title base, a café, and departments dedicated to Juvenile, Toys & Games, DVDs, Music & Vinyl, Gift, Magazine, Bargain products and a dedicated NOOK® area. The stores also offer a calendar of ongoing events, including author appearances and children's activities. The B&N Retail segment also includes the Company's eCommerce website, www.barnesandnoble.com, and its publishing operation, Sterling Publishing.

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Barnes & Noble stores range in size from 3,000 to 60,000 square feet depending upon market size, with an overall average store size of 26,000 square feet. In fiscal 2017, the Company reduced the Barnes & Noble store base by approximately 199,000 square feet, bringing the total square footage to 16.7 million square feet, a net reduction of 1.2% from fiscal 2016.

The Company believes that the key elements contributing to the success of B&N Retail are:

Proximity to Customers. The Company's strategy has been to increase its share of the consumer book market, as well as to increase the size of the market through a market clustering strategy. As of April 29, 2017, Barnes & Noble had stores in 161 of the total 210 Designated Market Area markets. In 68 of the 161 markets, the Company has only one Barnes & Noble store. The Company believes its bookstores' proximity to its customers strengthens its market position and increases the value of its brand. Most Barnes & Noble stores are located in high-traffic areas with convenient access to major commercial thoroughfares and ample parking. Most stores offer extended shopping hours seven days a week.

Extensive Title Selection. Each Barnes & Noble store features an authoritative selection of books, ranging from 22,000 to 163,000 titles. The comprehensive title selection is diverse and reflects local interests and regional titles and authors' works. Bestsellers typically represent between approximately 4% and 6% of Barnes & Noble store sales. Complementing this extensive on-site selection, all Barnes & Noble stores provide customers with access to the millions of books available to online shoppers at www.barnesandnoble.com by offering an option to have the book sent to the store or shipped directly to the customer. Additionally, the website allows customers to purchase over four million eBooks, newspapers and magazines. The Company believes that its tremendous selection, including many otherwise hard-to-find titles, builds customer loyalty.

Store Design and Ambiance. Many of the Barnes & Noble stores create a comfortable atmosphere with ample public space, a café offering sandwiches, soups and bakery items, among other things, and public restrooms. The cafés, for which the Starbucks Corporation is the sole provider of coffee products, foster the image of the stores as a community meeting place. In addition, the Company continues to develop and introduce new product line extensions, such as proprietary gifts and B&N Educator Program, providing education tools for teachers, librarians and parents. These offerings and services have helped to make many of the stores neighborhood institutions.

NOOK® Boutique/Counter. The Company has utilized its traditional retail bookstores to promote NOOK® within the bookstores. Customers have the ability to see, feel, and experiment with NOOK®, speak to knowledgeable booksellers, and receive pre- and post-sales customer support within the Company's bookstores. The Company offers NOOK® owners Always Free NOOK® Support in all of its retail bookstores, as well as free Wi-Fi connectivity to enjoy the Read In Store™ feature to read NOOK Books™ for free. These acclaimed devices, which provide a fun, easy-to-use and immersive reading experience, include the NOOK® Tablet, Samsung Galaxy Tab® A NOOK®, Samsung Galaxy Tab® S2 NOOK®, Samsung Galaxy Tab® E NOOK® and NOOK GlowLight™ Plus devices. The NOOK® devices have also opened up an additional market for NOOK®-related accessories such as stands, covers, lights, and other items. Through our NOOK in Education program, the retail bookstores provide support and service to schools and educators who deploy NOOK® devices in their classrooms.

Educational Toys & Games Department. Barnes & Noble continues to expand in the educational toys and games category with a uniquely curated offering of best in class products from around the world. With its focus on education, customers can browse and engage in monthly hands-on learning events celebrating self-expression through arts and crafts, critical thinking skills through construction, even exploring scientific discoveries. The Educational Toys & Games Department at Barnes & Noble offers an experiential retail space where parents and gift-givers can shop in three distinct ways: by brand, by category and by age.

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Specialty Games, Hobby & Collectibles . Barnes & Noble, in recognition of its customers' interests, passions and pastimes, has expanded and will continue to explore the specialty, hobby, craft and collectibles category bringing a recognizable, authentic merchandising assortment together to complement its growing specialty games and puzzle area.

Music and Movies & TV Departments. Many of the Barnes & Noble stores have Music and Movies & TV departments, which offer CDs, Vinyl LPs, DVDs and Blu-ray discs. These departments range in size from approximately 300 to 8,000 square feet and typically stock approximately 10,000 titles. The Company's DVD and Blu-ray selection focuses on current and classic movies, documentaries, fitness and instructional titles, British TV series and movies, and foreign films. The music selection is tailored to the tastes of the Company's customers, centering on classical music, jazz, pop rock, and show tunes. The Company also offers a strong selection of Vinyl titles, available in all stores, along with turntables.

Discount Pricing. Barnes & Noble stores employ an aggressive nationwide discount pricing strategy and offer special promotions throughout the year. The Barnes & Noble Member Program offers members greater discounts and other benefits for products and services as well as exclusive offers and promotions via email or direct mail. The Company's website, www.barnesandnoble.com, also utilizes a competitive model that includes everyday low pricing as well as various promotional offerings designed for members and non-members alike and enables the Company to offer better value to its customers. The Barnes & Noble Kids' Club Program offers free rewards and special offers to participants and invites children to celebrate their birthday within the retail bookstores.

Community Business Development. The Company's retail bookstores host a variety of national and local events, which feature the many products and services it offers. Each store plans its own community-based calendar of events, including author appearances, children's storytimes, poetry readings and book discussion groups. In addition, the Company hosts a number of national campaigns around various themes or audiences such as Get Pop-Cultured with Barnes & Noble, Summer Reading, My Favorite Teacher Essay Contest, Educator Appreciation Days, the annual Holiday Book Drive, which provides books to at risk children in the communities the stores serve, and Maker Faire, all of which increase traffic and sales and further reinforce Barnes & Noble as a community center.

The Company also provides fund-raising opportunities through its Bookfair program for schools and local non-profit arts and literacy organizations, as well as a Holiday Gift Wrap program, which allows non-profit organizations to gain exposure and raise funds while wrapping gifts inside the stores. The Company believes its community business development programs encourage customer loyalty, drive sales and traffic into its stores and provide positive publicity and media coverage.

Merchandising and Marketing . The Company's merchandising strategy for its Barnes & Noble stores is to be the authoritative community bookstore carrying an extensive selection of titles in all subjects, including an extensive selection of titles from small independent publishers and university presses. Each Barnes & Noble store features an extensive selection of books from 22,000 to 163,000 unique titles, of which approximately 27,000 titles are common to virtually all stores. Each store is tailored to reflect the lifestyles and interests of the area's customers.

Product Master, the Company's proprietary inventory database, has approximately 19.0 million titles. It includes approximately 7.3 million active titles and provides each store with comprehensive title selections. By enhancing the Company's existing merchandise replenishment systems, Product Master allows the Company to achieve higher in-stock positions and better productivity at the bookstore level through efficiencies in receiving, cashiering and returns processing. Complementing this extensive on-site selection, all Barnes & Noble stores provide customers with access to the millions of books available to online shoppers at www.barnesandnoble.com by offering an option to have the book sent to the store or shipped directly to the customer.

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The Company has a multi-channel eCommerce marketing strategy that deploys various merchandising programs and promotional activities to drive traffic to both its stores and website. At the center of this eCommerce program is the Company's website, www.barnesandnoble.com. The website serves as both the Company's direct-to-home delivery service and as an important broadcast channel and advertising medium for the Barnes & Noble brand. For example, the online store locator at www.barnesandnoble.com receives millions of customer visits each year providing store hours, directions, information about author events and other in-store activities. Similarly, in Barnes & Noble stores, NOOK[®] customers can access free Wi-Fi connectivity, enjoy the Read In Store[™] feature to browse many complete eBooks for free.

Since launching its new website in June 2015, the Company has implemented a number of website fixes to address post-launch issues that reduced website traffic and conversion, as well as to improve the overall user experience. BN.com is an important component of the Company's omni-channel strategy, and it believes that, in the long-term, the new platform will enable it to be more competitive in the marketplace.

Another example of a multi-channel initiative is the Barnes & Noble MasterCard[®], a co-brand credit card issued by Barclaycard. Card members earn 5% back on purchases at any Barnes & Noble stores or online at www.barnesandnoble.com. They also earn points for every dollar spent on purchases where MasterCard is accepted (excluding Barnes & Noble purchases); when they reach 2,500 points, they automatically earn a \$25 Barnes & Noble gift card. Customers can apply in any B&N store or online at BN.com. Upon approval, they can use the new account to receive the 5% statement credit rebate on their B&N purchase, as well as a \$25 Barnes & Noble gift card after first use of the account.

The Company believes that its website complements its bookstores in many ways. It not only serves as a marketing tool, it offers convenient shopping alternatives for its customers.

Store Locations and Properties. The Company's experienced real estate personnel select sites for new Barnes & Noble stores after an extensive review of demographic data and other information relating to market potential, bookstore visibility and access, available parking, surrounding businesses, compatible nearby tenants, competition and the location of other Barnes & Noble stores. Most stores are located in high-visibility areas adjacent to main traffic corridors in strip shopping centers, freestanding buildings and regional shopping malls. The real estate personnel continue to focus on renegotiating leases as they expire.

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The B&N Retail segment includes 633 bookstores as of April 29, 2017, primarily under the Barnes & Noble Booksellers trade name. The number of Barnes & Noble stores located in each state as of April 29, 2017 is listed below:

<u>STATE</u>	<u>NUMBER OF STORES</u>	<u>STATE</u>	<u>NUMBER OF STORES</u>
Alabama	7	Montana	4
Alaska	2	Nebraska	4
Arizona	15	Nevada	4
Arkansas	5	New Hampshire	4
California	71	New Jersey	23
Colorado	15	New Mexico	3
Connecticut	12	New York	38
Delaware	2	North Carolina	21
Florida	39	North Dakota	3
Georgia	19	Ohio	18
Hawaii	2	Oklahoma	5
Idaho	3	Oregon	7
Illinois	26	Pennsylvania	26
Indiana	12	Rhode Island	3
Iowa	7	South Carolina	10
Kansas	4	South Dakota	1
Kentucky	7	Tennessee	8
Louisiana	7	Texas	51
Maine	1	Utah	10
Maryland	13	Vermont	1
Massachusetts	17	Virginia	24
Michigan	19	Washington	17
Minnesota	16	West Virginia	1
Mississippi	3	Wisconsin	11
Missouri	11	Wyoming	1

Sterling Publishing

Sterling Publishing is a leading publisher of non-fiction trade titles. Founded in 1949, Sterling publishes a wide range of non-fiction and illustrated books and kits across a variety of imprints, in categories such as health & wellness, music & popular culture, food & wine, crafts, puzzles & games, coloring books and history & current affairs, as well as a large children’s line. Sterling, with a solid backlist and robust value publishing program, has a title base of approximately 15,000 eBooks and print books. In addition, Sterling also distributes approximately 1,100 titles on behalf of client publishers.

Operations

The Company has seasoned management teams for its retail stores, including those for real estate, merchandising and store operations. Field management includes regional vice presidents and district managers supervising multiple store locations.

The Barnes & Noble management team is led by experienced management in both traditional product lines and in digital eCommerce. The Barnes & Noble management team employs highly skilled professionals with both media expertise and supply chain management skills. This combination ensures a positive customer experience regardless of a customer’s preference for a physical product or a digital one.

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Each Barnes & Noble store generally employs a store manager, two assistant store managers, two merchandise managers, a café manager, a receiving manager and on average 30 booksellers (combination of full-time and part-time). Many Barnes & Noble stores also employ a full-time community business development manager. The large bookseller base provides the Company with experienced employees to fill new manager positions in the Company's Barnes & Noble stores. The Company anticipates that a significant percentage of the personnel required to manage its stores will continue to come from within its existing operations.

Field management for all of the Company's bookstores, including regional vice presidents, district managers and store managers, participate in an annual incentive program tied to store productivity. The Company believes that the compensation of its field management is competitive with that offered by other specialty retailers of comparable size.

Barnes & Noble has in-store training programs providing specific information needed for success at each level, beginning with the entry-level positions of bookseller. District managers participate in annual training and merchandising conferences. Store managers are generally responsible for training other booksellers and employees in accordance with detailed procedures and guidelines prescribed by the Company utilizing a blended learning approach, including on-the-job training, eLearning, facilitator-led training and training aids available at each bookstore.

Purchasing

Barnes & Noble's buyers negotiate costs on select items, marketing funds, promotional discounts, cooperative advertising and showroom allowances with publishers and other suppliers for www.barnesandnoble.com and all of the Company's bookstores. The Company has buyers who specialize in customizing inventory for bookselling in stores and online. Store inventories are further customized by store managers, who may respond to local demand by purchasing a limited amount of fast-selling titles through a nationwide wholesaling network, including the Company's distribution centers.

The Company's B&N Retail segment purchases physical books on a regular basis from nearly 500 publishers and over 40 wholesalers or distributors. Purchases from the top five suppliers (including publishers, wholesalers and distributors) accounted for approximately 65% of the B&N Retail's book purchases during fiscal 2017, and no single supplier accounted for more than 27% of B&N Retail's book purchases during this period. Consistent with industry practice, a substantial majority of the physical book purchases are returnable for full credit, a practice which substantially reduces the Company's risk of inventory obsolescence.

Publishers periodically offer their excess inventory in the form of remainder books to book retailers and wholesalers through an auction process, which generally favors booksellers such as the Company, who are able to buy substantial quantities. These books are generally purchased in large quantities at favorable prices and are then sold to consumers at significant discounts off publishers' list prices.

Distribution

The Company has invested significant capital in its systems and technology by building new platforms, implementing new software applications and building and maintaining efficient distribution centers. This investment has enabled the Company to source a majority of its inventory through its own distribution centers, resulting in direct buying from vendors rather than wholesalers. Using the Company's own distribution centers rather than wholesalers lowers distribution costs per unit, increases inventory turns, and improves product margins. The Company's distribution centers' 3-prong strategy of

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(1) accelerating speed to market, (2) improving order quality (on-time, complete and damage free) and (3) reducing costs has improved just-in-time deliveries to stores as well as deliveries to the Company's customers on orders placed via the Barnes & Noble website and through the Company's in-store order network.

As of April 29, 2017, the Company has approximately 1,745,000 square feet of distribution center capacity. The Company has an approximately 1,145,000 square foot distribution center in Monroe Township, New Jersey, which ships merchandise to stores throughout the country and to online customers. The Company also has an approximately 600,000 square foot distribution center in Reno, Nevada, which is used to facilitate distribution to stores and online customers in the western United States.

Information Technologies

The Company has focused a majority of its information technology resources on strategically positioning and implementing systems to support store operations, online technology requirements, merchandising, distribution, marketing and finance.

BookMaster, the Company's proprietary bookstore inventory management system, integrates point-of-sale features with a proprietary data warehouse-based replenishment system. BookMaster enhances communications and real-time access to the Company's network of bookstores, distribution centers and wholesalers. The Company continues to implement systems to improve efficiencies in back office processing in the human resources, finance and merchandising areas.

The Company plans to continue to invest in technologies that will enable it to offer its customers the more convenient and user-friendly online shopping experience. B&N Retail has licensed existing commercial technology when available and has focused its internal development efforts on those proprietary systems necessary to provide the highest level of service to its customers. The overall mix of technologies and applications allows the Company to support a distributed, scalable and secure eCommerce environment.

The Company uses Intel®-based server technology in a fully redundant configuration to power its current website, which is hosted in two Company-owned locations. Each of these sites has sufficient capacity to independently support the volume of traffic directed toward the Company's website during peak periods. Both hosting locations are configured with redundant power, Internet telecommunications capacity and cooling to significantly reduce its exposure to downtime and service outages. Additionally, the Company believes its technology investments are scalable to meet the future growth demands of the business.

Competition

The book business is highly competitive in every channel in which Barnes & Noble operates. B&N Retail stores compete primarily on the quality of the shopping and store experience and the price and availability of products. The importance of price varies depending on the competitor, with some of Barnes & Noble's competitors engaging in significant discounting and other promotional activities. B&N Retail competes with other bookstores, including Books-A-Million. It also faces competition from many online businesses, notably Amazon.com and Apple. Increases in consumer spending via the Internet may significantly affect its ability to generate sales in B&N Retail stores. B&N Retail also faces competition from mass merchandisers, such as Costco, Target and Wal-Mart. Some of the Company's competitors have greater financial and other resources and different business strategies than B&N Retail does. B&N Retail stores also compete with specialty retail stores that offer books in particular subject areas, independent store operators, variety discounters, drug stores, warehouse clubs, mail-order clubs and other retailers offering books, music, toys, games, gifts and other products in its market segments.

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The music and movie businesses are also highly competitive and the Company faces competition from mass merchants, discounters and electronic distribution. The store experience is geared towards the Company's customer base, including a strong Blu-ray presence as well as a tailored, returnable product assortment.

Seasonality

The B&N Retail business, like that of many retailers, is seasonal, with the major portion of sales and operating income realized during its third fiscal quarter, which includes the holiday selling season.

Employees

The Company cultivates a culture of outgoing, helpful and knowledgeable employees. As of April 29, 2017, the B&N Retail segment had approximately 26,000 employees (11,000 full-time and 15,000 part-time employees) as of April 29, 2017. The B&N Retail segment's employees are not represented by unions.

NOOK

This segment represents the Company's digital business, including the development and support of the Company's NOOK[®] product offerings. The digital business includes digital content such as eBooks, digital newsstand and sales of NOOK[®] devices and accessories to B&N Retail. The underlying strategy of the NOOK business is to offer customers any digital book, newspaper or magazine, anytime, on any device. The Company remains committed to delivering to customers the best digital bookstore experience, providing easy access to Barnes & Noble's expansive digital collection of over four million eBooks, digital magazines and newspapers, while rationalizing its existing cost structure. As part of this commitment, the Company partners with Samsung to develop co-branded NOOK[®] tablets that feature the award-winning Barnes & Noble digital reading experience, while continuing to develop and offer its own black-and-white NOOK[®] eReaders.

Barnes & Noble's NOOK digital bookstore and Reading Apps[™] provide customers the ability to purchase and read their digital content and access their Lifetime Library on a wide range of digital platforms, including Windows PCs and tablets, iPad[™], iPhone[®], Android[™] smartphones and tablets, PC and Mac[®]. Barnes & Noble has implemented innovative features on its digital platform to ensure that customers can access their NOOK content from almost all of today's most popular devices.

NOOK currently sells a number of different devices to satisfy customers' digital needs, including the NOOK[®] Tablet, Samsung Galaxy Tab[®] A NOOK[®], Samsung Galaxy Tab[®] S2 NOOK[®], Samsung Galaxy Tab[®] E NOOK[®] and NOOK GlowLight[™] Plus devices. These devices provide customers access to the millions of books and magazines in the NOOK Store and through Google Play, Android apps and games, songs, movies and TV shows, plus popular Google services like the Chrome[™] browser, Gmail[™], YouTube[™], Google Search[™] and Google Maps[™]. NOOK GlowLight[™] Plus provides customers a simple, easy to use, intuitive eReader on an E-Ink display that replicates the experience of reading from physical paper and provides access to the Company's digital content store. Always Free NOOK Support in any of the B&N Retail bookstores provides customers the ability to interact with a knowledgeable bookseller to receive pre- and post-customer sales support. The bookstores also provide free Wi-Fi connectivity for NOOK[®] devices, Read In Store[™] access, which allows owners to read NOOK Books[™] for free. NOOK[®] devices also allow for digital lending of a wide selection of books through its LendMe[®] technology.

Operations

The digital products group has knowledgeable product development and operational management teams in the areas of reading software, digital content retailing and mobile device development. Digital product management oversees product concept, software development, engineering, and user experience. Operational management has historically overseen demand planning, strategic sourcing, manufacturing, return and refurbishment of hardware. The Company expects that digital product management's role will continue to focus on eReading devices and reading platforms, while also shifting to the management of third-party partner relationships, such as NOOK's partnership with Samsung.

On April 7, 2016, the Company entered into an agreement with Bahwan CyberTek (BCT), a global software products and services company, in which the Company outsourced certain NOOK functions, including cloud management and development support for NOOK[®] software.

The Company's development office employs experienced engineers in the Company's digital product area. The NOOK digital products management team is currently focused on next generation digital reading products to enhance the reading experience and help consumers discover content in new and interesting ways. The Digital Services team, which includes the Cloud and Commerce group, is responsible for maintaining and developing the NOOK's digital bookstore service.

Purchasing/Distribution

NOOK acquires the rights to distribute digital content from publishers and distributes the content on www.barnesandnoble.com, NOOK[®] devices and other eBookstore platforms. Certain digital content is distributed under an agency pricing model, in which the publishers set fixed prices for eBooks and NOOK receives a fixed commission on content sold through the eBookstore. The majority of the Company's eBooks are sold under the agency model.

NOOK utilizes the Company's purchasing power and its distribution centers to synergistically facilitate the purchasing and shipping of devices and accessories.

Competition

The eReader and tablet businesses are highly competitive. NOOK competes primarily on price, device functionality, consumer appeal and availability of digital content. The importance of price varies depending on the competitor, with some of NOOK's competitors engaging in significant discounting and other promotional activities. NOOK competes with many online digital businesses, notably Amazon.com and Apple. Some of the Company's competitors have substantially greater financial and other resources and may have different business strategies than NOOK does.

Seasonality

The NOOK business, like that of many technology companies, is impacted by the launch of new products and the promotional efforts to support those new products, as well as the traditional retail holiday selling seasonality.

Employees

As of April 29, 2017, NOOK had 92 employees (combination of full-time and part-time). NOOK employees are not represented by unions, and the Company believes that its relationship with its employees is generally excellent.

Trademarks and Service Marks

The trademarks and service marks owned by the Company and its subsidiaries include, but are not limited to, B&N[®], Barnes & Noble[®], Barnes & Noble.com[®], barnesandnoble.com[®], Barnes & Noble Booksellers[®], Barnsie[®], Noble[®], Espari[®], Discover Great New Writers[®], NOOK[®], NOOK Color[®], NOOK Tablet[®], Reader's Tablet[®], NOOK Simple Touch[®], GlowLight[®], NOOK GlowLight[™], The Simple Touch Reader[®], NOOK Press[®], NOOK Books[®], NOOK Book Enhanced[®], NOOK Developer[®], The NOOK Book Store[®], NOOK Newsstand[®], NOOK Newspaper[®], NOOK Kids[®], Read In Store[®], NOOK Friends[®], LendMe[®], NOOK Boutique[®], NOOK Study[®], ArticleView[®], Daily Shelf[®], Read To Me[®], Punctuate![®], Woblio[™], Get Pop-Cultured[®], B-Fest[®], B&N Readouts[®], SparkNotes[®], Borders[®], Borders Books & Music[®], and Waldenbooks[®], some of which are registered or pending with the United States Patent and Trademark Office.

The Company regards its trademarks, service marks, copyrights, patents, domain names, trade dress, trade secrets, proprietary technology and similar intellectual property as important to its operations, and it relies on trademark, copyright and patent law, domain name regulations, trade secret protection and confidentiality or license agreements to protect its proprietary rights. The Company has registered, or applied for the registration of, a number of domain names, trademarks, service marks, patents, and copyrights by U.S. and foreign governmental authorities. Additionally, the Company has filed U.S. and international patent applications covering certain of its proprietary technology. The Company renews its registrations, which vary in duration, as it deems appropriate from time to time.

The Company has licensed in the past, and expects that it may license in the future, certain of its proprietary rights to third parties. Some of the Company's products are designed to include intellectual property licensed or otherwise obtained from third parties. While it may be necessary in the future to seek or renew licenses relating to various aspects of the Company's products and business methods, the Company believes, based upon past experience and industry practice, such licenses generally could be obtained on commercially reasonable terms; however, there is no guarantee such licenses could be obtained at all.

Available Information

The Company files annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, proxy statements and other information with the SEC. Any materials filed by the Company with the SEC may be read and copied at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the SEC's Public Reference Room is available by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains annual, quarterly and current reports, proxy statements and other information that issuers (including the Company) file electronically with the SEC. The Internet address of the SEC's website is <https://www.sec.gov>.

The Company makes available on its corporate website at www.barnesandnobleinc.com under "Investor Relations" - "SEC Filings," free of charge, all its SEC filings as soon as reasonably practicable after the Company electronically files such material with or furnishes such materials to the SEC.

The Company has adopted Corporate Governance Guidelines, a Code of Business Conduct and Ethics and written charters for the Company's Audit Committee, Compensation Committee and Corporate Governance & Nominating Committee. Each of the foregoing is available on the Company's website at www.barnesandnobleinc.com under "Investor Relations" - "Corporate Governance" and in print to any stockholder who requests it, in writing to the Company's Corporate Secretary, Barnes & Noble, Inc., 122 Fifth Avenue, New York, New York 10011. In accordance with SEC rules, the Company intends to disclose any amendment (other than any technical, administrative, or other non-substantive amendment) to either of the above codes, or any waiver of any provision thereof with respect to any of the executive officers, on the Company's website within four business days following such amendment or waiver.

ITEM 1A. Risk Factors

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones faced by the Company. Additional risks and uncertainties not presently known or that are currently deemed immaterial also may impair the Company's business operations. If any of the following risks occur, the Company's business, financial condition, operating results and cash flows could be materially adversely affected.

Unless otherwise specified or the context otherwise requires, references below to (1) "the Company" refer to Barnes & Noble, Inc. and its subsidiaries, (2) "Retail business" refer to the Company's business included in the Retail segment, and (3) "Digital business" refer to the Company's business included in the NOOK segment, including the sales of digital content, devices and accessories.

The Company's businesses are dependent on the overall economic environment and consumer spending patterns.

A deterioration of the current economic environment could have a material adverse effect on the Company's financial condition and operating results, as well as the Company's ability to fund its growth or its strategic business initiatives.

The Retail and Digital businesses' sales are primarily dependent upon discretionary consumer spending, which is affected by the overall economic environment, consumer confidence and other factors beyond its control. In addition, the Retail and Digital businesses' sales are dependent in part on the strength of new release products, which are controlled by publishers and other suppliers.

Because of shifting consumer preferences and demographic shifts, coupled with the maturity of the market for traditional retail stores, the Company's sales or net income may decline unless it successfully implements its business strategies.

The Company's primary business is its operation of the Retail business's stores across the United States, and it derived a majority of its sales and all of its profits from the Retail business's stores in its most recent fiscal year. Management generally believes that the Retail business's stores are located in attractive geographic markets. Management's strategies are subject to the risks described herein and elsewhere, and may be subject to other risks that have not yet been identified, and management cannot make assurances that its business strategies will be successful.

Intense competition from the Internet, traditional retail sources, and suppliers of digital content and hardware may adversely affect the Company's businesses.

The book business is highly competitive in every channel in which the Company operates. The Company faces competition from many online businesses, notably Amazon.com and Apple. Continued increases in consumer spending via the Internet may significantly affect its ability to generate sales in the Retail business's stores. Some of the Company's competitors may have greater financial and other resources and different business strategies than the Company does. The Company faces competition from mass merchants, discounters, the Internet and digital distribution, including, without limitation, from digital books or "eBooks" and eBook readers. New and enhanced technologies, including new digital technologies and new web services technologies, may increase the Company's competition. Competition

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may also intensify as the Company's competitors enter into business combinations or alliances or established companies in other market segments expand into its market segments. Increased competition may reduce the Company's sales and profits.

The Retail business's stores compete primarily on the quality of the shopping and store experience and the price and availability of products. The importance of price varies depending on the competitor, with some of the Retail business's competitors engaging in significant discounting and other promotional activities. The Retail business competes with large bookstores including Books-A-Million and smaller format bookstores, including Amazon new retail stores and independent store operators. The Retail business also faces competition from mass merchandisers, such as Costco, Target and Wal-Mart. The Retail business's stores also compete with specialty retail stores that offer books in particular subject areas, variety discounters, drug stores, warehouse clubs, mail-order clubs and other retailers offering books, music, toys, games, gifts and other products in its market segments. NOOK[®] competes primarily with other tablets and eBook readers on functionality, consumer appeal, availability of digital content and price.

If the Retail business is unable to renew or enter into new leases on favorable terms, or at all, its sales and earnings may decline.

Substantially all of the Retail business's stores are located in leased premises. The Retail business's profitability depends in part on its ability to continue to optimize its store lease portfolio as to the number of retail stores, store locations and lease terms and conditions. Its ability to do so depends on, among other things, general economic and business conditions and general real estate development conditions, which are beyond its control. The Retail business has 360 leases up for renewal by April 30, 2020. If the cost of leasing existing retail stores increases, the Retail business may not be able to maintain its existing store locations as leases expire. In addition, the Retail business may not be able to enter into new leases on acceptable terms, or at all, or it may not be able to locate suitable alternative sites or additional sites for new retail stores in a timely manner. The Retail business's sales and earnings may decline if it fails to maintain existing store locations, enter into new leases, renew leases or relocate to alternative sites, in each case on attractive terms.

In addition to the bookstores, the Company leases two distribution centers for its B&N Retail operations: one in Monroe Township, New Jersey and the other in Reno, Nevada. The Retail business's profitability depends in part on its ability to continue to optimize its distribution centers. Its ability to do so depends on, among other things, general economic and business conditions and general real estate development conditions, which are beyond its control. Both distribution centers leases are up for renewal in 2020. If the cost of leasing these distribution centers increases, the Retail business may not be able to maintain its existing distribution centers as leases expire. In addition, the Retail business may not be able to enter into new leases on acceptable terms, or at all, or it may not be able to locate suitable alternative sites or in a timely manner. The Retail business's earnings may decline if it fails to maintain existing distribution centers, enter into new leases, renew leases or relocate to alternative sites, in each case on attractive terms.

The Company is dependent upon access to the capital markets, bank credit facilities, and short-term vendor financing for its liquidity needs.

The Company must have sufficient sources of liquidity to fund its working capital requirements, indebtedness and Digital business. The Company believes that the combination of its cash and cash equivalents on hand, cash flow received from operations, funds available under the Company's credit facility and short-term vendor financing will be sufficient to meet the Company's normal working capital and debt service requirements for at least the next twelve months. If these sources of liquidity do not satisfy the Company's requirements, the Company may need to seek additional financing. The future

availability of financing will depend on a variety of factors, such as economic and market conditions, the availability of credit and the Company's credit rating, as well as the Company's reputation with potential lenders. These factors could materially adversely affect the Company's ability to fund its working capital requirements, costs of borrowing, and the Company's financial position and results of operations would be adversely impacted.

The Company's expansion into new products, services and technologies subjects it to additional business, legal, financial and competitive risks.

The Company may require additional capital in the future to sustain or grow the Company's online business and the Digital business. The Company's gross profits and margins in its newer activities may be lower than in its traditional activities, and it may not be successful enough in these newer activities to recoup its investments in them. In addition, the Company may have limited or no experience in its newer products and services, and its customers may not adopt its new product or service offerings, which include digital, web services and electronic devices, including but not limited to its NOOK[®] eBook readers and tablets, as well as new gift products and educational toys and games products. Some of these offerings may present new and difficult technological challenges, and the Company may be subject to claims or recalls if customers of these offerings experience service disruptions or failures or other quality issues. If any of these were to occur, it could damage the Company's reputation, limit its growth and negatively affect its operating results.

The complexity of the Company's businesses could place a significant strain on its management, operations, performance and resources.

The complexity of the Company's businesses could place a significant strain on its management, operations, technical performance, financial resources, and internal financial control and reporting functions. The Company operates two different businesses: the Retail business and the Digital business. There can be no assurance that the Company will be able to manage the complexity of its businesses effectively. The Company's current and planned personnel, systems, procedures and controls may not be adequate to support and effectively manage its future operations, especially as it employs personnel in multiple geographic locations. The Company may not be able to hire, train, retain, motivate and manage the required personnel, which may limit its growth. If any of these were to occur, it could damage the Company's reputation, limit growth, negatively affect operating results and harm its business.

The Company faces the risk of disruption of supplier relationships and/or supply chain and/or inventory surplus.

The products that the Company sells originate from a wide variety of domestic and international vendors. During fiscal 2017, the Retail business's five largest suppliers accounted for approximately 65% of the dollar value of merchandise purchased. While the Company believes that its relationships with its suppliers are strong, suppliers may modify the terms of these relationships due to general economic conditions or otherwise. The Company does not have long-term arrangements with most of its suppliers to guarantee availability of merchandise, content, components or services, particular payment terms or the extension of credit limits. If the Company's current suppliers were to stop selling merchandise, content, components or services to it on acceptable terms, including as a result of one or more supplier bankruptcies due to poor economic conditions, the Company may be unable to procure the same merchandise, content, components or services from other suppliers in a timely and efficient manner and on acceptable terms, or at all.

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In addition, certain of our merchandise, including electronic readers, are sourced, directly or indirectly, from outside the United States, including, without limitation, from suppliers in China. Political or financial instability, merchandise quality issues, product safety concerns, trade restrictions, work stoppages, tariffs, foreign currency exchange rates, transportation capacity and costs, inflation, civil unrest, natural disasters, outbreaks of pandemics and other factors relating to foreign trade are beyond our control and could disrupt our supply of foreign-sourced merchandise and/or adversely affect our results of operations.

Furthermore, the Retail business is dependent on the continued supply of trade books. The publishing industry generally has suffered recently due to, among other things, changing consumer preferences and the economic climate. A significant disruption in this industry generally could adversely impact the Company's business. A significant unfavorable change in the Company's relationships with key suppliers could materially adversely affect its sales and profits. In addition, any significant change in the payment terms that the Company has with its key suppliers, including payment terms, return policies, the discount or margin on products or changes to the distribution model could adversely affect its financial condition and liquidity.

The Company has arrangements with third-party manufacturers with respect to digital devices. These manufacturers procure and assemble unfinished parts and components from third-party suppliers based on forecasts provided by the Company. Given production lead times, commitments may be made far in advance of finished product delivery.

The Company's relationship with strategic partners could have adverse impacts on the Company and its business.

The Company relies on third parties to provide certain services for its business. The Company's business may be adversely impacted if such third parties fail to meet their obligations or to provide high levels of service to the Company's customers. Further, the Company could be subject to claims as a result of the activities, products or services provided by these third-party service providers even though the Company was not directly involved in the circumstances leading to those claims. These claims could include, among other things, claims by the Company's customers and claims relating to data security. Even if these claims do not result in liability to the Company, defending and investigating these claims could be expensive and time-consuming, divert personnel and other resources from the Company's business and result in adverse publicity that could harm the Company's business.

The Company's businesses rely on certain key personnel.

Management believes that the Company's continued success will depend to a significant extent upon the efforts and abilities of certain key personnel of the Company. The loss of the services of any of these key personnel could have a material adverse effect on the Company. The Company does not maintain "key man" life insurance on any of its officers or other employees.

The Company's businesses are seasonal.

For the Company's Retail business, sales are generally highest in the third fiscal quarter and lowest in the second and fourth fiscal quarters. For fiscal 2017, 33.7% of sales and 148.9% of operating income of the Retail business were generated in its third fiscal quarter. Operating results in the Company's businesses depend significantly upon the holiday selling season in the third fiscal quarter.

Less than satisfactory net sales during the Company's peak fiscal quarter could have a material adverse effect on its financial condition or operating results for the year, and the Company's results of operations from those quarters may not be sufficient to cover any losses, which may be incurred in the other fiscal quarters of the year.

The Company's results of operations may fluctuate from quarter to quarter, which could affect the Company's business, financial condition and results of operations.

The Company's results of operations may fluctuate from quarter to quarter depending upon several factors, some of which are beyond its control. These factors include the timing of new product releases, weather, the level of success of the Company's product releases, the timing of store openings and closings, shifts in the timing of certain promotions and the effect of impairments on the Company's assets. These and other factors could affect the Company's business, financial condition and results of operations, and this makes the prediction of the Company's financial results on a quarterly basis difficult. The Company's quarterly financial results have been and may in the future be below the expectations of public market analysts and investors.

The Company may not be able to adequately protect its intellectual property rights or may be accused of infringing upon intellectual property rights of third parties.

The Company regards its trademarks, service marks, copyrights, patents, trade dress, trade secrets, proprietary technology and similar intellectual property as important to its success, and it relies on trademark, copyright and patent law, domain name regulations, trade secret protection and confidentiality or license agreements to protect its proprietary rights. Laws and regulations may not adequately protect its trademarks and similar proprietary rights. The Company may be unable to prevent third parties from acquiring domain names that are similar to, infringe upon or diminish the value of its trademarks and other proprietary rights.

The Company may not be able to discover or determine the extent of any unauthorized use of its proprietary rights. The protection of the Company's intellectual property may require the expenditure of significant financial and managerial resources. Moreover, the steps it takes to protect its intellectual property may not adequately protect its rights or prevent third parties from infringing or misappropriating its proprietary rights. The Company also cannot be certain that others will not independently develop or otherwise acquire equivalent or superior technology or other intellectual property rights.

Other parties also may claim that the Company infringes their proprietary rights. Because of the changes in Internet commerce, the electronic reader and digital content business, current extensive patent coverage, and the rapid rate of issuance of new patents, it is possible that certain components of our products and business methods may unknowingly infringe existing patents or intellectual property rights of others. Because the Company's products include complex technology, much of which is acquired from suppliers through the purchase of components or licensing of software, the Company and its suppliers and customers are and have been involved in or have been impacted by assertions, including both requests for licenses and litigation, regarding patent and other intellectual property rights. The Company has been and is currently subject to, and expects to continue to be subject to, claims and legal proceedings regarding alleged infringement by it of the intellectual property rights of third parties. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, injunctions against the Company prohibiting the Company from marketing or selling certain products or the payment of damages. The Company may need to obtain licenses from third parties who allege that it has infringed their rights, but such licenses may not be available on terms acceptable to the Company, or at all. In addition, the Company may not be able to obtain or utilize on terms that are favorable to it, or at all, licenses or other rights with respect to intellectual property it does not own in providing services to other businesses and individuals under commercial agreements. These risks have been amplified by the increase

in third parties whose primary business appears to be to assert such claims. If any infringement or other intellectual property claim made against the Company by any third-party is successful, if the Company is required to indemnify a customer with respect to a claim against the customer, or if the Company is unable to develop non-infringing technology or license the proprietary rights on commercially reasonable terms and conditions, the Company's business, operating results, and financial condition could be materially and adversely affected.

The Company's digital content offerings, including NOOK[®], depend in part on effective digital rights management technology to control access to digital content. If the digital rights management technology that it uses is compromised or otherwise malfunctions, the Company could be subject to claims, and content providers may be unwilling to include their content in its service.

The Company faces data security risks with respect to personal information.

The Company's business involves the receipt, storage, processing and transmission of personal information about customers and employees. Personal information about customers is obtained in connection with the Company's membership programs, eCommerce operations, digital media businesses, as well as through retail transactions in stores operated by the Company. The Company's online operations and the Digital business depend upon the secure transmission of confidential information over public networks, including information permitting cashless payments. We may share such information with vendors and third parties that assist with certain aspects of our business.

The Company's handling and use of personal information is regulated at the international, federal and state levels. Privacy and information security laws, regulations, and standards, such as the Payment Card Industry Data Security Standard, change from time to time, and compliance with them may result in cost increases due to necessary systems changes and the development of new processes and may be difficult to achieve. If the Company fails to comply with these laws, regulations and standards, it could be subjected to legal risk. Also, hardware, software or applications developed or procured internally or from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. In addition, even if the Company fully complies with all laws, regulations, and standards and even though the Company has taken significant steps to protect personal information, the Company could experience a data security breach, and its reputation could be damaged, possibly resulting in lost future sales or decreased usage of credit and debit card products. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and often are not recognized until launched against a target, the Company may be unable to anticipate these techniques or to implement adequate preventative measures. A party that is able to circumvent the Company's security measures could misappropriate the Company's or its users' proprietary information and cause interruption in its operations. Any compromise of the Company's data security could result in a violation of applicable privacy and other laws or standards, significant legal and financial exposure beyond the scope or limits of insurance coverage, increased operating costs associated with remediation, negative publicity, equipment acquisitions or disposal and added personnel, and a loss of confidence in its security measures, which could harm the business or investor confidence. Data security breaches may also result from non-technical means, for example, actions by an employee.

The Company has suffered data security breaches in the past, including the Company's discovery in 2012 that PIN pads in certain of its stores had been tampered with to allow criminal access to card data and PIN numbers on credit and debit cards swiped through the terminals. This matter has given rise to putative class action litigation, including ongoing class action litigation, on behalf of customers, banks, or other card issuers, and inquiries from federal and state government agencies. It is possible that additional litigation arising out of this matter may be filed on behalf of customers, banks, payment card companies

or stockholders seeking damages allegedly arising out of this incident and other related relief. In addition, payment card companies and associations may impose fines by reason of the tampering and federal and state enforcement authorities may impose penalties or other remedies against the Company. At this point the Company is unable to predict the developments in, outcome of, and economic and other consequences of pending or future litigation or government inquiries related to this matter.

The concentration of the Company's capital stock ownership with certain executive officers, directors and their affiliates limits its stockholders' ability to influence corporate matters and may involve other risks.

Leonard Riggio, the Company's Founder and Chairman, is currently the beneficial owner of an aggregate of approximately 18.0% of the Company's outstanding capital stock as of April 29, 2017.

This concentrated control may limit the ability of the Company's other stockholders to influence corporate matters and, as a result, the Company may take certain actions, with which its other stockholders do not agree. In addition, there may be risks related to the relationships Leonard Riggio and other members of the Riggio family have with the various entities with which the Company has related party transactions.

Changes in sales and other tax collection regulations or inability of the Company to utilize tax credits or assets, could harm the Company's businesses or financial performance.

The Retail business and the Digital business collected sales tax on the majority of the products and services that they sold in their respective prior fiscal years that were subject to sales tax, and they generally have continued the same policies for sales tax within the current fiscal year. While management believes that the financial statements included elsewhere herein reflect management's best current estimate of any potential additional sales tax liability based on current discussions with taxing authorities, there can be no assurance that the outcome of any discussions with any taxing authority will not result in the payment of sales taxes for prior periods or otherwise, or that the amount of any such payments will not be materially in excess of any liability currently recorded. In the future, the Company's businesses may be subject to claims for not collecting sales tax on the products and services it currently sells for which sales tax is not collected. There is a risk that existing tax credits and tax assets may not be utilized or may expire.

The Spin-Off of Barnes & Noble Education could result in significant tax liability to the Company and its stockholders.

The Spin-Off was conditioned on the Company's receipt of written opinions from Cravath, Swaine & Moore LLP and KPMG LLP to the effect that the Spin-Off would qualify for non-recognition of gain and loss to the Company and its stockholders, which were received. These opinions do not address any U.S. state or local or foreign tax consequences of the Spin-Off. These opinions assume that the Spin-Off will be completed according to the terms of the Separation Agreement and rely on the facts as stated in the Separation Agreement, the Tax Matters Agreement, the other ancillary agreements, the prospectus for the Spin-Off and a number of other documents. In addition, these opinions are based on certain representations as to factual matters from, and certain covenants by, the Company and Barnes & Noble Education. The opinions cannot be relied on if any of the assumptions, representations or covenants are incorrect, incomplete or inaccurate or are violated in any material respect. The opinions are not binding on the Internal Revenue Service (IRS) or the courts, and we cannot assure you that the IRS or a court will not take a contrary position. If the Spin-Off were determined not to qualify for non-recognition of gain and loss, U.S. holders could be subject to tax. In this case, each U.S. holder who receives the Barnes & Noble Education Common Stock in the Spin-Off would generally be treated as receiving a distribution in

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an amount equal to the fair market value of Barnes & Noble Education common stock received, which would generally result in (i) a taxable dividend to the U.S. holder to the extent of that U.S. holder's pro rata share of the Company's current and accumulated earnings and profits; (ii) a reduction in the U.S. holder's basis (but not below zero) in the Company's common stock to the extent the amount received exceeds the stockholder's share of the Company's earnings and profits; and (iii) a taxable gain from the exchange of the Company's common stock to the extent the amount received exceeds the sum of the U.S. holder's share of the Company's earnings and profits and the U.S. holder's basis in its common stock.

If the Spin-Off were determined not to qualify for non-recognition of gain and loss, then the Company would recognize gain in an amount up to the fair market value of the Barnes & Noble Education stock held by the Company immediately before the Spin-Off.

The Company's classified Board of Directors and other anti-takeover defenses could deter acquisition proposals and make it difficult for a third-party to acquire control of the Company. This could have a negative effect on the price of the Company's common stock.

The Company has a classified Board of Directors and other anti-takeover defenses in its certificate of incorporation and by-laws. These defenses could discourage potential acquisition proposals and could delay or prevent a change in control of the Company. These deterrents could adversely affect the price of the Company's common stock and make it difficult to remove or replace members of the Board of Directors or management of the Company. The Company's previous shareholder rights plan expired on November 17, 2012 and was not replaced. The Board may, subject to its fiduciary duties under applicable law, choose to implement a shareholder rights plan in the future.

The Company's businesses could be impacted by changes in international, federal, state or local laws, rules or regulations.

Changes in international, federal, state or local laws, rules or regulations, including, but not limited to, laws, rules or regulations related to employment, wages, data privacy, information security, intellectual property, taxes, products, product safety, health and safety, imports and exports, anti-corruption, and anti-competition could increase the Company's costs of doing business or otherwise impact the Company's business.

The Company faces additional operating risks through the operation of the Digital business.

The Company faces risks related to the operation of the Digital business. The Digital business's content sales decreased during fiscal 2017 and may continue to decline in the future, which could affect the Company's results of operations and liquidity. Also, the sales of digital devices and accessories declined during fiscal 2017, and there is no guarantee that the possible introduction of future NOOK[®] digital devices (including NOOK[®] co-branded devices under the commercial agreement with Samsung) will increase future sales of digital devices or content or the earnings of the Digital business. The previously announced efforts to rationalize the costs associated with the Digital business also may not be successful, which may adversely impact the Company's results of operations. The Digital business faces certain risks associated with its business, including protection of digital rights and uncertainties relating to the regulation of digital content.

The Company faces various risks as an Internet retailer.

Business risks related to its online business include risks associated with the need to keep pace with rapid technological change, risks associated with the adoption of new products or platforms. Internet security risks, risks of system failure or inadequacy, supply chain risks, government regulation and legal

uncertainties with respect to the Internet, risks related to data privacy and collection of sales or other taxes by one or more states or foreign jurisdictions. If any of these risks materializes, it could have an adverse effect on the Company's business.

The Company depends on component and product manufacturing provided by third parties, many of whom are located outside of the U.S.

NOOK® and other Company products are manufactured by a third-party manufacturer outside the United States, and the Company relies on components provided from a number of different manufacturers both within and outside the United States. Many of these manufacturers are concentrated in geographic areas outside the United States. While the Company's arrangements with these manufacturers may lower costs, they also reduce its direct control over production. It is uncertain what effect such diminished control will have on the quality or quantity of products or services, or the Company's flexibility to respond to changing conditions. Although arrangements with such manufacturers may contain provisions for warranty expense reimbursement, if reimbursement from such manufacturers is unenforceable or insufficient, the Company may remain responsible to the consumer for warranty service in the event of product defects. Any unanticipated product defect or warranty liability, whether pursuant to arrangements with contract manufacturers or otherwise, could materially adversely affect the Company's reputation, financial condition and operating results. If manufacturing in these locations is disrupted for any reason, including natural disasters, information technology system failures, military actions or economic, business, labor, environmental, public health or political issues, the Company's financial condition and operating results could be adversely affected.

The Company, including the Digital business, may be unable to obtain a sufficient supply of components and parts that are free of minerals mined from the Democratic Republic of Congo and adjoining countries (DRC), which could result in a shortage of such components and parts or reputational damages if the Company is unable to certify that its products are free of such minerals. The Dodd-Frank Wall Street Reform and Consumer Protection Act included disclosure requirements regarding the use of "conflict" minerals mined from the DRC and procedures regarding a manufacturer's efforts to prevent the sourcing of such "conflict" minerals. The Securities and Exchange Commission adopted the final rules related to "conflict" minerals in August 2012. These rules may limit the pool of suppliers who can provide the Company DRC Conflict Free components and parts, and the Company cannot make assurances that it will be able to obtain products or supplies in sufficient quantities that meet the DRC Conflict Free designation as proposed by the requirements. In addition, the Company may incur material costs in complying with the disclosure requirements and procedures, including costs related to the due diligence process of determining the source of certain minerals used in the Company's products as well as costs of possible changes to products, processes, and suppliers as a result of implementing the procedures designed to prevent the sourcing of such "conflict" minerals. Also, because the Company's supply chain is complex, the Company may face reputational challenges with its customers, stockholders and other stakeholders if it is unable to sufficiently verify the origins for the defined conflict metals used in its products as required by the rules on conflict minerals. The Company filed its Conflict Minerals Report for the calendar year 2016 with the SEC on May 31, 2017.

Government regulation is evolving and unfavorable changes could harm the Company's business.

The Company is subject to general business regulations and laws relating to all aspects of its business, including regulations and laws relating to the Internet, online commerce, digital content and products as well as its other lines of business (including governmental investigations and litigation relating to the agency pricing model for digital content distribution). Existing and future laws and regulations and their application and/or enforcement may impede the growth of the Internet, digital content distribution or other online services and impact digital content pricing, including requiring

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modifications or elimination of related pricing models, including the agency pricing model. These regulations and laws may cover taxation, privacy, data protection, pricing, competition and/or antitrust, content, copyrights, distribution, mobile communications, electronic contracts and other communications, consumer protection, the provision of online payment services, unencumbered Internet access to the Company's services, the design and operation of websites, the characteristics and quality of products and services and employee benefits (including the costs associated with complying with the Patient Protection and Affordable Care Act). Unfavorable regulatory and legal developments, including, among other things, the July 2013 U.S. federal court ruling that Apple Inc. violated antitrust laws by colluding to raise the price of digital books with certain U.S. publishers and the settlement between the U.S. Department of Justice and certain U.S. publishers for allegedly colluding to raise the price of digital books, could diminish the demand for the Company's products and services, increase its cost of doing business, decrease its margins and materially adversely impact its results of operations or financial operations.

The Company relies on third-party digital content and applications, which may not be available to the Company on commercially reasonable terms or at all.

The Company contracts with certain third parties to offer their digital content, including on NOOK[®] and through its eBookstore. Its licensing arrangements with these third parties do not guarantee the continuation or renewal of these arrangements on reasonable terms, if at all. Some third-party content providers currently or in the future may offer competing products and services, and could take action to make it more difficult or impossible for the Company to license their content in the future. Other content owners, providers or distributors may seek to limit the Company's access to, or increase the total cost of, such content. If the Company is unable to offer a wide variety of content at reasonable prices with acceptable usage rules, its financial condition and operating results may be materially adversely affected.

The Company's businesses could be adversely impacted if it is unsuccessful in making and integrating acquisitions it has made or may decide to pursue.

To enhance the Company's efforts to grow and compete, from time to time it has engaged in acquisitions and entered into joint ventures, and it may engage in acquisitions or enter into joint ventures in the future. Any future acquisitions are subject to the Company's ability to identify attractive opportunities and to negotiate favorable terms for them. Accordingly, the Company cannot make assurances that future acquisitions will be completed, or that if completed, they will be successful. These transactions may create risks such as: (1) disruption of the Company's ongoing business, including loss of management focus on existing businesses; (2) the dilution of the equity interest of the Company's stockholders; (3) problems retaining key personnel; (4) increased debt to finance any transaction and additional operating losses, debt and expenses of the businesses the Company acquires; (5) the difficulty of integrating a new company's accounting, financial reporting, management, information, human resources and other administrative systems to permit effective management, and the lack of control if such integration is delayed or not implemented; (6) the difficulty of implementing at acquired companies the controls, procedures and policies appropriate for a larger public company; and (7) potential unknown liabilities associated with an acquired company. In addition, valuations supporting the Company's acquisitions could change rapidly given the current global economic climate. The Company could determine that such valuations have experienced impairments or other-than-temporary declines in fair value, which could adversely impact its financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

All but one of the active Barnes & Noble stores are leased. The leases typically provide for an initial term of 10 or 15 years with one or more renewal options. Most stores are currently in renewal periods. The terms of the Barnes & Noble store leases for its 632 leased stores open as of April 29, 2017 expire as follows:

<u>Lease Terms to Expire During (12 months ending on or about April 30)</u>	<u>Number of Stores (a)</u>
2018	98
2019	143
2020	119
2021	82
2022	116
2023 and later	71

(a) Three Barnes & Noble stores are under a month-to-month lease.

In addition to the bookstores, the Company leases two distribution centers for its B&N Retail operations: one in Monroe Township, New Jersey and the other in Reno, Nevada, both under leases expiring in 2020. The Company's B&N Retail distribution centers total 1,745,000 square feet.

The Company's principal administrative facilities are situated in New York, New York, and are covered by two leases: 184,000 square feet lease and 9,500 square feet lease, both expiring in 2023.

The Company leases two additional locations in New York, New York for office space: approximately 40,000 square feet lease for eCommerce and NOOK administrative offices and approximately 40,000 square feet lease for Sterling Publishing administrative offices, both expiring in 2020.

The Company also leases approximately 79,000 square feet of office space in Westbury, New York under a lease expiring in 2022 and approximately 56,000 square feet of office space in Santa Clara, California under a lease expiring in 2019.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in a variety of claims, suits, investigations and proceedings that arise from time to time in the ordinary course of its business, including actions with respect to contracts, intellectual property, taxation, employment, benefits, securities, 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 the Company's consolidated financial position or results of operations.

The Company records a liability when it believes that it is both probable that a liability will be incurred, and the amount of loss can be reasonably estimated. The Company evaluates, at least quarterly, developments in its legal matters that could affect the amount of liability that has been previously accrued and makes adjustments as appropriate. Significant judgment is required to determine both probability and the estimated amount of a loss or potential loss. The Company may be unable to reasonably estimate the reasonably possible loss or range of loss for a particular legal contingency for various reasons, including, among others: (i) if the damages sought are indeterminate; (ii) if proceedings are in the early stages; (iii) if there is uncertainty as to the outcome of pending proceedings (including motions and appeals);

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(iv) if there is uncertainty as to the likelihood of settlement and the outcome of any negotiations with respect thereto; (v) if there are significant factual issues to be determined or resolved; (vi) if the proceedings involve a large number of parties; (vii) if relevant law is unsettled or novel or untested legal theories are presented; or (viii) if the proceedings are taking place in jurisdictions where the laws are complex or unclear. In such instances, there is considerable uncertainty regarding the ultimate resolution of such matters, including a possible eventual loss, if any.

Legal matters are inherently unpredictable and subject to significant uncertainties, some of which are beyond the Company's control. As such, there can be no assurance that the final outcome of these matters will not materially and adversely affect the Company's business, financial condition, results of operations, or cash flows.

Except as otherwise described below with respect to the Adrea LLC (Adrea) matter, the Company has determined that a loss is reasonably possible with respect to the matters described below. Based on its current knowledge, the Company has determined that the amount of loss or range of loss that is reasonably possible, including any reasonably possible losses in excess of amounts already accrued, is not estimable. With respect to the Adrea matter, the Company has determined there will be a loss, as described below.

The following is a discussion of the material legal matters involving the Company.

PIN Pad Litigation

As previously disclosed, the Company discovered that PIN pads in certain of its stores had been tampered with to allow criminal access to card data and PIN numbers on credit and debit cards swiped through the terminals. Following public disclosure of this matter on October 24, 2012, the Company was served with four putative class action complaints (three in federal district court in the Northern District of Illinois and one in the Northern District of California), each of which alleged on behalf of national and other classes of customers who swiped credit and debit cards in Barnes & Noble Retail stores common law claims such as negligence, breach of contract and invasion of privacy, as well as statutory claims such as violations of the Fair Credit Reporting Act, state data breach notification statutes, and state unfair and deceptive practices statutes. The actions sought various forms of relief including damages, injunctive or equitable relief, multiple or punitive damages, attorneys' fees, costs, and interest. All four cases were transferred and/or assigned to a single judge in the United States District Court for the Northern District of Illinois, and a single consolidated amended complaint was filed. The Company filed a motion to dismiss the consolidated amended complaint in its entirety, and in September 2013, the Court granted the motion to dismiss without prejudice. The Plaintiffs then filed an amended complaint, and the Company filed a second motion to dismiss. On October 3, 2016, the Court granted the second motion to dismiss, and dismissed the case without prejudice; in doing so, the Court permitted plaintiffs to file a second amended complaint by October 31, 2016. On October 31, 2016, the plaintiffs filed a second amended complaint, and on January 25, 2017 the Company filed a motion to dismiss the second amended complaint. On June 13, 2017, the Court granted the Company's motion to dismiss with prejudice.

Cassandra Carag individually and on behalf of others similarly situated v. Barnes & Noble, Inc., Barnes & Noble Booksellers, Inc. and DOES 1 through 100 inclusive

On November 27, 2013, former Associate Store Manager Cassandra Carag (Carag) brought suit in Sacramento County Superior Court, asserting claims on behalf of herself and all other hourly (non-exempt) Barnes & Noble employees in California in the preceding four years for unpaid regular and overtime wages based on alleged off-the-clock work, penalties and pay based on missed meal and rest breaks, and for improper wage statements, payroll records, and untimely pay at separation as a result of

the alleged pay errors during employment. Via the complaint, Carag seeks to recover unpaid wages and statutory penalties for all hourly Barnes & Noble employees within California from November 27, 2009 to present. On February 13, 2014, the Company filed an answer to the complaint in the state court and concurrently requested removal of the action to federal court. On May 30, 2014, the federal court granted Plaintiff's motion to remand the case to state court and denied Plaintiff's motion to strike portions of the answer to the complaint (referring the latter motion to the lower court for future consideration). The Court has not yet scheduled any further hearings or deadlines.

Adrea LLC v. Barnes & Noble, Inc., barnesandnoble.com llc and NOOK Media LLC

On June 14, 2013, Adrea filed a complaint against Barnes & Noble, Inc., NOOK Digital, LLC (formerly barnesandnoble.com llc) and B&N Education, LLC (formerly NOOK Media LLC) (collectively, B&N) in the United States District Court for the Southern District of New York alleging that various B&N NOOK products and related online services infringe U.S. Patent Nos. 7,298,851 ('851 patent), 7,299,501 ('501 patent) and 7,620,703 ('703 patent). B&N filed its Answer on August 9, 2013, denying infringement and asserting several affirmative defenses. At the same time, B&N filed counterclaims seeking declaratory judgments of non-infringement and invalidity with respect to each of the patents-in-suit. On July 1, 2014, the Court issued a decision granting partial summary judgment in B&N's favor, and in particular granting B&N's motion to dismiss one of Adrea's infringement claims, and granting B&N's motion to limit any damages award with respect to another of Adrea's infringement claims.

Beginning October 7, 2014, through and including October 22, 2014, the case was tried to a jury in the Southern District of New York. The jury returned its verdict on October 27, 2014. The jury found no infringement with respect to the '851 patent, and infringement with respect to the '501 and '703 patents. It awarded damages in the amount of \$1,300,000. The jury further found no willful infringement with respect to any patent.

On July 24, 2015, the Court granted B&N's post-trial application to invalidate one of the two patents (the '501 patent) the jury found to have been infringed. On September 28, 2015, the Court heard post-trial motions on the jury's infringement and validity determinations, and on February 24, 2016, it issued a decision upholding the jury's determination of infringement and validity with respect to the '703 patent. Since the original damages award was a total award for infringement of both patents, the Court held a new trial to determine damages for infringement of the '703 patent, which trial concluded on July 15, 2016.

On December 28, 2016, the Court issued its decision on the issue of damages, finding that (a) Adrea should be entitled to a damages award of \$267,000, based on a reasonable royalty rate of 5.1 cents per unit, and (ii) Adrea was not entitled to any enhancement of damages, as B&N's infringement was not willful. Following letter briefing, in which Adrea asked the Court to award prejudgment interest of approximately \$90,000, the Court, following B&N's reasoning, added \$3,000 in prejudgment interest to its damages award, and on January 12, 2017 entered judgment in favor of Adrea in the total amount of \$270,000. Adrea subsequently moved the Court for supplemental damages relating to any allegedly infringing products B&N may have sold that were not taken into account in the first verdict, including new devices not previously accused. In addition, Adrea asked the Clerk of the Court to tax costs against B&N in the amount of \$110,000. B&N opposed both requests, and following briefing, the court awarded supplemental damages for sales of accused devices of approximately \$13,000, refused to award damages or ongoing royalties for any new devices, and entered a final judgment of \$282,000. As for the issue of costs, the Clerk awarded Adrea approximately \$27,000. Both parties have requested review of the Clerk's award, with B&N taking the position that no costs should have been awarded, since Adrea was not the prevailing party for purposes of a costs award, and that in any case the award was

excessive. Adrea sought to recover an additional \$25,000 in costs. The parties are awaiting the Court's decision on the costs issue. This will be the final proceeding in this action, as neither party has filed a Notice of Appeal.

Café Manager Class Actions

Two former Café Managers have filed separate actions alleging similar claims of entitlement to unpaid compensation for overtime. In each action, the plaintiff seeks to represent a class of allegedly similarly situated employees who performed the same position (Café Manager). Specifically, Christine Hartpence filed a complaint against Barnes & Noble, Inc. (Barnes & Noble) in Philadelphia County Court of Common Pleas on May 26, 2015 (Case No.: 160503426), alleging that she is entitled to unpaid compensation for overtime under Pennsylvania law and seeking to represent a class of allegedly similarly situated employees who performed the same position (Café Manager). On July 14, 2016, Ms. Hartpence amended her complaint to assert a purported collective action for alleged unpaid overtime compensation under the federal Fair Labor Standards Act (FLSA), by which she sought to act as a class representative for similarly situated Café Managers throughout the United States. On July 27, 2016, Barnes & Noble removed the case to the U.S. District Court of the Eastern District of Pennsylvania (Case No.: 16-4034). Ms. Hartpence then voluntarily dismissed her complaint and subsequently re-filed a similar complaint in the Philadelphia County Court of Common Pleas (Case No.: 161003213), where it is currently pending. The re-filed complaint alleges only claims of unpaid overtime under Pennsylvania law and alleges class claims under Pennsylvania law that are limited to current and former Café Managers within Pennsylvania.

On September 20, 2016, Kelly Brown filed a complaint against Barnes & Noble in the U.S. District Court for the Southern District of New York (Case No.: 16-7333) in which she also alleges that she is entitled to unpaid compensation under the FLSA and Illinois law. Ms. Brown seeks to represent a national class of all similarly situated Café Managers under the FLSA, as well as an Illinois-based class under Illinois law. On November 9, 2016, Ms. Brown filed an amended complaint to add an additional plaintiff named Tiffany Stewart, who is a former Café Manager who also alleges unpaid overtime compensation in violation of New York law and seeks to represent a class of similarly situated New York-based Café Managers under New York law. Since the commencement of the action, eight former Café Managers have filed consent forms to join the action as plaintiffs. On May 2, 2017, the Court denied Plaintiffs' Motion for Conditional Certification, without prejudice.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Price Range of Common Stock

The Company's common stock is traded on the New York Stock Exchange (NYSE) under the symbol "BKS". The following table sets forth, for the quarterly periods indicated, the high and low sales prices of the common stock on the NYSE Composite Tape:

	Fiscal 2017		Fiscal 2016	
	High	Low	High	Low
First Quarter	\$13.31	\$10.25	\$29.00	\$21.85
Second Quarter	13.63	10.15	18.17	11.45
Third Quarter	13.20	9.40	13.68	7.62
Fourth Quarter	10.95	8.45	12.67	7.25

Approximate Number of Holders of Common Equity

<u>Title of Class</u>	<u>Approximate Number of Record Holders as of May 31, 2017</u>
Common stock, \$0.001 par value	1,681

Dividends

The Company paid dividends to preferred shareholders in the amount of \$0.0 million and \$3.9 million during fiscal 2017 and fiscal 2016, respectively.

The Company paid dividends to common stockholders in the amount of \$43.9 million and \$46.1 million during fiscal 2017 and fiscal 2016, respectively.

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The following table provides information with respect to purchases by the Company of shares of its common stock during the fourth quarter of fiscal 2017:

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	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
January 29, 2017 – February 25, 2017	80,905	\$ 9.85	—	\$ 666
February 26, 2017 – April 1, 2017	34,307	\$ 8.95	—	\$50,000,000
April 2, 2017 – April 29, 2017	1,075	\$ 9.25	—	\$50,000,000
Total	116,287	\$ 9.58	—	

(a) The shares on this table above represent shares relinquished by employees in exchange for the Company's agreement to pay federal and state withholding obligations resulting from the vesting of the Company's restricted stock units, which are not drawn against the Company's stock repurchase program. All of the restricted stock units vested during these periods were originally granted pursuant to the Company's 2009 Amended and Restated Incentive Plan. This Incentive Plan provides for the withholding of shares to satisfy tax obligations due upon the vesting of restricted stock units.

On October 20, 2015, the Company's Board of Directors authorized a stock repurchase program (prior repurchase plan) of up to \$50.0 million of its common shares. During fiscal 2016, the Company repurchased 2,763,142 shares at a cost of \$26.7 million under the prior repurchase plan. During fiscal 2017, the Company repurchased 2,019,798 shares at a cost of \$23.3 million under the prior repurchase plan. On March 15, 2017, subsequent to completing the prior repurchase plan, the Company's Board of Directors authorized a new stock repurchase program of up to \$50.0 million of its common shares. Stock repurchases under this program may be made through open market and privately negotiated transactions from time to time and in such amounts as management deems appropriate. The new stock repurchase program has no expiration date and may be suspended or discontinued at any time. The Company's repurchase plan is intended to comply with the requirements of Rule 10b-18 under the Securities Exchange Act of 1934, as amended. The Company has not repurchased shares under this plan in fiscal 2017. The Company has remaining capacity of \$50.0 million under the new repurchase program as of April 29, 2017.

As of April 29, 2017, the Company has repurchased 39,496,765 shares at a cost of approximately \$1.09 billion since the inception of the Company's stock repurchase programs. The repurchased shares are held in treasury.

ITEM 6. SELECTED FINANCIAL DATA

The information included in the Company's Annual Report to Shareholders for the fiscal year ended April 29, 2017 included as Exhibit 13.1 to this Annual Report on Form 10-K (the Annual Report) under the section entitled "Selected Consolidated Financial Data" is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information included in the Annual Report under the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company limits its interest rate risks by investing certain of its excess cash balances in short-term, highly-liquid instruments with an original maturity of one year or less. The Company does not expect any material losses from its invested cash balances and the Company believes that its interest rate exposure is modest. As of April 29, 2017, the Company's cash and cash equivalents totaled approximately \$12.0 million. A 50 basis point increase in annual interest rates would have increased the Company's interest income by \$0.0 million in fiscal 2017. Conversely, a 50 basis point decrease in annual interest rates would have reduced interest income by \$0.0 million in fiscal 2017.

Additionally, the Company may from time to time borrow money under its credit facility at various interest rate options based on the Base Rate or LIBO Rate (each term as defined in the amended and restated credit agreement (New Credit Agreement) described in the Annual Report under the section titled "Notes to Consolidated Financial Statements") depending upon certain financial tests. Accordingly, the Company may be exposed to interest rate risk on borrowings under its credit facility. The Company had \$64.9 million in borrowings under its New Credit Facility at April 29, 2017 and \$47.2 million in borrowings at April 30, 2016. A 50 basis point increase in annual interest rates would have increased the Company's interest expense by \$0.5 million in fiscal 2017. Conversely, a 50 basis point decrease in annual interest rates would have reduced interest expense by \$0.5 million in fiscal 2017.

The Company does not have any material foreign currency exposure as nearly all of its business is transacted in United States currency.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information included in the Annual Report under the sections entitled: "Consolidated Statements of Operations," "Consolidated Statements of Comprehensive Income (Loss)," "Consolidated Balance Sheets," "Consolidated Statements of Changes in Shareholders' Equity," "Consolidated Statements of Cash Flows" and "Notes to Consolidated Financial Statements" are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

The management of the Company established and maintains disclosure controls and procedures that are designed to ensure that material information relating to the Company and its subsidiaries required to be disclosed in the reports that are filed or submitted under the Exchange Act are recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. As of the end of the period covered by this report, the Company's management conducted an evaluation (as required under Rules 13a-15(b) and 15d-15(b) under the Exchange Act), under the supervision and with the participation of the principal executive officer and principal financial officer, 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). 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 on management's evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective at the reasonable assurance level.

(b) Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. As defined in Exchange Act Rule 13a-15(f), internal control over financial reporting is a process designed by, or under the supervision of, the principal executive and principal financial officers, and effected by the board of directors, management and other personnel, 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 and includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the framework in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based upon the Company's evaluation under this framework, management concluded that the Company's internal control over financial reporting was effective as of April 29, 2017.

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The effectiveness of internal control over financial reporting was audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report included elsewhere herein.

(c) Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the most recent quarter ended April 29, 2017 that have materially affected, or are reasonably likely to affect, internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information with respect to directors, executive officers, the code of ethics and corporate governance of the Company is incorporated herein by reference to the Company's definitive Proxy Statement relating to the Company's 2017 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the Company's fiscal year ended April 29, 2017 (the Proxy Statement).

The information with respect to compliance with Section 16(a) of the Exchange Act is incorporated herein by reference to the Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information with respect to executive compensation is incorporated herein by reference to the Proxy Statement.

The information with respect to compensation of directors is incorporated herein by reference to the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Equity Compensation Plan Information

The following table sets forth equity compensation plan information as of April 29, 2017:

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u> (a)	<u>Weighted-average exercise price of outstanding options, warrants and rights</u> (b)	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities in column (a))</u> (c)
Equity compensation plans approved by security holders	254,463	9.99	7,261,401
Equity compensation plans not approved by security holders	—	—	—
Total	254,463	9.99	7,261,401

The information with respect to security ownership of certain beneficial owners and management is incorporated herein by reference to the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information with respect to certain relationships and related transactions and director independence is incorporated herein by reference to the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information with respect to principal accountant fees and services is incorporated herein by reference to the Proxy Statement.

PART IV**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

- (a) 1. Consolidated Financial Statements:
- (i) “The Report of Independent Registered Public Accountants” included in the Annual Report is incorporated herein by reference.
- (ii) The information included in the Annual Report under the sections entitled “Consolidated Statements of Operations,” “Consolidated Statements of Comprehensive Income (Loss),” “Consolidated Balance Sheets,” “Consolidated Statements of Changes in Shareholders’ Equity,” “Consolidated Statements of Cash Flows” and “Notes to Consolidated Financial Statements” are incorporated herein by reference.

2. Schedule:

Valuation and Qualifying Accounts.

For the 52 week period ended April 29, 2017, the 52 week period ended April 30, 2016 and the 52 week period ended May 2, 2015 (in thousands):

	Balance at beginning of period	Charge (recovery) to costs and expenses	Write-offs	Balance at end of period
Allowance for Doubtful Accounts				
April 29, 2017	\$ 4,571	\$ 464	\$ (1,204)	\$ 3,831
April 30, 2016	\$ 3,721	\$ 1,377	\$ (527)	\$ 4,571
May 2, 2015	\$ 8,141	\$ 1,508	\$ (5,928)	\$ 3,721
	Balance at beginning of period	Addition Charged to Costs	Deductions	Balance at end of period
Sales Returns Reserves				
April 29, 2017	\$ 5,940	\$ 18,558	\$(18,353)	\$ 6,145
April 30, 2016	\$ 4,623	\$ 17,380	\$(16,063)	\$ 5,940
May 2, 2015	\$ 6,533	\$ 24,484	\$(26,394)	\$ 4,623

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(b) The following are filed as Exhibits to this form:

<u>Exhibit No.</u>	<u>Description</u>
2.1	Stock Purchase Agreement dated as of August 7, 2009 among the Company, Leonard Riggio and Louise Riggio. (15)
2.2	Separation and Distribution Agreement, dated as of July 14, 2015, between Barnes & Noble, Inc. and Barnes & Noble Education, Inc. (incorporated herein by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K dated July 14, 2015). (52)
3.1	Amended and Restated Certificate of Incorporation of the Company, as amended. (1)
3.2	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Company, dated June 17, 1998 and filed July 17, 1998. (2)
3.3	Amended and Restated By-laws of the Company. (9)
3.4	Amendment to Amended and Restated By-laws of the Company. (16)
3.5	Form of Certificate of Designation, dated as of November 17, 2009. (17)
4.1	Specimen Common Stock certificate. (1)
4.2	Issuance and sale of Series J Preferred Stock of the Company to Liberty GIC, Inc. as of August 18, 2011. (28)
10.1	Employment Agreement between the Company and Mitchell S. Klipper, dated as of February 18, 2002. (3)
10.2	The Company's Amended and Restated 1996 Incentive Plan. (4)
10.3	Employment Agreement between the Company and Stephen Riggio, dated as of February 18, 2002. (5)
10.4	The Company's 2004 Executive Performance Plan. (6)
10.5	The Company's 2004 Incentive Plan. (6)
10.6	Form of Option Award Agreement of the Company. (7)
10.7	Form of Restricted Stock Award Agreement of the Company. (7)
10.8	Amendment to the Company's 2004 Incentive Plan. (8)
10.9	Amendment to the Company's Amended and Restated 1996 Incentive Plan. (8)
10.10	Letter Agreement (including General Release and Waiver) entered into on October 8, 2008, between barnesandnoble.com llc and Marie J. Toulantis. (10)
10.11	First Amendment to the Company's 2004 Executive Performance Plan. (11)

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<u>Exhibit No.</u>	<u>Description</u>
10.12	Second Amendment to the Company's 2004 Incentive Plan. (11)
10.13	The Company's Amended and Restated Deferred Compensation Plan. (11)
10.14	Amendment to Employment Agreement between the Company and Stephen Riggio, dated December 18, 2008. (11)
10.15	Amendment to Employment Agreement between the Company and Mitchell S. Klipper, dated as of December 18, 2008. (11)
10.16	Employment Agreement between the Company and William J. Lynch, Jr., dated January 6, 2009. (12)
10.17	The Company's 2009 Executive Performance Plan. (14)
10.18	The Company's 2009 Incentive Plan. (14)
10.19	Letter Agreement between Barnes & Noble.com, llc and Ravi Gopalakrishnan, dated as of March 5, 2009. (30)
10.20	Letter Agreement between Barnes & Noble.com, llc and Jamie Iannone, dated as of March 29, 2009. (30)
10.21	Letter Agreement between Barnes & Noble College Booksellers, LLC and Max J. Roberts, dated as of September 30, 2009. (30)
10.22	Junior Subordinated Seller Note, dated September 30, 2009, issued by the Company to Leonard Riggio and Louise Riggio. (16)
10.23	Employment Agreement between the Company and Joseph J. Lombardi, dated March 17, 2010. (18)
10.24	Employment Agreement between the Company and William J. Lynch, Jr., dated March 17, 2010. (18)
10.25	Employment Agreement between the Company and Mitchell S. Klipper, dated March 17, 2010. (18)
10.26	Letter Agreement between Barnes & Noble.com, llc and Daniel A. Gilbert, dated as of March 22, 2010. (30)
10.27	Barnes & Noble.com Digital Products Device Development Incentive Bonus Plan, dated as of May 2, 2010. (30)
10.28	Form of Barnes & Noble.com Digital Products Device Development Incentive Bonus Plan Participation Agreement. (30)
10.29	Employment Agreement between the Company and Leonard Riggio, dated May 12, 2010. (19)
10.30	Employment Agreement between the Company and Stephen Riggio, dated May 12, 2010. (19)

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<u>Exhibit No.</u>	<u>Description</u>
10.31	Indemnification Agreement between the Company and David G. Golden, dated August 19, 2010. (20)
10.32	Indemnification Agreement between the Company and David A. Wilson, dated August 19, 2010. (20)
10.33	Form of Performance Unit Award Agreement pursuant to the Company's 2009 Incentive Plan. (21)
10.34	Employment Agreement between the Company and Eugene V. DeFelice, dated September 27, 2010. (22)
10.35	Form of Indemnification Agreement between the Company and Company's directors and officers, dated January 5, 2011. (23)
10.36	Credit Agreement, dated April 29, 2011, among the Company, Bank of America, N.A., as administrative agent, collateral agent and swing line lender, and other lenders (Credit Agreement). (24)
10.37	Investment Agreement between the Company and Liberty GIC, Inc., dated August 18, 2011. (25)
10.38	Transitional Employment Agreement between the Company and Joseph J. Lombardi, dated October 21, 2011. (26)
10.39	Employment Agreement between the Company and Michael P. Huseby, dated March 9, 2012. (27)
10.40	First Amendment to the Amended and Restated Credit Agreement, dated as of April 27, 2012, among Bank of America, N.A., as administrative agent, collateral agent, and other lenders. (28)
10.41	Investment Agreement between the Company, Morrison Investment Holdings, Inc. and Microsoft Corporation, dated April 27, 2012. (28)
10.42	The Company's Amended and Restated 2009 Incentive Plan. (29)
10.43	Commercial Agreement dated as of April 27, 2012, between Barnes & Noble, Inc. and Microsoft Corporation. (32)
10.44	Confidential Settlement and Patent License Agreement dated as of April 27, 2012, among Barnes & Noble, Inc., barnesandnoble.com llc, Microsoft Corporation and Microsoft Licensing GP. (32)
10.45	Form of Option Award Agreement pursuant to the Company's Amended and Restated 2009 Incentive Plan. (31)
10.46	Form of Restricted Stock Award Agreement pursuant to the Company's Amended and Restated 2009 Incentive Plan. (31)
10.47	Form of Restricted Stock Unit Award Agreement pursuant to the Company's Amended and Restated 2009 Incentive Plan. (31)
10.48	Second Amendment to Amended and Restated Credit Agreement, dated as of October 4, 2012. (34)
10.49	Third Amendment to Amended and Restated Credit Agreement, dated as of December 21, 2012. (35)

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<u>Exhibit No.</u>	<u>Description</u>
10.50	General Release and Waiver and Consulting Agreement between the Company and Dan Gilbert, dated as of February 1, 2013. (35)
10.51	Amended Employment Agreement between the Company and William J. Lynch, Jr., dated March 7, 2013. (36)
10.52	Letter Agreement to the Amended and Restated Credit Agreement, dated as of April 26, 2013, among Bank of America, N.A., as administrative agent, collateral agent, and other lenders. (37)
10.53	Fourth Amendment to Amended and Restated Credit Agreement, dated as of June 24, 2013. (38)
10.54	Letter Agreement with respect to Amended and Restated Credit Agreement, dated as of July 25, 2013. (39)
10.55	Employment Agreement dated December 23, 2013 between Barnes & Noble, Inc. and Allen W. Lindstrom. (40)
10.56	Amended and Restated Employment Agreement, dated January 7, 2014, between Barnes & Noble, Inc. and Michael P. Huseby. (41)
10.57	Amendment No. 1 to the Commercial Agreement, dated as of October 4, 2012, between Barnes & Noble, Inc. and Microsoft Corporation. (42)
10.58	Amendment No. 2 to the Commercial Agreement, dated as of March 10, 2014, between Barnes & Noble, Inc. and Microsoft Corporation. (42)
10.59	Commercial Agreement, dated June 4, 2014, between Samsung Electronics America, Inc. and barnesandnoble.com llc. (43)
10.60	Assignment of lease agreement, dated June 5, 2014, between barnesandnoble.com llc and Google, Inc. (43)
10.61	Employment Agreement between the Company and Max Roberts, dated June 24, 2014. (44)
10.62	Commercial Agreement Amendment and Termination Agreement and Patent Agreement Amendment, dated December 4, 2014, between Microsoft Corporation and Barnes & Noble, Inc. (45)
10.63	Retirement Agreement between the Company and Mitchell S. Klipper, dated January 20, 2015. (46)
10.64	Commercial Agreement Amendment and Termination Agreement and Patent Agreement Amendment between Microsoft Corporation, Barnes & Noble, Inc., NOOK Media LLC, barnesandnoble.com llc and Microsoft Licensing GP, dated December 3, 2014. (47)
10.65	This First Amendment to the Commercial Agreement, dated March 7, 2015, is made by and between NOOK DIGITAL, LLC f/k/a barnesandnoble.com llc, and SAMSUNG ELECTRONICS AMERICA, INC. (48)
10.66	Conversion Agreement, dated June 5, 2015, between Series J Holders of Preferred Stock and Barnes & Noble, Inc. (49)

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<u>Exhibit No.</u>	<u>Description</u>
10.67	Employment Agreement, dated July 1, 2015, between Barnes & Noble, Inc. and Ronald D. Boire. (50)
10.68	Employment Agreement, dated July 1, 2015, between Barnes & Noble, Inc. and Jaime Carey. (50)
10.69	Completion of Conversion Agreement, dated June 5, 2015, on July 9, 2015 between Series J Holders of Preferred Stock and Barnes & Noble, Inc. (51)
10.70	Temporary Suspension of Trading Under Registrant's Employee Benefit Plans notice given to directors and executive officers, dated July 23, 2015. (53)
10.71	Transition Services Agreement, dated as of August 2, 2015, between Barnes & Noble, Inc. and Barnes & Noble Education, Inc. (54)
10.72	Tax Matters Agreement, dated as of August 2, 2015, between Barnes & Noble, Inc. and Barnes & Noble Education, Inc. (54)
10.73	Employee Matters Agreement, dated as of August 2, 2015, between Barnes & Noble, Inc. and Barnes & Noble Education, Inc. (54)
10.74	Trademark License Agreement, dated as of August 2, 2015, between Barnes & Noble, Inc. and Barnes & Noble Education, Inc. (54)
10.75	Credit Agreement, dated as of August 3, 2015, by and among Barnes & Noble, Inc., as borrower, the lenders party thereto, Bank of America, N.A., as administrative agent, and the other agents party thereto. (54)
10.76	Completion of Spin-Off of Barnes & Noble Education, dated August 6, 2015. (55)
10.77	Stock repurchase program dated December 7, 2015. (56)
10.78	Agreement with Bahwan CyberTek, dated April 7, 2016. (57)
10.79	This Second Amendment to the Commercial Agreement, dated May 18, 2016, is made by and between NOOK DIGITAL, LLC f/k/a barnesandnoble.com llc, and SAMSUNG ELECTRONICS AMERICA, INC. (58)
10.80	Restricted Stock Unit Award Agreement pursuant to the Company's Amended and Restated 2009 Incentive Plan. (59)
10.81	Performance-Based Stock Unit Award Agreement pursuant to the Company's 2009 Incentive Plan. (59)
10.82	Form of Restricted Stock Unit Award Certificate. (59)
10.83	Form of Performance-Based Stock Unit Award Certificate. (59)
10.84	Letter to David Deason regarding terms and conditions of employment, dated February 11, 2014. (59)
10.85	Retention Bonus Agreement, dated March 4, 2014, between the Company and David Deason. (59)

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<u>Exhibit No.</u>	<u>Description</u>
10.86	Offer of Employment to Frederic Argir, dated June 12, 2015. (59)
10.87	Agreement Regarding Certain Terms and Conditions of Employment, dated June 25, 2015, between the Company and Frederic Argir. (59)
10.88	First Amendment to Credit Agreement, dated as of September 30, 2016, by and among Barnes & Noble, Inc., as borrower, the other borrowers, guarantors and lenders party thereto from time to time, Bank of America, N.A., as administrative agent, and the other agents party thereto. (60)
10.89	Release Agreement with Ronald D. Boire. (61)
10.90	Employment Agreement between the Company and Demos Parneros, dated November 21, 2016. (62)
10.91	Amendment to Employment Agreement between the Company and Demos Parneros, dated April 27, 2017. (63)
10.92	Release Agreement with Jaime Carey. (64)
13.1	The sections of the Company’s Annual Report entitled: “Selected Consolidated Financial Data,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Consolidated Statements of Operations,” “Consolidated Statements of Comprehensive Income (Loss),” “Consolidated Balance Sheets,” “Consolidated Statements of Changes in Shareholders’ Equity,” “Consolidated Statements of Cash Flows,” “Notes to Consolidated Financial Statements” and “The Report of Independent Registered Public Accounting Firm.” (64)
14.1	Code of Business Conduct and Ethics. (13)
16.1	Letter re change in certifying accountant. (33)
21.1	List of Significant Subsidiaries. (64)
23.1	Consent of Ernst & Young, LLP. (64)
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. (64)
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. (64)
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. (64)
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. (64)

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<u>Exhibit No.</u>	<u>Description</u>
101.INS	XBRL Instance Document. (64)
101.SCH	XBRL Taxonomy Extension Schema Document. (64)
101.CAL	XBRL Taxonomy Calculation Linkbase Document. (64)
101.DEF	XBRL Taxonomy Definition Linkbase Document. (64)
101.LAB	XBRL Taxonomy Label Linkbase Document. (64)
101.PRE	XBRL Taxonomy Presentation Linkbase Document. (64)
(1)	Previously filed as an exhibit to the Company's Registration Statement on Form S-4 (Commission File No. 33-59778) filed with the SEC on March 22, 1993.
(2)	Previously filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended August 1, 1998.
(3)	Previously filed as an exhibit to the Company's Form 10-K for the fiscal year ended February 2, 2002.
(4)	Previously filed as an exhibit to the Company's Registration Statement on Form S-8 (Commission File No. 333-90538) filed with the SEC on June 14, 2002.
(5)	Previously filed as an exhibit to the Company's Form 10-K for the fiscal year ended February 1, 2003.
(6)	Previously filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended May 1, 2004.
(7)	Previously filed as an exhibit to the Company's Form 10-K for the fiscal year ended January 29, 2005.
(8)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on December 21, 2006.
(9)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on April 14, 2008.
(10)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on October 10, 2008.
(11)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on December 19, 2008.
(12)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on January 8, 2009.
(13)	Previously filed as an exhibit to the Company's Form 10-K for the fiscal year ended January 31, 2009.
(14)	Previously filed as an exhibit to the Company's Definitive Proxy Statement on Schedule 14A filed with the SEC on April 16, 2009.

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<u>Exhibit No.</u>	<u>Description</u>
(15)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on August 10, 2009.
(16)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on October 1, 2009.
(17)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on November 18, 2009.
(18)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on March 19, 2010.
(19)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on May 13, 2010.
(20)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on August 23, 2010.
(21)	Previously filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended July 31, 2010.
(22)	Previously filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended October 30, 2010.
(23)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on January 10, 2011.
(24)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on May 2, 2011.
(25)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on August 18, 2011.
(26)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on October 21, 2011.
(27)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on March 12, 2012.
(28)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on April 30, 2012.
(29)	Previously filed as an exhibit to the Company's Definitive Proxy Statement on Schedule 14A filed with the SEC on July 23, 2012.
(30)	Previously filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended July 28, 2012.
(31)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on September 12, 2012.
(32)	Previously filed as an exhibit to the Company's Form 8-K/A filed with the SEC on October 2, 2012.
(33)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on October 19, 2012.
(34)	Previously filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended October 27, 2012.
(35)	Previously filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended January 26, 2013.

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<u>Exhibit No.</u>	<u>Description</u>
(36)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on March 8, 2013.
(37)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on April 26, 2013.
(38)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on June 26, 2013.
(39)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on July 26, 2013.
(40)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on December 24, 2013.
(41)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on January 8, 2014.
(42)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on March 13, 2014.
(43)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on June 5, 2014.
(44)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on June 27, 2014.
(45)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on December 4, 2014.
(46)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on January 20, 2015.
(47)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on February 17, 2015.
(48)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on March 7, 2015.
(49)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on June 5, 2015.
(50)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on July 2, 2015.
(51)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on July 10, 2015.
(52)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on July 14, 2015.
(53)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on July 27, 2015.
(54)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on August 3, 2015.
(55)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on August 6, 2015.
(56)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on December 7, 2015.
(57)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on April 7, 2016.
(58)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on May 18, 2016.

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<u>Exhibit No.</u>	<u>Description</u>
(59)	Previously filed as an exhibit to the Company's Form 10-K filed with the SEC on June 23, 2016.
(60)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on October 6, 2016.
(61)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on October 28, 2016.
(62)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on November 21, 2016.
(63)	Previously filed as an exhibit to the Company's Form 8-K filed with the SEC on April 27, 2017.
(64)	Filed herewith.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, INC.

(Registrant)

By: /s/ Demos Parneros

Demos Parneros

Chief Executive Officer

June 22, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Leonard Riggio</u> Leonard Riggio	Chairman of the Board	June 22, 2017
<u>/s/ Demos Parneros</u> Demos Parneros	Chief Executive Officer and Director (principal executive officer)	June 22, 2017
<u>/s/ Allen W. Lindstrom</u> Allen W. Lindstrom	Chief Financial Officer (principal financial officer)	June 22, 2017
<u>/s/ Peter M. Herpich</u> Peter M. Herpich	Vice President and Corporate Controller (principal accounting officer)	June 22, 2017
<u>/s/ George Campbell Jr.</u> George Campbell Jr.	Director	June 22, 2017
<u>/s/ Mark D. Carleton</u> Mark D. Carleton	Director	June 22, 2017
<u>/s/ Scott S. Cowen</u> Scott S. Cowen	Director	June 22, 2017
<u>/s/ Al Ferrara</u> Al Ferrara	Director	June 22, 2017
<u>/s/ William T. Dillard II</u> William T. Dillard II	Director	June 22, 2017
<u>/s/ Paul Guenther</u> Paul Guenther	Director	June 22, 2017
<u>/s/ Patricia L. Higgins</u> Patricia L. Higgins	Director	June 22, 2017
<u>/s/ Kimberly A. Van Der Zon</u> Kimberly A. Van Der Zon	Director	June 22, 2017

GENERAL RELEASE AND WAIVER

1. Jaime Carey (“Employee”) hereby acknowledges and agrees that Employee’s employment with Barnes & Noble, Inc. (the “Company”) terminated on February 10, 2017 (the “Termination Date”).

2. Employee acknowledges and agrees that Employee’s executing this General Release and Waiver (“Release”) is a condition precedent to the Company’s obligation to pay (and the Employee’s right to retain) the payments and benefits set forth in Section 3.8 of the employment letter agreement, dated as of July 1, 2015, between Employee and the Company (such agreement referred to herein as the “Employment Agreement” and such payments and benefits collectively referred to herein as the “Separation Benefit”), that the Separation Benefit is adequate consideration for this Release, and that any monetary or other benefits that, prior to the execution of this Release, Employee may have earned or accrued, or to which Employee may have been entitled, have been paid or such payments or benefits have been released, waived or settled by Releasor (as defined below) except as expressly provided in this Release.

3. (a) THIS SECTION PROVIDES A COMPLETE RELEASE AND WAIVER OF ALL EXISTING AND POTENTIAL CLAIMS EMPLOYEE MAY HAVE AGAINST EVERY PERSON AND ENTITY INCLUDED WITHIN THE DESCRIPTION BELOW OF “RELEASEE.” BEFORE EMPLOYEE SIGNS THIS RELEASE, EMPLOYEE MUST READ THIS SECTION CAREFULLY, AND MAKE SURE THAT EMPLOYEE UNDERSTANDS IT FULLY.

(b) In consideration of Employee’s receipt and acceptance of the Separation Benefit from the Company, and on behalf of the Company and each Releasee (as defined below), Employee, on Employee’s behalf and on behalf of Employee’s heirs, executors, administrators, successors and assigns (collectively, “Releasor”), hereby irrevocably, unconditionally and generally releases the Company, its current and former officers, directors, shareholders, trustees, parents, members, managers, affiliates, subsidiaries, branches, divisions, benefit plans, agents, attorneys, advisors, counselors and employees, and the current and former officers, directors, shareholders, agents, attorneys, advisors, counselors and employees of any such parent, affiliate, subsidiary, branch or division of the Company and the heirs, executors, administrators, receivers, successors and assigns of all of the foregoing (each, a “Releasee”), from or in connection with, and hereby waives and/or settles, except as provided in Section 3(c), any and all actions, causes of action, suits, debts, dues, sums of money, accounts, controversies, agreements, promises, damages, judgments, executions, or any liability, claims or demands, known or unknown and of any nature whatsoever, whether or not related to employment, and which Releasor ever had, now has or hereafter can, shall or may have as of the date of this Release, including, without limitation, (i) any rights and/or claims arising under any contract, express or implied, written or oral, including, without limitation, the Employment Agreement; (ii) any rights and/or claims arising under any applicable foreign, Federal, state, local or other statutes, orders, laws, ordinances, regulations or the like, or case law, that relate to employment or employment practices, including, without limitation, family and medical, and/or, specifically, that prohibit discrimination based upon age, race, religion, sex, color, creed, national origin, sexual orientation, marital status, disability, medical condition, pregnancy, veteran status or any other unlawful bases, including, without limitation, the Civil Rights Act of 1964, as amended, the Civil Rights Act of 1991, as amended, the Civil Rights Acts of 1866 and 1871, as amended, the Age Discrimination in Employment Act of 1967, as amended, the Americans with Disabilities Act of 1990, as amended, the Family Medical Leave Act of 1993, as amended, the Employee Retirement Income Security Act of 1974, as amended, the Vietnam Era Veterans’ Readjustment Assistance Act of 1974, as amended, the Worker Adjustment and Retraining Notification Act of 1988, as amended, and any similar applicable statutes, orders, laws, ordinances, regulations or the like, or case law, of the State of New York and any State in which any Releasee is subject to jurisdiction, or any political subdivision thereof, including, without limitation, the New York State Human Rights Law, the New York State Labor Law and the New York City Human Rights Law, and all applicable rules and regulations promulgated pursuant to or concerning any of the foregoing statutes, orders, laws, ordinances, regulations or the like; (iii) any waivable rights and/or claims relating to wages and hours, including under state or local labor or wage payment laws; (iv) any rights and/or claims to benefits that Employee may have or become entitled to receive under any severance, termination, change of control, bonus or similar policy, plan, program, agreement or similar or related arrangements, including, without limitation, any offer letter, letter agreement or employment agreement between Employee and the Company; (v) any rights and/or claims that Employee may have to receive any equity in the Company (whether restricted or unrestricted) in the future; and (vi) any rights and/or claims for attorneys’ fees. Employee agrees not to challenge or contest the reasonableness, validity or enforceability of this Release.

(c) Notwithstanding the foregoing, Employee does not release any Releasee from any of the following rights and/or claims: (i) any rights and/or claims Employee may have that arise after the date Employee signs this Release; (ii) any rights and/or claims that by law cannot be waived by private agreement; (iii) Employee's right to file a charge with or participate in any investigation or proceeding conducted by the U.S. Equal Employment Opportunity Commission ("EEOC") or similar government agency; provided that even though Employee can file a charge or participate in an investigation or proceeding conducted by the EEOC or similar government agency, by executing this Release, Employee is waiving his ability to obtain relief of any kind from any Releasee to the extent permitted by law; (iv) Employee's non-forfeitable rights to accrued benefits (within the meaning of Sections 203 and 204 of ERISA); (v) any rights and/or claims to insurance coverage under any directors' and officers' personal liability insurance or fiduciary insurance policy; or (vi) any rights and/or claims to enforce the Employment Agreement in accordance with its terms.

4. Nothing in or about this Release prohibits Employee from: (i) filing and, as provided for under Section 21F of the Securities Exchange Act of 1934, maintaining the confidentiality of a claim with a government agency that is responsible for enforcing a law; (ii) providing Confidential Information (as defined in Section 4.3(a) of the Employment Agreement) to the extent required by law or legal process or permitted by Section 21F of the Securities Exchange Act of 1934; (iii) cooperating, participating or assisting in any government or regulatory entity investigation or proceeding; or (iv) receiving an award for information provided to any government agency that is responsible for enforcing the law.

5. Employee represents and warrants that Employee has not filed or commenced any complaints, claims, actions or proceedings of any kind against any Releasee with any Federal, state or local court or any administrative, regulatory or arbitration agency or body. Employee hereby waives any right to, and agrees not to, seek reinstatement or employment of any kind with any Releasee and, without waiver by any Releasee of the foregoing, the existence of this Release shall be a valid, nondiscriminatory basis for rejecting any such application or, in the event Employee obtains such employment, for terminating such employment. This Release and the Separation Benefit are not intended to be, shall not be construed as and are not, an admission or concession by any Releasee of any wrongdoing or illegal or actionable acts or omissions.

6. (a) Employee hereby represents and agrees that Employee shall keep confidential and not disclose orally or in writing, to any person, except as may be required by law, any and all information concerning the existence or terms of this Release and the amount of any payments made hereunder. Employee further agrees that, except as shall be required by law, Employee shall keep confidential and not disclose orally or in writing, directly or indirectly, to any person (except Employee's immediate family, attorneys and accountant), any and all information concerning any facts, claims or assertions relating or referring to any experiences of Employee or treatment Employee received by or on behalf of any Releasee through the date of this Release.

(b) If Employee is requested or required (by oral questions, interrogatories, requests for information or documents, subpoena, civil investigative demand or similar process) to disclose any information covered by Section 6(a), Employee shall promptly notify the Company of such request or requirement so that the Company may seek to avoid or minimize the required disclosure and/or to obtain an appropriate protective order or other appropriate relief to ensure that any information so disclosed is maintained in confidence to the maximum extent possible by the agency or other person receiving the disclosure, or, in the discretion of the Company, to waive compliance with the provisions of this Release. Employee shall use reasonable efforts, in cooperation with the Company or otherwise, to avoid or minimize the required disclosure and/or to obtain such protective order or other relief. If, in the absence of a protective order or the receipt of a waiver hereunder, Employee is compelled to disclose such information or else stand liable for contempt or suffer other sanction, censure or penalty, Employee shall disclose only so much of such information to the party compelling disclosure as he believes in good faith on the basis of advice of counsel is required by law, and Employee shall give the Company prior notice of such information he believes he is required to disclose. Notwithstanding the foregoing, pursuant to the Defend Trade Secrets Act of 2016, Employee understands that: An individual may not be held criminally or civilly liable under any Federal or state trade secret law for the disclosure of a trade secret that: (i) is made (a) in confidence to a Federal, state, or local government official, either directly or indirectly, or to an attorney; and (b) solely for the

purpose of reporting or investigating a suspected violation of law; or (ii) is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding. Further, Employee understands that an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the employer's trade secrets to the attorney and use the trade secret information in the court proceeding if the individual: (i) files any document containing the trade secret under seal; and (ii) does not disclose the trade secret, except pursuant to court order.

7. (a) Employee shall not make, either directly or by or through another person, any oral or written negative, disparaging or adverse statements or representations of or concerning any Releasee.

(b) Without limitation to the survival of any other terms of the Employment Agreement subsequent to the end of Employee's employment, the expiration or termination of the Employment Agreement, and/or the execution and effectiveness of this Release, Employee and the Company expressly acknowledge that the terms of Sections 4 and 5 of the Employment Agreement survive and shall be in full force and effect as provided in the Employment Agreement.

8. The covenants, representations and acknowledgments made by Employee in this Release shall continue to have full force and effect after the execution and effectiveness of this Release and the delivery of the Separation Benefit, and this Release shall inure to the benefit of each Releasee, and the successors and assigns of each of them, to the extent necessary to preserve the intended benefits of such provisions. If any section of this Release is determined to be void, voidable or unenforceable, it shall have no effect on the remainder of this Release, which shall remain in full force and effect, and the provisions so held invalid or unenforceable shall be deemed modified as to give such provisions the maximum effect permitted by applicable law. Without limitation to Section 3.8 of the Employment Agreement, the Company shall be excused and released from any obligation to make payment of the Separation Benefit, and Employee shall be obligated to return to the Company the Separation Benefit, in the event that Employee is found to have (a) made a material misstatement in any term, condition, covenant, representation or acknowledgment in this Release or (b) committed or commits a material breach of any term, condition or covenant in this Release.

9. This Release and the Employment Agreement constitute the sole and complete agreement between the parties with respect to the matters set forth therein and supersedes all prior agreements, understandings and arrangements, oral or written, between Employee and the Company with respect to the subject matter thereof. This Release may not be amended or modified except by an instrument or instruments in writing signed by the party against whom enforcement of any such modification or amendment is sought. Either party may, by an instrument in writing, waive compliance by the other party with any term or provision of this Release to be performed or complied with by such other party.

10. With respect to any claims or disputes under or in connection with this Release or any claims released under Section 3 of this Release, Employee and the Company hereby acknowledge and agree that Sections 6.7 and 6.9 of the Employment Agreement shall govern. Employee acknowledges that a breach or threatened breach of the provisions of this Release may give rise to losses or damages for which the Company cannot be reasonably or adequately compensated in an action at law, and that such violation may result in irreparable and continuing harm to the Company. Accordingly, Employee agrees that, in addition to any other remedy that the Company may have at law or in equity, the Company shall be entitled to seek equitable relief, including, without limitation, injunction and specific performance and Employee hereby waives any requirements for security or posting of any bond in connection with such relief. No specification in this Release of any particular remedy shall be construed as a waiver or prohibition of any other remedies (including claims for damages) in the event of a breach or threatened breach of this Release.

11. Employee agrees and acknowledges that (a) Employee has had an adequate opportunity to review this Release and all of its terms, (b) Employee understands all of the terms of this Release, which are fair, reasonable and are not the result of any fraud, duress, coercion, pressure or undue influence exercised by or on behalf of any Releasee and (c) Employee has agreed to and/or entered into this Release and all of the terms hereof, knowingly, freely and voluntarily.

12. By executing this Release, Releasor acknowledges that (a) Employee has been advised by the Company to consult with an attorney before executing this Release; (b) Employee was provided adequate time (i.e., at least 21 days) to review this Release and to consider whether to sign this Release and (c) Employee has been advised that Employee has 7 days following execution to revoke this Release (“Revocation Period”). Notwithstanding anything to the contrary contained herein or in the Employment Agreement, this Release shall not be effective or enforceable, and the Separation Benefit is not payable and shall not be delivered or paid by the Company, until the Revocation Period has expired and provided that Employee has not revoked this Release. Employee agrees that any revocation shall be made in writing and delivered to Michelle Smith, Vice President, Human Resources, Barnes & Noble, Inc., 122 Fifth Avenue, NY, NY 10011. Employee acknowledges that revocation of this Release shall result in the Company’s not having an obligation to pay the Separation Benefit.

Signature: /s/ Jaime Carey
Jaime Carey

Date: 12/9/2016

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data of Barnes & Noble, Inc. and its subsidiaries (collectively, the Company) set forth on the following pages should be read in conjunction with the consolidated financial statements and notes included elsewhere in this report. The Company's fiscal year is comprised of 52 or 53 weeks, ending on the Saturday closest to the last day of April. The Statement of Operations Data for the 52 weeks ended April 29, 2017 (fiscal 2017), 52 weeks ended April 30, 2016 (fiscal 2016) and 52 weeks ended May 2, 2015 (fiscal 2015), and the Balance Sheet Data as of April 29, 2017 and April 30, 2016 are derived from, and are incorporated by reference to, audited consolidated financial statements which are included elsewhere in this report. The Statement of Operations Data for the 53 weeks ended May 3, 2014 (fiscal 2014), 52 weeks ended April 27, 2013 (fiscal 2013), the Balance Sheet Data as of May 2, 2015, May 3, 2014 and April 27, 2013 are derived from audited consolidated financial statements not included elsewhere in this report.

Fiscal Year (In thousands, except per share data)	Fiscal 2017	Fiscal 2016	Fiscal 2015	Fiscal 2014	Fiscal 2013
STATEMENT OF OPERATIONS DATA:					
Sales					
Barnes & Noble Retail	\$ 3,784,655	4,028,614	4,108,243	4,295,140	4,568,247
NOOK	146,514	191,520	263,833	505,862	780,433
Elimination (a)	(36,611)	(56,290)	(74,968)	(167,657)	(272,919)
Total sales	3,894,558	4,163,844	4,297,108	4,633,345	5,075,761
Cost of sales and occupancy	2,682,356	2,836,547	2,871,184	3,214,396	3,800,064
Gross profit	1,212,202	1,327,297	1,425,924	1,418,949	1,275,697
Selling and administrative expenses	1,040,007	1,176,778	1,192,065	1,287,163	1,380,747
Depreciation and amortization	117,887	135,863	143,665	168,793	180,285
Operating income (loss)	54,308	14,656	90,194	(37,007)	(285,335)
Interest expense, net and amortization of deferred financing fees (b)	7,509	8,770	17,678	29,122	30,474
Income (loss) before taxes	46,799	5,886	72,516	(66,129)	(315,809)
Income taxes	24,776	(8,814)	39,644	13,011	(122,407)
Net income (loss) from continuing operations	22,023	14,700	32,872	(79,140)	(193,402)
Net income (loss) from discontinued operations	—	(39,146)	3,724	31,872	35,596
Net income (loss)	\$ 22,023	(24,446)	36,596	(47,268)	(157,806)
Basic income (loss) per common share:					
Income (loss) from continuing operations	\$ 0.30	0.05	0.15	(1.67)	(3.63)
Income (loss) from discontinued operations	—	(0.54)	0.06	0.54	0.61
Basic income (loss) per common share	\$ 0.30	(0.49)	0.21	(1.12)	(3.02)
Diluted income (loss) per common share:					
Income (loss) from continuing operations	\$ 0.30	0.05	0.15	(1.67)	(3.63)
Income (loss) from discontinued operations	—	(0.54)	0.06	0.54	0.61
Diluted income (loss) per common share	\$ 0.30	(0.49)	0.21	(1.12)	(3.02)
Weighted average common shares outstanding:					
Basic	72,188	72,410	60,842	58,971	58,247
Diluted	72,328	72,542	60,928	58,971	58,247
Dividends declared per common share	\$ 0.60	0.60	—	—	—

(In thousands of dollars, except per share data)	Fiscal 2017	Fiscal 2016	Fiscal 2015	Fiscal 2014	Fiscal 2013
OTHER OPERATING DATA:					
Number of Barnes & Noble Retail stores	633	640	648	661	675
Comparable sales increase (decrease):					
Barnes & Noble Retail store sales (c)	(6.3)%	0.0%	(1.9)%	(5.8)%	(3.4)%
Barnes & Noble Retail core sales (d)	(5.7)%	0.4%	0.5%	(3.1)%	0.1%
Capital expenditures	\$ 96,258	94,274	94,805	96,728	127,075
BALANCE SHEET DATA:					
Total assets – continuing operations	\$1,932,921	2,012,782	2,045,104	2,270,649	2,542,108
Total assets – discontinued operations	\$ —	—	1,067,327	1,122,071	980,535
Total liabilities – continuing operations	\$1,358,610	1,409,272	1,347,384	1,798,649	1,880,729
Total liabilities – discontinued operations	\$ —	—	379,630	357,180	353,009
Long-term debt	\$ 64,900	47,200	—	—	77,000
Long-term subordinated note	\$ —	—	—	—	127,250
Shareholders' equity	\$ 574,311	603,510	1,189,358	658,696	713,743

- (a) Represents sales from NOOK to B&N Retail on a sell-through basis.
- (b) Amounts for fiscal 2017, fiscal 2016, fiscal 2015, fiscal 2014 and fiscal 2013 are net of interest income of \$0, \$0, \$58, \$190 and \$71, respectively.
- (c) Comparable store sales increase (decrease) is calculated on a 52-week basis, including sales from stores that have been open for at least 15 months and all eReader device revenue deferred in accordance with Accounting Standards Codification 605-25, *Revenue Recognition, Multiple-Element Arrangements*, and does not include sales from closed or relocated stores.
- (d) Core comparable store sales, which exclude sales of NOOK[®] products, increase (decrease) is calculated on a 52-week basis, including sales from stores that have been open for at least 15 months and does not include sales from closed or relocated stores.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Barnes & Noble, Inc.'s (Barnes & Noble or the Company) fiscal year is comprised of 52 or 53 weeks, ending on the Saturday closest to the last day of April. As used in this section, "fiscal 2017" represents the 52 weeks ended April 29, 2017, "fiscal 2016" represents the 52 weeks ended April 30, 2016 and "fiscal 2015" represents the 52 weeks ended May 2, 2015.

General

Barnes & Noble, Inc., one of the nation's largest booksellers,¹ provides customers a unique experience across its multi-channel distribution platform. As of April 29, 2017, the Company operates 633 bookstores in 50 states, maintains an eCommerce site, develops digital reading products and operates NOOK, one of the largest digital bookstores. Barnes & Noble is utilizing the strength of its retail footprint in combination with its online and digital businesses to provide an omni-channel experience for its customers, fulfilling its commitment to offer customers any book, anytime, anywhere and in any format.

Barnes & Noble Retail (B&N Retail) operates 633 retail bookstores, primarily under the Barnes & Noble Booksellers[®] trade name, and includes the Company's eCommerce site. B&N Retail also includes Sterling Publishing Co., Inc. (Sterling or Sterling Publishing), a leader in general trade book publishing. The NOOK segment represents the Company's digital business, offering digital books and magazines for sale and consumption online, NOOK[®]² reading devices, co-branded NOOK[®] tablets and reading software for iOS, Android and Windows. The Company employed approximately 26,000 employees (11,000 full-time and 15,000 part-time employees) as of April 29, 2017.

The Company's principal business is the sale of trade books (generally, hardcover and paperback titles), mass market paperbacks (such as mystery, romance, science fiction and other popular fiction), children's books, eBooks and other digital content, NOOK[®] and related accessories, bargain books, magazines, gifts, café products and services, educational toys & games, music and movies direct to customers through its bookstores or on www.barnesandnoble.com. The Company offers its customers a full suite of textbook options (new, used, digital and rental).

Separation of Barnes & Noble Education, Inc.

On February 26, 2015, Barnes & Noble announced plans for the legal and structural separation of Barnes & Noble Education, Inc. (Barnes & Noble Education or B&N Education) (formerly known as NOOK Media Inc.) from Barnes & Noble into an independent public company (the Spin-Off).

On July 14, 2015, the Barnes & Noble board of directors (the Board) approved the final distribution ratio and declared a pro rata dividend of the outstanding shares of B&N Education common stock, which resulted in the complete legal and structural separation of the two companies. The distribution was subject to the satisfaction or waiver of certain conditions as set forth in B&N Education's Registration Statement on Form S-1, which was filed with the Securities and Exchange Commission (SEC) on February 26, 2015 and was amended on April 29, 2015, June 4, 2015, June 29, 2015, July 13, 2015, July 14, 2015 and July 15, 2015.

¹ Based upon sales reported in trade publications and public filings.

² Any references to NOOK[®] include the Company's NOOK[®] Tablet, Samsung Galaxy Tab[®] A NOOK[®], Samsung Galaxy Tab[®] S2 NOOK[®], Samsung Galaxy Tab[®] E NOOK[®] and NOOK GlowLight[™] Plus devices, each of which includes the trademark symbol ([®] or [™], as applicable) even if a trademark symbol is not included.

On August 2, 2015, Barnes & Noble completed the Spin-Off of Barnes & Noble Education and distributed, on a pro rata basis, all of the shares of B&N Education common stock to the Company's stockholders of record as of July 27, 2015. These Barnes & Noble stockholders of record as of July 27, 2015 received a distribution of 0.632 shares of B&N Education common stock for each share of Barnes & Noble common stock held as of the record date. Immediately following the completion of the Spin-Off, the Company's stockholders owned 100% of the outstanding shares of common stock of B&N Education. Following the Spin-Off, B&N Education operates as an independent public company and as the parent of Barnes & Noble College, trading on New York Stock Exchange under the ticker symbol "BNED".

In connection with the separation of B&N Education, the Company and B&N Education entered into a Separation and Distribution Agreement on July 14, 2015 and several other ancillary agreements on August 2, 2015. These agreements govern the relationship between the Company and B&N Education after the separation and allocate between the Company and B&N Education various assets, liabilities, rights and obligations following the separation, including employee benefits, intellectual property, information technology, insurance and tax-related assets and liabilities. The agreements also describe the Company's future commitments to provide B&N Education with certain transition services.

This Spin-Off is expected to be a non-taxable event for Barnes & Noble and its shareholders, and Barnes & Noble's U.S. shareholders (other than those subject to special rules) generally will not recognize gain or loss as a result of the distribution of B&N Education shares.

History of Barnes & Noble Education, Inc.

On September 30, 2009, Barnes & Noble acquired Barnes & Noble College Booksellers, LLC (B&N College) from Leonard and Louise Riggio. From that date until October 4, 2012, B&N College was wholly owned by Barnes & Noble Booksellers, Inc. B&N Education was initially incorporated under the name NOOK Media Inc. in July 2012 to hold Barnes & Noble's B&N College and NOOK digital businesses. On October 4, 2012, Microsoft Corporation (Microsoft) acquired a 17.6% non-controlling preferred membership interest in B&N Education's subsidiary B&N Education, LLC (formerly NOOK Media LLC) (the LLC), and through B&N Education, Barnes & Noble maintained an 82.4% controlling interest of the B&N College and NOOK digital businesses.

On January 22, 2013, Pearson Education, Inc. (Pearson) acquired a 5% non-controlling preferred membership interest in the LLC, entered into a commercial agreement with the LLC relating to the B&N College business and received warrants to purchase an additional preferred membership interest in the LLC.

On December 4, 2014, B&N Education re-acquired Microsoft's interest in the LLC in exchange for cash and common stock of Barnes & Noble and the Microsoft commercial agreement was terminated effective as of such date. On December 22, 2014, B&N Education also re-acquired Pearson's interest in the LLC and certain related warrants previously issued to Pearson. In connection with these transactions, Barnes & Noble entered into contingent payment agreements with Microsoft and Pearson providing for additional payments upon the occurrence of certain events, including upon a sale of the NOOK digital business. As a result of these transactions, Barnes & Noble owned, prior to the Spin-Off, 100% of B&N Education.

On May 1, 2015, B&N Education distributed to Barnes & Noble all of the membership interests in B&N Education's NOOK digital business. As a result, B&N Education ceased to own any interest in the NOOK digital business, which remains a wholly owned subsidiary of Barnes & Noble.

Discontinued Operations of Barnes & Noble Education, Inc.

The Company has recognized the separation of B&N Education in accordance with Accounting Standards Codification (ASC) 205-20, *Discontinued Operations*. As such, the historical results of Barnes & Noble Education for fiscal 2015 and fiscal 2014 have been adjusted to include pre-spin B&N Education results and separation-related costs and exclude corporate allocations with B&N Retail, and have been classified as discontinued operations. Additionally, discontinued operations for fiscal 2016 primarily consisted of pre-spin B&N Education results, investment banking fees (as they directly related to the Spin-Off) and separation-related costs, and excluded corporate allocation adjustments with B&N Retail.

Resignation Charge

On August 2, 2015, Michael P. Huseby resigned from the Company's Board of Directors and as Chief Executive Officer of the Company, which was contingent upon the successful separation of B&N Education. In connection with his termination of employment, he received severance payments based on the terms of his employment agreement with the Company, effective as of January 7, 2014. Under the terms of his employment agreement, upon a resignation for "Good Reason", Mr. Huseby was entitled to receive lump-sum severance equal to two times the sum of (a) annual base salary, (b) the average annual incentive compensation paid to the named executive officer with respect to the preceding two completed years and (c) the cost of benefits. In addition, Mr. Huseby was entitled to accelerated vesting of the equity-based awards granted pursuant to his employment agreement. As a result, Mr. Huseby received a severance payment equal to \$7.7 million and additionally was entitled to 300,000 shares of the Company's common stock pursuant to the accelerated vesting of the equity-based awards, which were settled for cash based on the closing price of the Company's common stock on the record date of the Spin-Off in an amount equal to \$8.0 million. The net cash payments related to Mr. Huseby's resignation totaled \$15.7 million during the second quarter of fiscal 2016. Mr. Huseby's 300,000 shares have been ratably expensed from the initial grant date, thereby reducing the total resignation charge to \$10.5 million, which was recorded within selling and administrative expenses during the second quarter of fiscal 2016.

CEO Departure

On October 26, 2016, the Company entered into a release agreement (the Release Agreement) with its former Chief Executive Officer, Ronald D. Boire. Under the Release Agreement, Mr. Boire and the Company agreed to release claims against each other in connection with Mr. Boire's termination of employment in exchange for a cash payment contemplated by his employment agreement. In connection with the execution of the Release Agreement, Mr. Boire also agreed to forfeit all equity awards that were granted to him by the Company.

The cash payment in connection with the Release Agreement totaled \$4.8 million. The Company has previously recognized \$1.9 million in expense relating to the equity awards granted to Mr. Boire during his employment. Taking into account the reversal of those expenses, the Company recorded a net charge related to the cash payment to Mr. Boire in connection with the Release Agreement of \$2.9 million within selling and administrative expenses during the second quarter of fiscal 2017.

Series J Preferred Stock

On August 18, 2011, the Company entered into an investment agreement between the Company and Liberty GIC, Inc. (Liberty), pursuant to which the Company issued and sold to Liberty, and Liberty purchased, 204,000 shares of the Company's Series J Preferred Stock, par value \$0.001 per share (Preferred Stock), for an aggregate purchase price of \$204.0 million in a private placement exempt from the registration requirements of the 1933 Act. The shares of Preferred Stock were convertible, at the option of the holders, into shares of Common Stock representing 16.6% of the Common Stock outstanding as of August 29, 2011 (after giving pro forma effect to the issuance of the Preferred Stock) based on the initial conversion rate. The initial conversion rate reflected an initial conversion price of \$17.00 and was subject to adjustment in certain circumstances. The initial dividend rate for the Preferred Stock was equal to 7.75% per annum of the initial liquidation preference of the Preferred Stock paid quarterly and subject to adjustment in certain circumstances.

On April 8, 2014, Liberty sold the majority of its shares to qualified institutional buyers in reliance on Rule 144A under the Securities Act and had retained an approximate 10% stake of its initial investment. As a result, Liberty no longer had the right to elect two preferred stock directors to the Company's Board. Additionally, the consent rights and pre-emptive rights, to which Liberty was previously entitled, ceased to apply.

On June 5, 2015, the Company entered into conversion agreements with five beneficial owners (Series J Holders) of its Preferred Stock, pursuant to which each of the Series J Holders had agreed to convert (Conversion) shares of Preferred Stock it beneficially owned into shares of the Company's common stock, par value \$0.001 per share (Company Common Stock), and additionally received a cash payment from the Company in connection with the Conversion.

On July 9, 2015, the Company completed the Conversion. Pursuant to the terms of the Conversion Agreements, the Series J Holders converted an aggregate of 103,995 shares of Preferred Stock into 6,117,342 shares of Company Common Stock, and made an aggregate cash payment to the Series J Holders of \$3.7 million plus cash in lieu of fractional shares in connection with the Conversion.

On July 10, 2015, the Company gave notice of its exercise of the right to force conversion of all outstanding shares of its Senior Convertible Redeemable Series J Preferred Stock into Company Common Stock pursuant to Section 9 of the Certificate of Designations, Preferences and Relative Participating, Optional and Other Special Rights and Qualifications, Limitations and Restrictions of Series J Preferred Stock, dated as of August 18, 2011 (the Forced Conversion). The effective date of the Forced Conversion was July 24, 2015. On the date of the Forced Conversion, each share of Series J Preferred Stock was automatically converted into 59.8727 shares of Company Common Stock, which included shares of Company Common Stock reflecting accrued and unpaid dividends on Series J Preferred Stock. Each holder of Series J Preferred Stock received whole shares of Company Common Stock and a cash amount in lieu of fractional shares of Company Common Stock.

As a result of the transactions described above, all shares of Series J Preferred Stock were retired by the Company and are no longer outstanding.

Segments

The Company identifies its operating segments based on the way the business is managed (focusing on the financial information distributed) and the manner in which the chief operating decision maker interacts with other members of management and makes decisions on the allocation of resources. The Company's two operating segments are B&N Retail and NOOK.

B&N Retail

This segment includes 633 bookstores as of April 29, 2017, primarily under the Barnes & Noble Booksellers trade name. These Barnes & Noble stores generally offer a comprehensive trade book title base, a café, and departments dedicated to Juvenile, Toys & Games, DVDs, Music & Vinyl, Gift, Magazine, Bargain products and a dedicated NOOK[®] area. The stores also offer a calendar of ongoing events, including author appearances and children's activities. The B&N Retail segment also includes the Company's eCommerce website, www.barnesandnoble.com, and its publishing operation, Sterling Publishing.

Barnes & Noble stores range in size from 3,000 to 60,000 square feet depending upon market size, with an overall average store size of 26,000 square feet. In fiscal 2017, the Company reduced the Barnes & Noble store base by approximately 199,000 square feet, bringing the total square footage to 16.7 million square feet, a net reduction of 1.2% from fiscal 2016.

Each Barnes & Noble store features an authoritative selection of books, ranging from 22,000 to 163,000 titles. The comprehensive title selection is diverse and reflects local interests and regional titles and authors' works. Bestsellers typically represent between approximately 4% and 6% of Barnes & Noble store sales. Product Master, the Company's proprietary inventory management database, has approximately 19.0 million titles. It includes approximately 7.3 million active titles and provides each store with comprehensive title selections. By enhancing the Company's existing merchandise replenishment systems, Product Master allows the Company to achieve higher in-stock positions and better productivity at the bookstore level through efficiencies in receiving, cashiering and returns processing. Complementing this extensive on-site selection, all Barnes & Noble stores provide customers with access to the millions of books available to online shoppers at www.barnesandnoble.com by offering an option to have the book sent to the store or shipped directly to the customer.

Sterling Publishing

Sterling Publishing is a leading publisher of non-fiction trade titles. Founded in 1949, Sterling publishes a wide range of non-fiction and illustrated books and kits across a variety of imprints, in categories such as health & wellness, music & popular culture, food & wine, crafts, puzzles & games, coloring books and history & current affairs, as well as a large children's line. Sterling, with a solid backlist and robust value publishing program, has a title base of approximately 15,000 eBooks and print books. In addition, Sterling also distributes approximately 1,100 titles on behalf of client publishers.

NOOK

This segment represents the Company's digital business, including the development and support of the Company's NOOK[®] product offerings. The digital business includes digital content such as eBooks, digital newsstand and sales of NOOK[®] devices and accessories to B&N Retail. The underlying

strategy of the NOOK business is to offer customers any digital book, newspaper or magazine, anytime, on any device. The Company remains committed to delivering to customers the best digital bookstore experience, providing easy access to Barnes & Noble's expansive digital collection of over four million eBooks, digital magazines and newspapers, while rationalizing its existing cost structure. As part of this commitment, the Company partners with Samsung to develop co-branded NOOK[®] tablets that feature the award-winning Barnes & Noble digital reading experience, while continuing to develop and offer its own black-and-white NOOK[®] eReaders.

On April 7, 2016, the Company entered into an agreement with Bahwan CyberTek (BCT), a global software products and services company, in which the Company outsourced certain NOOK functions, including cloud management and development support for NOOK[®] software.

Results of Operations

<u>Fiscal Year</u>	<u>Fiscal 2017</u>	<u>Fiscal 2016</u>	<u>Fiscal 2015</u>
Sales (in thousands)	\$3,894,558	\$4,163,844	\$4,297,108
Net Income From Continuing Operations (in thousands)	\$ 22,023	\$ 14,700	\$ 32,872
Net Income (Loss) From Discontinued Operations (in thousands)	\$ —	\$ (39,146)	\$ 3,724
Net Income (Loss) (in thousands)	\$ 22,023	\$ (24,446)	\$ 36,596
Diluted Income Per Common Share From Continuing Operations	\$ 0.30	\$ 0.05	\$ 0.15
Diluted Income (Loss) Per Common Share From Discontinued Operations	\$ —	\$ (0.54)	\$ 0.06
Diluted Income (Loss) Per Common Share	\$ 0.30	\$ (0.49)	\$ 0.21
Comparable Sales Increase (Decrease)			
Barnes & Noble Retail store sales (a)	(6.3)%	0.0%	(1.9)%
Barnes & Noble Retail core sales (b)	(5.7)%	0.4%	0.5%
Stores Opened			
Barnes & Noble Retail stores	3	0	0
Stores Closed			
Barnes & Noble Retail stores	10	8	13
Number of Stores Open at Year End			
Barnes & Noble Retail stores	633	640	648
Square Feet of Selling Space at Year End (in millions)			
Barnes & Noble Retail stores	16.7	16.9	17.1

(a) Comparable store sales increase (decrease) is calculated on a 52-week basis, including sales from stores that have been open for at least 15 months and all eReader device revenue deferred in accordance with Accounting Standards Codification (ASC) 605-25, *Revenue Recognition, Multiple-Element Arrangements*, and does not include sales from closed or relocated stores.

(b) Core comparable store sales, which exclude sales of NOOK[®] products, increase (decrease) is calculated on a 52-week basis, including sales from stores that have been open for at least 15 months and does not include sales from closed or relocated stores.

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

<u>Fiscal Year</u>	<u>Fiscal 2017</u>	<u>Fiscal 2016</u>	<u>Fiscal 2015</u>
Sales	100.0%	100.0%	100.0%
Cost of sales and occupancy	68.9	68.1	66.8
Gross profit	31.1	31.9	33.2
Selling and administrative expenses	26.7	28.3	27.7
Depreciation and amortization	3.0	3.3	3.3
Operating income	1.4	0.4	2.1
Interest expense, net and amortization of deferred financing fees	0.2	0.2	0.4
Income before taxes	1.2	0.1	1.7
Income taxes	0.6	(0.2)	0.9
Net income from continuing operations	0.6	0.4	0.8
Net income (loss) from discontinued operations	—	(0.9)	0.1
Net income (loss)	0.6%	(0.6)%	0.9%

Business Overview

Recently, Barnes & Noble has experienced declining sales trends due primarily to lower store traffic and the challenging retail environment. Despite sales declines, the Company has been able to sustain profit levels on cost reductions. While the Company believes it has lost share on its recent sales performance, it also sees opportunities in an industry that has become more stable.

To grow sales, the Company will leverage the strength of its Barnes & Noble brand, knowledgeable booksellers, vast selection and retail footprint to attract customers to its omni-channel offerings. Merchandising initiatives are focused on increasing the number of value offers, improving SKU productivity, improving inventory management processes, testing changes to existing store layouts and remerchandising select business units in stores. The Company believes there is opportunity to increase conversion, by improving navigation and discovery throughout the store, including a customer friendly and more intuitive organization of books and improved signage for easier browsing within and across sections.

In-store events also drive traffic, reinforcing Barnes & Noble as a community center where customers can meet, browse and discover. The Company is also utilizing social media, where booksellers communicate events, promotions and new product offerings with customers at the local level.

In addition to initiatives focused on growing sales through its existing store base, the Company is also testing new bookstore formats, which it believes could foster sales growth in the future.

BN.com and NOOK are important components of the Company's omni-channel strategy. The Company believes that in the long term, enhancements to its BN.com platform will enable it to be more competitive in the marketplace. The Company continues to improve its overall eCommerce user experience across channels, including desktop, tablet, mobile and app based, with the goal of providing a great device agnostic user experience. For customers interested in eBooks, the Company continues to judiciously bring new NOOK devices and apps to market.

The Company's Membership program provides the Company with valuable data and insights into its customer base, enabling the Company to better understand and market to its customers. Members are more productive than Non-Members, as they spend more and visit more often. The Company continues to test programs to grow sales to both Members and Non-Members, increase Membership, improve price perception and enhance its overall customer value proposition.

In light of the declining sales trends, the Company remains committed to right sizing its cost structure. The Company is focused on simplification throughout its organization to create efficiencies and reinvest resources to support sales growth. At B&N Retail, the Company is focused on increasing store and supply chain productivity, streamlining operations and eliminating non-productive spend. At NOOK, the Company exited non-core businesses and outsourced certain functions, which enabled it to close its Santa Clara, CA and Taipei offices. NOOK expects to continue to re-calibrate its cost structure commensurate with sales, further reducing its losses.

52 Weeks Ended April 29, 2017 Compared with 52 Weeks Ended April 30, 2016

The following tables summarize the Company's results of operations for the 52 weeks ended April 29, 2017 and 52 weeks ended April 30, 2016.

Sales

<i>Dollars in thousands</i>	52 Weeks Ended		52 Weeks Ended	
	April 29, 2017	% Total	April 30, 2016	% Total
B&N Retail	\$3,784,655	97.2%	\$4,028,614	96.8%
NOOK	146,514	3.8%	191,520	4.6%
Elimination	(36,611)	(0.9)%	(56,290)	(1.4)%
Total Sales	<u>\$3,894,558</u>	<u>100.0%</u>	<u>\$4,163,844</u>	<u>100.0%</u>

The Company's sales decreased \$269.3 million, or 6.5%, during fiscal 2017 to \$3.895 billion from \$4.164 billion during fiscal 2016. The changes by segment are as follows:

- B&N Retail sales decreased \$244.0 million, or 6.1%, to \$3.785 billion from \$4.029 billion during the same period one year ago, and accounted for 97.2% of total Company sales. Comparable store sales decreased \$216.5 million, or 6.3%, as compared to the prior year. Closed stores decreased sales by \$46.7 million. B&N Retail also includes third-party sales of Sterling Publishing Co., Inc., which decreased by \$13.4 million, or 27.3%, versus the prior year on lower coloring book sales. Online sales increased \$10.8 million, or 3.7%, versus the prior year period on benefits from an eBook settlement (as discussed below), site improvements and increased promotional activity. New stores increased sales by \$7.7 million. Gift card breakage increased \$6.5 million as redemptions continue to run lower than historical patterns.

Of the \$216.5 million decrease in comparable store sales, core comparable store sales, which exclude sales of NOOK® products, decreased \$194.2 million, or 5.7%, as compared to the prior year due in large part to lower traffic, comparisons to last year's coloring book and artist supplies phenomenon and the challenging retail environment. Book categories decreased sales by \$134.5 million, or 6.0%, on lower sales of Trade, Bargain (primarily coloring books) and Juvenile titles,

while non-book core categories decreased sales by \$59.7 million, or 5.1% on declines in the DVD, Café, Newsstand and Gift businesses. Comparable sales of NOOK® products at B&N Retail stores decreased \$22.3 million, or 37.5%, primarily on lower device unit volume and lower average selling prices.

- NOOK sales decreased \$45.0 million, or 23.5%, to \$146.5 million from \$191.5 million during the same period one year ago, and accounted for 3.8% of total Company sales. Digital content sales decreased \$23.6 million, or 18.1%, compared to prior year on lower unit sales, partially offset by higher average selling prices. Current year content volume benefited from an eBook settlement. Device and accessories sales decreased \$21.4 million, or 34.9%, primarily on lower unit sales and lower average selling prices.
- Elimination sales, which represent sales from NOOK to B&N Retail on a sell-through basis, decreased \$19.7 million, or 35.0%, versus the prior year. NOOK sales, net of elimination, accounted for 2.8% of total Company sales.

In fiscal 2017, the Company opened three and closed ten Barnes & Noble stores, bringing its total number of B&N Retail stores to 633, with 16.7 million square feet, in the 50 states.

Cost of Sales and Occupancy

<u>Dollars in thousands</u>	52 Weeks Ended		52 Weeks Ended	
	April 29, 2017	% Sales	April 30, 2016	% Sales
B&N Retail	\$2,636,113	69.7%	\$2,770,209	68.8%
NOOK	82,854	56.6%	122,628	64.0%
Elimination	(36,611)	(25.0)%	(56,290)	(29.4)%
Total Cost of Sales and Occupancy	<u>\$2,682,356</u>	<u>68.9%</u>	<u>\$2,836,547</u>	<u>68.1%</u>

The Company's cost of sales and occupancy includes costs such as merchandise costs, distribution center costs (including payroll, freight, supplies and other operating expenses), rental expense, common area maintenance and real estate taxes, partially offset by landlord tenant allowances amortized over the life of the lease.

Cost of sales and occupancy decreased \$154.2 million, or 5.4%, to \$2.682 billion in fiscal 2017 from \$2.837 billion in fiscal 2016. Cost of sales and occupancy increased as a percentage of sales to 68.9% in fiscal 2017 from 68.1% in fiscal 2016. The changes by segment are as follows:

- B&N Retail cost of sales and occupancy increased as a percentage of sales to 69.7% from 68.8%, or 90 basis points, during the same period one year ago primarily on occupancy deleverage (60 basis points), higher markdowns (50 basis points) from promotional activity, including *Harry Potter and the Cursed Child*, as well as markdowns to clear non-returnable merchandise resulting from the holiday sales shortfall. The remaining variance included product mix, sales deleverage and general timing differences.
- NOOK cost of sales and occupancy decreased as a percentage of sales to 56.6% from 64.0% during the same period one year ago. This decrease was primarily due to sales mix, improved device margins and a favorable channel partner settlement.

Gross Profit

<i>Dollars in thousands</i>	52 Weeks Ended		52 Weeks Ended	
	April 29, 2017	% Sales	April 30, 2016	% Sales
B&N Retail	\$1,148,542	30.3%	\$1,258,405	31.2%
NOOK	63,660	57.9%	68,892	50.9%
Total Gross Profit	\$1,212,202	31.1%	\$1,327,297	31.9%

The Company's consolidated gross profit decreased \$115.1 million, or 8.7%, to \$1.212 billion in fiscal 2017 from \$1.327 billion in fiscal 2016. This decrease was due to the matters discussed above.

Selling and Administrative Expenses

<i>Dollars in thousands</i>	52 Weeks Ended		52 Weeks Ended	
	April 29, 2017	% Sales	April 30, 2016	% Sales
B&N Retail	\$ 959,002	25.3%	\$1,043,221	25.9%
NOOK	81,005	73.7%	133,557	98.8%
Total Selling and Administrative Expenses	\$1,040,007	26.7%	\$1,176,778	28.3%

Selling and administrative expenses decreased \$136.8 million, or 11.6%, to \$1.040 billion in fiscal 2017 from \$1.177 billion in fiscal 2016. Selling and administrative expenses decreased as a percentage of sales to 26.7% in fiscal 2017 from 28.3% in fiscal 2016. The changes by segment are as follows:

- B&N Retail selling and administrative expenses decreased \$84.2 million as compared to prior year, decreasing 60 basis points as a percentage of sales to 25.3% from 25.9% for the year. Favorable variances to the prior year include lower pension expense (60 basis points) on the prior year pension settlement charge, lower holiday advertising (45 basis points) and lower website expenses (25 basis points) as the prior year included investments to stabilize the site and improve traffic and customer experience. The prior year also included a net CEO separation-related severance charge of \$10.5 million (25 basis points). Unfavorable variances to the prior year include higher store payroll (65 basis points on store sales) as sales leverage and wage increases offset productivity gains, higher non-CEO severance costs (25 basis points) primarily resulting from a cost reduction program and a severance charge (net of reversal of expense relating to equity awards) of \$3.0 million resulting from the current year CEO departure (10 basis points). The remaining variance included the general timing of expenses.
- NOOK selling and administrative expenses decreased \$52.6 million as compared to the prior year, decreasing as a percentage of sales to 73.7% from 98.8% during the same period a year ago. Current year expenses include severance and transitional costs of \$10.7 million related to the outsourcing of certain services and the closure of its California and Taiwan offices. Excluding these costs, the decrease in dollars was primarily attributable to continued cost rationalization efforts, including lower compensation, as well as lower variable costs on the sales decline.

Depreciation and Amortization

<i>Dollars in thousands</i>	52 Weeks Ended		52 Weeks Ended	
	April 29, 2017	% Sales	April 30, 2016	% Sales
B&N Retail	\$ 98,877	2.6%	\$ 101,888	2.5%
NOOK	19,010	17.3%	33,975	25.1%
Total Depreciation and Amortization	<u>\$ 117,887</u>	<u>3.0%</u>	<u>\$ 135,863</u>	<u>3.3%</u>

Depreciation and amortization decreased \$18.0 million, or 13.2%, to \$117.9 million in fiscal 2017 from \$135.9 million in fiscal 2016. This decrease was primarily attributable to fully depreciated assets, partially offset by additional capital expenditures.

Operating Income (Loss)

<i>Dollars in thousands</i>	52 Weeks Ended		52 Weeks Ended	
	April 29, 2017	% Sales	April 30, 2016	% Sales
B&N Retail	\$ 90,663	2.4%	\$ 113,296	2.8%
NOOK	(36,355)	(33.1)%	(98,640)	(72.9)%
Total Operating Income	<u>\$ 54,308</u>	<u>1.4%</u>	<u>\$ 14,656</u>	<u>0.4%</u>

The Company's consolidated operating income increased \$39.7 million, or 270.6%, to an operating income of \$54.3 million in fiscal 2017 from an operating income of \$14.7 million in fiscal 2016. This increase was due to the matters discussed above.

Interest Expense, Net and Amortization of Deferred Financing Fees

<i>Dollars in thousands</i>	52 Weeks Ended	52 Weeks Ended	% of Change
	April 29, 2017	April 30, 2016	
Interest Expense, Net and Amortization of Deferred Financing Fees	<u>\$ 7,509</u>	<u>\$ 8,770</u>	<u>(14.4)%</u>

Net interest expense and amortization of deferred financing fees decreased \$1.3 million, or 14.4%, to \$7.5 million in fiscal 2017 from \$8.8 million in fiscal 2016. This decrease was primarily due to lower deferred financing fees in conjunction with the refinancing of the credit facility in August 2015.

Income Taxes

<i>Dollars in thousands</i>	52 Weeks Ended		52 Weeks Ended	
	April 29, 2017	Effective Rate	April 30, 2016	Effective Rate
Income Taxes	<u>\$24,776</u>	<u>52.9%</u>	<u>\$(8,814)</u>	<u>(149.7)%</u>

The Company recorded an income tax provision of \$24.8 million in fiscal 2017 compared with an income tax benefit of \$8.8 million in fiscal 2016. The Company's effective tax rate was 52.9% and (149.7)% in fiscal 2017 and fiscal 2016, respectively. The Company's effective tax rate differs from the statutory rate due to the impact of permanent items such as meals and entertainment, non-deductible executive compensation, tax credits, changes in uncertain tax positions and the impact of return to provision adjustments and state tax provision, net of federal benefit. The Company continues to maintain a valuation allowance against certain state items. The prior year rate was impacted by uncertain tax positions, finalization of the federal income tax audit covering the 2008 through 2012 tax years, the closure of many state taxing jurisdiction statutes, the impact of new legislation enacted by Congress permanently reinstating the research and development credit and the impact of filing the income tax returns.

In accordance with accounting principles generally accepted in the United States (GAAP) rules on accounting for income taxes, the Company evaluates the realizability of its deferred tax assets at each reporting date. The Company records a valuation allowance when it determines that it is more likely than not that all or a portion of a particular deferred tax asset will not be realized. As part of this evaluation, the Company reviews all evidence, both positive and negative, to determine if a valuation allowance is needed. The Company's review of positive evidence included the review of historic profitability, projected profitability, feasible tax planning strategies that may be implemented and the reversal of temporary items. The Company determined that there was sufficient negative evidence to establish valuation allowances against certain deferred tax assets, totaling \$7.6 million. The Company will monitor the need for additional valuation allowances at each quarter in the future and adjust the valuation allowance as necessary.

Net Income from Continuing Operations

<i>Dollars in thousands</i>	52 Weeks Ended		52 Weeks Ended	
	April 29, 2017	Diluted EPS	April 30, 2016	Diluted EPS
Net Income from Continuing Operations	<u>\$22,023</u>	<u>\$0.30</u>	<u>\$14,700</u>	<u>\$0.05</u>

As a result of the factors discussed above, the Company reported a consolidated net income from continuing operations of \$22.0 million (or \$0.30 per diluted share) during fiscal 2017, compared with consolidated net income from continuing operations of \$14.7 million (or \$0.05 per diluted share) during fiscal 2016.

Net Loss from Discontinued Operations

<i>Dollars in thousands</i>	52 Weeks Ended		52 Weeks Ended	
	April 29, 2017	Diluted EPS	April 30, 2016	Diluted EPS
Net Loss from Discontinued Operations	\$ —	\$ —	\$(39,146)	\$(0.54)

The Company has recognized the separation of B&N Education in accordance with ASC 205-20, *Discontinued Operations*. As such, the historical results of Barnes & Noble Education have been classified as discontinued operations.

Discontinued operations for fiscal 2016 primarily consisted of pre-spin B&N Education results, investment banking fees (as they directly related to the Spin-Off) and separation-related costs, and excluded corporate allocation adjustments with B&N Retail.

Net Income (Loss)

<i>Dollars in thousands</i>	52 Weeks Ended		52 Weeks Ended	
	April 29, 2017	Diluted EPS	April 30, 2016	Diluted EPS
Net Income (Loss)	\$22,023	\$0.30	\$(24,446)	\$(0.49)

As a result of the factors discussed above, the Company reported a consolidated net income of \$22.0 million (or \$0.30 per diluted share) during fiscal 2017, compared with consolidated net loss of \$24.4 million (or \$0.49 per diluted share) during fiscal 2016.

52 Weeks Ended April 30, 2016 Compared with 52 Weeks Ended May 2, 2015

The following tables summarize the Company's results of operations for the 52 weeks ended April 30, 2016 and 52 weeks ended May 2, 2015.

Sales

<i>Dollars in thousands</i>	52 Weeks Ended		52 Weeks Ended	
	April 30, 2016	% Total	May 2, 2015	% Total
B&N Retail	\$4,028,614	96.8%	\$4,108,243	95.6%
NOOK	191,520	4.6%	263,833	6.1%
Elimination	(56,290)	(1.4)%	(74,968)	(1.7)%
Total Sales	\$4,163,844	100.0%	\$4,297,108	100.0%

The Company's sales decreased \$133.3 million, or 3.1%, during fiscal 2016 to \$4.164 billion from \$4.297 billion during fiscal 2015. The changes by segment are as follows:

- B&N Retail sales decreased \$79.6 million, or 1.9%, to \$4.029 billion from \$4.108 billion during the same period one year ago, and accounted for 96.8% of total Company sales. Online sales were impacted by challenges following the launch of the new BN.com website, decreasing \$49.0

million, or 14.4%, versus the prior year. Closed stores decreased sales by \$40.5 million. Device warranty reimbursements, resulting from favorable claims experience with a warranty service provider, decreased \$4.8 million on a year-to-date basis as compared to the prior year due to a smaller claim period and lower volume. These unfavorable variances were partially offset by a \$3.0 million increase in gift card breakage as redemptions continue to run lower than historical patterns. B&N Retail also includes third-party sales of Sterling Publishing Co., Inc., which increased by \$8.7 million, or 21.7%, on increased adult coloring book business.

Comparable store sales decreased \$1.3 million, or essentially flat, as compared to the prior year. Of the \$1.3 million decrease in comparable store sales, core comparable store sales, which exclude sales of NOOK[®] products, increased \$13.0 million, or 0.4%, as compared to the prior year. Non-book core categories increased sales by \$48.3 million, or 4.2%, on growth of the Toys & Games and Gift businesses. Book categories decreased sales by \$35.3 million, or 1.5%, primarily on lower sales of Trade and Juvenile titles, partially offset by strong sales of coloring books. Sales of NOOK[®] products at B&N Retail stores decreased \$14.3 million, or 19.2%, versus the prior year on lower device unit sales and lower average selling prices.

- NOOK sales decreased \$72.3 million, or 27.4%, to \$191.5 million from \$263.8 million during the same period one year ago, and accounted for 4.6% of total Company sales. Digital content sales decreased \$47.3 million, or 26.7%, to \$130.0 million primarily on lower unit sales and to a lesser extent, agency vs. non-agency mix. Device and accessories sales decreased \$25.0 million, or 28.9%, to \$61.5 million primarily on lower unit sales.
- Elimination sales, which represent sales from NOOK to B&N Retail on a sell-through basis, decreased \$18.7 million, or 24.9%, versus the prior year. NOOK sales, net of elimination, accounted for 3.2% of total Company sales.

In fiscal 2016, the Company closed eight Barnes & Noble stores, bringing its total number of B&N Retail stores to 640, with 16.9 million square feet, in the 50 states.

Cost of Sales and Occupancy

<i>Dollars in thousands</i>	52 Weeks Ended		52 Weeks Ended	
	April 30, 2016	% Sales	May 2, 2015	% Sales
B&N Retail	\$2,770,209	68.8%	\$2,798,846	68.1%
NOOK	122,628	64.0%	147,306	55.8%
Elimination	(56,290)	(29.4)%	(74,968)	(28.4)%
Total Cost of Sales and Occupancy	<u>\$2,836,547</u>	<u>68.1%</u>	<u>\$2,871,184</u>	<u>66.8%</u>

The Company's cost of sales and occupancy includes costs such as merchandise costs, distribution center costs (including payroll, freight, supplies and other operating expenses), rental expense, common area maintenance and real estate taxes, partially offset by landlord tenant allowances amortized over the life of the lease.

Cost of sales and occupancy decreased \$34.6 million, or 1.2%, to \$2.837 billion in fiscal 2016 from \$2.871 billion in fiscal 2015. Cost of sales and occupancy increased as a percentage of sales to 68.1% in fiscal 2016 from 66.8% in fiscal 2015. The percentage of sales changes by segment are as follows:

- B&N Retail cost of sales and occupancy increased as a percentage of sales to 68.8% from 68.1%, or 70 basis points, during the same period one year ago. This increase was due to the following factors. Ecommerce margin decreased 35 basis points on the Company's promotional activity, reserves on non-returnable products increased 30 basis points on inventory mix, distribution costs increased 15 basis points on the transition to a new third-party service provider during the year, as well as expense deleverage, higher occupancy costs of 20 basis points on expense deleverage and the lower warranty reimbursement of 10 basis points, partially offset by a favorable product mix (45 basis points).
- NOOK cost of sales and occupancy increased as a percentage of sales to 64.0% from 55.8% during the same period one year ago. The prior year included a favorable benefit from the adjustment of lease accounting items to reflect the impact of the Palo Alto relocations. This benefit, net of closing costs, was primarily driven by the reversal of previously deferred rent liabilities upon exiting the facility. In addition, the prior year included a favorable reduction in costs of goods sold on renegotiated parts and components liabilities. Cost of sales and occupancy was also impacted by product mix and sales deleverage.

Gross Profit

<u>Dollars in thousands</u>	52 Weeks Ended		52 Weeks Ended	
	April 30, 2016	% Sales	May 2, 2015	% Sales
B&N Retail	\$1,258,405	31.2%	\$1,309,397	31.9%
NOOK	68,892	50.9%	116,527	61.7%
Total Gross Profit	\$1,327,297	31.9%	\$1,425,924	33.2%

The Company's consolidated gross profit decreased \$98.6 million, or 6.9%, to \$1.327 billion in fiscal 2016 from \$1.426 billion in fiscal 2015. This decrease was due to the matters discussed above.

Selling and Administrative Expenses

<u>Dollars in thousands</u>	52 Weeks Ended		52 Weeks Ended	
	April 30, 2016	% Sales	May 2, 2015	% Sales
B&N Retail	\$1,043,221	25.9%	\$ 991,669	24.1%
NOOK	133,557	98.8%	200,396	106.1%
Total Selling and Administrative Expenses	\$1,176,778	28.3%	\$1,192,065	27.7%

Selling and administrative expenses decreased \$15.3 million, or 1.3%, to \$1.177 billion in fiscal 2016 from \$1.192 billion in fiscal 2015. Selling and administrative expenses increased as a percentage of sales to 28.3% in fiscal 2016 from 27.7% in fiscal 2015. The percentage of sales changes by segment are as follows:

- B&N Retail selling and administrative expenses increased as a percentage of sales to 25.9% from 24.1% during the same period one year ago. The current year included executive severance costs of \$10.5 million, an impairment charge on a publishing contract of \$3.8 million and a net

increase in pension settlement charges of \$13.6 million (\$20.9 million in the current year and \$7.3 million in the prior year). Excluding these charges, selling and administrative expenses increased 100 basis points as a percentage of sales to 25.0% from 24.0% during the same period one year ago. Advertising costs increased 30 basis points as the Company invested in the bookstore-focused “*You never know who you’ll meet at Barnes & Noble*” holiday television campaign. Store payroll increased 30 basis points (on store sales) as wage increases outpaced productivity gains. The new website increased expenses by 20 basis points primarily due to a significant amount of website fixes to stabilize the site, increase traffic and improve the overall user experience. Other increases include increased employee benefit costs (20 basis points).

- NOOK selling and administrative expenses decreased as a percentage of sales to 98.8% from 106.1% during the same period one year ago. On a dollar basis, selling and administrative expenses decreased \$66.8 million on cost rationalization efforts, including lower compensation-related costs, advertising, consulting and legal costs, as well as lower variable costs on the sales decline, partially offset by higher severance, bad debt and exit costs related to the Video, Apps and UK businesses.

Depreciation and Amortization

<u>Dollars in thousands</u>	52 Weeks Ended		52 Weeks Ended	
	April 30, 2016	% Sales	May 2, 2015	% Sales
B&N Retail	\$ 101,888	2.5%	\$ 104,373	2.5%
NOOK	33,975	25.1%	39,292	20.8%
Total Depreciation and Amortization	\$ 135,863	3.3%	\$ 143,665	3.3%

Depreciation and amortization decreased \$7.8 million, or 5.4%, to \$135.9 million in fiscal 2016 from \$143.7 million in fiscal 2015. This decrease was primarily attributable to fully depreciated assets and store closings, partially offset by additional capital expenditures.

Operating Income (Loss)

<u>Dollars in thousands</u>	52 Weeks Ended		52 Weeks Ended	
	April 30, 2016	% Sales	May 2, 2015	% Sales
B&N Retail	\$ 113,296	2.8%	\$ 213,355	5.2%
NOOK	(98,640)	(72.9)%	(123,161)	(65.2)%
Total Operating Income	\$ 14,656	0.4%	\$ 90,194	2.1%

The Company’s consolidated operating income decreased \$75.5 million, or 83.8%, to an operating income of \$14.7 million in fiscal 2016 from an operating income of \$90.2 million in fiscal 2015. This decrease was due to the matters discussed above.

Interest Expense, Net and Amortization of Deferred Financing Fees

<i>Dollars in thousands</i>	<u>52 Weeks Ended</u> April 30, 2016	<u>52 Weeks Ended</u> May 2, 2015	<u>% of Change</u>
Interest Expense, Net and Amortization of Deferred Financing Fees	<u>\$ 8,770</u>	<u>\$ 17,678</u>	<u>(50.4)%</u>

Net interest expense and amortization of deferred financing fees decreased \$8.9 million, or 50.4%, to \$8.8 million in fiscal 2016 from \$17.7 million in fiscal 2015. This decrease was primarily due to lower interest related to the repayment of the Junior Seller Note in September 2014 and lower deferred financing fees in conjunction with the refinancing of the credit facility.

Income Taxes

<i>Dollars in thousands</i>	<u>52 Weeks Ended</u> April 30, 2016	<u>Effective</u> Rate	<u>52 Weeks Ended</u> May 2, 2015	<u>Effective</u> Rate
Income Taxes	<u>\$(8,814)</u>	<u>(149.7)%</u>	<u>\$39,644</u>	<u>54.7%</u>

The Company recorded an income tax benefit of \$8.8 million in fiscal 2016 compared with an income tax provision of \$39.6 million in fiscal 2015. The Company's effective tax rate was (149.7)% and 54.7% in fiscal 2016 and fiscal 2015, respectively. The income tax (benefit)/provision in fiscal 2016 and fiscal 2015, respectively, include the impact of permanent items such as meals and entertainment, non-deductible executive compensation and changes in uncertain tax positions. Fiscal 2016 also includes the impact of the finalization of the federal income tax audit covering the 2008 through 2012 tax years, the closure of many state taxing jurisdiction statutes and the impact of new legislation enacted by Congress permanently reinstating the research and development credit. The Company continues to maintain a valuation allowance against certain state items. In fiscal 2015, the Company recorded the tax implications of the Microsoft agreement, which do not impact the current year, as a result of the termination of the Microsoft agreement in December 2014.

In accordance with GAAP rules on accounting for income taxes, the Company evaluates the realizability of its deferred tax assets at each reporting date. The Company records a valuation allowance when it determines that it is more likely than not that all or a portion of a particular deferred tax asset will not be realized. As part of this evaluation, the Company reviews all evidence, both positive and negative, to determine if a valuation allowance is needed. The Company's review of positive evidence included the review of historic profitability, projected profitability, feasible tax planning strategies that may be implemented and the reversal of temporary items. The Company determined that there was sufficient negative evidence to establish valuation allowances against certain deferred tax assets, totaling \$6.7 million during fiscal 2016. The Company will monitor the need for additional valuation allowances at each quarter in the future and adjust the valuation allowance as necessary.

Net Income from Continuing Operations

<i>Dollars in thousands</i>	52 Weeks Ended		52 Weeks Ended	
	April 30, 2016	Diluted EPS	May 2, 2015	Diluted EPS
Net Income from Continuing Operations	<u>\$14,700</u>	<u>\$ 0.05</u>	<u>\$32,872</u>	<u>\$ 0.15</u>

As a result of the factors discussed above, the Company reported a consolidated net income from continuing operations of \$14.7 million (or \$0.05 per diluted share) during fiscal 2016, compared with consolidated net income from continuing operations of \$32.9 million (or \$0.15 per diluted share) during fiscal 2015.

Net Income (Loss) from Discontinued Operations

<i>Dollars in thousands</i>	52 Weeks Ended		52 Weeks Ended	
	April 30, 2016	Diluted EPS	May 2, 2015	Diluted EPS
Net Income (Loss) from Discontinued Operations	<u>\$(39,146)</u>	<u>\$ (0.54)</u>	<u>\$3,724</u>	<u>\$ 0.06</u>

The Company has recognized the separation of B&N Education in accordance with ASC 205-20, *Discontinued Operations*. As such, the historical results of Barnes & Noble Education for fiscal 2015 have been adjusted to include pre-spin B&N Education results and separation-related costs and exclude corporate allocations with B&N Retail, and have been classified as discontinued operations. Additionally, discontinued operations for fiscal 2016 included investment banking fees (as they directly related to the Spin-Off), as well as pre-spin B&N Education results and separation-related costs, and excluded corporate allocation adjustments with B&N Retail.

Net Income (Loss)

<i>Dollars in thousands</i>	52 Weeks Ended		52 Weeks Ended	
	April 30, 2016	Diluted EPS	May 2, 2015	Diluted EPS
Net Income (Loss)	<u>\$(24,446)</u>	<u>\$ (0.49)</u>	<u>\$36,596</u>	<u>\$ 0.21</u>

As a result of the factors discussed above, the Company reported a consolidated net loss of \$24.4 million (or \$0.49 per diluted share) during fiscal 2016, compared with consolidated net income of \$36.6 million (or \$0.21 per diluted share) during fiscal 2015.

Seasonality

The B&N Retail business, like that of many retailers, is seasonal, with the major portion of sales and operating income realized during its third fiscal quarter, which includes the holiday selling season.

The NOOK business, like that of many technology companies, is impacted by the launch of new products and the promotional efforts to support those new products, as well as the traditional retail holiday selling seasonality.

Liquidity and Capital Resources

The primary sources of the Company's cash are net cash flows from operating activities, funds available under its credit facility and short-term vendor financing.

Cash Flows

The Company's cash and cash equivalents were \$12.0 million as of April 29, 2017, compared with \$13.8 million as of April 30, 2016. The decrease in cash and cash equivalents of \$1.8 million versus the prior year period was due to changes in working capital and cash flows as outlined below.

Net cash flows provided by operating activities for fiscal 2017 were \$145.2 million, as compared to net cash flows provided by operating activities of \$195.7 million for fiscal 2016. The unfavorable year-over-year comparison was primarily attributable to changes in working capital.

Net cash flows used in investing activities for fiscal 2017 were \$96.3 million, as compared to net cash flows used in investing activities of \$94.3 million for fiscal 2016. The Company's investing activities primarily consisted of capital expenditures for the maintenance of existing stores, merchandising initiatives, new store construction and enhancements to systems and the website.

Net cash flows used in financing activities for fiscal 2017 were \$50.8 million, as compared to net cash flows used in financing activities of \$47.8 million for fiscal 2016. The Company's financing activities during fiscal 2017 consisted primarily of common dividends and share repurchases, partially offset by net proceeds on its credit facility. Financing activities during fiscal 2016 consisted primarily of common and preferred dividends, share repurchases, fees incurred to enter into the New Credit Facility (as defined below) and other financing activities, partially offset by net proceeds on the Company's credit facility.

Over the past 12 months, the Company has returned \$67.2 million in cash to its shareholders through share repurchases and dividends. Since July 2015, the Company has returned \$139.9 million in cash to its shareholders through share repurchases and dividends.

Additional year-over-year balance sheet changes include the following:

- Receivables, net decreased \$57.6 million, or 46.1%, to \$67.3 million as of April 29, 2017, compared to \$124.9 million as of April 30, 2016, primarily due to collections on the eBook settlement receivable.
- Merchandise inventories, net increased \$13.2 million, or 1.4%, to \$946.9 million as of April 29, 2017, compared to \$933.7 million as of April 30, 2016. Retail inventories increased \$16.2 million, or 1.8% as the prior year included heavier fourth quarter return volume. NOOK inventories decreased \$3.0 million, or 24.3%, versus the prior year on lower planned sales volume.
- Prepaid expenses and other current assets decreased \$4.1 million, or 3.9%, to \$101.8 million as of April 29, 2017, compared to \$105.9 million as of April 30, 2016, primarily on income tax differences.
- Property and equipment, net decreased \$22.5 million, or 7.5%, to \$276.1 million as of April 29, 2017, compared to \$298.6 million as of April 30, 2016, as depreciation outpaced capital expenditures.

- Intangible assets, net decreased \$0.7 million, or 0.2%, to \$310.2 million as of April 29, 2017, compared to \$310.9 million as of April 30, 2016, on additional amortization.
- Other non-current assets decreased \$2.4 million, or 17.8%, to \$11.2 million as of April 29, 2017, compared to \$13.6 million as of April 30, 2016.
- Accounts payable decreased \$6.9 million, or 1.4%, to \$473.7 million as of April 29, 2017, compared to \$480.6 million as of April 30, 2016. Accounts payable represented 50.0% and 51.5% of merchandise inventories as of April 29, 2017 and April 30, 2016, respectively. This ratio is subject to changes in product mix and the timing of purchases, payments and returns.
- Accrued liabilities decreased \$77.0 million, or 21.4%, to \$283.2 million as of April 29, 2017, compared to \$360.2 million as of April 30, 2016. Accrued liabilities include the eBook settlement, deferred income, compensation, occupancy related, legal and other selling and administrative miscellaneous accruals.
- Gift card liabilities decreased \$1.7 million, or 0.5%, to \$351.4 million as of April 29, 2017, compared to \$353.1 million as of April 30, 2016. The Company estimates the portion of the gift card liability for which the likelihood of redemption is remote based upon the Company's historical redemption patterns. The Company recognized gift card breakage of \$35.5 million and \$29.1 million during the 52 weeks ended April 29, 2017 and April 30, 2016, respectively. Gift card breakage increased over last year as redemptions continue to run lower than historical patterns. Additional breakage may be required if gift card redemptions continue to run lower than historical patterns.
- Deferred taxes increased \$32.1 million, or 59.5%, to \$86.1 million as of April 29, 2017, compared to \$54.0 million as of April 30, 2016. This increase is primarily due to true-up activity upon filing of federal and state returns, as well as recurring movement in temporary differences and the impact of accounting method changes.
- Other long-term liabilities decreased \$14.9 million, or 13.0%, to \$99.3 million as of April 29, 2017, compared to \$114.2 million as of April 30, 2016, due to lower deferred rent and lower tax reserves.

The Company has arrangements with third-party manufacturers to produce certain NOOK[®] products. These manufacturers procure and assemble unfinished parts and components from third-party suppliers based on forecasts provided by the Company. Given production lead times, commitments are generally made far in advance of finished product delivery. Based on current purchase commitments and product development plans, the Company did not record any provision for purchase commitments. Future charges may be required based on changes in forecasted sales or strategic direction.

EBook Settlement

The Company provided credits to eligible customers resulting from the settlement reached with Apple Inc. (Apple) in an antitrust lawsuit filed by various State Attorneys General and private class plaintiffs regarding the price of digital books. The Company's customers were entitled to \$95.7 million in total credits as a result of the settlement, which is funded by Apple. If a customer's credit is not used to make a purchase within one year, the entire credit will expire. The Company estimated total activations of \$60.8 million through June 2017, which are recorded as a liability to its customers to the extent they have not yet been activated and as a receivable from Apple settlement fund to the extent they have not yet been reimbursed. As of April 29, 2017, the Company's customers had activated \$59.2 million in credits, of which \$52.7 million were redeemed. Total receivables from the Apple settlement fund were \$2.5 million as of April 29, 2017.

Capital Structure

Microsoft Investment

On April 27, 2012, Barnes & Noble entered into an investment agreement, pursuant to which Barnes & Noble transferred to the LLC its digital device, digital content and college bookstore businesses, and Morrison Investment Holdings, Inc. (Morrison) purchased from the LLC 300,000 convertible preferred membership interests in the LLC (Series A Preferred) for an aggregate purchase price of \$300.0 million. Concurrently with its entry into this agreement, Barnes & Noble also entered into a commercial agreement with Microsoft, pursuant to which, among other things, the LLC would develop and distribute a Windows 8 application for eReading and digital content purchases, and an intellectual property license and settlement agreement with Microsoft and Microsoft Licensing GP. The parties closed Morrison's investment in the LLC and the commercial agreement became effective on October 4, 2012.

On December 3, 2014, Morrison, Microsoft, Barnes & Noble and Barnes & Noble Education entered into agreements, pursuant to which Morrison's interest in the LLC was purchased by Barnes & Noble Education and the Microsoft commercial agreement was terminated effective as of such date. Pursuant to the Purchase Agreement (the Purchase Agreement) among Barnes & Noble, Barnes & Noble Education, Morrison and Microsoft, Barnes & Noble Education purchased from Morrison, and Morrison sold, all of its \$300.0 million convertible Series A preferred limited liability company interest in the LLC in exchange for an aggregate purchase price of \$124.9 million consisting of (i) \$62.4 million in cash and (ii) 2,737,290 shares of common stock, par value \$0.001 per share, of Barnes & Noble. The Purchase Agreement closed on December 4, 2014. The Company accounted for this transaction in accordance with ASC 810-10, *Non-Controlling Interest* (ASC 810-10) and it accordingly was reflected as an equity transaction. In connection with the closing, the parties entered into a Digital Business Contingent Payment Agreement, pursuant to which Microsoft is entitled to receive 22.7% of the proceeds from, among other events or transactions, (1) any future dividends or other distributions received from Barnes & Noble's NOOK digital business at any time until the date that is three years from the closing, subject to a one-year extension under certain circumstances, and (2) the sale of Barnes & Noble's NOOK digital business at any time until the date that is three years from the closing, subject to a one-year extension under certain circumstances.

Pearson Investment

On December 21, 2012, the LLC entered into an agreement with a subsidiary of Pearson plc (Pearson) to make a strategic investment in the LLC. That transaction closed on January 22, 2013, and Pearson invested approximately \$89.5 million of cash in the LLC in exchange for preferred membership interests representing a 5% equity stake in the LLC. Following the closing of the transaction, Barnes & Noble owned approximately 78.2% of the LLC and Microsoft owned approximately 16.8%. The preferred membership interests had a liquidation preference equal to the original investment. In addition, the LLC granted warrants to Pearson to purchase up to an additional 5% of the LLC under certain conditions. Upon the completion of the acquisition of Pearson's interest in the LLC, as stated below, the temporary equity was converted to permanent equity.

On December 22, 2014, Barnes & Noble entered into a Purchase Agreement (the Pearson Purchase Agreement) among Barnes & Noble, Barnes & Noble Education, NOOK Media Member Two LLC, a Delaware limited liability company (NOOK Member Two), Pearson Education, Inc. (Pearson

Education) and Pearson Inc., pursuant to which Barnes & Noble Education and NOOK Member Two purchased from Pearson Education all of its convertible Series B preferred limited liability company interest in the LLC and all of its warrants to purchase additional Series B preferred limited liability company interests, in exchange for an aggregate purchase price equal to (i) \$13.8 million in cash and (ii) 602,927 shares of common stock, par value \$0.001 per share, of Barnes & Noble. The transactions under the Pearson Purchase Agreement closed on December 22, 2014. The Company accounted for this transaction in accordance with ASC 810-10 and it accordingly was reflected as an equity transaction. As a condition to closing, the parties entered into an amended and restated Digital Business Contingent Payment Agreement, pursuant to which a Digital Business Contingent Payment Agreement dated as of December 3, 2014, by and between Barnes & Noble, the LLC and Pearson, was amended and restated to include provisions consistent with the Digital Business Contingent Payment Agreement entered into with Morrison on December 3, 2014.

Series J Preferred Stock

On August 18, 2011, the Company entered into an investment agreement between the Company and Liberty GIC, Inc. (Liberty), pursuant to which the Company issued and sold to Liberty, and Liberty purchased, 204,000 shares of the Company's Series J Preferred Stock, par value \$0.001 per share (Preferred Stock), for an aggregate purchase price of \$204.0 million in a private placement exempt from the registration requirements of the 1933 Act. The shares of Preferred Stock were convertible, at the option of the holders, into shares of Common Stock representing 16.6% of the Common Stock outstanding as of August 29, 2011 (after giving pro forma effect to the issuance of the Preferred Stock) based on the initial conversion rate. The initial conversion rate reflected an initial conversion price of \$17.00 and was subject to adjustment in certain circumstances. The initial dividend rate for the Preferred Stock was equal to 7.75% per annum of the initial liquidation preference of the Preferred Stock paid quarterly and subject to adjustment in certain circumstances.

On April 8, 2014, Liberty sold the majority of its shares to qualified institutional buyers in reliance on Rule 144A under the Securities Act and had retained an approximate 10% stake of its initial investment. As a result, Liberty no longer had the right to elect two preferred stock directors to the Company's Board. Additionally, the consent rights and pre-emptive rights, to which Liberty was previously entitled, ceased to apply.

On June 5, 2015, the Company entered into conversion agreements with five beneficial owners (Series J Holders) of its Preferred Stock, pursuant to which each of the Series J Holders had agreed to convert (Conversion) shares of Preferred Stock it beneficially owned into shares of the Company's common stock, par value \$0.001 per share (Company Common Stock), and additionally received a cash payment from the Company in connection with the Conversion.

On July 9, 2015, the Company completed the Conversion. Pursuant to the terms of the Conversion Agreements, the Series J Holders converted an aggregate of 103,995 shares of Preferred Stock into 6,117,342 shares of Company Common Stock, and made an aggregate cash payment to the Series J Holders of \$3.7 million plus cash in lieu of fractional shares in connection with the Conversion.

On July 10, 2015, the Company gave notice of its exercise of the right to force conversion of all outstanding shares of its Senior Convertible Redeemable Series J Preferred Stock into Company Common Stock pursuant to Section 9 of the Certificate of Designations, Preferences and Relative Participating, Optional and Other Special Rights and Qualifications, Limitations and Restrictions of Series J Preferred Stock, dated as of August 18, 2011 (the Forced Conversion). The effective date of the Forced Conversion was July 24, 2015. On the date of the Forced Conversion, each share of Series J

Preferred Stock was automatically converted into 59.8727 shares of Company Common Stock, which included shares of Company Common Stock reflecting accrued and unpaid dividends on Series J Preferred Stock. Each holder of Series J Preferred Stock received whole shares of Company Common Stock and a cash amount in lieu of fractional shares of Company Common Stock.

As a result of the transactions described above, all shares of Series J Preferred Stock were retired by the Company and are no longer outstanding.

Credit Facility

Prior to August 3, 2015, the Company was party to an amended and restated credit facility with Bank of America, N.A., as administrative agent, collateral agent and swing line lender, and other lenders, dated as of April 29, 2011 (as amended and modified through August 3, 2015, the Prior Credit Facility), consisting of up to \$1.0 billion in aggregate commitments under a five-year asset-backed revolving credit facility, which was scheduled to expire on April 29, 2016.

On August 3, 2015, the Company and certain of its subsidiaries entered into a credit agreement (New Credit Agreement) with Bank of America, N.A., as administrative agent, collateral agent and swing line lender, and the other lenders from time to time party thereto, under which the lenders committed to provide a five-year asset-backed revolving credit facility in an aggregate committed principal amount of up to \$700.0 million (Revolving Credit Facility). On September 30, 2016, the Company amended the New Credit Agreement to provide for a new “first-in, last-out” revolving credit facility (the FILO Credit Facility and, together with the Revolving Credit Facility, the New Credit Facility) in an aggregate principal amount of up to \$50.0 million, which supplements availability under the Revolving Credit Facility. The Company generally must draw down the FILO Credit Facility before making any borrowings under the Revolving Credit Facility.

Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities LLC, Wells Fargo Bank, N.A. and SunTrust Robinson Humphrey, Inc. are the joint lead arrangers for the New Credit Facility. The New Credit Facility replaced the Prior Credit Facility. Proceeds from the New Credit Facility are used for general corporate purposes, including seasonal working capital needs.

The Company and certain of its subsidiaries are permitted to borrow under the New Credit Facility. The New Credit Facility is secured by substantially all of the inventory, accounts receivable and related assets of the borrowers under the New Credit Facility (collectively, the Loan Parties), but excluding the equity interests in the Company and its subsidiaries, intellectual property, equipment and certain other property. Borrowings under the New Credit Facility are limited to a specified percentage of eligible collateral. The Company has the option to request an increase in commitments under the New Credit Facility of up to \$250.0 million, subject to certain restrictions.

The New Credit Facility allows the Company to declare and pay up to \$70.0 million in dividends annually to its stockholders without compliance with any availability or ratio-based limitations.

Interest under the Revolving Credit Facility accrues, at the election of the Company, at a LIBOR or alternate base rate, plus, in each case, an applicable interest rate margin, which is determined by reference to the level of excess availability under the Revolving Credit Facility. Through the end of the fiscal quarter during which the closing of the Revolving Credit Facility occurred, loans under the Revolving Credit Facility bore interest at LIBOR plus 1.750% per annum, in the case of LIBOR borrowings, or at the alternate base rate plus 0.750% per annum, in the alternative, and thereafter the interest rate began to fluctuate between LIBOR plus 2.000% per annum and LIBOR plus 1.500% per annum (or between the alternate base rate plus 1.000% per annum and the alternate base rate plus 0.500% per annum), based upon the average daily availability under the Revolving Credit Facility for the

immediately preceding fiscal quarter. Interest under the FILO Credit Facility accrues, at the election of the Company, at a LIBOR or alternate base rate, plus, in each case, an applicable interest rate margin, which is also determined by reference to the level of excess availability under the Revolving Credit Facility. Loans under the FILO Credit Facility bear interest at 1.000% per annum more than loans under the Revolving Credit Facility.

The New Credit Agreement contains customary negative covenants, which limit the Company's ability to incur additional indebtedness, create liens, make investments, make restricted payments or specified payments and merge or acquire assets, among other things. In addition, if excess availability under the New Credit Facility were to fall below certain specified levels, certain additional covenants (including fixed charge coverage ratio requirements) would be triggered, and the lenders would assume dominion and control over the Loan Parties' cash.

The New Credit Agreement contains customary events of default, including payment defaults, material breaches of representations and warranties, covenant defaults, default on other material indebtedness, customary ERISA events of default, bankruptcy and insolvency, material judgments, invalidity of liens on collateral, change of control or cessation of business. The New Credit Agreement also contains customary affirmative covenants and representations and warranties.

The following table presents selected information related to the Company's credit facilities (in thousands):

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Credit facility at period end	\$ 64,900	47,200	—
Average balance outstanding during the period	\$ 96,297	66,948	18,227
Maximum borrowings outstanding during the period	\$285,278	293,200	202,800
Weighted average interest rate during the period ^(a)	5.77%	8.21%	38.18%
Interest rate at end of period	3.73%	2.69%	0.00%

(a) Includes commitment fees.

The Company wrote off \$0.5 million of deferred financing fees related to the Prior Credit Facility during the 52 weeks ended April 30, 2016 and the remaining unamortized deferred financing fees of \$3.5 million were deferred and are being amortized over the five-year term of the New Credit Facility. The Company also incurred \$5.7 million of fees to secure the New Credit Facility, which are being amortized over the five-year term accordingly. During the 52 weeks ended April 29, 2017, the Company incurred \$0.5 million of fees to secure the FILO Credit Facility, which are being amortized over the same term as the New Credit Facility.

Fees expensed with respect to the unused portion of the credit facilities were \$2.2 million, \$2.8 million and \$4.7 million during fiscal 2017, fiscal 2016 and fiscal 2015, respectively.

The Company had \$64.9 million and \$47.2 million of outstanding debt under the New Credit Facility as of April 29, 2017 and April 30, 2016, respectively. The Company had \$38.8 million and \$47.9 million of outstanding letters of credit under its New Credit Facility as of April 29, 2017 and April 30, 2016, respectively.

The Company has no agreements to maintain compensating balances.

Capital Investment

The Company's investing activities consist principally of capital expenditures for the maintenance of existing stores, merchandising initiatives, new store construction and enhancements to systems and the website. Capital expenditures totaled \$96.3 million, \$94.3 million and \$94.8 million during fiscal 2017, fiscal 2016 and fiscal 2015, respectively. Fiscal 2018 capital expenditure levels are expected to be approximately \$100.0 million, although commitment to many such expenditures has not yet been made. Capital expenditures planned for fiscal 2018 primarily include new store development, merchandising initiatives, maintenance of existing stores, enhancements to systems and the website.

Based upon the Company's current operating levels and capital expenditures for fiscal 2018, management believes cash and cash equivalents on hand, funds available under its credit facility and short-term vendor financing will be sufficient to meet the Company's normal working capital and debt service requirements for at least the next 12 months. The Company regularly evaluates its capital structure and conditions in the financing markets to ensure it maintains adequate flexibility to successfully execute its business plan.

On October 20, 2015, the Company's Board of Directors authorized a stock repurchase program (prior repurchase plan) of up to \$50.0 million of its common shares. During fiscal 2016, the Company repurchased 2,763,142 shares at a cost of \$26.7 million under the prior repurchase plan. During fiscal 2017, the Company repurchased 2,019,798 shares at a cost of \$23.3 million under the prior repurchase plan. On March 15, 2017, subsequent to completing the prior repurchase plan, the Company's Board of Directors authorized a new stock repurchase program of up to \$50.0 million of its common shares. Stock repurchases under this program may be made through open market and privately negotiated transactions from time to time and in such amounts as management deems appropriate. The new stock repurchase program has no expiration date and may be suspended or discontinued at any time. The Company's repurchase plan is intended to comply with the requirements of Rule 10b-18 under the Securities Exchange Act of 1934. The Company has not repurchased shares under this plan in fiscal 2017. The Company has remaining capacity of \$50.0 million under the new repurchase program as of April 29, 2017.

As of April 29, 2017, the Company has repurchased 39,496,765 shares at a cost of approximately \$1.1 billion since the inception of the Company's stock repurchase programs. The repurchased shares are held in treasury.

Contractual Obligations

The following table sets forth the Company's contractual obligations as of April 29, 2017 (in millions):

Contractual Obligations	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Operating lease obligations ^(a)	\$1,125.0	\$ 314.3	\$465.8	\$238.3	\$ 106.6
Purchase obligations ^(b)	55.4	34.1	21.2	0.1	—
Interest obligations ^(c)	9.3	2.9	5.7	0.7	—
Other long-term liabilities reflected on the Company's balance sheet under U.S. GAAP ^(d)	—	—	—	—	—
Total	\$1,189.7	\$ 351.3	\$492.7	\$239.1	\$ 106.6

(a) Excludes obligations under store leases for insurance, taxes and other maintenance costs, which totaled approximately 19.7% of the minimum rent payments under those leases.

(b) Includes hardware and software maintenance contracts and inventory purchase commitments.

(c) Represents commitment fees related to the Company's New Credit Facility.

(d) Excludes \$9.4 million of unrecognized tax benefits for which the Company cannot make a reasonably reliable estimate of the amount and period of payment. See Note 13 to the Notes to Consolidated Financial Statements.

See also Note 12 to the Notes to Consolidated Financial Statements for information concerning the Company's pension and postretirement plans.

Off-Balance Sheet Arrangements

As of April 29, 2017, the Company had no off-balance sheet arrangements as defined in Item 303 of Regulation S-K.

Impact of Inflation

The Company does not believe that inflation has had a material effect on its net sales or results of operations.

Certain Relationships and Related Transactions

See Note 23 to the Notes to Consolidated Financial Statements.

Critical Accounting Policies

The "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of this report discusses the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions in

certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related footnotes. In preparing these financial statements, management has made its best estimates and judgments with respect to certain amounts included in the financial statements, giving due consideration to materiality. The Company does not believe there is a great likelihood that materially different amounts would be reported related to the accounting policies described below. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates.

Revenue Recognition

Revenue from sales of the Company's products is recognized at the time of sale or shipment, other than those with multiple elements and Free On Board (FOB) destination point shipping terms. The Company accrues for estimated sales returns in the period in which the related revenue is recognized based on historical experience. ECommerce revenue from sales of products ordered through the Company's websites is recognized upon estimated delivery and receipt of the shipment by its customers. Freight costs are included within the Company's cost of sales and occupancy. Sales taxes collected from retail customers are excluded from reported revenues. All of the Company's sales are recognized as revenue on a "net" basis, including sales in connection with any periodic promotions offered to customers. The Company does not treat any promotional offers as expenses.

In accordance with ASC 605-25, *Revenue Recognition, Multiple-Element Arrangements*, and Accounting Standards Updates (ASU) 2009-13 and 2009-14, for multiple-element arrangements that involve tangible products that contain software that is essential to the tangible product's functionality, undelivered software elements that relate to the tangible product's essential software and other separable elements, the Company allocates revenue to all deliverables using the relative selling-price method. Under this method, revenue is allocated at the time of sale to all deliverables based on their relative selling price using a specific hierarchy. The hierarchy is as follows: vendor-specific objective evidence, third-party evidence of selling price, or best estimate of selling price. NOOK[®] device revenue is recognized at the segment point of sale.

The Company includes post-service customer support (PCS) in the form of software updates and potential increased functionality on a when-and-if-available basis with the purchase of a NOOK[®] from the Company. Using the relative selling-price method described above, the Company allocates revenue based on the best estimate of selling price for the deliverables as no vendor-specific objective evidence or third-party evidence exists for any of the elements. Revenue allocated to NOOK[®] and the software essential to its functionality is recognized at the time of sale, provided all other conditions for revenue recognition are met. Revenue allocated to the PCS is deferred and recognized on a straight-line basis over the 2-year estimated life of a NOOK[®] device.

The average percentage of a NOOK[®]'s sales price that is deferred for undelivered items and recognized over its 2-year estimated life ranges between 0% and 5%, depending on the type of device sold. The amount of NOOK[®]-related deferred revenue as of April 29, 2017 and April 30, 2016 was \$0.2 million and \$0.2 million, respectively. These amounts are classified on the Company's balance sheet in accrued liabilities for the portion that is subject to deferral for one year or less and other long-term liabilities for the portion that is subject to deferral for more than one year.

The Company also pays certain vendors who distributed NOOK[®] a commission on the content sales sold through that device. The Company accounts for these transactions as a reduction in the sales price of the NOOK[®] based on historical trends of content sales and a liability was established for the

estimated commission expected to be paid over the life of the product. The Company recognizes revenue of the content at the point of sale of the content. The Company records revenue from sales of digital content, sales of third-party extended warranties, service contracts and other products, for which the Company is not obligated to perform, and for which the Company does not meet the criteria for gross revenue recognition under ASC 605-45-45, *Reporting Revenue Gross as a Principal versus Net as an Agent*, on a net basis. All other revenue is recognized on a gross basis.

The Company rents physical textbooks. Revenue from the rental of physical textbooks is deferred and recognized over the rental period commencing at point of sale. The Company offers a buyout option to allow the purchase of a rented book at the end of the semester. The Company records the buyout purchase when the customer exercises and pays the buyout option price. In these instances, the Company would accelerate any remaining deferred rental revenue at the point of sale.

NOOK acquires the rights to distribute digital content from publishers and distributes the content on www.barnesandnoble.com, NOOK[®] devices and other eBookstore platforms. Certain digital content is distributed under an agency pricing model, in which the publishers set prices for eBooks and NOOK receives a commission on content sold through the eBookstore. The majority of the Company's eBooks are sold under the agency model.

The Barnes & Noble Member Program offers members greater discounts and other benefits for products and services, as well as exclusive offers and promotions via e-mail or direct mail, for an annual fee of \$25.00, which is non-refundable after the first 30 days. Revenue is recognized over the 12-month period based upon historical spending patterns for Barnes & Noble Members.

Merchandise Inventories

Merchandise inventories are stated at the lower of cost or market. Cost is determined primarily by the retail inventory method under the first-in, first-out (FIFO) basis. NOOK merchandise inventories are recorded based on the average cost method.

Market is determined based on the estimated net realizable value, which is generally the selling price. Reserves for non-returnable inventory are based on the Company's history of liquidating non-returnable inventory. The Company does not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions used to calculate the non-returnable inventory reserve. However, if assumptions based on the Company's history of liquidating non-returnable inventory are incorrect, it may be exposed to losses or gains that could be material. A 10% change in actual non-returnable inventory reserve would have affected pre-tax earnings by approximately \$5.2 million in fiscal 2017.

The Company also estimates and accrues 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. The Company does not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions used to calculate shortage rates. However, if the Company's estimates regarding shortage rates are incorrect, it may be exposed to losses or gains that could be material. A 10 basis point change in actual shortage rates would have affected pre-tax earnings by approximately \$0.7 million in fiscal 2017.

Internal-Use Software and Website Development Costs

Direct costs incurred to develop software for internal use and website development costs are capitalized and amortized over an estimated useful life of three to seven years. During fiscal 2017 and fiscal 2016, the Company capitalized costs, primarily related to labor, consulting, hardware and software, of \$18.5 million and \$31.5 million, respectively. Amortization of previously capitalized amounts was \$23.6 million, \$30.5 million and \$27.6 million for fiscal 2017, fiscal 2016 and fiscal 2015, respectively. Costs related to the design or maintenance of internal-use software and website development are expensed as incurred.

Research and Development Costs for Software Products

The Company follows the guidance in ASC 985-20, *Cost of Software to be Sold, Leased or Marketed*, regarding research and development costs for software products to be sold, leased, or otherwise marketed. Capitalization of software development costs begins upon the establishment of technological feasibility and is discontinued when the product is available for sale. A certain amount of judgment and estimation is required to assess when technological feasibility is established, as well as the ongoing assessment of the recoverability of capitalized costs. The Company's products reach technological feasibility shortly before the products are released and, therefore, research and development costs are generally expensed as incurred.

Stock-Based Compensation

The calculation of stock-based employee compensation expense involves estimates that require management's judgment. These estimates include the fair value of each of the stock option awards granted, which is estimated on the date of grant using a Black-Scholes option pricing model. There are two significant inputs into the Black-Scholes option pricing model: expected volatility and expected term. The Company estimates expected volatility based on traded option volatility of the Company's stock over a term equal to the expected term of the option granted. The expected term of stock option awards granted is derived from historical exercise experience under the Company's stock option plans and represents the period of time that stock option awards granted are expected to be outstanding. The assumptions used in calculating the fair value of stock-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management's judgment. As a result, if factors change and the Company uses different assumptions, stock-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate, and only recognize expense for those shares expected to vest. If the Company's actual forfeiture rate is materially different from its estimate, the stock-based compensation expense could be significantly different from what the Company has recorded in the current period. See Note 7 to the Consolidated Financial Statements for a further discussion on stock-based compensation.

The Company does not believe there is a reasonable likelihood there will be a material change in the future estimates or assumptions used to determine stock-based compensation expense. However, if actual results are not consistent with the Company's estimates or assumptions, the Company may be exposed to changes in stock-based compensation expense that could be material. If actual results are not consistent with the assumptions used, the stock-based compensation expense reported in the Company's financial statements may not be representative of the actual economic cost of the stock-based compensation. A 10% change in the Company's stock-based compensation expense for the year ended April 29, 2017 would have affected pre-tax earnings by approximately \$0.6 million in fiscal 2017.

Property and Equipment and Other Long-Lived Assets

The Company's long-lived assets include property and equipment and amortizable intangibles. At April 29, 2017, the Company had \$276.1 million of property and equipment, net of accumulated depreciation, and \$0.9 million of amortizable intangible assets, net of amortization, accounting for approximately 14.3% of the Company's total assets. The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and considers market participants in accordance with ASC 360-10, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The Company evaluates long-lived assets for impairment at the individual Barnes & Noble store level, which is the lowest level at which individual cash flows can be identified. When evaluating long-lived assets for potential impairment, the Company will first compare the carrying amount of the assets to the individual store's estimated future undiscounted cash flows. If the estimated future cash flows are less than the carrying amount of the assets, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the assets to the individual store's fair value based on its estimated discounted future cash flows. If required, an impairment loss is recorded for that portion of the asset's carrying value in excess of fair value. Impairment losses included in selling and administrative expenses related to amortizable assets totaled \$0.3 million, \$0.2 million and \$0.4 million during fiscal 2017, fiscal 2016 and fiscal 2015, respectively. The Company does 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, the Company may be exposed to losses that could be material. A 10% decrease in the Company's estimated discounted cash flows would not have resulted in a material impairment charge on the Company's results of operations in fiscal 2017.

Goodwill and Unamortizable Intangible Assets

The costs in excess of net assets of businesses acquired are carried as goodwill in the accompanying consolidated balance sheets.

At April 29, 2017, the Company had \$207.4 million of goodwill (on its Retail reporting unit) and \$309.3 million of unamortizable intangible assets (those with an indefinite useful life), accounting for approximately 26.7% of the Company's total assets. ASC 350-30, *Goodwill and Other Intangible Assets* (ASC 350-30), requires that goodwill and other unamortizable intangible assets no longer be amortized, but instead be tested for impairment at least annually or earlier if there are impairment indicators.

The Company performs a two-step process for impairment testing of goodwill as required by ASC 350-30. The first step of this test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount. The second step (if necessary) measures the amount of the impairment. The Company completed its annual goodwill impairment test as of the first day of the third quarter of fiscal 2017. In performing the valuations, the Company used cash flows that reflected management's forecasts and discount rates that included risk adjustments consistent with the current market conditions. Based on the results of the Company's step one testing, the fair value of the B&N Retail reporting unit, as of that date, exceeded its carrying value; therefore, the second step of the impairment test was not required to be performed and no goodwill impairment was recognized. Goodwill is subject to further risk of impairment if B&N Retail comparable store sales continue to decline, the Company's cost reduction plans do not materialize or store closings accelerate. There were no impairment losses included in selling and administrative expenses related to goodwill during fiscal 2017, fiscal 2016 and fiscal 2015.

The Company tests unamortizable intangible assets by comparing the fair value and the carrying value of such assets. The Company also completed its annual impairment tests for its other unamortizable intangible assets by comparing the estimated fair value to the carrying value of such assets. Impairment losses included in selling and administrative expenses related to unamortizable intangible assets totaled \$0 million, \$3.8 and \$0 million during fiscal 2017, fiscal 2016 and fiscal 2015, respectively. Changes in market conditions, among other factors, could have a material impact on these estimates.

During fiscal 2016, the Company impaired one of its publishing contracts due to a significant drop in business with that publisher, driven by lower title offerings, product quality and the loss of a distribution partner. As a result, the Company recorded an impairment charge of \$3.8 million in selling and administrative expenses. The publishing contracts include the value of long-standing relationships with authors, agents and publishers established upon the Company's acquisition of Sterling in 2003. Given Sterling's strong history of maintaining such relationships, the Company believes they produce value indefinitely without an identifiable remaining useful life. However, given the continued declines in the physical book business, certain of these contracts were impaired.

A 10% decrease in the Company's estimated discounted cash flows would have no impact on the Company's evaluation of publishing contracts in fiscal 2017.

Gift Cards

The Company sells gift cards, which can be used in its stores, on www.barnesandnoble.com, on NOOK[®] devices and at B&N Education stores. The Company does not charge administrative or dormancy fees on gift cards and gift cards have no expiration dates. Upon the purchase of a gift card, a liability is established for its cash value. Revenue associated with gift cards is deferred until redemption of the gift card. Gift cards redeemed at B&N Education are funded by the gift card liability at the Company. Over time, a portion of the gift cards issued is typically not redeemed. The Company estimates the portion of the gift card liability for which the likelihood of redemption is remote based upon the Company's historical redemption patterns. The Company records this amount in revenue on a straight-line basis over a 12-month period beginning in the 13th month after the month the gift card was originally sold. Additional breakage may be required if gift card redemptions continue to run lower than historical patterns.

The Company recognized gift card breakage of \$35.5 million, \$29.1 million and \$26.1 million during fiscal 2017, fiscal 2016 and fiscal 2015, respectively. The Company had gift card liabilities of \$351.4 million and \$353.1 million as of April 29, 2017 and April 30, 2016, respectively. Gift card breakage increased over last year as redemptions continue to run lower than historical patterns. If estimates regarding the Company's history of gift card breakage are incorrect, it may be exposed to losses or gains that could be material. A 25 basis point change in the Company's gift card breakage rate at April 29, 2017 would have affected pre-tax earnings by approximately \$15.8 million in fiscal 2017.

Income Taxes

Judgment is required in determining the provision for income taxes and related accruals, deferred tax assets and liabilities. In the ordinary course of business, tax issues may arise where the ultimate outcome is uncertain. Additionally, the Company's tax returns are subject to audit by various tax authorities. Consequently, changes in the Company's estimates for contingent tax liabilities may materially impact the Company's results of operations or financial position. A 1% variance in the Company's effective tax rate would have affected the Company's results of operations in fiscal 2017 by \$0.5 million.

Disclosure Regarding Forward-Looking Statements

This report contains certain forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended) and information relating to Barnes & Noble that are based on the beliefs of the management of Barnes & Noble as well as assumptions made by and information currently available to the management of Barnes & Noble. When used in this communication, the words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “will,” “forecasts,” “projections,” and similar expressions, as they relate to Barnes & Noble or the management of Barnes & Noble, identify forward-looking statements.

Such statements reflect the current views of Barnes & Noble with respect to future events, the outcome of which is subject to certain risks, including, among others, the general economic environment and consumer spending patterns, decreased consumer demand for Barnes & Noble’s products, low growth or declining sales and net income due to various factors, including store closings, higher-than-anticipated or increasing costs, including with respect to store closings, relocation, occupancy (including in connection with lease renewals) and labor costs, the effects of competition, the risk of insufficient access to financing to implement future business initiatives, risks associated with data privacy and information security, risks associated with Barnes & Noble’s supply chain, including possible delays and disruptions and increases in shipping rates, various risks associated with the digital business, including the possible loss of customers, declines in digital content sales, risks and costs associated with ongoing efforts to rationalize the digital business and the digital business not being able to perform its obligations under the Samsung commercial agreement and the consequences thereof, the risk that financial and operational forecasts and projections are not achieved, the performance of Barnes & Noble’s initiatives including but not limited to its new store concept and eCommerce initiatives, unanticipated adverse litigation results or effects, potential infringement of Barnes & Noble’s intellectual property by third parties or by Barnes & Noble of the intellectual property of third parties, and other factors, including those factors discussed in detail in Item 1A, “Risk Factors,” and in Barnes & Noble’s other filings made hereafter from time to time with the SEC.

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 Barnes & Noble or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements in this paragraph. Barnes & Noble undertakes 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 Annual Report.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Sales	\$3,894,558	\$4,163,844	\$4,297,108
Cost of sales and occupancy	2,682,356	2,836,547	2,871,184
Gross profit	1,212,202	1,327,297	1,425,924
Selling and administrative expenses	1,040,007	1,176,778	1,192,065
Depreciation and amortization	117,887	135,863	143,665
Operating income	54,308	14,656	90,194
Interest expense, net and amortization of deferred financing fees	7,509	8,770	17,678
Income before income taxes	46,799	5,886	72,516
Income taxes provision (benefit)	24,776	(8,814)	39,644
Net income from continuing operations	\$ 22,023	\$ 14,700	\$ 32,872
Net income (loss) from discontinued operations	—	(39,146)	3,724
Net income (loss)	<u>\$ 22,023</u>	<u>\$ (24,446)</u>	<u>\$ 36,596</u>
Basic income (loss) per common share:			
Income from continuing operations	\$ 0.30	\$ 0.05	\$ 0.15
Income (loss) from discontinued operations	—	(0.54)	0.06
Basic income (loss) per common share	<u>\$ 0.30</u>	<u>\$ (0.49)</u>	<u>\$ 0.21</u>
Diluted income (loss) per common share:			
Income from continuing operations	\$ 0.30	\$ 0.05	\$ 0.15
Income (loss) from discontinued operations	—	(0.54)	0.06
Diluted income (loss) per common share	<u>\$ 0.30</u>	<u>\$ (0.49)</u>	<u>\$ 0.21</u>
Weighted average common shares outstanding:			
Basic	72,188	72,410	60,842
Diluted	72,328	72,542	60,928
Dividends declared per common share	\$ 0.60	\$ 0.60	\$ —

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

<u>(In thousands)</u>	<u>Fiscal 2017</u>	<u>Fiscal 2016</u>	<u>Fiscal 2015</u>
Net income (loss)	\$ 22,023	\$ (24,446)	\$ 36,596
Other comprehensive income (loss), net of tax:			
(Increase) decrease in minimum pension liability (net of deferred tax benefit (expense) of \$(107), \$(2,188) and \$4,603, respectively)	164	3,662	(9,370)
Pension reclassification (net of deferred tax expense of \$0, \$(7,780) and \$(2,707), respectively) (see Note 12)	—	13,022	4,610
Total comprehensive income (loss)	<u>\$ 22,187</u>	<u>\$ (7,762)</u>	<u>\$ 31,836</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	April 29, 2017	April 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11,993	\$ 13,838
Receivables, net	67,294	124,917
Merchandise inventories, net	946,909	933,723
Prepaid expenses and other current assets	101,816	105,912
Total current assets	<u>1,128,012</u>	<u>1,178,390</u>
Property and equipment:		
Land and land improvements	2,541	2,541
Buildings and leasehold improvements	1,072,007	1,058,452
Fixtures and equipment	1,608,433	1,560,005
	2,682,981	2,620,998
Less accumulated depreciation and amortization	2,406,859	2,322,418
Net property and equipment	<u>276,122</u>	<u>298,580</u>
Goodwill	207,381	211,276
Intangible assets, net	310,205	310,904
Other non-current assets	11,201	13,632
Total assets	<u>\$ 1,932,921</u>	<u>\$ 2,012,782</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 473,686	\$ 480,574
Accrued liabilities	283,157	360,194
Gift card liabilities	351,424	353,103
Total current liabilities	<u>1,108,267</u>	<u>1,193,871</u>
Long-term debt	64,900	47,200
Deferred taxes	86,132	54,017
Other long-term liabilities	99,311	114,184
Shareholders' equity:		
Common stock; \$0.001 par value; 300,000 shares authorized; 111,933 and 111,228 shares issued, respectively	112	112
Additional paid-in capital	1,741,380	1,738,034
Accumulated other comprehensive income	315	151
Retained earnings	(46,425)	(24,349)
Treasury stock, at cost, 39,497 and 37,941 shares, respectively	(1,121,071)	(1,110,438)
Total shareholders' equity	<u>574,311</u>	<u>603,510</u>
Commitments and contingencies	—	—
Total liabilities and shareholders' equity	<u>\$ 1,932,921</u>	<u>\$ 2,012,782</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands)

	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Gains (Losses)	Retained Earnings	Stock at Cost	Total
Balance at May 3, 2014	\$ 94	1,395,463	(11,773)	344,021	(1,069,109)	\$ 658,696
Net income	—	—	—	36,596	—	36,596
Minimum pension liability, net of tax	—	—	(9,370)	—	—	(9,370)
Pension reclassification (see Note 12)	—	—	4,610	—	—	4,610
Exercise of 83 common stock options	1	1,282	—	—	—	1,283
Stock options and restricted stock tax benefits	—	652	—	—	—	652
Stock-based compensation expense	—	19,989	—	—	—	19,989
Accretive dividend on preferred stockholders	—	—	—	(7,340)	—	(7,340)
Accrued/paid dividends for preferred stockholders	—	—	—	(15,765)	—	(15,765)
Treasury stock acquired, 477 shares	—	—	—	—	(10,607)	(10,607)
Acquisition of preferred membership interest	3	313,295	—	—	—	313,298
Settlement of Microsoft commercial liability	—	197,316	—	—	—	197,316
Balance at May 2, 2015	<u>\$ 98</u>	<u>1,927,997</u>	<u>(16,533)</u>	<u>357,512</u>	<u>(1,079,716)</u>	<u>\$1,189,358</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

(In thousands)

	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Gains (Losses)	Retained Earnings	Treasury Stock at Cost	Total
Balance at May 2, 2015	\$ 98	1,927,997	(16,533)	357,512	(1,079,716)	\$1,189,358
Net loss	—	—	—	(24,446)	—	(24,446)
Minimum pension liability, net of tax	—	—	3,662	—	—	3,662
Pension reclassification (see Note 12)	—	—	13,022	—	—	13,022
Exercise of 111 common stock options	2	1,301	—	—	—	1,303
Stock options and restricted stock tax benefits	—	1,094	—	—	—	1,094
Stock-based compensation expense	—	14,889	—	—	—	14,889
Accretive dividend on preferred stockholders and membership interests	—	—	—	(4,204)	—	(4,204)
Inducement fee paid upon conversion of Series J preferred stock	—	—	—	(3,657)	—	(3,657)
Cash dividends declared	—	—	—	(46,056)	—	(46,056)
Accrued dividends for long-term incentive awards	—	—	—	(451)	—	(451)
Purchase of treasury stock related to stock-based compensation, 337 shares	—	—	—	—	(4,004)	(4,004)
Treasury stock repurchase plan, 2,763 shares	—	—	—	—	(26,718)	(26,718)
Dividend to preferred shareholders paid in shares	—	1,783	—	(1,783)	—	—
Common shares issued upon conversion of Series J preferred stock	12	200,250	—	—	—	200,262
Cash settlement of equity award	—	(8,022)	—	—	—	(8,022)
Separation of B&N Education, Inc.	—	(401,258)	—	(301,264)	—	(702,522)
Balance at April 30, 2016	<u>\$ 112</u>	<u>1,738,034</u>	<u>151</u>	<u>(24,349)</u>	<u>(1,110,438)</u>	<u>\$ 603,510</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

(In thousands)

	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Gains	Retained Earnings	Treasury Stock at Cost	Total
Balance at April 30, 2016	\$ 112	1,738,034	151	(24,349)	(1,110,438)	\$603,510
Net income	—	—	—	22,023	—	22,023
Postretirement plan liability, net of tax	—	—	164	—	—	164
Exercise of 31 common stock options	—	312	—	—	—	312
Stock options and restricted stock tax benefit	—	1,110	—	—	—	1,110
Stock-based compensation expense	—	6,299	—	—	—	6,299
Cash dividends declared	—	—	—	(43,887)	—	(43,887)
Accrued dividends for long-term incentive awards	—	—	—	(212)	—	(212)
Purchase of treasury stock related to stock-based compensation, 248 shares	—	—	—	—	(2,694)	(2,694)
Treasury stock repurchase plan, 2,020 shares	—	—	—	—	(23,281)	(23,281)
Distribution of Rabbi Trust shares (see Note 7)	—	(15,342)	—	—	15,342	—
Tax benefit from distribution of Rabbi Trust	—	10,967	—	—	—	10,967
Balance at April 29, 2017	<u>\$ 112</u>	<u>1,741,380</u>	<u>315</u>	<u>(46,425)</u>	<u>(1,121,071)</u>	<u>\$574,311</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal Year (In thousands)	Fiscal 2017	Fiscal 2016	Fiscal 2015
Cash flows from operating activities:			
Net income (loss)	\$ 22,023	\$ (24,446)	\$ 36,596
Net income (loss) from discontinued operations	—	(39,146)	3,724
Net income from continuing operations	\$ 22,023	\$ 14,700	\$ 32,872
Adjustments to reconcile net income (loss) to net cash flows from operating activities:			
Depreciation and amortization (including amortization of deferred financing fees)	119,837	139,138	149,143
Stock-based compensation expense	6,299	14,201	16,875
Impairment charges	349	3,991	366
Deferred taxes	28,534	34,604	(3,858)
Loss on disposal of property and equipment	1,262	2,428	4,605
Net decrease in other long-term liabilities	(14,602)	(48,025)	(4,201)
Pension contributions	—	(12,707)	(13,667)
Pension reclassification	—	20,802	7,317
Net (increase) decrease in other non-current assets	872	(3,405)	1,019
Changes in operating assets and liabilities, net	(19,331)	29,960	(191,201)
Net cash flows provided by (used in) operating activities	<u>\$ 145,243</u>	<u>\$ 195,687</u>	<u>\$ (730)</u>
Cash flows from investing activities:			
Purchases of property and equipment	(96,258)	(94,274)	(94,805)
Net cash flows used in investing activities	<u>\$ (96,258)</u>	<u>\$ (94,274)</u>	<u>\$ (94,805)</u>
Cash flows from financing activities:			
Proceeds from credit facility	1,140,178	929,500	349,400
Payments on credit facility	(1,122,478)	(882,300)	(349,400)
Cash dividends paid	(43,887)	(46,056)	—
Treasury stock repurchase plan	(23,281)	(26,718)	—
Purchase of treasury stock related to stock-based compensation	(2,694)	(4,004)	(10,607)
Payment of new credit facility related fees	(474)	(5,701)	—
Proceeds from exercise of common stock options	312	1,303	1,282
Excess tax benefit from stock-based compensation	1,579	1,838	1,865
Cash dividends paid for long-term incentive awards	(85)	—	—
Cash settlement of equity award	—	(8,022)	—
Cash dividends paid to preferred shareholders	—	(3,941)	(16,026)
Inducement fee paid upon conversion of Series J preferred stock	—	(3,657)	—
Payment of Junior Seller Note	—	—	(127,250)
Acquisition of preferred membership interests	—	—	(76,175)
Net proceeds from Microsoft commercial agreement financing arrangement	—	—	57,161
Net cash flows used in financing activities	<u>\$ (50,830)</u>	<u>\$ (47,758)</u>	<u>\$ (169,750)</u>
Cash flows from discontinued operations:			
Operating cash flows	—	(86,384)	50,926
Investing cash flows	—	(11,764)	(51,452)
Financing cash flows (including cash at date of Spin-Off)	—	(16,029)	—
Net cash flows used in discontinued operations	<u>—</u>	<u>(114,177)</u>	<u>(526)</u>
Net decrease in cash and cash equivalents	(1,845)	(60,522)	(265,811)
Cash and cash equivalents at beginning of period	13,838	74,360	340,171
Cash and cash equivalents at end of period	11,993	13,838	74,360
Cash and cash equivalents of discontinued operations	—	—	(59,714)
Cash and cash equivalents at end of period	<u>\$ 11,993</u>	<u>\$ 13,838</u>	<u>\$ 14,646</u>
Changes in operating assets and liabilities, net:			
Receivables, net	\$ 57,623	\$ (64,652)	\$ 44,715
Merchandise inventories, net	(13,186)	62,015	(36,448)
Prepaid expenses and other current assets	4,096	(11,947)	(28,228)
Accounts payable, accrued liabilities and gift card liabilities	(67,864)	44,544	(171,240)
Changes in operating assets and liabilities, net	<u>\$ (19,331)</u>	<u>\$ 29,960</u>	<u>\$ (191,201)</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Fiscal Year (In thousands)	Fiscal 2017	Fiscal 2016	Fiscal 2015
Supplemental cash flow information			
Cash paid during the period for:			
Interest	\$ 5,487	\$ 12,217	\$16,548
Income taxes (net of refunds)	\$(16,859)	\$ 16,107	\$95,584
Non-cash financing activity:			
Accrued dividends for long-term incentive awards	\$ 577	\$ 451	\$ —
Dividends to preferred stockholders paid in shares	\$ —	\$ 1,783	\$ —
Issuance of common stock upon conversion of Series J preferred stock	\$ —	\$200,262	\$ —
Accrued dividends on redeemable preferred stock	\$ —	\$ —	\$ 3,941
Acquisition of preferred membership interests for 2,737 shares of common stock of Barnes & Noble, Inc.	\$ —	\$ —	\$76,175

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of dollars, except per share data)

For the 52 weeks ended April 29, 2017 (fiscal 2017), 52 weeks ended April 30, 2016 (fiscal 2016) and 52 weeks ended May 2, 2015 (fiscal 2015).

1. Summary of Significant Accounting Policies

Business

Barnes & Noble, Inc. (Barnes & Noble or the Company), one of the nation's largest booksellers,³ provides customers a unique experience across its multi-channel distribution platform. As of April 29, 2017, the Company operates 633 bookstores in 50 states, maintains an eCommerce site, develops digital reading products and operates NOOK, one of the largest digital bookstores. Barnes & Noble is utilizing the strength of its retail footprint in combination with its online and digital businesses to provide an omni-channel experience for its customers, fulfilling its commitment to offer customers any book, anytime, anywhere and in any format.

Barnes & Noble Retail (B&N Retail) operates 633 retail bookstores, primarily under the Barnes & Noble Booksellers® trade name, and includes the Company's eCommerce site. B&N Retail also includes Sterling Publishing Co., Inc. (Sterling or Sterling Publishing), a leader in general trade book publishing. The NOOK segment represents the Company's digital business, offering digital books and magazines for sale and consumption online, NOOK®⁴ reading devices, co-branded NOOK® tablets and reading software for iOS, Android and Windows.

The Company's principal business is the sale of trade books (generally, hardcover and paperback titles), mass market paperbacks (such as mystery, romance, science fiction and other popular fiction), children's books, eBooks and other digital content, NOOK® and related accessories, bargain books, magazines, gifts, café products and services, educational toys & games, music and movies direct to customers through its bookstores or on www.barnesandnoble.com. The Company offers its customers a full suite of textbook options (new, used, digital and rental).

The Company identifies its operating segments based on the way the business is managed (focusing on the financial information distributed) and the manner in which the chief operating decision maker interacts with other members of management, and makes decisions on the allocation of resources. The Company's two operating segments are B&N Retail and NOOK.

Separation of Barnes & Noble Education, Inc.

On February 26, 2015, Barnes & Noble announced plans for the legal and structural separation of Barnes & Noble Education, Inc. (Barnes & Noble Education or B&N Education) (formerly known as NOOK Media Inc.) from Barnes & Noble into an independent public company (the Spin-Off).

On July 14, 2015, the Barnes & Noble board of directors (the Board) approved the final distribution ratio and declared a pro rata dividend of the outstanding shares of B&N Education common stock, which resulted in the complete legal and structural separation of the two companies. The distribution was subject to the satisfaction or waiver of certain conditions as set forth in B&N Education's Registration Statement on Form S-1, which was filed with the Securities and Exchange Commission (SEC) on February 26, 2015 and was amended on April 29, 2015, June 4, 2015, June 29, 2015, July 13, 2015, July 14, 2015 and July 15, 2015.

³ Based upon sales reported in trade publications and public filings.

⁴ Any references to NOOK® include the Company's NOOK® Tablet, Samsung Galaxy Tab® A NOOK®, Samsung Galaxy Tab® S2 NOOK®, Samsung Galaxy Tab® E NOOK® and NOOK GlowLight™ Plus devices, each of which includes the trademark symbol (® or ™, as applicable) even if a trademark symbol is not included.

On August 2, 2015, Barnes & Noble completed the Spin-Off of Barnes & Noble Education and distributed, on a pro rata basis, all of the shares of B&N Education common stock to the Company's stockholders of record as of July 27, 2015. These Barnes & Noble stockholders of record as of July 27, 2015 received a distribution of 0.632 shares of B&N Education common stock for each share of Barnes & Noble common stock held as of the record date. Immediately following the completion of the Spin-Off, the Company's stockholders owned 100% of the outstanding shares of common stock of B&N Education. Following the Spin-Off, B&N Education operates as an independent public company and as the parent of Barnes & Noble College, trading on New York Stock Exchange under the ticker symbol "BNED".

In connection with the separation of B&N Education, the Company and B&N Education entered into a Separation and Distribution Agreement on July 14, 2015 and several other ancillary agreements on August 2, 2015. These agreements govern the relationship between the Company and B&N Education after the separation and allocate between the Company and B&N Education various assets, liabilities, rights and obligations following the separation, including employee benefits, intellectual property, information technology, insurance and tax-related assets and liabilities. The agreements also describe the Company's future commitments to provide B&N Education with certain transition services.

This Spin-Off is expected to be a non-taxable event for Barnes & Noble and its shareholders, and Barnes & Noble's U.S. shareholders (other than those subject to special rules) generally will not recognize gain or loss as a result of the distribution of B&N Education shares.

Discontinued Operations of Barnes & Noble Education, Inc.

The Company has recognized the separation of B&N Education in accordance with Accounting Standards Codification (ASC) 205-20, *Discontinued Operations*. As such, the historical results of Barnes & Noble Education have been adjusted to include pre-spin B&N Education results and separation-related costs and exclude corporate allocations with B&N Retail, and have been classified as discontinued operations. Additionally, discontinued operations for fiscal 2016 included investment banking fees (as they directly related to the Spin-Off).

History of Barnes & Noble Education, Inc.

On September 30, 2009, Barnes & Noble acquired Barnes & Noble College Booksellers, LLC (B&N College) from Leonard and Louise Riggio. From that date until October 4, 2012, B&N College was wholly owned by Barnes & Noble Booksellers, Inc. B&N Education was initially incorporated under the name NOOK Media Inc. in July 2012 to hold Barnes & Noble's B&N College and NOOK digital businesses. On October 4, 2012, Microsoft Corporation (Microsoft) acquired a 17.6% non-controlling preferred membership interest in B&N Education's subsidiary B&N Education, LLC (formerly NOOK Media LLC) (the LLC), and through B&N Education, Barnes & Noble maintained an 82.4% controlling interest of the B&N College and NOOK digital businesses.

On January 22, 2013, Pearson Education, Inc. (Pearson) acquired a 5% non-controlling preferred membership interest in the LLC, entered into a commercial agreement with the LLC relating to the B&N College business and received warrants to purchase an additional preferred membership interest in the LLC.

On December 4, 2014, B&N Education re-acquired Microsoft's interest in the LLC in exchange for cash and common stock of Barnes & Noble and the Microsoft commercial agreement was terminated effective as of such date. On December 22, 2014, B&N Education also re-acquired Pearson's interest in the LLC and certain related warrants previously issued to Pearson. In connection with these transactions, Barnes & Noble entered into contingent payment agreements with Microsoft and Pearson providing for additional payments upon the occurrence of certain events, including upon a sale of the NOOK digital business. As a result of these transactions, Barnes & Noble owned, prior to the Spin-Off, 100% of B&N Education.

On May 1, 2015, B&N Education distributed to Barnes & Noble all of the membership interests in B&N Education's NOOK digital business. As a result, B&N Education ceased to own any interest in the NOOK digital business, which remains a wholly owned subsidiary of Barnes & Noble.

Consolidation

The consolidated financial statements include the accounts of Barnes & Noble, Inc. and its wholly and majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all short-term, highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

Merchandise Inventories

Merchandise inventories are stated at the lower of cost or market. Cost is determined primarily by the retail inventory method under the first-in, first-out (FIFO) basis. NOOK merchandise inventories are recorded based on the average cost method.

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

The Company also estimates and accrues 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.

Property and Equipment and Other Long-Lived Assets

Property and equipment are carried at cost, less accumulated depreciation and amortization. For financial reporting purposes, depreciation is computed using the straight-line method over estimated useful lives. Maintenance and repairs are expensed as incurred, while major maintenance and remodeling costs are capitalized if they extend the useful life of the asset. Leasehold improvements are capitalized and amortized over the shorter of their estimated useful lives or the terms of the respective leases. Fixtures and equipment are capitalized and amortized over the shorter of their estimated useful lives or 10 years. Capitalized lease acquisition costs are being amortized over the lease terms of the underlying leases. System costs are capitalized and included in property and equipment. These costs are depreciated over their estimated useful lives from the date the systems become operational. The Company had \$276,122 and \$298,580 of property and equipment, net of accumulated depreciation, at April 29, 2017 and April 30, 2016, respectively, and \$117,105, \$134,850 and \$139,204 of depreciation expense for fiscal 2017, fiscal 2016 and fiscal 2015, respectively. Capitalized software costs of \$75,893 and \$79,890 for fiscal 2017 and fiscal 2016, respectively, are included in property and equipment.

The Company had \$911 and \$1,610 of amortizable intangible assets, net of amortization, at April 29, 2017 and April 30, 2016, respectively. The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and considers market participants in accordance with Accounting Standards Codification (ASC) 360-10, *Accounting for the Impairment or Disposal of Long-Lived Assets* (ASC 360-10). The Company evaluates long-lived assets for impairment at the individual Barnes & Noble store level, which is the lowest level at which individual cash flows can be identified. When evaluating long-lived assets for potential impairment, the Company will first compare the carrying amount of the assets to the individual store's estimated future undiscounted cash flows. If the estimated future cash flows are less than the carrying amount of the assets, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the assets to the individual store's fair value based on its estimated discounted future cash flows. If required, an impairment loss is recorded for that portion of the asset's carrying value in excess of fair value. Impairment losses included in selling and administrative expenses related to amortizable assets totaled \$349, \$150 and \$366 during fiscal 2017, fiscal 2016 and fiscal 2015, respectively.

Goodwill and Unamortizable Intangible Assets

The costs in excess of net assets of businesses acquired are carried as goodwill in the accompanying consolidated balance sheets.

At April 29, 2017, the Company had \$207,381 of goodwill (on its Retail reporting unit) and \$309,294 of unamortizable intangible assets (those with an indefinite useful life), accounting for approximately 26.7% of the Company's total assets. ASC 350-30, *Goodwill and Other Intangible Assets*, requires that goodwill and other unamortizable intangible assets no longer be amortized, but instead be tested for impairment at least annually or earlier if there are impairment indicators.

The Company performs a two-step process for impairment testing of goodwill as required by ASC 350-30. The first step of this test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount. Fair value was determined using the combination of a discounted cash flow method (income approach) and the guideline public company method (market comparable approach), weighted equally in determining the fair value of the Company. The market comparable approach estimates fair value using market multiples of various financial measures compared to a set of comparable public companies in the retail industry. The second step (if necessary) measures the amount of the impairment. The Company completed its annual goodwill impairment test as of the first day of the third quarter of fiscal 2017. In performing the valuations, the Company used cash flows that reflected management's forecasts and discount rates that included risk adjustments consistent with the current market conditions. Based on the results of the Company's step one testing, the fair value of the B&N Retail reporting unit as of that date exceeded its carrying values; therefore, the second step of the impairment test was not required to be performed and no goodwill impairment was recognized.

Goodwill is subject to further risk of impairment if B&N Retail comparable store sales continue to decline, the Company's cost reduction plans do not materialize or store closings accelerate. There were no impairment losses included in selling and administrative expenses related to goodwill during fiscal 2017, fiscal 2016 and fiscal 2015.

The Company tests unamortizable intangible assets by comparing the fair value and the carrying value of such assets. The Company also completed its annual impairment tests for its other unamortizable intangible assets by comparing the estimated fair value to the carrying value of such assets. Impairment losses included in selling and administrative expenses related to unamortizable intangible assets totaled \$0, \$3,840 and \$0 during fiscal 2017, fiscal 2016 and fiscal 2015, respectively. Changes in market conditions, among other factors, could have a material impact on these estimates.

During fiscal 2016, the Company impaired one of its publishing contracts due to a significant drop in business with that publisher, driven by lower title offerings, product quality and the loss of a distribution partner. As a result, the Company recorded an impairment charge of \$3,840 in selling and administrative expenses. The publishing contracts include the value of long-standing relationships with authors, agents and publishers established upon the Company's acquisition of Sterling in 2003. Given Sterling's strong history of maintaining such relationships, the Company believes they produce value indefinitely without an identifiable remaining useful life.

Deferred Charges

Costs incurred to obtain long-term financing are amortized over the terms of the respective debt agreements using the straight-line method, which approximates the effective interest method. Unamortized costs included in other non-current assets as of April 29, 2017 and April 30, 2016 were \$6,346 and \$7,796, respectively. Amortization expense included in interest and amortization of deferred financing fees was \$1,950, \$3,276 and \$5,477 during fiscal 2017, fiscal 2016 and fiscal 2015, respectively.

Revenue Recognition

Revenue from sales of the Company's products is recognized at the time of sale or shipment, other than those with multiple elements and Free On Board (FOB) destination point shipping terms. The Company accrues for estimated sales returns in the period in which the related revenue is recognized based on historical experience. ECommerce revenue from sales of products ordered through the Company's websites is recognized upon estimated delivery and receipt of the shipment by its customers. Freight costs are included within the Company's cost of sales and occupancy. Sales taxes collected from retail customers are excluded from reported revenues. All of the Company's sales are recognized as revenue on a "net" basis, including sales in connection with any periodic promotions offered to customers. The Company does not treat any promotional offers as expenses.

In accordance with ASC 605-25, *Revenue Recognition, Multiple-Element Arrangements*, and Accounting Standards Updates (ASU) 2009-13 and 2009-14, for multiple-element arrangements that involve tangible products that contain software that is essential to the tangible product's functionality, undelivered software elements that relate to the tangible product's essential software and other separable elements, the Company allocates revenue to all deliverables using the relative selling-price method. Under this method, revenue is allocated at the time of sale to all deliverables based on their relative selling price using a specific hierarchy. The hierarchy is as follows: vendor-specific objective evidence, third-party evidence of selling price, or best estimate of selling price. NOOK[®] device revenue is recognized at the segment point of sale.

The Company includes post-service customer support (PCS) in the form of software updates and potential increased functionality on a when-and-if-available basis with the purchase of a NOOK[®] from the Company. Using the relative selling-price method described above, the Company allocates revenue based on the best estimate of selling price for the deliverables as no vendor-specific objective evidence or third-party evidence exists for any of the elements. Revenue allocated to NOOK[®] and the software essential to its functionality is recognized at the time of sale, provided all other conditions for revenue recognition are met. Revenue allocated to the PCS is deferred and recognized on a straight-line basis over the 2-year estimated life of a NOOK[®] device.

The average percentage of a NOOK[®]'s sales price that is deferred for undelivered items and recognized over its 2-year estimated life ranges between 0% and 5%, depending on the type of device sold. The amount of NOOK[®]-related deferred revenue as of April 29, 2017 and April 30, 2016 was \$226 and \$160, respectively. These amounts are classified on the Company's balance sheet in accrued liabilities for the portion that is subject to deferral for one year or less and other long-term liabilities for the portion that is subject to deferral for more than one year.

The Company also pays certain vendors who distributed NOOK[®] a commission on the content sales sold through that device. The Company accounted for these transactions as a reduction in the sales price of the NOOK[®] based on historical trends of content sales and a liability was established for the estimated commission expected to be paid over the life of the product. The Company recognizes revenue of the content at the point of sale of the content. The Company records revenue from sales of digital content, sales of third-party extended warranties, service contracts and other products, for which the Company is not obligated to perform, and for which the Company does not meet the criteria for gross revenue recognition under ASC 605-45-45, *Reporting Revenue Gross as a Principal versus Net as an Agent*, on a net basis. All other revenue is recognized on a gross basis.

The Company rents physical textbooks. Revenue from the rental of physical textbooks is deferred and recognized over the rental period commencing at point of sale. The Company offers a buyout option to allow the purchase of a rented book at the end of the semester. The Company records the buyout purchase when the customer exercises and pays the buyout option price. In these instances, the Company would accelerate any remaining deferred rental revenue at the point of sale.

NOOK acquires the rights to distribute digital content from publishers and distributes the content on www.barnesandnoble.com, NOOK[®] devices and other eBookstore platforms. Certain digital content is distributed under an agency pricing model, in which the publishers set prices for eBooks and NOOK receives a commission on content sold through the eBookstore. The majority of the Company's eBooks are sold under the agency model.

The Barnes & Noble Member Program offers members greater discounts and other benefits for products and services, as well as exclusive offers and promotions via e-mail or direct mail, for an annual fee of \$25.00, which is non-refundable after the first 30 days. Revenue is recognized over the 12-month period based upon historical spending patterns for Barnes & Noble Members.

Research and Development Costs for Software Products

The Company follows the guidance in ASC 985-20, *Cost of Software to Be Sold, Leased or Marketed*, regarding research and development costs for software products to be sold, leased, or otherwise marketed. Capitalization of software development costs begins upon the establishment of technological feasibility and is discontinued when the product is available for sale. A certain amount of judgment and estimation is required to assess when technological feasibility is established, as well as the ongoing assessment of the recoverability of capitalized costs. The Company's products reach technological feasibility shortly before the products are released and, therefore, research and development costs are generally expensed as incurred.

Internal-Use Software and Website Development Costs

Direct costs incurred to develop software for internal use and website development costs are capitalized and amortized over an estimated useful life of three to seven years. During fiscal 2017 and fiscal 2016, the Company capitalized costs, primarily related to labor, consulting, hardware and software, of \$18,450 and \$31,531, respectively. Amortization of previously capitalized amounts was \$23,584, \$30,461 and \$27,618 for fiscal 2017, fiscal 2016 and fiscal 2015, respectively. Costs related to the design or maintenance of internal-use software and website development are expensed as incurred.

Advertising Costs

The costs of advertising are expensed as incurred during the year pursuant to ASC 720-35, *Advertising Costs*. Advertising costs charged to selling and administrative expenses were \$36,420, \$53,569 and \$50,210 during fiscal 2017, fiscal 2016 and fiscal 2015, respectively.

The Company receives payments and credits from vendors pursuant to co-operative advertising and other programs, including payments for product placement in stores, catalogs and online. In accordance with ASC 605-50-25-10, *Customer's Accounting for Certain Consideration Received from a Vendor*, the Company classifies certain co-op advertising received as a reduction in costs of sales and occupancy. Allowances received from vendors exceeded gross advertising costs in each of the fiscal years noted above.

Closed Store Expenses

When the Company closes or relocates a store, the Company charges unrecoverable costs to expense. Such costs include the net book value of abandoned fixtures and leasehold improvements and, when a store is closed prior to the expiration of the lease, a provision for future lease obligations, net of expected sublease recoveries. Costs associated with store closings of \$1,434, \$744 and \$1,301 during fiscal 2017, fiscal 2016 and fiscal 2015, respectively, are included in selling and administrative expenses in the accompanying consolidated statements of operations.

Net Earnings (Loss) per Share

In accordance with ASC 260-10-45, *Share-Based Payment Arrangements and Participating Securities and the Two-Class Method*, unvested share-based payment awards that contain rights to receive non-forfeitable dividends are considered participating securities. The Company's unvested restricted shares and unvested restricted stock units granted prior to July 15, 2015 and shares issuable under the Company's deferred compensation plan are considered participating securities. Cash dividends to restricted stock units and performance-based stock units granted on or after July 15, 2015 are not distributed until and except to the extent that the restricted stock units vest, and in the case of performance-based stock units, until and except to the extent that the performance metrics are achieved or are otherwise deemed satisfied. Stock options do not receive cash dividends. As such, these awards are not considered participating securities.

Basic earnings per common share is calculated by dividing the net income, adjusted for preferred dividends and income allocated to participating securities, by the weighted average number of common shares outstanding during the period. Diluted net income per common share reflects the dilution that would occur if any potentially dilutive instruments were exercised or converted into common shares. The dilutive effect of participating securities is calculated using the more dilutive of the treasury stock method or two-class method. Other potentially dilutive securities include preferred stock, stock options, restricted stock units granted after July 15, 2015, and performance-based stock

units and are included in diluted shares to the extent they are dilutive under the treasury stock method for the applicable periods. See Note 11 to the Consolidated Financial Statements for further information regarding the calculation of basic and diluted earnings (loss) per common share.

Income Taxes

The provision for income taxes includes federal, state and local income taxes currently payable and those deferred because of temporary differences between the financial statement and tax bases of assets and liabilities. The deferred tax assets and liabilities are measured using the enacted tax rates and laws that are expected to be in effect when the differences reverse. The Company regularly reviews its deferred tax assets for recoverability and establishes a valuation allowance, if determined to be necessary. The Company establishes a reserve for uncertain tax positions. If the Company considers that a tax position is more likely than not of being sustained upon audit, based solely on the technical merits of the position, it recognizes the tax benefit. The Company measures the tax benefit by determining the largest amount that is greater than 50% likely of being realized upon settlement, presuming that the tax position is examined by the appropriate taxing authority that has full knowledge of all relevant information. A reserve for an uncertain income tax position will be recognized if it has less than a 50% likelihood of being sustained. The tax positions are analyzed periodically (at least quarterly) and adjustments are made as events occur that warrant adjustments for those positions. The Company's policy is to recognize interest and penalties related to income tax matters in income tax expense.

Stock-Based Compensation

The calculation of stock-based employee compensation expense involves estimates that require management's judgment. These estimates include the fair value of each of the stock option awards granted, which is estimated on the date of grant using a Black-Scholes option pricing model. There are two significant inputs into the Black-Scholes option pricing model: expected volatility and expected term. The Company estimates expected volatility based on traded option volatility of the Company's stock over a term equal to the expected term of the option granted. The expected term of stock option awards granted is derived from historical exercise experience under the Company's stock option plans and represents the period of time that stock option awards granted are expected to be outstanding. The assumptions used in calculating the fair value of stock-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management's judgment. As a result, if factors change and the Company uses different assumptions, stock-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate, and only recognize expense for those shares expected to vest. If the Company's actual forfeiture rate is materially different from its estimate, the stock-based compensation expense could be significantly different from what the Company has recorded in the current period. See Note 7 to the Consolidated Financial Statements for a further discussion on stock-based compensation.

Gift Cards

The Company sells gift cards, which can be used in its stores, on www.barnesandnoble.com, on NOOK[®] devices and at B&N Education stores. The Company does not charge administrative or dormancy fees on gift cards and gift cards have no expiration dates. Upon the purchase of a gift card, a liability is established for its cash value. Revenue associated with gift cards is deferred until redemption of the gift card. Gift cards redeemed at B&N Education are funded by the gift card liability at the Company. Over time, a portion of the gift cards issued is typically not redeemed. The Company estimates the portion of the gift card liability for which the likelihood of redemption is remote based upon the Company's historical redemption patterns. The Company records this amount in revenue on a straight-line basis over a 12-month period beginning in the 13th month after the month the gift card was originally sold. Additional breakage may be required if gift card redemptions continue to run lower than historical patterns.

The Company recognized gift card breakage of \$35,524, \$29,074 and \$26,080 during fiscal 2017, fiscal 2016 and fiscal 2015, respectively. The Company had gift card liabilities of \$351,424 and \$353,103 as of April 29, 2017 and April 30, 2016, respectively.

Accounts Receivable

Accounts receivable, as presented on the Company's Consolidated Balance Sheets, is net of allowances. An allowance for doubtful accounts is determined through an analysis of the aging of accounts receivable and assessments of collectability based on historic trends, the financial condition of the Company's customers and an evaluation of economic conditions. The Company writes off uncollectible trade receivables once collection efforts have been exhausted. Costs associated with allowable customer markdowns and operational chargebacks, net of the expected recoveries, are part of the provision for allowances included in accounts receivable. These provisions result from seasonal negotiations, as well as historic deduction trends net of expected recoveries, and the evaluation of current market conditions.

Reclassifications

Certain prior period amounts have been reclassified for comparative purposes to conform with the fiscal 2017 presentation.

Recent Accounting Pronouncements

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740) – Intra-Entity Transfers of Assets Other Than Inventory* (ASU 2016-16). This standard requires that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Consequently, the amendments in this standard eliminate the exception for an intra-entity transfer of an asset other than inventory. The amendments in this standard do not include new disclosure requirements; however, existing disclosure requirements might be applicable. ASU 2016-16 is effective for public companies for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments* (ASU 2016-15). This update clarifies the classification of certain cash receipts and cash payments in the statement of cash flows, including debt prepayment or extinguishment costs, settlement of contingent consideration arising from a business combination, insurance settlement proceeds, and distributions from certain equity method investees. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. ASU 2016-15 is effective for the Company beginning May 1, 2018 under a retrospective approach. Since the standard only impacts classification in the statements of cash flows, adoption will not affect the Company's cash and cash equivalents.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting* (ASU 2016-09). The new guidance changes certain aspects of accounting for share-based payments including accounting for income taxes, forfeitures and classifications in the statement of cash flows. The Company plans to adopt this standard in the first quarter of fiscal 2018, which aligns with the required adoption date. As allowed by ASU 2016-09, the Company plans to change its accounting for forfeitures from its current method of estimating the number of awards that are expected to vest to recording forfeitures as they occur. This will require a cumulative-effect adjustment to equity as of the beginning of fiscal 2018. The Company does not expect this adjustment to be material to its consolidated financial statements. In addition, the Company does not expect the remaining changes caused by ASU 2016-09 to have a material impact to its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (ASU 2016-02), in order to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous Generally Accepted Accounting Principles. ASU 2016-02 requires that a lessee should recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term on the balance sheet. ASU 2016-02 requires expanded disclosures about the nature and terms of lease agreements and is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. Early adoption is permitted. A modified retrospective transition approach is required for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company currently anticipates early adoption of ASU 2016-02 effective April 29, 2018 in conjunction with the adoption of ASU 2014-09. While the Company's ability to early adopt depends on system readiness and completing the Company's analysis of information necessary to restate prior period consolidated financial statements, the Company remains on schedule and has implemented key system functionality to enable the preparation of restated financial information. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements, but expects that it will result in a significant increase to its long-term assets and liabilities on its consolidated balance sheet. However, the Company does not expect adoption will have a material impact on its consolidated income statement.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory* (ASU 2015-11), modifying the accounting for inventory. Under ASU 2015-11, the measurement principle for inventory will change from lower of cost or market value to lower of cost and net realizable value. ASU 2015-11 defines net realizable value as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 is applicable to inventory that is accounted for under the first-in, first-out method and is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, with early adoption permitted. The Company adopted ASU 2015-11 effective May 1, 2017. The Company will apply the amendments in this update prospectively to the measurement of inventory after the date of adoption. The majority of the Company's merchandise inventories are valued using the retail inventory method, which is outside the scope of ASU 2015-11. The remaining inventory of the Company's merchandise inventories are valued at the lower of cost or market using the average cost method, and the Company is evaluating the effect of this update on these inventory values. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03). ASU 2015-03 simplifies the presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by ASU 2015-03. In August 2015, FASB issued ASU 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements* (ASU 2015-15). ASU 2015-15 clarifies the presentation and measuring of debt issuance costs incurred in connection with line-of-credit arrangements given the lack of guidance on this topic in ASU 2015-03. For line-of-credit arrangements, an entity can continue to present debt issuance costs as an asset and amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement. ASU 2015-03, as amended, is effective for annual reporting periods beginning after December 15, 2015, including interim periods within such annual reporting periods with early adoption permitted. ASU 2015-03 is

to be retrospectively adopted to each prior reporting period presented. The Company adopted ASU 2015-03 in the first quarter ended July 30, 2016. The Company made a policy election to continue recording the debt issuance costs as an asset, as allowed for revolving credit agreements. As the Company only has a line-of-credit arrangement, the adoption of this ASU did not result in a change in the Company's accounting for debt issuance costs related to such line of credit and had no impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09. The standard provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue when control of the goods or services transfers to the customer, as opposed to recognizing revenue when the risks and rewards transfer to the customer under the existing revenue guidance. ASU 2014-09, as amended by ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20, is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Earlier application is permitted for annual reporting periods beginning after December 15, 2016. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. The Company plans to adopt ASU 2014-09 effective April 29, 2018. The Company currently anticipates adopting the standard using the modified retrospective method. The Company has begun the process of implementing this standard, including performing a review of its revenue streams to identify any differences in the timing, measurement, or presentation of revenue recognition. The Company currently believes that the primary impact will be changes to the timing of recognition of revenues related to gift card breakage. The Company will continue to assess the impact on all areas of its revenue recognition, disclosure requirements and changes that may be necessary to its internal controls over financial reporting. The Company is continuing to evaluate the impact of adopting this ASU on its consolidated financial statements. The Company remains on schedule to adopt this ASU effective April 29, 2018.

Reporting Period

The Company's fiscal year is comprised of 52 or 53 weeks, ending on the Saturday closest to the last day of April. The reporting periods ended April 29, 2017, April 30, 2016 and May 2, 2015 each contained 52 weeks.

2. Discontinued Operations of Barnes & Noble Education, Inc.

The Company has recognized the separation of B&N Education in accordance with Accounting Standards Codification (ASC) 205-20, *Discontinued Operations*. As such, the historical results of Barnes & Noble Education have been adjusted to include pre-spin B&N Education results and separation-related costs and exclude corporate allocations with B&N Retail, and have been classified as discontinued operations. Additionally, discontinued operations for fiscal 2016 included investment banking fees (as they directly related to the Spin-Off).

The following financial information presents the discontinued operations for fiscal 2016 and fiscal 2015:

	Fiscal 2016	Fiscal 2015
Sales	\$238,983	\$1,772,389
Cost of sales and occupancy	186,697	1,325,814
Gross profit	52,286	446,575
Selling and administrative expenses	94,933	353,087
Depreciation and amortization	13,100	50,509
Operating income (loss) from discontinued operations	(55,747)	42,979
Interest expense, net and amortization of deferred financing fees	3	210
Income (loss) before income taxes from discontinued operations	(55,750)	42,769
Income taxes	(16,604)	39,045
Net income (loss) from discontinued operations	<u>\$ (39,146)</u>	<u>\$ 3,724</u>

The following table presents the aggregate carrying amounts of the classes of assets and liabilities of discontinued operations:

	May 2, 2015
Carrying amounts of assets included as part of discontinued operations:	
Cash and cash equivalents	\$ 59,714
Receivables, net	38,311
Merchandise inventories, net	297,425
Prepaid expenses and other current assets	52,176
Total current assets	<u>447,626</u>
Property and equipment:	
Buildings and leasehold improvements	149,065
Fixtures and equipment	335,404
	484,469
Less accumulated depreciation and amortization	376,911
Net property and equipment	<u>107,558</u>
Goodwill	274,070
Intangible assets, net	198,190
Other non-current assets	39,883
Total assets classified as discontinued operations in the consolidated balance sheet	<u>\$1,067,327</u>
Carrying amounts of liabilities included as part of discontinued operations:	
Accounts payable	\$ 170,490
Accrued liabilities	133,123
Total current liabilities	<u>303,613</u>
Long-term deferred taxes	41,924
Other long-term liabilities	34,093
Total liabilities classified as discontinued operations in the consolidated balance sheet	<u>\$ 379,630</u>

3. Resignation Charge

On August 2, 2015, Michael P. Huseby resigned from the Company's Board of Directors and as Chief Executive Officer of the Company, which was contingent upon the successful separation of B&N Education. In connection with his termination of employment, he received severance payments based on the terms of his employment agreement with the Company, effective as of January 7, 2014. Under the terms of his employment agreement, upon a resignation for "Good Reason", Mr. Huseby was entitled to receive lump-sum severance equal to two times the sum of (a) annual base salary, (b) the average annual incentive compensation paid to the named executive officer with respect to the preceding two completed years and (c) the cost of benefits. In addition, Mr. Huseby was entitled to accelerated vesting of the equity-based awards granted pursuant to his employment agreement. As a result, Mr. Huseby received a severance payment equal to \$7,742 and additionally was entitled to 300,000 shares of the Company's common stock pursuant to the accelerated vesting of the equity-based awards, which were settled for cash based on the closing price of the Company's common stock on the record date of the Spin-Off in an amount equal to \$8,022. The net cash payments related to Mr. Huseby's resignation totaled \$15,764 during the second quarter of fiscal 2016. Mr. Huseby's 300,000 shares have been ratably expensed from the initial grant date, thereby reducing the total resignation charge to \$10,510, which was recorded within selling and administrative expenses during the second quarter of fiscal 2016.

4. CEO Departure

On October 26, 2016, the Company entered into a release agreement (the Release Agreement) with its former Chief Executive Officer, Ronald D. Boire. Under the Release Agreement, Mr. Boire and the Company agreed to release claims against each other in connection with Mr. Boire's termination of employment in exchange for a cash payment contemplated by his employment agreement. In connection with the execution of the Release Agreement, Mr. Boire also agreed to forfeit all equity awards that were granted to him by the Company.

The cash payment in connection with the Release Agreement totaled \$4,826. The Company has previously recognized \$1,933 in expense relating to the equity awards granted to Mr. Boire during his employment. Taking into account the reversal of those expenses, the Company recorded a net charge related to the cash payment to Mr. Boire in connection with the Release Agreement of \$2,892 within selling and administrative expenses during the second quarter of fiscal 2017.

5. EBook Settlement

The Company provided credits to eligible customers resulting from the settlement reached with Apple Inc. (Apple) in an antitrust lawsuit filed by various State Attorneys General and private class plaintiffs regarding the price of digital books. The Company's customers were entitled to \$95,707 in total credits as a result of the settlement, which is funded by Apple. If a customer's credit is not used to make a purchase within one year, the entire credit will expire. The Company estimated total activations of \$60,844 through June 2017, which are recorded as a liability to customers to the extent they have not yet been activated and as a receivable from the Apple settlement fund to the extent they have not yet been reimbursed. As of April 29, 2017, the Company's customers had activated \$59,232 in credits, of which \$52,687 were redeemed. Total receivables from the Apple settlement fund were \$2,478 as of April 29, 2017.

6. Credit Facility

Prior to August 3, 2015, the Company was party to an amended and restated credit facility with Bank of America, N.A., as administrative agent, collateral agent and swing line lender, and other lenders, dated as of April 29, 2011 (as amended and modified through August 3, 2015, the Prior Credit Facility), consisting of up to \$1,000,000 in aggregate commitments under a five-year asset-backed revolving credit facility, which was scheduled to expire on April 29, 2016.

On August 3, 2015, the Company and certain of its subsidiaries entered into a credit agreement (New Credit Agreement) with Bank of America, N.A., as administrative agent, collateral agent and swing line lender, and the other lenders from time to time party thereto, under which the lenders committed to provide a five-year asset-backed revolving credit facility in an aggregate committed principal amount of up to \$700,000 (Revolving Credit Facility). On September 30, 2016, the Company amended the New Credit Agreement to provide for a new “first-in, last-out” revolving credit facility (the FILO Credit Facility and, together with the Revolving Credit Facility, the New Credit Facility) in an aggregate principal amount of up to \$50,000, which supplements availability under the Revolving Credit Facility. The Company generally must draw down the FILO Credit Facility before making any borrowings under the Revolving Credit Facility.

Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities LLC, Wells Fargo Bank, N.A. and SunTrust Robinson Humphrey, Inc. are the joint lead arrangers for the New Credit Facility. The New Credit Facility replaced the Prior Credit Facility. Proceeds from the New Credit Facility are used for general corporate purposes, including seasonal working capital needs.

The Company and certain of its subsidiaries are permitted to borrow under the New Credit Facility. The New Credit Facility is secured by substantially all of the inventory, accounts receivable and related assets of the borrowers under the New Credit Facility (collectively, the Loan Parties), but excluding the equity interests in the Company and its subsidiaries, intellectual property, equipment and certain other property. Borrowings under the New Credit Facility are limited to a specified percentage of eligible collateral. The Company has the option to request an increase in commitments under the New Credit Facility of up to \$250,000, subject to certain restrictions.

The New Credit Facility allows the Company to declare and pay up to \$70,000 in dividends annually to its stockholders without compliance with any availability or ratio-based limitations.

Interest under the Revolving Credit Facility accrues, at the election of the Company, at a LIBOR or alternate base rate, plus, in each case, an applicable interest rate margin, which is determined by reference to the level of excess availability under the Revolving Credit Facility. Through the end of the fiscal quarter during which the closing of the Revolving Credit Facility occurred, loans under the Revolving Credit Facility bore interest at LIBOR plus 1.750% per annum, in the case of LIBOR borrowings, or at the alternate base rate plus 0.750% per annum, in the alternative, and thereafter the interest rate began to fluctuate between LIBOR plus 2.000% per annum and LIBOR plus 1.500% per annum (or between the alternate base rate plus 1.000% per annum and the alternate base rate plus 0.500% per annum), based upon the average daily availability under the Revolving Credit Facility for the immediately preceding fiscal quarter. Interest under the FILO Credit Facility accrues, at the election of the Company, at a LIBOR or alternate base rate, plus, in each case, an applicable interest rate margin, which is also determined by reference to the level of excess availability under the Revolving Credit Facility. Loans under the FILO Credit Facility bear interest at 1.000% per annum more than loans under the Revolving Credit Facility.

The New Credit Agreement contains customary negative covenants, which limit the Company's ability to incur additional indebtedness, create liens, make investments, make restricted payments or specified payments and merge or acquire assets, among other things. In addition, if

excess availability under the New Credit Facility were to fall below certain specified levels, certain additional covenants (including fixed charge coverage ratio requirements) would be triggered, and the lenders would assume dominion and control over the Loan Parties' cash.

The New Credit Agreement contains customary events of default, including payment defaults, material breaches of representations and warranties, covenant defaults, default on other material indebtedness, customary ERISA events of default, bankruptcy and insolvency, material judgments, invalidity of liens on collateral, change of control or cessation of business. The New Credit Agreement also contains customary affirmative covenants and representations and warranties.

The Company wrote off \$460 of deferred financing fees related to the Prior Credit Facility during fiscal 2016 and the remaining unamortized deferred financing fees of \$3,542 were deferred and are being amortized over the five-year term of the New Credit Facility. The Company also incurred \$5,701 of fees to secure the New Credit Facility, which are being amortized over the five-year term accordingly. During fiscal 2017, the Company incurred \$474 of fees to secure the FILO Credit Facility, which are being amortized over the same term as the New Credit Facility.

The Company had \$64,900 and \$47,200 of outstanding debt under the New Credit Facility as of April 29, 2017 and April 30, 2016, respectively. The Company had \$38,833 and \$47,895 of outstanding letters of credit under its New Credit Facility as of April 29, 2017 and April 30, 2016, respectively.

The following table presents selected information related to the Company's credit facilities:

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Credit facility at period end	\$ 64,900	47,200	—
Average balance outstanding during the period	\$ 96,297	66,948	18,227
Maximum borrowings outstanding during the period	\$285,278	293,200	202,800
Weighted average interest rate during the period ^(a)	5.77%	8.21%	38.18%
Interest rate at end of period	3.73%	2.69%	0.00%

(a) Includes commitment fees.

Fees expensed with respect to the unused portion of the credit facilities were \$2,235, \$2,781 and \$4,658 during fiscal 2017, fiscal 2016 and fiscal 2015, respectively.

The Company has no agreements to maintain compensating balances.

7. Stock-Based Compensation

The Company maintains two active share-based incentive plans: the 2009 Incentive Plan and the Amended and Restated 2009 Incentive Plan. Prior to June 2, 2009, the Company issued restricted stock and stock options under the 1996 and 2004 Incentive Plans. On June 2, 2009, the Company's shareholders approved the 2009 Incentive Plan. Under the 2009 Incentive Plan, the Company has issued restricted stock units, restricted stock and stock options. On September 11, 2012, the Company's shareholders approved the Amended and Restated 2009 Incentive Plan. Under the Amended and Restated 2009 Incentive Plan, the Company has issued performance-based stock units, restricted stock units, restricted stock and stock options. At April 29, 2017, there were approximately 7,261,401 shares of common stock available for future grants under the Amended and Restated 2009 Incentive Plan.

A restricted stock award is an award of common stock that is subject to certain restrictions during a specified period. Restricted stock awards are independent of option grants and are generally subject to forfeiture if employment terminates prior to the release of the restrictions. The grantee cannot transfer the shares before the restricted shares vest. Shares of unvested restricted stock have the same voting rights as common stock, are entitled to receive dividends and other distributions thereon and are considered to be currently issued and outstanding. The Company's restricted stock awards vest over a period of one to four years. The Company expenses the cost of the restricted stock awards, which is determined to be the fair market value of the shares at the date of grant, straight-line over the period during which the restrictions lapse. For these purposes, the fair market value of the restricted stock is determined based on the closing price of the Company's common stock on the grant date.

A restricted stock unit is a grant valued in terms of the Company's common stock, but no stock is issued at the time of grant. The restricted stock units may be redeemed for one share of common stock each once vested. Restricted stock units are generally subject to forfeiture if employment terminates prior to the release of the restrictions. The grantee cannot transfer the units except in very limited circumstances and with the consent of the compensation committee. Shares of unvested restricted stock units have no voting rights but are entitled to receive dividends and other distributions thereon. Cash dividends to restricted stock units granted on or after July 15, 2015 are not distributed until the restricted stock units vest. The Company's restricted stock units vest over a period of one to four years. The Company expenses the cost of the restricted stock units, which is determined to be the fair market value of the shares at the date of grant, straight-line over the period during which the restrictions lapse. For these purposes, the fair market value of the restricted stock unit is determined based on the closing price of the Company's common stock on the grant date.

A performance-based stock unit is a grant valued in terms of the Company's common stock, but no stock is issued at the time of grant. Each performance-based stock unit may be redeemed for one share of common stock once vested. In general, upon the achievement of a minimum threshold, 50% to 150% of these awards vest at the end of a three year performance period from the date of grant based upon achievement of the performance goal specified in the performance-based stock unit agreement. Performance-based stock units are generally subject to forfeiture if employment terminates prior to the settlement of the award. The grantee cannot transfer the units except in very limited circumstances and with the consent of the compensation committee. Shares of unvested performance-based stock units have no voting rights but are entitled to receive dividends and other distributions thereon. Cash dividends to performance-based stock units are not distributed until the award is settled. The Company expenses the cost of the performance-based stock units, which is determined to be the fair market value of the shares at the date of grant, ratably over the requisite service period, based on the probability of achieving the performance goal, with changes in expectations recognized as an adjustment to earnings in the period of the change. If the performance goal is not met, no compensation cost is recognized and any previously recognized compensation cost is reversed.

The Company uses the Black-Scholes option-pricing model to value the Company's stock options for each stock option award. Using this option-pricing model, the fair value of each stock option award is estimated on the date of grant. The fair value of the Company's stock option awards, which are generally subject to pro-rata vesting annually over four years, is expensed on a straight-line basis over the vesting period of the stock options. The expected volatility assumption is based on traded options volatility of the Company's stock over a term equal to the expected term of the option granted. The expected term of stock option awards granted is derived from historical exercise experience under the Company's stock option plans and represents the period of time that stock option awards granted are expected to be outstanding. The expected term assumption incorporates the contractual term of an option grant, which is ten years, as well as the vesting period of an award, which is generally pro-rata vesting annually over four years. The risk-free interest rate is based on the implied yield on a U.S. Treasury constant maturity with a remaining term equal to the expected term of the option granted.

The Company recognizes stock-based compensation costs, net of estimated forfeitures, for only those shares expected to vest on a straight-line basis over the requisite service period of the award. The Company estimates the forfeiture rates based on its historical experience.

No stock options were granted during fiscal 2017, fiscal 2016 or fiscal 2015.

In September 2003, Leonard Riggio, the Company's Executive Chairman, exercised 1,318,750 stock options by tendering in payment of the exercise price of the stock options 606,277 shares that he held in the Company's stock. Mr. Riggio elected to defer receipt of the balance of the shares (712,473) due from the exercise pursuant to the Company's Executive Deferred Compensation Plan (Plan). In accordance therewith, the Company established a rabbi trust (Rabbi Trust) under the Plan for the benefit of Mr. Riggio, which holds 712,473 shares of the Company's common stock. The shares held by the Rabbi Trust were treated as treasury stock. Due to the deferred compensation arrangement, these shares were included in the denominator of the earnings per share calculation in accordance with ASC 260, *Earnings per share* when the impact was not antidilutive.

On March 15, 2017, the Board of Directors of the Company approved the termination of the Plan and the Rabbi Trust. As part of the termination of the Plan, all amounts deferred under the Plan and held in the Rabbi Trust were distributed in March 2017 to Mr. Riggio, who was the sole participant in the Plan.

Stock-Based Compensation Activity

The following table presents a summary of the Company's stock option activity:

	Number of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Balance, May 3, 2014	1,039	\$ 20.14	4.53 years	\$ 725
Granted	—	0.00		
Exercised	(83)	15.47		
Forfeited	(501)	24.12		
Balance, May 2, 2015	455	\$ 16.62	6.27 years	\$ 3,114
Granted	—	0.00 ^(a)		
Exercised	(111)	11.71 ^(a)		
Forfeited	(239)	10.89 ^(a)		
Adjustment due to the Spin-Off of B&N Education	219			
Balance, April 30, 2016	324	\$ 11.29	5.09 years	\$ 516
Granted	—	0.00		
Exercised	(31)	9.91		
Forfeited	(38)	21.14		
Balance, April 29, 2017	255	\$ 9.99	4.62 years	\$ 11
Vested and expected to vest in the future at April 29, 2017	255	\$ 9.99	4.62 years	\$ 11
Exercisable at April 29, 2017	255	\$ 9.99	4.62 years	\$ 11
Available for grant at April 29, 2017	7,261			

(a) Weighted average exercise price is calculated using exercise price prior to the Spin-Off and after the Spin-Off.

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of the related fiscal year and the exercise price, multiplied by the related in-the-money options) that would have been received by the option holders had they exercised their options at the end of the fiscal year. This amount changes based on the market value of the Company's common stock. Total intrinsic value of options exercised for fiscal 2017, fiscal 2016 and fiscal 2015 (based on the difference between the Company's stock price on the exercise date and the respective exercise price, multiplied by the number of options exercised) was \$99, \$546 and \$596, respectively.

As of April 29, 2017, there was no unrecognized compensation expense related to unvested stock options granted under the Company's share-based compensation plans.

The following table presents a summary of the Company's restricted stock activity:

	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value
Balance, May 3, 2014	99	\$ 14.09
Granted	43	22.24
Vested	(96)	14.10
Forfeited	(3)	13.46
Balance, May 2, 2015	43	\$ 22.24
Granted	64	13.04
Vested	(43)	22.24
Forfeited	—	0.00
Balance, April 30, 2016	64	\$ 13.04
Granted	77	10.95
Vested	(64)	13.04
Forfeited	—	0.00
Balance, April 29, 2017	<u>77</u>	<u>\$ 10.95</u>

Total fair value of shares of restricted stock that vested during fiscal 2017, fiscal 2016 and fiscal 2015 was \$680, \$637 and \$2,188, respectively. As of April 29, 2017, there was \$280 of unrecognized stock-based compensation expense related to non-vested restricted stock awards. That cost is expected to be recognized over a weighted average period of 0.38 years.

The following table presents a summary of the Company's restricted stock unit activity:

	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value
Balance, May 3, 2014	3,127	\$ 15.15
Granted	291	19.40
Vested	(1,054)	15.19
Forfeited	(309)	15.94
Balance, May 2, 2015	2,055	\$ 15.62
Granted	692	18.82 ^(a)
Vested	(1,312)	10.68 ^(a)
Forfeited	(1,054)	10.74 ^(a)
Adjustment due to the Spin-Off of B&N Education	<u>1,057</u>	
Balance, April 30, 2016	1,438	\$ 13.76
Granted	547	12.42
Vested	(609)	11.75
Forfeited	(826)	14.22
Balance, April 29, 2017	<u>550</u>	<u>\$ 13.96</u>

(a) Weighted average grant date fair value is calculated using the grant price prior to the Spin-Off and after the Spin-Off.

Total fair value of shares of restricted stock units that vested during fiscal 2017, fiscal 2016 and fiscal 2015 were \$6,612, \$18,047 and \$23,578, respectively. As of April 29, 2017, there was \$5,084 of unrecognized stock-based compensation expense related to non-vested restricted stock units. That cost is expected to be recognized over a weighted average period of 1.79 years.

The following table presents a summary of the Company's performance-based stock unit activity:

	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value
Balance, May 3, 2014	—	\$ 0.00
Granted	—	0.00
Vested	—	0.00
Forfeited	—	0.00
Balance, May 2, 2015	—	\$ 0.00
Granted	110	28.08 ^(a)
Vested	—	0.00 ^(a)
Forfeited	(17)	18.46 ^(a)
Adjustment due to the Spin- Off of B&N Education	58	
Balance, April 30, 2016	151	\$ 18.41
Granted	507	12.48
Vested	—	0.00
Forfeited	(238)	13.55
Balance, April 29, 2017	<u>420</u>	\$ 14.00

(a) Weighted average grant date fair value is calculated using the grant price prior to the Spin-Off and after the Spin-Off.

There were no vesting of performance-based stock units during fiscal 2017, fiscal 2016 and fiscal 2015. As of April 29, 2017, there was \$2,940 of unrecognized stock-based compensation expense related to non-vested performance-based stock units. That cost is expected to be recognized over a weighted average period of 1.97 years.

For fiscal 2017, fiscal 2016 and fiscal 2015, stock-based compensation expense of \$6,299, \$14,201 and \$16,875, respectively, is included in selling and administrative expenses.

8. Receivables, Net

Receivables represent customer, private and public institutional and government billings, credit/debit card, advertising, landlord and other receivables due within one year as follows:

	April 29, 2017	April 30, 2016
Trade accounts	\$16,189	\$ 21,000
Credit/debit card receivables	25,136	28,232
eBook settlement receivable (see Note 5)	2,478	53,809
Other receivables	23,491	21,876
Total receivables, net	<u>\$67,294</u>	<u>\$124,917</u>

9. Other Long-Term Liabilities

Other long-term liabilities consist primarily of deferred rent, tax liabilities and reserves, long-term insurance liabilities and asset retirement obligations. The Company provides for minimum rent expense over the lease terms (including the build-out period) on a straight-line basis. The excess of such rent expense over actual lease payments (net of tenant allowances) is classified as deferred rent. Other long-term liabilities also include store closing expenses, long-term deferred revenues and a health care and life insurance plan for certain retired employees. The Company had the following other long-term liabilities at April 29, 2017 and April 30, 2016:

	April 29, 2017	April 30, 2016
Deferred rent	\$59,142	\$ 70,006
Tax liabilities and reserves	8,711	13,758
Insurance liabilities	14,225	15,219
Asset retirement obligations	11,482	11,268
Other	5,751	3,933
Total other long-term liabilities	<u>\$99,311</u>	<u>\$114,184</u>

10. Fair Values of Financial Instruments

In accordance with ASC 820, *Fair Value Measurements and Disclosures* (ASC 820), 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 the Company to develop its own assumptions

The Company's financial instruments include cash, receivables, gift cards, accrued liabilities, accounts payable and its credit facility. The fair values of cash, receivables, gift cards accrued liabilities and accounts payable approximate carrying values because of the short-term nature of these instruments. The Company believes that its credit facility approximates fair value since interest rates are adjusted to reflect current rates.

During fiscal 2016, the Company impaired one of its publishing contracts due to a significant drop in business with that publisher, driven by lower title offerings, product quality and the loss of a distribution partner. As a result, the Company recorded an impairment charge of \$3,840 in selling and administrative expenses. In determining whether the carrying value of unamortizable intangible assets is less than its estimated fair value, a discounted cash flow approach to value was used, which was based on Level 3 inputs as defined by ASC 820.

11. Net Earnings (Loss) per Share

In accordance with ASC 260-10-45, *Share-Based Payment Arrangements and Participating Securities and the Two-Class Method*, unvested share-based payment awards that contain rights to receive non-forfeitable dividends are considered participating securities. The Company's unvested restricted shares and unvested restricted stock units granted prior to July 15, 2015 and shares issuable under the Company's deferred compensation plan were considered participating securities. Cash dividends to restricted stock units and performance-based stock units granted on or after July 15, 2015 are not distributed until and except to the extent that the restricted stock units vest, and in the case of performance-based stock units, until and except to the extent that the performance metrics are achieved or are otherwise deemed satisfied. Stock options do not receive cash dividends. As such, these awards are not considered participating securities.

Basic earnings per common share are calculated by dividing the net income, adjusted for preferred dividends and income allocated to participating securities, by the weighted average number of common shares outstanding during the period. Diluted net income per common share reflects the dilution that would occur if any potentially dilutive instruments were exercised or converted into common shares. The dilutive effect of participating securities is calculated using the more dilutive of the treasury stock method or two-class method. Other potentially dilutive securities include preferred stock, stock options, restricted stock units granted after July 15, 2015, and performance-based stock units and are included in diluted shares to the extent they are dilutive under the treasury stock method for the applicable periods.

During periods of net loss, no effect is given to the participating securities because they do not share in the losses of the Company. Due to the net loss during fiscal 2016, participating securities in the amount of 2,163,190 were excluded from the calculation of loss per share using the two-class method because the effect would be antidilutive. The Company's outstanding non-participating securities consisting of dilutive stock options and restricted stock units of 140,341, 129,450 and 86,491 for fiscal 2017, fiscal 2016 and fiscal 2015, respectively, and accretion/payments of dividends on preferred shares were also excluded from the calculation of loss per share using the two-class method because the effect would be antidilutive.

The following is a reconciliation of the Company's basic and diluted income (loss) per share calculation:

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Numerator for basic income (loss) per share:			
Net income from continuing operations	\$22,023	14,700	32,872
Inducement fee paid upon conversion of Series J preferred stock	—	(3,657)	—
Preferred stock dividends	—	—	(15,767)
Preferred stock dividends paid in shares	—	(1,783)	—
Accretion of dividends on preferred stock	—	(4,204)	(7,339)
Less allocation of dividends to participating securities	(576)	(1,219)	—
Less allocation of undistributed earnings to participating securities	—	—	(535)
Net income from continuing operations available to common shareholders	<u>21,447</u>	<u>3,837</u>	<u>9,231</u>
Net income (loss) from discontinued operations available to common shareholders	—	(39,146)	3,724
Less allocation of undistributed earnings to participating securities	—	—	(204)
Net income (loss) from discontinued operations available to common shareholders	<u>—</u>	<u>(39,146)</u>	<u>3,520</u>
Net income (loss) available to common shareholders	<u>\$21,447</u>	<u>(35,309)</u>	<u>12,751</u>

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Numerator for diluted income (loss) per share:			
Net income from continuing operations available to common shareholders	\$21,447	3,837	9,231
Preferred stock dividends ^(a)	—	—	—
Accretion of dividends on preferred stock ^(a)	—	—	—
Allocation of undistributed earnings to participating securities	—	—	535
Less diluted allocation of undistributed earnings to participating securities	—	—	(534)
Net income from continuing operations available to common shareholders	<u>21,447</u>	<u>3,837</u>	<u>9,232</u>
Net income (loss) from discontinued operations available to common shareholders	—	(39,146)	3,520
Allocation of undistributed earnings to participating securities	—	—	204
Less diluted allocation of undistributed earnings to participating securities	—	—	(204)
Net income (loss) from discontinued operations available to common shareholders	<u>—</u>	<u>(39,146)</u>	<u>3,520</u>
Net income (loss) available to common shareholders	<u>\$21,447</u>	<u>(35,309)</u>	<u>12,752</u>
Denominator for basic income (loss) per share:			
Basic weighted average common shares	72,188	72,410	60,842
Denominator for diluted income (loss) per share:			
Basic weighted average shares	72,188	72,410	60,842
Preferred shares ^(a)	—	—	—
Average dilutive options	63	118	86
Average dilutive non-participating securities	77	14	—
Diluted weighted average common shares	<u>72,328</u>	<u>72,542</u>	<u>60,928</u>
Basic income (loss) per common share:			
Income from continuing operations	\$ 0.30	0.05	0.15
Income (loss) from discontinued operations	—	(0.54)	0.06
Basic income (loss) per common share	<u>0.30</u>	<u>(0.49)</u>	<u>0.21</u>
Diluted income (loss) per common share:			
Income from continuing operations	\$ 0.30	0.05	0.15
Income (loss) from discontinued operations	—	(0.54)	0.06
Diluted income (loss) per common share	<u>0.30</u>	<u>(0.49)</u>	<u>0.21</u>

(a) Although the Company was in a net income position during fiscal 2016 and fiscal 2015, the dilutive effect of the Company's convertible preferred shares was excluded from the calculation of income per share using the two-class method because the effect would be antidilutive.

12. Pension and Other Postretirement Benefit Plans

As of December 31, 1999, substantially all employees of the Company were covered under a non-contributory defined benefit pension plan (the Pension Plan). As of January 1, 2000, the Pension Plan was amended so that employees no longer earn benefits for subsequent service. Effective December 31, 2004, the Barnes & Noble.com Employees' Retirement Plan (the B&N.com Retirement Plan) was merged with the Pension Plan. Substantially all employees of Barnes & Noble.com were covered under the B&N.com Retirement Plan. As of July 1, 2000, the B&N.com Retirement Plan was amended so that employees no longer earn benefits for subsequent service. Subsequent service continued to be the basis for vesting of benefits not yet vested at December 31, 1999 and June 30, 2000 for the Pension Plan and the B&N.com Retirement Plan, respectively.

On June 18, 2014, the Company's Board of Directors approved a resolution to terminate the Pension Plan. The Pension Plan termination was effective November 1, 2014 and the accrued benefit for active participants was vested as of such date. As a result of the Pension Plan termination, pension liability and other comprehensive loss increased by \$15,747, before tax, during the 13 weeks ended August 2, 2014. The pension liability was settled in either a lump sum payment or a purchased annuity. A special lump sum opportunity was offered to the terminated vested participants in the Pension Plan during the 13 weeks ended November 1, 2014, which triggered settlement accounting in the period ended January 31, 2015. The settlement represented 735 participants who elected to receive a lump sum of their benefit, totaling \$15,190. The distributions primarily took place in December 2014 and resulted in a settlement charge of \$7,317, which was reclassified from other comprehensive income to selling and administrative expenses during fiscal 2015. In addition, the Pension Plan received a favorable determination letter, dated October 15, 2015, from the IRS. This determination letter rules that the termination of the Pension Plan, as amended, does not affect its tax-qualified status.

The net impact of the Pension Plan termination, special lump-sum opportunity, settlement accounting and remeasurement and regular plan experience, was an increase in pension liability of \$3,062 and a decrease in other comprehensive income of \$6,503, before tax, in fiscal 2015.

In fiscal 2016, there was a final Pension Plan termination lump-sum opportunity offered to the remaining 2,300 active and terminated vested participants at the final Pension Plan termination distribution date. As a result, lump-sum payments of approximately \$18,100 were distributed in March 2016 to about 1,800 participants who elected to receive an immediate distribution of their benefit as part of the plan termination lump-sum window. Benefits for the remaining plan population were transferred to Massachusetts Mutual Life Insurance Company for an annuity purchase premium of \$34,300. Further, in October 2016, a payment was made by the Company to the Pension Benefit Guaranty Corporation to transfer the liability for benefits payable to 28 missing participants. A final distribution of remaining assets from the trust was made on November 8, 2016.

Pension expense was \$276, \$25,330 and \$10,434 for fiscal 2017, fiscal 2016 and fiscal 2015, respectively. For fiscal 2016, regular annual expense was \$4,433, with pension settlement charge of \$20,897 from the plan liquidation, for a total pension expense for fiscal 2016 of \$25,330.

The Company maintains a defined contribution plan (the Savings Plan) for the benefit of substantially all employees. Total Company contributions charged to employee benefit expenses for the Savings Plan were \$11,815, \$12,251 and \$12,363 during fiscal 2017, fiscal 2016 and fiscal 2015, respectively.

13. Income Taxes

Income before income taxes for fiscal 2017, fiscal 2016 and fiscal 2015 are as follows:

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Domestic operations	\$ 47,127	6,827	68,535
Foreign operations	(328)	(941)	3,981
Total income before taxes	<u>\$ 46,799</u>	<u>5,886</u>	<u>72,516</u>

Income tax provisions (benefits) for fiscal 2017, fiscal 2016 and fiscal 2015 are as follows:

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Current:			
Federal	\$ 3,722	(47,053)	39,514
State	(7,480)	3,908	2,674
Foreign	—	(273)	1,314
Total current	<u>(3,758)</u>	<u>(43,418)</u>	<u>43,502</u>
Deferred:			
Federal	25,724	21,570	6,099
State	2,810	13,018	(10,001)
Foreign	—	16	44
Total deferred	<u>28,534</u>	<u>34,604</u>	<u>(3,858)</u>
Total	<u>\$ 24,776</u>	<u>(8,814)</u>	<u>39,644</u>

Reconciliation between the effective income tax rate and the federal statutory income tax rate is as follows:

	<u>Fiscal 2017</u>	<u>Fiscal 2016</u>	<u>Fiscal 2015</u>
Federal statutory income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	10.0	8.3	10.8
Change to unrecognized tax benefits	(5.9)	(111.3)	0.2
Excess executive compensation	0.3	8.0	3.7
Meals and entertainment disallowance	0.5	5.1	1.1
Tax credits	—	(76.3)	(3.9)
Joint venture net loss allocation	—	—	33.1
Change in valuation allowance	(1.2)	108.6	(19.8)
Changes in deferred taxes and payables	7.0	(134.8)	(5.4)
Amounts not deductible for tax	1.9	—	—
State law changes	3.1	4.7	—
Other, net	2.2	3.0	(0.1)
Effective income tax rate	<u>52.9%</u>	<u>(149.7)%</u>	<u>54.7%</u>

The Company recorded an income tax provision of \$24,776 in fiscal 2017 compared with an income tax benefit of \$8,814 and income tax provision of \$39,644 in fiscal 2016 and fiscal 2015, respectively. The Company's effective tax rate was 52.9%, (149.7)% and 54.7% in fiscal 2017, fiscal 2016 and fiscal 2015, respectively. The primary drivers of the effective tax rate in fiscal 2017 include changes in uncertain tax positions and changes in deferred taxes and payables. The Company continues to maintain a valuation allowance against certain state items.

In fiscal 2016, the effective rate reconciliation percentages are impacted by the Company's lower pre-tax earnings as compared to fiscal 2015. In fiscal 2016, as shown above in the Changes in deferred taxes and payables, Changes to unrecognized tax benefits and Changes in valuation allowance, certain adjustments to earnings were recorded to correct immaterial errors attributable to prior fiscal years. The Company has evaluated the effects of these errors, both qualitatively and quantitatively, and concluded that the correction of these errors in prior period amounts was not material to the current period or any previously reported periods, including quarterly reporting.

The joint venture net loss allocation identified in the table above refers to our obligation under the joint venture with Microsoft and Pearson that was terminated in fiscal 2015 to allocate items of loss and expense to Microsoft for income tax purposes. In fiscal 2015, this commitment resulted in an additional allocation for tax purposes of \$105,542 of joint venture losses to Microsoft.

The Company accounts for income taxes using the asset and liability method. Deferred taxes are recorded based on differences between the financial statement basis and tax basis of assets and liabilities and available tax loss and credit carryforwards. At April 29, 2017 and April 30, 2016, the significant components of the Company's deferred taxes consisted of the following:

	April 29, 2017	April 30, 2016
Deferred tax assets:		
Accrued liabilities	\$ 110,029	\$ 124,475
Inventory	—	3,844
Insurance liability	7,973	8,392
Loss and credit carryovers	31,221	31,100
Lease transactions	7,131	13,813
Pension and post-retirement healthcare	581	670
Stock-based compensation	3,182	1,918
Other	1,379	503
Gross deferred tax assets	161,496	184,715
Valuation allowance	(7,644)	(7,903)
Net deferred tax assets	153,852	176,812
Deferred tax liabilities:		
Prepaid expenses	(4,670)	(5,678)
Goodwill and intangible asset amortization	(140,270)	(133,267)
Inventory	(2,608)	—
Investment in Barnes & Noble.com	(78,756)	(78,650)
Depreciation	(13,680)	(13,234)
Gross deferred tax liabilities	(239,984)	(230,829)
Net deferred tax liabilities	\$ (86,132)	\$ (54,017)

In assessing the realizability of the deferred tax assets, management considered whether it is more likely than not that some or all of the deferred tax assets would be realized. In evaluating the Company's ability to utilize its deferred tax assets, it considered all available evidence, both positive and negative, in determining future taxable income on a jurisdiction by jurisdiction basis. The Company has recorded a valuation allowance of \$7,644 and \$7,903 at April 29, 2017 and April 30, 2016, respectively. The \$259 decrease in the valuation allowance during fiscal 2017 is due principally to the reclassification between uncertain tax positions and valuation allowance.

At April 29, 2017, the Company had federal net operating loss carryforwards (NOLs) of approximately \$53,222 and state net operating loss carryforwards of \$88,217 that are available to offset taxable income in its respective taxing jurisdictions. The federal net operating losses begin to expire in 2019 through 2024. The utilization of federal net operating loss carryforward is limited to approximately \$6,653 on an annual basis. NOLs not used during a particular period may be carried forward to future years, though not beyond the expiration years. Additionally, the Company had approximately \$87,876 of state NOLs that have no annual limitation and expire beginning in 2030. The Company had state tax credits totaling \$6,386, which have an indefinite life.

The Company has \$4,219 and \$3,943 of federal and state net operating losses, respectively, that are primarily windfall excess tax benefits related to stock-based compensation expense, the benefit of which, if realized, will be an increase to additional paid-in capital as opposed to a reduction in income tax expense.

As of April 29, 2017, the Company had \$9,419 of unrecognized tax benefits, all of which, if recognized, would affect the Company's effective tax rate. A reconciliation of the beginning and ending amount of unrecognized tax benefits for fiscal 2017, fiscal 2016 and fiscal 2015 is as follows:

Balance at May 3, 2014	\$19,155
Additions for tax positions of the current period	731
Additions for tax positions of prior periods	—
Reductions due to settlements	—
Reductions for tax positions of prior periods	<u>(1,504)</u>
Balance at May 2, 2015	\$18,382
Additions for tax positions of the current period	238
Additions for tax positions of prior periods	7,433
Reductions due to settlements	<u>(5,980)</u>
Reductions for tax positions of prior periods	<u>(5,501)</u>
Balance at April 30, 2016	\$14,572
Additions for tax positions of the current period	337
Additions for tax positions of prior periods	1,644
Reductions due to settlements	—
Reductions for tax positions of prior periods	<u>(7,134)</u>
Balance at April 29, 2017	<u>\$ 9,419</u>

The Company's policy is to recognize interest and penalties related to income tax matters in income tax expense. The Company recorded net interest and penalties (benefit) expense of approximately \$(2,860), \$(7,774) and \$1,394 during fiscal 2017, fiscal 2016 and fiscal 2015, respectively. As of April 29, 2017 and April 30, 2016, the Company had net accrued interest and penalties of \$1,561 and \$4,226, respectively.

The amount of unrecognized tax benefits decreased primarily due to the expiration of various state statutes. Further, we believe that it is reasonably possible that the total amount of unrecognized tax benefits at April 29, 2017 could decrease by approximately \$3,740 within the next 12 months as a result of settlement of certain tax audits or lapses of statutes of limitations, which could impact the effective tax rate.

During fiscal 2017, the Company finalized the liquidation of its foreign subsidiary operations. The Company no longer has unremitted foreign earnings as of the balance sheet date.

The Company is subject to U.S. federal income tax as well as income tax in jurisdictions of each state having an income tax. The tax years that remain subject to examination are primarily from fiscal 2014 and forward. Some earlier years remain open for a small minority of states.

14. Intangible Assets and Goodwill

Amortizable intangible assets	Useful Life	As of April 29, 2017		
		Gross Carrying Amount	Accumulated Amortization	Total
Technology	5-10	\$ 10,710	\$ (9,997)	\$ 713
Distribution contracts	10	8,325	(8,201)	124
Other	3-10	6,458	(6,384)	74
		<u>\$ 25,493</u>	<u>\$ (24,582)</u>	<u>\$ 911</u>
Unamortizable intangible assets				
Trade name				\$293,400
Publishing contracts				15,894
				<u>\$309,294</u>
Total amortizable and unamortizable intangible assets as of April 29, 2017				<u>\$310,205</u>

Amortizable intangible assets	Useful Life	As of April 30, 2016		
		Gross Carrying Amount	Accumulated Amortization	Total
Technology	5-10	\$ 10,710	\$ (9,589)	\$ 1,121
Distribution contracts	10	8,325	(7,905)	420
Other	3-10	6,375	(6,306)	69
		<u>\$ 25,410</u>	<u>\$ (23,800)</u>	<u>\$ 1,610</u>
Unamortizable intangible assets				
Balance at May 2, 2015		\$ 293,400	\$ 19,734	\$313,134
Impairment		—	(3,840)	(3,840)
Balance at April 30, 2016		\$ 293,400	\$ 15,894	\$309,294
Total amortizable and unamortizable intangible assets as of April 30, 2016				<u>\$310,904</u>

All amortizable intangible assets are being amortized over their useful life on a straight-line basis.

Aggregate Amortization Expense

For the 52 weeks ended April 29, 2017	\$ 782
For the 52 weeks ended April 30, 2016	\$ 1,012
For the 52 weeks ended May 2, 2015	\$ 4,461

Estimated Amortization Expense

(12 months ending on or about April 30)	
2018	\$ 587
2019	\$ 324

The Company tests unamortizable intangible assets by comparing the fair value and the carrying value of such assets. Impairment losses included in selling and administrative expenses related to unamortizable intangible assets totaled \$0, \$3,840 and \$0 during fiscal 2017, fiscal 2016 and fiscal 2015, respectively. Changes in market conditions, among other factors, could have a material impact on these estimates.

During fiscal 2016, the Company impaired one of its publishing contracts due to a significant drop in business with that publisher, driven by lower title offerings, product quality and the loss of a distribution partner. As a result, the Company recorded an impairment charge of \$3,840 in selling and administrative expenses during the 13 weeks ended January 30, 2016.

The changes in the carrying amount of goodwill by segment for fiscal 2017 and fiscal 2016 are as follows:

	B&N Retail Segment	NOOK Segment	Total Company
Balance as of May 2, 2015	\$215,197	—	\$215,197
Benefit of excess tax amortization ^(a)	(3,921)	—	(3,921)
Balance as of April 30, 2016	\$211,276	—	\$211,276
Benefit of excess tax amortization ^(a)	(3,895)	—	(3,895)
Balance as of April 29, 2017	\$207,381	—	\$207,381

(a) The tax basis of goodwill arising from an acquisition during the 52 weeks ended January 29, 2005 exceeded the related basis for financial reporting purposes by approximately \$96,576. In accordance with ASC 740-10-30, *Accounting for Income Taxes*, the Company is recognizing the tax benefits of amortizing such excess as a reduction of goodwill as it is realized on the Company's income tax return.

15. Microsoft Investment

On April 27, 2012, Barnes & Noble entered into an investment agreement, pursuant to which Barnes & Noble transferred to the LLC its digital device, digital content and college bookstore businesses, and Morrison Investment Holdings, Inc. (Morrison) purchased from the LLC 300,000 convertible preferred membership interests in the LLC (Series A Preferred) for an aggregate purchase price of \$300,000. Concurrently with its entry into this agreement, Barnes & Noble also entered into a commercial agreement with Microsoft, pursuant to which, among other things, the LLC would develop and distribute a Windows 8 application for eReading and digital content purchases, and an intellectual property license and settlement agreement with Microsoft and Microsoft Licensing GP. The parties closed Morrison's investment in the LLC and the commercial agreement became effective on October 4, 2012.

On December 3, 2014, Morrison, Microsoft, Barnes & Noble and Barnes & Noble Education entered into agreements, pursuant to which Morrison's interest in the LLC was purchased by Barnes & Noble Education and the Microsoft commercial agreement was terminated effective as of such date. Pursuant to the Purchase Agreement (the Purchase Agreement) among Barnes & Noble, Barnes & Noble Education, Morrison and Microsoft, Barnes & Noble Education purchased from Morrison, and Morrison sold, all of its \$300,000 convertible Series A preferred limited liability company interest in the LLC in exchange for an aggregate purchase price of \$124,850 consisting of (i) \$62,425 in cash and (ii) 2,737,290 shares of common stock, par value \$0.001 per share, of Barnes & Noble. The Purchase Agreement closed on December 4, 2014. The Company accounted for this transaction in accordance with ASC 810-10, *Non-Controlling Interest* (ASC 810-10) and it accordingly was reflected as an equity transaction. In connection with the closing, the parties entered into a Digital Business Contingent Payment Agreement, pursuant to which Microsoft is entitled to receive 22.7% of the proceeds from, among other events or transactions, (1) any future dividends or other distributions received from Barnes & Noble's NOOK digital business at any time until the date that is three years from the closing, subject to a one-year extension under certain circumstances, and (2) the sale of Barnes & Noble's NOOK digital business at any time until the date that is three years from the closing, subject to a one-year extension under certain circumstances.

16. Pearson Investment

On December 21, 2012, the LLC entered into an agreement with a subsidiary of Pearson plc (Pearson) to make a strategic investment in the LLC. That transaction closed on January 22, 2013, and Pearson invested approximately \$89,500 of cash in the LLC in exchange for preferred membership interests representing a 5% equity stake in the LLC. Following the closing of the transaction, Barnes & Noble owned approximately 78.2% of the LLC and Microsoft owned approximately 16.8%. The preferred membership interests had a liquidation preference equal to the original investment. In addition, the LLC granted warrants to Pearson to purchase up to an additional 5% of the LLC under certain conditions. Upon the completion of the acquisition of Pearson's interest in the LLC, as stated below, the temporary equity was converted to permanent equity.

On December 22, 2014, Barnes & Noble entered into a Purchase Agreement (the Pearson Purchase Agreement) among Barnes & Noble, Barnes & Noble Education, NOOK Media Member Two LLC, a Delaware limited liability company (NOOK Member Two), Pearson Education, Inc. (Pearson Education) and Pearson Inc., pursuant to which Barnes & Noble Education and NOOK Member Two purchased from Pearson Education all of its convertible Series B preferred limited liability company interest in the LLC and all of its warrants to purchase additional Series B preferred limited liability company interests, in exchange for an aggregate purchase price equal to (i) \$13,750 in cash and (ii) 602,927 shares of common stock, par value \$0.001 per share, of Barnes & Noble. The transactions under the Pearson Purchase Agreement closed on December 22, 2014. The Company accounted for this transaction in accordance with ASC 810-10 and it accordingly was reflected as an equity transaction. As a condition to closing, the parties entered into an amended and restated Digital Business Contingent Payment Agreement, pursuant to which a Digital Business Contingent Payment Agreement dated as of December 3, 2014, by and between Barnes & Noble, the LLC and Pearson, was amended and restated to include provisions consistent with the Digital Business Contingent Payment Agreement entered into with Morrison on December 3, 2014.

17. Series J Preferred Stock

On August 18, 2011, the Company entered into an investment agreement between the Company and Liberty GIC, Inc. (Liberty), pursuant to which the Company issued and sold to Liberty, and Liberty purchased, 204,000 shares of the Company's Series J Preferred Stock, par value \$0.001 per share (Preferred Stock), for an aggregate purchase price of \$204,000 in a private placement exempt from the registration requirements of the 1933 Act. The shares of Preferred Stock were convertible, at the option of the holders, into shares of Common Stock representing 16.6% of the Common Stock outstanding as of August 29, 2011 (after giving pro forma effect to the issuance of the Preferred Stock) based on the initial conversion rate. The initial conversion rate reflected an initial conversion price of \$17.00 and was subject to adjustment in certain circumstances. The initial dividend rate for the Preferred Stock was equal to 7.75% per annum of the initial liquidation preference of the Preferred Stock paid quarterly and subject to adjustment in certain circumstances.

On April 8, 2014, Liberty sold the majority of its shares to qualified institutional buyers in reliance on Rule 144A under the Securities Act and had retained an approximate 10% stake of its initial investment. As a result, Liberty no longer had the right to elect two preferred stock directors to the Company's Board. Additionally, the consent rights and pre-emptive rights, to which Liberty was previously entitled, ceased to apply.

On June 5, 2015, the Company entered into conversion agreements with five beneficial owners (Series J Holders) of its Preferred Stock, pursuant to which each of the Series J Holders had agreed to convert (Conversion) shares of Preferred Stock it beneficially owned into shares of the Company's common stock, par value \$0.001 per share (Company Common Stock), and additionally received a cash payment from the Company in connection with the Conversion.

On July 9, 2015, the Company completed the Conversion. Pursuant to the terms of the Conversion Agreements, the Series J Holders converted an aggregate of 103,995 shares of Preferred Stock into 6,117,342 shares of Company Common Stock, and made an aggregate cash payment to the Series J Holders of \$3,657 plus cash in lieu of fractional shares in connection with the Conversion.

The number of shares of Company Common Stock issued was determined based on a conversion ratio of 58.8235 shares of Company Common Stock per share of Preferred Stock converted, which was the conversion rate in the Certificate of the Designations with respect to the Preferred Stock, dated as of August 18, 2011.

On July 10, 2015, the Company gave notice of its exercise of the right to force conversion of all outstanding shares of its Senior Convertible Redeemable Series J Preferred Stock into Company Common Stock pursuant to Section 9 of the Certificate of Designations, Preferences and Relative Participating, Optional and Other Special Rights and Qualifications, Limitations and Restrictions of Series J Preferred Stock, dated as of August 18, 2011 (the Forced Conversion). The effective date of the Forced Conversion was July 24, 2015. On the date of the Forced Conversion, each share of Series J Preferred Stock was automatically converted into 59.8727 shares of Company Common Stock, which included shares of Company Common Stock reflecting accrued and unpaid dividends on Series J Preferred Stock. Each holder of Series J Preferred Stock received whole shares of Company Common Stock and a cash amount in lieu of fractional shares of Company Common Stock.

As a result of the transactions described above, all shares of Series J Preferred Stock were retired by the Company and are no longer outstanding.

18. Shareholders' Equity

On October 20, 2015, the Company's Board of Directors authorized a stock repurchase program (prior repurchase plan) of up to \$50,000 of its common shares. During fiscal 2016, the Company repurchased 2,763,142 shares at a cost of \$26,718 under this plan. During fiscal 2017, the Company repurchased 2,019,798 shares at a cost of \$23,281 under this plan. On March 15, 2017, subsequent to completing the prior repurchase plan, the Company's Board of Directors authorized a new stock repurchase program of up to \$50,000 of its common shares. Stock repurchases under this program may be made through open market and privately negotiated transactions from time to time and in such amounts as management deems appropriate. The new stock repurchase program has no expiration date and may be suspended or discontinued at any time. The Company's repurchase plan is intended to comply with the requirements of Rule 10b-18 under the Securities Exchange Act of 1934. The Company did not repurchase shares under this plan in fiscal 2017. The Company has remaining capacity of \$50,000 under the new repurchase program as of April 29, 2017.

As of April 29, 2017, the Company has repurchased 39,496,765 shares at a cost of approximately \$1,086,414 since the inception of the Company's stock repurchase programs. The repurchased shares are held in treasury.

19. Commitments and Contingencies

The Company leases retail stores, warehouse facilities, office space and equipment. Substantially all of the B&N Retail stores are leased under non-cancelable agreements, which expire at various dates through 2029 with various renewal options for additional periods. The agreements, which have been classified as operating leases, generally provide for both minimum and percentage rentals and require the Company to pay insurance, taxes and other maintenance costs. Percentage rentals are based on sales performance in excess of specified minimums at various stores.

The Company leases office space in New York, New York and Santa Clara, California for its NOOK operations.

Rental expense under operating leases is as follows:

	Fiscal 2017	Fiscal 2016	Fiscal 2015
Minimum rentals	\$302,784	297,322	294,214
Percentage rentals	1,353	1,821	2,305
	<u>\$304,137</u>	<u>299,143</u>	<u>296,519</u>

Future minimum annual rentals, excluding percentage rentals, required under B&N Retail leases that had initial, non-cancelable lease terms greater than one year, and NOOK leases as of April 29, 2017 are:

Fiscal Year	
2018	\$ 314,274
2019	263,121
2020	202,711
2021	141,638
2022	96,621
After 2022	106,648
	<u>\$1,125,013</u>

The Company provides for minimum rent expense over the lease terms (including the build-out period) on a straight-line basis. The excess of such rent expense over actual lease payments (net of tenant allowances) is reflected in other long-term liabilities and accrued liabilities in the accompanying balance sheets.

Purchase obligations, which include hardware and software maintenance contracts and inventory purchase commitments, as of April 29, 2017 are as follows:

Less Than 1 Year	\$34,105
1-3 Years	21,231
3-5 Years	—
More Than 5 Years	—
Total	<u>\$55,336</u>

20. Segment Reporting

The Company's two operating segments are B&N Retail and NOOK.

B&N Retail

This segment includes 633 bookstores as of April 29, 2017, primarily under the Barnes & Noble Booksellers trade name. These Barnes & Noble stores generally offer a comprehensive trade book title base, a café, and departments dedicated to Juvenile, Toys & Games, DVDs, Music & Vinyl, Gift, Magazine, Bargain products and a dedicated NOOK[®] area. The stores also offer a calendar of ongoing events, including author appearances and children's activities. The B&N Retail segment also includes the Company's eCommerce website, www.barnesandnoble.com, and its publishing operation, Sterling Publishing Co., Inc.

NOOK

This segment includes the Company's digital business, including the development and support of the Company's NOOK[®] product offerings. The digital business includes digital content such as eBooks, digital newsstand and sales of NOOK[®] devices and accessories to B&N Retail.

Summarized financial information concerning the Company's reportable segments is presented below:

	52 weeks ended April 29, 2017	52 weeks ended April 30, 2016	52 weeks ended May 2, 2015
<i>Sales by Segment</i>			
B&N Retail	\$ 3,784,655	\$ 4,028,614	\$ 4,108,243
NOOK	146,514	191,520	263,833
Elimination (a)	(36,611)	(56,290)	(74,968)
Total	\$ 3,894,558	\$ 4,163,844	\$ 4,297,108
<i>Sales by Product Line</i>			
Media (b)	70%	70%	70%
Digital (c)	3%	5%	7%
Other (d)	27%	25%	23%
Total	100%	100%	100%
<i>Depreciation and Amortization</i>			
B&N Retail	\$ 98,877	\$ 101,888	\$ 104,373
NOOK	19,010	33,975	39,292
Total	\$ 117,887	\$ 135,863	\$ 143,665
<i>Operating Income (Loss)</i>			
B&N Retail	\$ 90,663	\$ 113,296	\$ 213,355
NOOK	(36,355)	(98,640)	(123,161)
Total	\$ 54,308	\$ 14,656	\$ 90,194
<i>Capital Expenditures</i>			
B&N Retail	\$ 89,706	\$ 81,277	\$ 73,783
NOOK	6,552	12,997	21,022
Total	\$ 96,258	\$ 94,274	\$ 94,805

	As of April 29, 2017	As of April 30, 2016
<u>Total Assets</u> ^(e)		
B&N Retail	\$1,897,122	\$1,873,381
NOOK ^(f)	35,799	139,401
Total	\$1,932,921	\$2,012,782

- (a) Represents sales from NOOK to B&N Retail on a sell-through basis.
(b) Includes tangible books, music, movies, rentals and newsstand.
(c) Includes NOOK[®], related accessories, eContent and warranties.
(d) Includes Toys & Games, café products, gifts and miscellaneous other.
(e) Excludes intercompany balances.
(f) Decrease in assets is related to the net tax receivable position.

A reconciliation of operating income from reportable segments to income from continuing operations before taxes in the consolidated financial statements is as follows:

	52 weeks ended April 29, 2017	52 weeks ended April 30, 2016	52 weeks ended May 2, 2015
Reportable segments operating income	\$ 54,308	\$ 14,656	\$ 90,194
Interest expense, net and amortization of deferred financing costs	(7,509)	(8,770)	(17,678)
Consolidated income before taxes	\$ 46,799	\$ 5,886	\$ 72,516

21. Legal Proceedings

The Company is involved in a variety of claims, suits, investigations and proceedings that arise from time to time in the ordinary course of its business, including actions with respect to contracts, intellectual property, taxation, employment, benefits, securities, 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 the Company's consolidated financial position or results of operations.

The Company records a liability when it believes that it is both probable that a liability will be incurred, and the amount of loss can be reasonably estimated. The Company evaluates, at least quarterly, developments in its legal matters that could affect the amount of liability that has been previously accrued and makes adjustments as appropriate. Significant judgment is required to determine both probability and the estimated amount of a loss or potential loss. The Company may be unable to reasonably estimate the reasonably possible loss or range of loss for a particular legal contingency for various reasons, including, among others: (i) if the damages sought are indeterminate; (ii) if proceedings are in the early stages; (iii) if there is uncertainty as to the outcome of pending proceedings (including motions and appeals); (iv) if there is uncertainty as to the likelihood of settlement and the outcome of any negotiations with respect thereto; (v) if there are significant factual issues to be determined or resolved; (vi) if the proceedings involve a large number of parties; (vii) if relevant law is unsettled or novel or untested legal theories are presented; or (viii) if the proceedings are taking place in jurisdictions where the laws are complex or unclear. In such instances, there is considerable uncertainty regarding the ultimate resolution of such matters, including a possible eventual loss, if any.

Legal matters are inherently unpredictable and subject to significant uncertainties, some of which are beyond the Company's control. As such, there can be no assurance that the final outcome of these matters will not materially and adversely affect the Company's business, financial condition, results of operations, or cash flows.

Except as otherwise described below with respect to the Adrea LLC (Adrea) matter, the Company has determined that a loss is reasonably possible with respect to the matters described below. Based on its current knowledge, the Company has determined that the amount of loss or range of loss that is reasonably possible, including any reasonably possible losses in excess of amounts already accrued, is not estimable. With respect to the Adrea matter, the Company has determined there will be a loss, as described below.

The following is a discussion of the material legal matters involving the Company.

PIN Pad Litigation

As previously disclosed, the Company discovered that PIN pads in certain of its stores had been tampered with to allow criminal access to card data and PIN numbers on credit and debit cards swiped through the terminals. Following public disclosure of this matter on October 24, 2012, the Company was served with four putative class action complaints (three in federal district court in the Northern District of Illinois and one in the Northern District of California), each of which alleged on behalf of national and other classes of customers who swiped credit and debit cards in Barnes & Noble Retail stores common law claims such as negligence, breach of contract and invasion of privacy, as well as statutory claims such as violations of the Fair Credit Reporting Act, state data breach notification statutes, and state unfair and deceptive practices statutes. The actions sought various forms of relief including damages, injunctive or equitable relief, multiple or punitive damages, attorneys' fees, costs, and interest. All four cases were transferred and/or assigned to a single judge in the United States District Court for the Northern District of Illinois, and a single consolidated amended complaint was filed. The Company filed a motion to dismiss the consolidated amended complaint in its entirety, and in September 2013, the Court granted the motion to dismiss without prejudice. The Plaintiffs then filed an amended complaint, and the Company filed a second motion to dismiss. On October 3, 2016, the Court granted the second motion to dismiss, and dismissed the case without prejudice; in doing so, the Court permitted plaintiffs to file a second amended complaint by October 31, 2016. On October 31, 2016, the plaintiffs filed a second amended complaint, and on January 25, 2017, the Company filed a motion to dismiss the second amended complaint. On June 13, 2017, the Court granted the Company's motion to dismiss with prejudice.

Cassandra Carag individually and on behalf of others similarly situated v. Barnes & Noble, Inc., Barnes & Noble Booksellers, Inc. and DOES 1 through 100 inclusive

On November 27, 2013, former Associate Store Manager Cassandra Carag (Carag) brought suit in Sacramento County Superior Court, asserting claims on behalf of herself and all other hourly (non-exempt) Barnes & Noble employees in California in the preceding four years for unpaid regular and overtime wages based on alleged off-the-clock work, penalties and pay based on missed meal and rest breaks, and for improper wage statements, payroll records, and untimely pay at separation as a result of the alleged pay errors during employment. Via the complaint, Carag seeks to recover unpaid wages and statutory penalties for all hourly Barnes & Noble employees within California from November 27, 2009 to present. On February 13, 2014, the Company filed an answer to the complaint in the state court and concurrently requested removal of the action to federal court. On May 30, 2014, the federal court granted Plaintiff's motion to remand the case to state court and denied Plaintiff's motion to strike portions of the answer to the complaint (referring the latter motion to the lower court for future consideration). The Court has not yet scheduled any further hearings or deadlines.

Adrea LLC v. Barnes & Noble, Inc., barnesandnoble.com llc and NOOK Media LLC

On June 14, 2013, Adrea filed a complaint against Barnes & Noble, Inc., NOOK Digital, LLC (formerly barnesandnoble.com llc) and B&N Education, LLC (formerly NOOK Media LLC) (collectively, B&N) in the United States District Court for the Southern District of New York alleging that various B&N NOOK products and related online services infringe U.S. Patent Nos. 7,298,851 ('851 patent), 7,299,501 ('501 patent) and 7,620,703 ('703 patent). B&N filed its Answer on August 9, 2013, denying infringement and asserting several affirmative defenses. At the same time, B&N filed counterclaims seeking declaratory judgments of non-infringement and invalidity with respect to each of the patents-in-suit. On July 1, 2014, the Court issued a decision granting partial summary judgment in B&N's favor, and in particular granting B&N's motion to dismiss one of Adrea's infringement claims, and granting B&N's motion to limit any damages award with respect to another of Adrea's infringement claims.

Beginning October 7, 2014, through and including October 22, 2014, the case was tried to a jury in the Southern District of New York. The jury returned its verdict on October 27, 2014. The jury found no infringement with respect to the '851 patent, and infringement with respect to the '501 and '703 patents. It awarded damages in the amount of \$1,330. The jury further found no willful infringement with respect to any patent.

On July 24, 2015, the Court granted B&N's post-trial application to invalidate one of the two patents (the '501 patent) the jury found to have been infringed. On September 28, 2015, the Court heard post-trial motions on the jury's infringement and validity determinations, and on February 24, 2016, it issued a decision upholding the jury's determination of infringement and validity with respect to the '703 patent. Since the original damages award was a total award for infringement of both patents, the Court held a new trial to determine damages for infringement of the '703 patent, which trial concluded on July 15, 2016.

On December 28, 2016, the Court issued its decision on the issue of damages, finding that (a) Adrea should be entitled to a damages award of \$267, based on a reasonable royalty rate of 5.1 cents per unit, and (ii) Adrea was not entitled to any enhancement of damages, as B&N's infringement was not willful. Following letter briefing, in which Adrea asked the Court to award prejudgment interest of approximately \$90, the Court, following B&N's reasoning, added \$3 in prejudgment interest to its damages award, and on January 12, 2017, entered judgment in favor of Adrea in the total amount of \$270. Adrea subsequently moved the Court for supplemental damages relating to any allegedly infringing products B&N may have sold that were not taken into account in the first verdict, including new devices not previously accused. In addition, Adrea asked the Clerk of the Court to tax costs against B&N in the amount of \$110. B&N opposed both requests, and following briefing, the court awarded supplemental damages for sales of accused devices of approximately \$13, refused to award damages or ongoing royalties for any new devices, and entered a final judgment of \$282. As for the issue of costs, the Clerk awarded Adrea approximately \$27. Both parties have requested review of the Clerk's award, with B&N taking the position that no costs should have been awarded, since Adrea was not the prevailing party for purposes of a costs award, and that in any case the award was excessive. Adrea sought to recover an additional \$25 in costs. The parties are awaiting the Court's decision on the costs issue. This will be the final proceeding in this action, as neither party has filed a Notice of Appeal.

Café Manager Class Actions

Two former Café Managers have filed separate actions alleging similar claims of entitlement to unpaid compensation for overtime. In each action, the plaintiff seeks to represent a class of allegedly similarly situated employees who performed the same position (Café Manager). Specifically, Christine Hartpence filed a complaint against Barnes & Noble, Inc. (Barnes & Noble) in Philadelphia County Court of Common Pleas on May 26, 2015 (Case No.: 160503426), alleging that she is entitled to unpaid compensation for overtime under Pennsylvania law and seeking to represent a class of allegedly similarly situated employees who performed the same position (Café Manager). On July 14, 2016, Ms. Hartpence amended her complaint to assert a purported collective action for alleged unpaid overtime compensation under the federal Fair Labor Standards Act (FLSA), by which she sought to act as a class representative for similarly situated Café Managers throughout the United States. On July 27, 2016, Barnes & Noble removed the case to the U.S. District Court of the Eastern District of Pennsylvania (Case No.: 16-4034). Ms. Hartpence then voluntarily dismissed her complaint and subsequently re-filed a similar complaint in the Philadelphia County Court of Common Pleas (Case No.: 161003213), where it is currently pending. The re-filed complaint alleges only claims of unpaid overtime under Pennsylvania law and alleges class claims under Pennsylvania law that are limited to current and former Café Managers within Pennsylvania.

On September 20, 2016, Kelly Brown filed a complaint against Barnes & Noble in the U.S. District Court for the Southern District of New York (Case No.: 16-7333) in which she also alleges that she is entitled to unpaid compensation under the FLSA and Illinois law. Ms. Brown seeks to represent a national class of all similarly situated Café Managers under the FLSA, as well as an Illinois-based class under Illinois law. On November 9, 2016, Ms. Brown filed an amended complaint to add an additional plaintiff named Tiffany Stewart, who is a former Café Manager who also alleges unpaid overtime compensation in violation of New York law and seeks to represent a class of similarly situated New York-based Café Managers under New York law. Since the commencement of the action, eight former Café Managers have filed consent forms to join the action as plaintiffs. On May 2, 2017, the Court denied Plaintiffs' Motion for Conditional Certification, without prejudice.

22. Barnes & Noble Education, Inc. Transactions

Direct Costs Incurred Related to On-going Agreements with Barnes & Noble Education, Inc. (Subsequent to the Spin-Off)

In connection with the separation of B&N Education, the Company entered into a Separation and Distribution Agreement with B&N Education on July 14, 2015 and several other ancillary agreements on August 2, 2015. These agreements govern the relationship between the parties after the separation and allocate between the parties various assets, liabilities, rights and obligations following the separation, including inventory purchases, employee benefits, intellectual property, information technology, insurance and tax-related assets and liabilities. The agreements also describe the Company's future commitments to provide B&N Education with certain transition services following the Spin-Off. These agreements include the following:

- a Separation and Distribution Agreement that sets forth the Company's and B&N Education's agreements regarding the principal actions that both parties took in connection with the Spin-Off and aspects of this relationship following the Spin-Off. The term of the agreement is perpetual after the Distribution date;
- a Transition Services Agreement, pursuant to which the Company agreed to provide B&N Education with specified services for a limited time to help ensure an orderly transition following the Spin-Off. The Transition Services Agreement specifies the calculation of B&N Education costs for these services. The agreement will expire and services under it will cease no later than two years following the Spin-Off date or sooner in the event B&N Education no longer requires such services;

- a Tax Matters Agreement governs the respective rights, responsibilities and obligations of the Company and B&N Education after the Spin-Off with respect to all tax matters (including tax liabilities, tax attributes, tax returns and tax contests). The agreement will expire after two years following the Spin-Off date;
- an Employee Matters Agreement with B&N Education, addressing employment, compensation and benefits matters, including the allocation and treatment of assets and liabilities arising out of employee compensation and benefits programs, in which B&N Education employees participated prior to the Spin-Off. The agreement will expire and services under it will cease when B&N Education no longer requires such services; and
- a Trademark License Agreement, pursuant to which the Company grants B&N Education an exclusive license in certain licensed trademarks and a non-exclusive license in other licensed trademarks. The term of the agreement is perpetual after the Spin-Off date.

Summary of Transactions with Barnes & Noble Education, Inc.

During the 52 weeks ended April 29, 2017, the Company charged B&N Education \$29,174 for purchases of inventory and direct costs incurred under the agreements discussed above.

As of April 29, 2017, amounts due from B&N Education for book purchases and direct costs incurred under the agreements discussed above were \$8,160.

23. Certain Relationships and Related Transactions

The Company believes that the transactions and agreements discussed below (including renewals of any existing agreements) between the Company and related third parties are at least as favorable to the Company as could have been entered into with unrelated parties at the time they were entered into. The Audit Committee of the Board of Directors utilizes procedures in evaluating the terms and provisions of proposed related party transactions or agreements in accordance with the fiduciary duties of directors under Delaware law. The Company's related party transaction procedures contemplate Audit Committee review and approval of all new agreements, transactions or courses of dealing with related parties, including any modifications, waivers or amendments to existing related party transactions. The Company tests to ensure that the terms of related party transactions are at least as favorable to the Company as could have been obtained from unrelated parties at the time of the transaction. The Audit Committee considers, at a minimum, the nature of the relationship between the Company and the related party, the history of the transaction (in the case of modifications, waivers or amendments), the terms of the proposed transaction, the Company's rationale for entering the transaction and the terms of comparable transactions with unrelated third parties. In addition, management and internal audit annually analyze all existing related party agreements and transactions and review them with the Audit Committee.

On February 27, 2017, B&N Education purchased MBS Textbook Exchange, Inc. (MBS), which was then privately-held and majority-owned by affiliates of Leonard Riggio (the MBS Purchase). MBS is a new and used textbook wholesaler, which also sells textbooks online and provides bookstore systems and distant learning distribution services. Following the MBS Purchase, Leonard Riggio, his affiliates and other members of the Riggio family ceased to have any ownership interest in MBS.

The Company entered into an agreement with MBS in 2009, which has a term of ten years and contains restrictive covenants limiting the ability of the Company to become a used textbook wholesaler and placing certain limitations on MBS's business activities. The Company also entered into an agreement with MBS in fiscal 2011, pursuant to which, MBS agreed to purchase at the end of a given semester certain agreed upon textbooks, which the Company shall have rented to students during such semester. Total sales to MBS under this program were \$0, \$2 and \$619 for fiscal 2017 prior to the MBS Purchase, fiscal 2016 and fiscal 2015, respectively. Total outstanding amounts payable to MBS for all arrangements, net of any amounts due, were \$480 and \$183 for fiscal 2017 and fiscal 2016, respectively.

The Company purchases new and used textbooks directly from MBS. Total purchases were \$8,328, \$7,092 and \$14,594 for fiscal 2017 prior to the MBS Purchase, fiscal 2016 and fiscal 2015, respectively. MBS sells used books through the Barnes & Noble dealer network. The Company earned a commission of \$198, \$268 and \$316 on the MBS used book sales in fiscal 2017 prior to the MBS Purchase, fiscal 2016 and fiscal 2015, respectively. In addition, Barnes & Noble hosts pages on its website, through which Barnes & Noble customers are able to sell used books directly to MBS. The Company is paid a fixed commission on the price paid by MBS to the customer. Total commissions paid to the Company under this arrangement were \$47, \$68 and \$91 for fiscal 2017 prior to the MBS Purchase prior to the MBS Purchase, fiscal 2016 and fiscal 2015, respectively.

In fiscal 2010, the Company entered into an agreement with TXTB.com LLC (TXTB), a subsidiary of MBS, pursuant to which the marketplace program on the Barnes & Noble website was made available through the TXTB website. The Company receives a fee from third-party sellers for sales of marketplace items sold on the TXTB website and, upon receipt of such fee, the Company remits a separate fee to TXTB for those sales. In fiscal 2011, the Company entered into an agreement with TXTB, pursuant to which the Company became the exclusive provider of trade books to TXTB customers through the TXTB website. TXTB receives a commission from the Company on each purchase by a TXTB customer. In fiscal 2013, the Company also entered into an agreement with MBS Direct, a division of MBS, pursuant to which the marketplace program on the Barnes & Noble website was made available through the MBS Direct website. The Company receives a fee from third-party sellers for sales of marketplace items sold on the MBS Direct website and, upon receipt of such fee, the Company remits a separate fee to MBS Direct for those sales. Total commissions paid to TXTB and MBS Direct under these arrangements were \$645, \$515 and \$429 during fiscal 2017 prior to the MBS Purchase, fiscal 2016 and fiscal 2015, respectively. Outstanding amounts payable to TXTB and MBS Direct were \$5 and \$0 for fiscal 2017 prior to the MBS Purchase and fiscal 2016, respectively.

In fiscal 2010, the Company entered into an Aircraft Time Sharing Agreement with LR Enterprises Management LLC (LR Enterprises), which is owned by Leonard Riggio and Louise Riggio, pursuant to which LR Enterprises granted the Company the right to use a jet aircraft owned by it on a time-sharing basis in accordance with, and subject to the reimbursement of certain operating costs and expenses as provided in, the Federal Aviation Regulations (FAR). Such operating costs were \$153, \$63 and \$155 during fiscal 2017, fiscal 2016 and fiscal 2015, respectively. LR Enterprises is solely responsible for the physical and technical operation of the aircraft, aircraft maintenance and the cost of maintaining aircraft liability insurance, other than insurance obtained for the specific flight as requested by the Company, as provided in the FAR.

The Company has leases for two locations for its corporate offices with related parties: the first location is leased from an entity, in which Leonard Riggio has a majority interest, under a lease expiring in 2023, and the second location is leased from an entity, in which Leonard Riggio has a minority interest, under a lease expired in 2016. In fiscal 2017, the second location was extended through 2023. Both locations were rented at an aggregate annual rent, including real estate taxes, of approximately \$9,637, \$7,784 and \$6,834 during fiscal 2017, fiscal 2016 and fiscal 2015, respectively.

The Company leased an office/warehouse from a partnership, in which Leonard Riggio had a 50% interest, pursuant to a lease terminated effective December 30, 2015. The space was rented at an annual rent of \$456 and \$262 during fiscal 2016 through the date of termination and fiscal 2015, respectively. During fiscal 2015, the Company received credits totaling \$418, representing the net effect of inadvertent overpayment of construction expenses and underpayment of base rent previously paid. Net of subtenant income, the Company paid rent of \$179 during fiscal 2016 through the date of termination and received \$174 during fiscal 2015 due to credits noted above.

The Company was provided with national freight distribution and trucking services by Argix Direct Inc. (Argix), a company in which a brother of Leonard Riggio owned a 20% interest. The Company paid Argix \$19,102 and \$47,536 for such services during fiscal 2016 through the date of termination and fiscal 2015, respectively. The contracted relationship between Argix and the Company has terminated due to Argix exiting the industry during fiscal 2016.

24. Dividends

The Company paid a dividend to preferred shareholders in the amount of \$0 and \$3,941 in fiscal 2017 and fiscal 2016, respectively.

The Company paid a dividend to common stockholders in the amount of \$43,887 and \$46,056 during fiscal 2017 and fiscal 2016, respectively.

25. Selected Quarterly Financial Information (Unaudited)

A summary of quarterly financial information for fiscal 2017 and fiscal 2016 is as follows:

<u>Fiscal 2017 Quarterly Period Ended On</u>	<u>July 30, 2016</u>	<u>October 29, 2016</u>	<u>January 28, 2017</u>	<u>April 29, 2017</u>	<u>Fiscal Year 2017</u>
Sales	\$913,882	858,548	1,300,908	821,220	3,894,558
Gross profit	277,539	255,375	436,801	242,487	1,212,202
Net income (loss)	\$ (14,416)	(20,409)	70,276	(13,428)	22,023
Basic income (loss) per common share	\$ (0.20)	(0.29)	0.97	(0.19)	0.30
Diluted income (loss) per common share	\$ (0.20)	(0.29)	0.96	(0.19)	0.30
<u>Fiscal 2016 Quarterly Period Ended On</u>	<u>August 1, 2015</u>	<u>October 31, 2015</u>	<u>January 30, 2016</u>	<u>April 30, 2016</u>	<u>Fiscal Year 2016</u>
Sales	\$978,559	894,654	1,413,947	876,684	4,163,844
Gross profit	300,098	269,786	491,655	265,758	1,327,297
Net income (loss) from continuing operations	(7,751)	(27,203)	80,262	(30,608)	14,700
Net loss from discontinued operations	(27,123)	(12,023)	—	—	(39,146)
Net income (loss)	\$ (34,874)	(39,226)	80,262	(30,608)	(24,446)
Basic income (loss) per common share:					
Income (loss) from continuing operations	\$ (0.27)	(0.36)	1.04	(0.42)	0.05
Loss from discontinued operations	(0.41)	(0.16)	—	—	(0.54)
Basic income (loss) per common share	\$ (0.68)	(0.52)	1.04	(0.42)	(0.49)
Diluted income (loss) per common share:					
Income (loss) from continuing operations	\$ (0.27)	(0.36)	1.04	(0.42)	0.05
Loss from discontinued operations	(0.41)	(0.16)	—	—	(0.54)
Diluted income (loss) per common share	\$ (0.68)	(0.52)	1.04	(0.42)	(0.49)

26. Subsequent Events*Dividends to Stockholders*

On June 7, 2017, the Company announced its Board of Directors declared a quarterly cash dividend of \$0.15 per share, payable on July 28, 2017 to stockholders of record at the close of business on July 7, 2017.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Barnes & Noble, Inc.

We have audited the accompanying consolidated balance sheets of Barnes & Noble, Inc. as of April 29, 2017 and April 30, 2016, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for each of the three years in the period ended April 29, 2017. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Barnes & Noble, Inc. at April 29, 2017 and April 30, 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended April 29, 2017, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Barnes & Noble, Inc.'s internal control over financial reporting as of April 29, 2017, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated June 22, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, NY
June 22, 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Barnes & Noble, Inc.

We have audited Barnes & Noble, Inc.'s internal control over financial reporting as of April 29, 2017, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Barnes & Noble, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Barnes & Noble, Inc. maintained, in all material respects, effective internal control over financial reporting as of April 29, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Barnes & Noble, Inc. as of April 29, 2017 and April 30, 2016, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for each of the three years in the period ended April 29, 2017 of Barnes & Noble, Inc. and our report dated June 22, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, NY
June 22, 2017

MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of Barnes & Noble, Inc. is responsible for the contents of the Consolidated Financial Statements, which are prepared in conformity with accounting principles generally accepted in the United States of America. The Consolidated Financial Statements necessarily include amounts based on judgments and estimates. Financial information elsewhere in the Annual Report is consistent with that in the Consolidated Financial Statements.

The Company maintains a comprehensive accounting system, which includes controls designed to provide reasonable assurance as to the integrity and reliability of the financial records and the protection of assets. An internal audit staff is employed to regularly test and evaluate both internal accounting controls and operating procedures, including compliance with the Company's statement of policy regarding ethical and lawful conduct. The Audit Committee of the Board of Directors composed of directors who are not members of management, meets regularly with management, the independent registered public accountants and the internal auditors to ensure that their respective responsibilities are properly discharged. Ernst & Young LLP and the Internal Audit Department of the Company have full and free independent access to the Audit Committee. The role of Ernst & Young LLP, an independent registered public accounting firm, is to provide an objective examination of the Consolidated Financial Statements and the underlying transactions in accordance with the standards of the Public Company Accounting Oversight Board. The report of Ernst & Young LLP accompanies the Consolidated Financial Statements.

OTHER INFORMATION

The Company has included the Section 302 certifications of the Chief Executive Officer and the Chief Financial Officer of the Company as Exhibits 31.1 and 31.2 to its Annual Report on Form 10-K for fiscal 2017 filed with the Securities and Exchange Commission, and the Company will submit to the New York Stock Exchange a certificate of the Chief Executive Officer of the Company certifying that he is not aware of any violation by the Company of New York Stock Exchange corporate governance listing standards.

Significant Subsidiaries of Barnes & Noble, Inc.

1. Barnes & Noble Booksellers, Inc., a Delaware corporation.
2. Barnes & Noble International LLC, a Delaware limited liability company.
3. Barnes & Noble Marketing Services LLC, a Virginia limited liability company.
4. Barnes & Noble Purchasing, Inc., a New York corporation.
5. Barnes & Noble Services, Inc., a New York corporation.
6. NOOK Digital, LLC, a Delaware limited liability company.
7. Sterling Publishing Co., Inc., a Delaware corporation.
8. Barnes & Noble Café LLC, a Delaware limited liability company.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-3 No. 333-201222, No. 333-23855, No. 333-69731, No. 33-84826 and No. 33-89258) of Barnes & Noble, Inc., and
- (2) Registration Statement (Form S-8 No. 333-27033, No. 33-89260, No. 333-90538, No. 333-116382, No. 333-59111, No. 333-160560 and No. 333-183869) pertaining to the Employees' Savings Plan of Barnes & Noble, Inc.;

of our reports dated June 22, 2017, with respect to the consolidated financial statements and schedule of Barnes & Noble, Inc. and the effectiveness of internal control over financial reporting of Barnes & Noble, Inc. included in this Annual Report (Form 10-K) of Barnes & Noble, Inc. for the year ended April 29, 2017.

/s/ ERNST & YOUNG LLP

New York, New York

June 22, 2017

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

I, Demos Parneros, certify that:

1. I have reviewed this report on Form 10-K of Barnes & Noble, 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

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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: June 22, 2017

By: /s/ Demos Parneros

Demos Parneros

Chief Executive Officer

Barnes & Noble, Inc.

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

I, Allen W. Lindstrom, certify that:

1. I have reviewed this report on Form 10-K of Barnes & Noble, 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

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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: June 22, 2017

By: /s/ Allen W. Lindstrom

Allen W. Lindstrom
Chief Financial Officer
Barnes & Noble, Inc.

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

In connection with the annual report of Barnes & Noble, Inc. (the "Company") on Form 10-K for the period ended April 29, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Demos Parneros, 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/ Demos Parneros

Demos Parneros

Chief Executive Officer

Barnes & Noble, Inc.

June 22, 2017

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

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

In connection with the annual report of Barnes & Noble, Inc. (the "Company") on Form 10-K for the period ended April 29, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Allen W. Lindstrom, 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/ Allen W. Lindstrom

Allen W. Lindstrom

Chief Financial Officer

Barnes & Noble, Inc.

June 22, 2017

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