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

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended January 27, 2018

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-12302

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**BARNES & NOBLE, INC.**

(Exact Name of Registrant as Specified in Its Charter)

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Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

122 Fifth Avenue, New York, NY  
(Address of Principal Executive Offices)

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

10011  
(Zip Code)

(212) 633-3300

(Registrant's Telephone Number, Including Area Code)

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

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

As of January 31, 2018, 72,793,646 shares of Common Stock, par value \$0.001 per share, were outstanding, which number includes 140,840 shares of unvested restricted stock that have voting rights and are held by members of the Board of Directors and the Company's employees.

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**BARNES & NOBLE, INC. AND SUBSIDIARIES**

**Fiscal Quarter Ended January 27, 2018**

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**PART I—FINANCIAL INFORMATION****Item 1: Financial Statements****BARNES & NOBLE, INC. AND SUBSIDIARIES****Consolidated Statements of Operations**  
**(In thousands, except per share data)**  
**(unaudited)**

	13 weeks ended		39 weeks ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
Sales	\$1,231,771	1,300,908	\$2,876,204	3,073,338
Cost of sales and occupancy	831,745	864,107	1,994,002	2,103,623
Gross profit	400,026	436,801	882,202	969,715
Selling and administrative expenses	273,044	278,962	769,067	801,499
Depreciation and amortization	28,245	29,052	81,842	90,083
Goodwill impairment	133,612	—	133,612	—
Operating income (loss)	(34,875)	128,787	(102,319)	78,133
Interest expense, net and amortization of deferred financing fees	2,536	2,076	7,254	5,666
Income (loss) before taxes	(37,411)	126,711	(109,573)	72,467
Income tax provision (benefit)	26,125	56,435	(5,165)	37,016
Net income (loss)	<u>\$ (63,536)</u>	<u>70,276</u>	<u>\$ (104,408)</u>	<u>35,451</u>
Income (loss) per common share:				
Basic	\$ (0.87)	0.97	\$ (1.44)	0.48
Diluted	\$ (0.87)	0.96	\$ (1.44)	0.48
Weighted average common shares outstanding:				
Basic	72,649	71,581	72,566	72,232
Diluted	72,649	71,714	72,566	72,387
Dividends declared per common share	\$ 0.15	0.15	\$ 0.45	0.45

See accompanying notes to consolidated financial statements.

**BARNES & NOBLE, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Comprehensive Income (Loss)**  
**(In thousands)**  
**(unaudited)**

	13 weeks ended		39 weeks ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
Net income (loss)	\$ (63,536)	70,276	\$(104,408)	35,451
Other comprehensive income, net of tax:				
Decrease in postretirement plan liability (net of deferred tax expense of \$0, \$0, \$0 and \$30, respectively)	—	—	—	47
Total comprehensive income (loss)	<u>\$ (63,536)</u>	<u>70,276</u>	<u>\$(104,408)</u>	<u>35,498</u>

See accompanying notes to consolidated financial statements.

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

	January 27, 2018 <u>(unaudited)</u>	January 28, 2017 <u>(unaudited)</u>	April 29, 2017 <u>          </u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 11,500	11,628	11,993
Receivables, net	62,952	70,434	67,294
Merchandise inventories, net	975,055	1,010,343	946,909
Prepaid expenses and other current assets	79,175	62,164	101,816
Total current assets	<u>1,128,682</u>	<u>1,154,569</u>	<u>1,128,012</u>
Property and equipment:			
Land and land improvements	2,541	2,541	2,541
Buildings and leasehold improvements	1,075,491	1,060,416	1,072,007
Fixtures and equipment	1,650,352	1,597,435	1,608,433
	2,728,384	2,660,392	2,682,981
Less accumulated depreciation and amortization	<u>2,466,032</u>	<u>2,378,925</u>	<u>2,406,859</u>
Net property and equipment	<u>262,352</u>	<u>281,467</u>	<u>276,122</u>
Goodwill	73,769	211,276	207,381
Intangible assets, net	309,757	310,369	310,205
Other non-current assets	13,285	11,275	11,201
Total assets	<u>\$ 1,787,845</u>	<u>1,968,956</u>	<u>1,932,921</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable	\$ 490,886	500,751	473,686
Accrued liabilities	285,598	319,145	283,157
Gift card liabilities	358,609	384,830	351,424
Total current liabilities	<u>1,135,093</u>	<u>1,204,726</u>	<u>1,108,267</u>
Long-term debt	59,805	18,200	64,900
Deferred taxes	58,118	54,290	86,132
Other long-term liabilities	91,712	105,212	99,311
Shareholders' equity:			
Common stock; \$0.001 par value; 300,000 shares authorized; 112,238, 111,648 and 111,933 shares issued, respectively	112	112	112
Additional paid-in capital	1,747,478	1,743,562	1,741,380
Accumulated other comprehensive income	315	198	315
Retained earnings	(183,064)	(22,045)	(46,425)
Treasury stock, at cost, 39,585, 40,093 and 39,497 shares, respectively	<u>(1,121,724)</u>	<u>(1,135,299)</u>	<u>(1,121,071)</u>
Total shareholders' equity	<u>443,117</u>	<u>586,528</u>	<u>574,311</u>
Commitments and contingencies	—	—	—
Total liabilities and shareholders' equity	<u>\$ 1,787,845</u>	<u>1,968,956</u>	<u>1,932,921</u>

See accompanying notes to consolidated financial statements.

**BARNES & NOBLE, INC. AND SUBSIDIARIES**  
**Consolidated Statement of Changes in Shareholders' Equity**  
**For the 39 weeks ended January 27, 2018**  
**(In thousands)**  
**(unaudited)**

	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Gains	Retained Earnings	Treasury Stock at Cost	Total
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>
Adoption of ASU 2016-09 (see Note 19)	—	1,310	—	1,037	—	2,347
Net loss	—	—	—	(104,408)	—	(104,408)
Stock-based compensation expense	—	4,788	—	—	—	4,788
Cash dividends declared	—	—	—	(32,719)	—	(32,719)
Accrued dividends for long-term incentive awards	—	—	—	(549)	—	(549)
Purchase of treasury stock related to stock-based compensation, 88 shares	—	—	—	—	(653)	(653)
Balance at January 27, 2018	<u>\$ 112</u>	<u>1,747,478</u>	<u>315</u>	<u>(183,064)</u>	<u>(1,121,724)</u>	<u>\$ 443,117</u>

See accompanying notes to consolidated financial statements.

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

	39 weeks ended	
	January 27, 2018	January 28, 2017
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (104,408)	35,451
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization (including amortization of deferred financing fees)	83,306	91,545
Stock-based compensation expense	4,788	5,534
Impairment charges	135,436	93
Deferred taxes	(25,667)	—
Loss on disposal of property and equipment	589	1,179
Net decrease in other long-term liabilities	(7,599)	(8,895)
Net (increase) decrease in other non-current assets	(3,614)	1,327
Changes in operating assets and liabilities, net	25,302	32,277
Net cash flows provided by operating activities	<u>108,133</u>	<u>158,511</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(69,971)	(73,665)
Net cash flows used in investing activities	<u>(69,971)</u>	<u>(73,665)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from credit facility	877,822	897,878
Payments on credit facility	(882,917)	(926,878)
Cash dividends paid	(32,719)	(32,955)
Treasury stock repurchase plan	—	(23,281)
Purchase of treasury stock related to stock-based compensation	(653)	(1,580)
Payment of new credit facility related fees	—	(474)
Proceeds from exercise of common stock options	—	312
Cash dividends paid for long-term incentive awards	(188)	(78)
Net cash flows used in financing activities	<u>(38,655)</u>	<u>(87,056)</u>
Net decrease in cash and cash equivalents	(493)	(2,210)
Cash and cash equivalents at beginning of period	11,993	13,838
Cash and cash equivalents at end of period	<u>\$ 11,500</u>	<u>11,628</u>
<b>Changes in operating assets and liabilities, net:</b>		
Receivables, net	\$ 4,342	54,483
Merchandise inventories, net	(28,146)	(76,620)
Prepaid expenses and other current assets	22,641	43,718
Accounts payable, accrued liabilities and gift card liabilities	26,465	10,696
Changes in operating assets and liabilities, net	<u>\$ 25,302</u>	<u>32,277</u>
<b>Supplemental cash flow information</b>		
Cash paid during the period for:		
Interest	\$ 5,729	4,125
Income taxes (net of refunds)	\$ (1,416)	(18,027)
Non-cash financing activity:		
Accrued cash dividends	\$ —	50
Accrued dividends for long-term incentive awards	\$ 938	514

See accompanying notes to consolidated financial statements.

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

The unaudited consolidated financial statements include the accounts of Barnes & Noble, Inc. and its subsidiaries (collectively, Barnes & Noble or the Company).

In the opinion of the Company's management, the accompanying unaudited consolidated financial statements of the Company contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly its consolidated financial position as of January 27, 2018 and the results of its operations for the 13 and 39 weeks and its cash flows for the 39 weeks then ended. These consolidated financial statements are condensed and therefore do not include all of the information and footnotes required by generally accepted accounting principles. The consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the 52 weeks ended April 29, 2017 (fiscal 2017).

Due to the seasonal nature of the business, the results of operations for the 39 weeks ended January 27, 2018 are not indicative of the results expected for the 52 weeks ending April 28, 2018 (fiscal 2018).

**1. Merchandise Inventories**

Merchandise inventories, except NOOK 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 and are valued at the lower of cost and net realizable value.

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.

**2. 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 Accounting Standards Codification (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.



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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 January 27, 2018, January 28, 2017 and April 29, 2017 was \$82, \$279 and \$226, 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 is 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](http://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.

### **3. 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 for the ongoing assessment of the recoverability of

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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.

### **4. 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. The Company capitalized costs, primarily related to labor, consulting, hardware and software, of \$12,843 and \$14,696 during the 39 weeks ended January 27, 2018 and January 28, 2017, respectively. Amortization of previously capitalized amounts was \$5,543 and \$5,403 during the 13 weeks ended January 27, 2018 and January 28, 2017, respectively, and \$16,388 and \$18,152 during the 39 weeks ended January 27, 2018 and January 28, 2017, respectively. Costs related to the design or maintenance of internal-use software and website development are expensed as incurred.

### **5. 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 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 the 13 and 39 weeks ended January 27, 2018, participating securities in the amounts of 142,237 and 123,066, respectively, 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 56,776, 132,686, 44,279 and 155,113 for the 13 weeks ended January 27, 2018 and January 28, 2017 and the 39 weeks ended January 27, 2018 and January 28, 2017, respectively, were excluded from the calculation of loss per share using the two-class method because the effect would be antidilutive.

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

	13 weeks ended		39 weeks ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
<b>Numerator for basic income (loss) per share:</b>				
Net income (loss)	\$ (63,536)	70,276	\$(104,408)	35,451
Less allocation of dividends to participating securities	(21)	(168)	(59)	(559)
Less allocation of undistributed earnings to participating securities	—	(948)	—	(42)
Net income (loss) available to common shareholders	<u>\$ (63,557)</u>	<u>69,160</u>	<u>\$(104,467)</u>	<u>34,850</u>
<b>Numerator for diluted income (loss) per share:</b>				
Net income (loss) available to common shareholders	\$ (63,557)	69,160	\$(104,467)	34,850
Allocation of undistributed earnings to participating securities	—	948	—	42
Less diluted allocation of undistributed earnings to participating securities	—	(946)	—	(42)
Net income (loss) available to common shareholders	<u>\$ (63,557)</u>	<u>69,162</u>	<u>\$(104,467)</u>	<u>34,850</u>
<b>Denominator for basic income (loss) per share:</b>				
Basic weighted average common shares	72,649	71,581	72,566	72,232
<b>Denominator for diluted income (loss) per share:</b>				
Basic weighted average common shares	72,649	71,581	72,566	72,232
Average dilutive options	—	68	—	77
Average dilutive non-participating securities	—	65	—	78
Diluted weighted average common shares	<u>72,649</u>	<u>71,714</u>	<u>72,566</u>	<u>72,387</u>
<b>Income (loss) per common share:</b>				
Basic	\$ (0.87)	0.97	\$ (1.44)	0.48
Diluted	\$ (0.87)	0.96	\$ (1.44)	0.48

**6. Segment Reporting**

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

***B&N Retail***

This segment includes 630 bookstores as of January 27, 2018, 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.

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

### Sales by Segment

	13 weeks ended		39 weeks ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
B&N Retail	\$1,210,417	1,276,039	\$2,810,162	2,988,471
NOOK	30,930	38,434	86,394	114,524
Elimination (a)	(9,576)	(13,565)	(20,352)	(29,657)
Total	<u>\$1,231,771</u>	<u>1,300,908</u>	<u>\$2,876,204</u>	<u>3,073,338</u>

### Sales by Product Line

	13 weeks ended		39 weeks ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
Media (b)	66%	66%	69%	69%
Digital (c)	2%	3%	3%	3%
Other (d)	32%	31%	28%	28%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

### Depreciation and Amortization

	13 weeks ended		39 weeks ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
B&N Retail	\$ 25,295	25,236	\$ 72,491	74,756
NOOK	2,950	3,816	9,351	15,327
Total	<u>\$ 28,245</u>	<u>29,052</u>	<u>\$ 81,842</u>	<u>90,083</u>

### Operating Income (Loss)

	13 weeks ended		39 weeks ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
B&N Retail	\$ (33,546)	134,991	\$ (95,367)	106,541
NOOK	(1,329)	(6,204)	(6,952)	(28,408)
Total	<u>\$ (34,875)</u>	<u>128,787</u>	<u>\$(102,319)</u>	<u>78,133</u>

### Capital Expenditures

	13 weeks ended		39 weeks ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
B&N Retail	\$ 18,833	19,615	\$ 64,777	68,822
NOOK	1,606	2,313	5,194	4,843
Total	<u>\$ 20,439</u>	<u>21,928</u>	<u>\$ 69,971</u>	<u>73,665</u>

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### Total Assets (e)

	January 27, 2018	January 28, 2017
B&N Retail	\$ 1,761,571	1,924,220
NOOK	26,274	44,736
Total	<u>\$ 1,787,845</u>	<u>1,968,956</u>

- (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.

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

	13 weeks ended		39 weeks ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
Reportable segments operating income (loss)	\$ (34,875)	128,787	\$(102,319)	78,133
Interest expense, net and amortization of deferred financing costs	2,536	2,076	7,254	5,666
Consolidated income (loss) before taxes	<u>\$ (37,411)</u>	<u>126,711</u>	<u>\$(109,573)</u>	<u>72,467</u>

## 7. Intangible Assets and Goodwill

Amortizable Intangible Assets	Useful Life	As of January 27, 2018		
		Gross Carrying Amount	Accumulated Amortization	Total
Technology	5-10	\$ 10,710	(10,303)	\$407
Other	3-10	6,524	(6,468)	56
		<u>\$ 17,234</u>	<u>(16,771)</u>	<u>\$463</u>

### Unamortizable Intangible Assets

Trade name	\$293,400
Publishing contracts	15,894
	<u>\$309,294</u>
Total amortizable and unamortizable intangible assets as of January 27, 2018	<u>\$309,757</u>

Amortizable Intangible Assets	Useful Life	As of January 28, 2017		
		Gross Carrying Amount	Accumulated Amortization	Total
Technology	5-10	\$ 10,710	(9,895)	\$ 815
Distribution contracts	10	8,325	(8,127)	198
Other	3-10	6,418	(6,356)	62
		<u>\$ 25,453</u>	<u>(24,378)</u>	<u>\$1,075</u>

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<b>Unamortizable Intangible Assets</b>	
Trade name	\$293,400
Publishing contracts	15,894
	<u>\$309,294</u>
Total amortizable and unamortizable intangible assets as of January 28, 2017	<u>\$310,369</u>

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

<b>Aggregate Amortization Expense</b>	
For the 39 weeks ended January 27, 2018	\$514
For the 39 weeks ended January 28, 2017	\$577

  

<b>Estimated Amortization Expense</b>	
(12 months ending on or about April 30)	
2018	\$631
2019	\$346

The carrying amounts of goodwill, which relate to the B&N Retail reporting unit, as of January 27, 2018 and January 28, 2017 are as follows:

	<b>Total Company</b>
Balance as of January 28, 2017	\$ 211,276
Fiscal 2017 benefit of excess tax amortization	(3,895)
Impairment charge	<u>(133,612)</u>
Balance as of January 27, 2018	\$ 73,769

The costs in excess of net assets of businesses acquired are carried as goodwill in the accompanying consolidated balance sheets. ASC 350-30, *Goodwill and Other Intangible Assets*, requires that goodwill and other unamortizable intangible assets be tested for impairment at least annually or earlier if there are impairment indicators.

In January 2017, the FASB issued ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment* (ASU 2017-04). The standard simplifies the subsequent measurement of goodwill by removing the requirement to perform a hypothetical purchase price allocation to compute the implied fair value of goodwill to measure impairment. Instead, goodwill impairment is measured as the difference between the fair value of the reporting unit and the carrying value of the reporting unit. The standard also clarifies the treatment of the income tax effect of tax-deductible goodwill when measuring goodwill impairment loss. This standard is effective for annual or any interim goodwill impairment test in fiscal years beginning after December 15, 2019, with early adoption permitted for impairment tests performed after January 1, 2017. The Company has early adopted ASU 2017-04 on October 29, 2017, the first day of its fiscal 2018 third quarter.

The Company compares its fair value of a reporting unit and the carrying value of the reporting unit to measure goodwill impairment loss as required by ASU 2017-04. 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 performing the valuations, significant assumptions utilized include unobservable Level 3 inputs including cash flows and long-term growth rates reflective of management's forecasted outlook, and

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discount rates inclusive of risk adjustments consistent with current market conditions. Discount rates are based on the development of a weighted average cost of capital using guideline public company data, factoring in current market data and any company specific risk factors.

The Company completed its annual goodwill impairment test as of the first day of the third quarter of fiscal 2018 (October 29, 2017). The fair value of the B&N Retail reporting unit had been in excess of carrying value as of the first day of the third quarter of fiscal 2017 (October 30, 2016) based on the annual goodwill impairment test performed as of that date. In addition, no impairment indicators had arisen after that test to signal that an interim impairment test should be performed prior to the next annual test. Although no impairment resulted from the Company's next annual goodwill impairment test as of October 29, 2017, the fair value of the B&N Retail reporting unit (for which \$207,381 of goodwill was allocated as of such date) only exceeded its carrying value by approximately \$26,800 or 5%.

Subsequent to this annual goodwill impairment test as of October 29, 2017, sales trends unexpectedly softened during the holiday selling season. Given these lower than expected sales results, the Company revised its forecasted outlook. Following the announcement on January 4, 2018 of the Company's holiday sales results and its revised outlook, the market price of the Company's common stock sharply declined. Due to these new impairment indicators, the Company performed an interim goodwill impairment test as of December 30, 2017. As a result of this interim testing, the Company recognized an impairment of its B&N Retail reporting unit goodwill of \$133,612. While the Company has initiated a strategic turnaround plan focused on stabilizing sales, improving productivity and reducing expenses, achievement of its long-term goals requires a significant multi-year transformation. The interim test incorporated revised discounted cash flow projections given the Company's holiday sales performance and the early stage of its turnaround efforts. The fair value of the B&N Retail reporting unit had declined from the prior test primarily as a result of the revised forecast and an increased discount rate to account for risk in the Company's plan. The goodwill of the B&N Retail reporting unit 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, store closings accelerate, the assumed long-term discount rate increases, or in general the Company does not achieve its forecasted strategic turnaround plan. For example, a 50 basis point decline in its expected long-term growth rates would result in an approximate \$10,100 incremental goodwill impairment charge, or a 100 basis point increase in the Company's discount rate would result in an approximate \$23,500 incremental goodwill impairment charge.

No goodwill exists at the NOOK reporting unit.

In addition to goodwill, 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. Based on the results of the Company's tests, the fair values of its unamortizable intangible assets exceeded their respective carrying values as of the most recent testing date, therefore, no impairments were recognized.

With regard to valuing its trade name, the Company uses the relief from royalty method (income approach). The estimated fair value of the Company's trade name exceeded its carrying value by approximately \$17,100 or 5% as of October 29, 2017. Based on the impairment indicators noted above, the Company performed an interim impairment test of its trade name as of December 30, 2017 and the estimated fair value exceeded its carrying value by approximately \$23,500 or 8% as of that date. Significant assumptions used to determine fair value under the relief from royalty method include future trends in sales, a royalty rate and an appropriate discount rate inclusive of risk adjustments consistent with market conditions and company specific risk factors. The fair value of the Company's trade name had declined from the prior year primarily as a result of declining sales and an increased discount rate to account for risk in the Company's revised forecast. Although the Company determined that no impairment charge was necessary, the Company's trade name is at risk of impairment if B&N Retail comparable store sales continue to decline, forecasted sales expectations are not met, store closings accelerate, the assumed long-term discount rate increases, or in general the Company does not achieve its forecasted strategic turnaround plan. For example, an 800 basis point decline in expected sales would result in an approximate \$1,900 trade name impairment charge, or a 200 basis point increase in the Company's discount rate would result in an approximate \$29,300 trade name impairment charge.

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The fair value of the Company's publishing contracts was determined using the discounted cash flow method (income approach). Based on this test, the estimated fair value of the Company's publishing contracts exceeded its carrying value by approximately \$4,200 or 26%. The Company's publishing contracts are subject to risk of impairment if forecasted sales expectations are not met, the assumed long-term discount rate increases, or in general the Company does not achieve its forecasted strategic turnaround. Such publishing contracts were tested for impairment and the Company determined that no impairment charge was necessary.

### 8. Gift Cards

The Company sells gift cards, which can be used in its stores, on [www.barnesandnoble.com](http://www.barnesandnoble.com), on NOOK® devices and at Barnes & Noble Education, Inc. (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 13<sup>th</sup> 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 \$27,496 and \$20,805 during the 13 weeks ended January 27, 2018 and January 28, 2017, respectively, and \$37,224 and \$30,561 during the 39 weeks ended January 27, 2018 and January 28, 2017, respectively. The Company had gift card liabilities of \$358,609 and \$384,830 as of January 27, 2018 and January 28, 2017, respectively.

### 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 January 27, 2018, January 28, 2017 and April 29, 2017:

	January 27, 2018	January 28, 2017	April 29, 2017
Deferred rent	\$ 52,087	62,394	59,142
Tax liabilities and reserves	8,711	9,157	8,711
Insurance liabilities	13,498	14,998	14,225
Asset retirement obligations	13,207	13,381	11,482
Other	4,209	5,282	5,751
Total other long-term liabilities	<u>\$ 91,712</u>	<u>105,212</u>	<u>99,311</u>

### 10. Income Taxes

The Company recorded an income tax provision of \$26,125 on a pre-tax loss of \$37,411 during the 13 weeks ended January 27, 2018, which represented an effective income tax rate of (69.8)%. The Company recorded an income tax provision of \$56,435 on a pre-tax income of \$126,711 during the 13 weeks ended January 28, 2017, which represented an effective income tax rate of 44.5%.

The Company recorded an income tax benefit of \$5,165 on a pre-tax loss of \$109,573 during the 39 weeks ended January 27, 2018, which represented an effective income tax rate of 4.7%. The Company recorded an income tax provision of \$37,016 on a pre-tax income of \$72,467 during the 39 weeks ended January 28, 2017,



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which represented an effective income tax rate of 51.1%. The Company's effective tax rates for the 13 and 39 weeks ended January 27, 2018 and January 28, 2017 differ from the statutory rates due to the impact of permanent items such as meals and entertainment, non-deductible executive compensation, tax credits, changes in uncertain tax positions, state tax provision, net of federal benefit and for the 13 and 39 weeks ended January 27, 2018, the impact of the Tax Cuts and Jobs Act, goodwill impairment, and changes to valuation allowance. The change in effective tax rates for the 13 and 39 weeks ended January 27, 2018 and January 28, 2017 was due to changes in uncertain tax positions, return to provision adjustments, goodwill impairment, valuation allowance and the impact of the Tax Cuts and Jobs Act.

During the 13 and 39 weeks ended January 27, 2018 the Company recognized tax expense of \$11 and \$915, respectively, as a result of the adoption of ASU 2016-09, which requires all excess tax benefits or deficiencies from share-based payments to be recognized as income tax expense or benefit in the consolidated statement of operations as discrete in the reporting period in which they occur.

The Company believes that it is reasonably possible that the total amount of unrecognized tax benefits at January 27, 2018 could decrease by approximately \$863 within the next twelve months, as a result of settlement of certain tax audits or lapses of statutes of limitations, which could impact the effective tax rate.

### *Effects of the Tax Cuts and Jobs Act*

New tax legislation, commonly referred to as the Tax Cuts and Jobs Act or Tax Reform, was enacted on December 22, 2017. Certain aspects of the new law, including the federal corporate tax rate change, have an immediate impact, while other significant provisions may not have an impact until the Company's fiscal year end 2018 or 2019.

Given the significance of the legislation, the SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118), which allows registrants to record provisional amounts during a one year "measurement period" similar to that used when accounting for business combinations. However, the measurement period is deemed to have ended earlier when the registrant has obtained, prepared and analyzed the information necessary to finalize its accounting. During the measurement period, impacts of the law are expected to be recorded at the time a reasonable estimate for all or a portion of the effects can be made, and provisional amounts can be recognized and adjusted as information becomes available, prepared or analyzed.

SAB 118 summarizes a three-step process to be applied at each reporting period to account for and qualitatively disclose: (1) the effects of the change in tax law for which accounting is complete; (2) provisional amounts (or adjustments to provisional amounts) for the effects of the tax law where accounting is not complete, but that a reasonable estimate has been determined; and (3) a reasonable estimate cannot yet be made and therefore taxes are reflected in accordance with law prior to the enactment of the Tax Cuts and Jobs Act.

Items for which a reasonable estimate has been determined include the impact of the change in the corporate tax rate from 35% to 21% and the changes to the non-deductible executive compensation provisions. The Company booked a discrete benefit of \$26,403 on the remeasurement of its deferred tax assets and liabilities during the 13 weeks ended January 27, 2018. A full validation of deferred tax items will be performed as part of the Company's year-end tax provision process. During the 13 weeks ended January 27, 2018, the Company also recorded a net tax detriment as a result of the changes to the non-deductible executive compensation provisions. As the Company awaits further guidance regarding the transition rules, the tax impact recorded during the 13 weeks ended January 27, 2018 represents a provisional amount based on the guidance that is available.

Other significant provisions that did not have an impact on the interim provision but may impact income taxes at the Company's fiscal year end or in future years include: limitation on the current deductibility of net interest expense in excess of 30 percent of adjusted taxable income, a limitation of net operating losses generated after fiscal 2018 to 80% of taxable income, 100% bonus depreciation on certain assets, and entertainment and other expense deduction limitation. The Company is not subject to any transition tax as there are no untaxed foreign earnings.

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### *Valuation Allowance Considerations*

The Company routinely performs an analysis of the realizability of its deferred tax assets and considers all evidence both positive and negative. As a result of the Company's analysis, a valuation allowance of \$34,979 was recorded during the 13 weeks ended January 27, 2018. The Company also maintains a valuation allowance against certain state items that was recorded in prior periods. The valuation allowance established in the current quarter represents a provisional amount in accordance with the Company's preliminary computation consistent with the SAB 118 guidance.

### **11. 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.

### **12. Credit Facility**

On August 3, 2015, the Company and certain of its subsidiaries entered into a credit agreement (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 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 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 Credit Facility. The Credit Facility replaced the prior credit facility. Proceeds from the 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 Credit Facility. The Credit Facility is secured by substantially all of the inventory, accounts receivable and related assets of the borrowers under the 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 Credit Facility are limited to a specified percentage of eligible collateral. The Company has the option to request an increase in commitments under the Credit Facility of up to \$250,000, subject to certain restrictions.

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The 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 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 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 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 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 the second quarter of 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 Credit Facility. The Company also incurred \$5,701 of fees to secure the Credit Facility, which are being amortized over the five-year term accordingly. During the second quarter of fiscal 2017, the Company incurred \$474 of fees to secure the FILO Credit Facility, which are being amortized over the same term as the Credit Facility.

The Company had \$59,805 and \$18,200 of outstanding debt under the Credit Facility as of January 27, 2018 and January 28, 2017, respectively. The Company had \$35,233 and \$38,895 of outstanding letters of credit under the Credit Facility as of January 27, 2018 and January 28, 2017, respectively.

### 13. Stock-Based Compensation

For the 13 and 39 weeks ended January 27, 2018 and January 28, 2017, the Company recognized stock-based compensation expense in selling and administrative expenses as follows:

	13 weeks ended		39 weeks ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
Restricted Stock Expense	\$ 250	210	\$ 697	700
Restricted Stock Units Expense	1,032	2,004	3,020	4,114
Performance-Based Stock Unit Expense	374	158	1,071	720
Stock-Based Compensation Expense	<u>\$ 1,656</u>	<u>2,372</u>	<u>\$ 4,788</u>	<u>5,534</u>

#### **14. Defined Contribution Plan**

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 \$2,660 and \$2,621 for the 13 weeks ended January 27, 2018 and January 28, 2017, respectively, and \$8,498 and \$8,782 for the 39 weeks ended January 27, 2018 and January 28, 2017, respectively.

#### **15. 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. 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 during the 13 and 39 weeks ended January 27, 2018. During the 13 and 39 weeks ended January 28, 2017, the Company repurchased 311,020 shares at a cost of \$3,493 and 2,019,798 shares at a cost of \$23,282, respectively, under the prior repurchase plan. The Company has remaining capacity of \$50,000 under the new repurchase program as of January 27, 2018.

As of January 27, 2018, the Company has repurchased 39,584,907 shares at a cost of approximately \$1,087,067 since the inception of the Company's stock repurchase programs. The repurchased shares are held in treasury.

#### **16. 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 was funded by Apple. If a customer's credit was not used to make a purchase by June 24, 2017, the entire credit would have expired. The program concluded on July 1, 2017, through which date the Company's customers had activated \$60,400 in credits, of which \$56,148 were redeemed. No balances were due from the Apple settlement fund as of January 27, 2018 related to this portion of the program.

On September 7, 2017, the court approved redistribution of remaining funds from the Apple settlement. Customers who redeemed some or all of their credits from the first distribution that concluded on July 1, 2017 were eligible to receive additional credits in October 2017. The Company's customers were entitled to \$14,815 in total credits as a result of the redistribution. These credits are funded by Apple and will expire on April 20, 2018. The Company estimated total activations of \$10,180, 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 January 27, 2018, the Company's customers had activated \$9,370 in credits, of which \$8,520 were redeemed. Total receivables from the Apple settlement fund were \$1,674 as of January 27, 2018.

#### **17. Severance**

On February 13, 2018, the Company announced that it has implemented a new labor model for its stores that has resulted in the elimination of certain store positions. The new model will allow stores to adjust staff up or down based on the needs of the business, increase store productivity and streamline store operations. The Company recorded a charge of \$10,702 for aggregate employee-related severance costs in connection with these actions within selling and administrative expenses during the 13 weeks ended January 27, 2018.

## **18. 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.

With respect to the legal matters described below, the Company has determined, based on its current knowledge, 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 reasonably estimable. However, 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.

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. Plaintiffs filed a notice of appeal to the United States Court of Appeals for the Seventh Circuit. The appeal is fully briefed, and the Court heard oral argument on December 6, 2017. The Court of Appeals' decision is pending.

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***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.

***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, 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. Ms. Hartpence then voluntarily dismissed her complaint and subsequently re-filed a similar complaint in the Philadelphia County Court of Common Pleas. The re-filed complaint alleged only claims of unpaid overtime under Pennsylvania law and class claims under Pennsylvania law that are limited to current and former Café Managers within Pennsylvania. On June 22, 2017, Ms. Hartpence filed an additional, separate action in Philadelphia County Court of Common Pleas in which she repeats her allegations under Pennsylvania law and asserts a similar claim for unpaid wages under New Jersey law, purportedly on behalf of herself and others similarly situated. The Court consolidated the two pending cases on November 1, 2017. On December 8, 2017, Barnes & Noble removed the consolidated action after Ms. Hartpence amended her complaint to add a cause of action under the FLSA in which Ms. Hartpence purports to assert claims on behalf of herself and a national class of all similarly situated Café Managers.

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 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. On May 2, 2017, the Court denied Plaintiffs' Motion for Conditional Certification, without prejudice. The Plaintiffs filed a renewed motion for Conditional Certification on November 17, 2017, which is now fully briefed by the parties and pending before the Court. There are currently 18 former Café Managers who have joined the action as opt-in plaintiffs.

***Bernardino v. Barnes & Noble Booksellers, Inc.***

On June 16, 2017, a putative class action complaint was filed against Barnes & Noble Booksellers, Inc. (B&N Booksellers) in the United States District Court for the Southern District of New York, alleging violations

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of the federal Video Privacy Protection Act and related New York law. The plaintiff, who seeks to represent a class of subscribers of Facebook, Inc. (Facebook) who purchased DVDs or other video media from the Barnes & Noble website, seeks damages, injunctive relief and attorneys' fees, among other things, based on her allegation that B&N Booksellers supposedly knowingly disclosed her personally identifiable information to Facebook without her consent when she bought a DVD from Barnes & Noble's website. On July 10, 2017, the plaintiff moved for a preliminary injunction requiring Barnes & Noble to change the operation of its website, which motion B&N Booksellers opposed. On July 31, 2017, B&N Booksellers moved to compel the case to arbitration, consistent with the terms of use on Barnes & Noble's website. On August 28, 2017, the court denied the plaintiff's motion for a preliminary injunction. On January 31, 2018, the court granted B&N Booksellers' motion to compel arbitration, and the clerk of court closed the case on February 1, 2018.

### **19. Recent Accounting Pronouncements**

In January 2017, the FASB issued ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment* (ASU 2017-04). The standard simplifies the subsequent measurement of goodwill by removing the requirement to perform a hypothetical purchase price allocation to compute the implied fair value of goodwill to measure impairment. Instead, goodwill impairment is measured as the difference between the fair value of the reporting unit and the carrying value of the reporting unit. The standard also clarifies the treatment of the income tax effect of tax-deductible goodwill when measuring goodwill impairment loss. This standard is effective for annual or any interim goodwill impairment test in fiscal years beginning after December 15, 2019, with early adoption permitted for impairment tests performed after January 1, 2017. The Company has early adopted ASU 2017-04 on October 29, 2017, the first day of its fiscal 2018 third quarter.

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 April 29, 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 (Topic 718)—Improvements to Employee Share-Based Payment Accounting* (ASU 2016-09). ASU 2016-09 includes provisions to simplify certain aspects related to the accounting for share-based awards and the related financial statement presentation. ASU 2016-09 provides for changes to accounting for stock compensation, including: 1) excess tax benefits and tax deficiencies related to share based payment awards to be recognized as income tax benefit or expense when the awards vest or are settled (previously such amounts were recognized in additional paid-in capital); entities must apply the new guidance on accounting for excess tax benefits and tax deficiencies prospectively, except for excess tax benefits that were identified from previous transactions that had not been previously recognized because the related tax deduction did not reduce income taxes payable; entities must use a modified retrospective transition method to recognize such excess tax benefits as a credit to retained earnings; any deferred tax assets recorded in connection with the modified retrospective recognition of excess tax benefits must be assessed for realizability, and, if necessary, a valuation allowance must be recognized through a cumulative-effect adjustment to retained earnings; 2) excess tax benefits will be classified as an operating activity in the statement of cash flows; 3) the option to elect to estimate forfeitures or account for them when they occur; 4) classification of cash payments made on an employee's behalf for withheld shares should be presented as a financing activity in the statements of cash flows; and 5) eliminating the requirement to delay the recognition of excess tax benefits until it reduces current taxes payable.



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The Company adopted ASU 2016-09 during the first quarter ended July 29, 2017. Accordingly, the primary effects of the adoption are as follows: 1) excess tax expense of \$11 and \$915, respectively, were recorded during the 13 and 39 weeks ended January 27, 2018 related to the prospective application of excess tax benefits and tax deficiencies related to stock-based compensation settlements, 2) using a modified retrospective application, the Company recorded unrecognized excess tax benefits of \$1,823 as a cumulative-effect adjustment, which increased retained earnings, and reduced deferred taxes by the same, 3) using a modified retrospective application, the Company has elected to recognize forfeitures as they occur and recorded a \$1,310 increase to additional paid-in capital, a \$786 reduction to retained earnings, and a \$524 reduction to deferred taxes to reflect the incremental stock-based compensation expense, net of the related tax impacts, that would have been recognized in prior years under the modified guidance, and 4) \$88 in excess tax benefits from stock-based compensation was reclassified from cash flows from financing activities to cash flows from operating activities for the 39 weeks ended January 28, 2017, in the Consolidated Statements of Cash Flows.

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 plans to adopt ASU 2016-02 effective April 28, 2019. 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 provisions of this standard and assessing its existing lease portfolio in order to determine the impact on its accounting systems, processes and internal controls over financial reporting. The Company expects the adoption of this standard 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 statement of operations and cash flows.

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 April 30, 2017. 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 and net realizable value using the average cost method. The Company applied the amendments in this update prospectively to the measurement of inventory after the date of adoption with no material impact to 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



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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's implementation efforts have included reviewing 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.

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

#### **Liquidity and Capital Resources**

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

##### *Credit Facility*

On August 3, 2015, the Company and certain of its subsidiaries entered into a credit agreement (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 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 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 Credit Facility. The Credit Facility replaced the prior credit facility. Proceeds from the 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 Credit Facility. The Credit Facility is secured by substantially all of the inventory, accounts receivable and related assets of the borrowers under the 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 Credit Facility are limited to a specified percentage of eligible collateral. The Company has the option to request an increase in commitments under the Credit Facility of up to \$250.0 million, subject to certain restrictions.

The 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

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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 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 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 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 Credit Agreement also contains customary affirmative covenants and representations and warranties.

The Company wrote off \$0.5 million of deferred financing fees related to the prior credit facility during the second quarter of fiscal 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 Credit Facility. The Company also incurred \$5.7 million of fees to secure the Credit Facility, which are being amortized over the five-year term accordingly. During the second quarter of fiscal 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 Credit Facility.

The Company had \$59.8 million and \$18.2 million of outstanding debt under the Credit Facility as of January 27, 2018 and January 28, 2017, respectively. The Company had \$35.2 million and \$38.9 million of outstanding letters of credit under the Credit Facility as of January 27, 2018 and January 28, 2017, respectively.

### *Cash Flows*

The Company's cash and cash equivalents were \$11.5 million as of January 27, 2018, compared with \$11.6 million as of January 28, 2017. The decrease in cash and cash equivalents of \$0.1 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 were \$108.1 million for the 39 weeks ended January 27, 2018 as compared to \$158.5 million for the 39 weeks ended January 28, 2017. The unfavorable year-over-year comparison was primarily attributable to changes in working capital and the sales decline.

Net cash flows used in investing activities were \$70.0 million for the 39 weeks ended January 27, 2018 as compared to \$73.7 million for the 39 weeks ended January 28, 2017. 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 were \$38.7 million for the 39 weeks ended January 27, 2018 as compared to \$87.1 million for the 39 weeks ended January 28, 2017. The Company's financing activities during the 39 weeks ended January 27, 2018 consisted primarily of common dividends and net payments on the Credit Facility. Financing activities during the 39 weeks ended January 28, 2017 consisted primarily of common dividends, net payments on the Credit Facility and share repurchases.

Over the past 12 months, the Company has returned \$43.6 million in cash to its shareholders through dividends.

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

- Receivables, net decreased \$7.5 million, or 10.6%, to \$63.0 million as of January 27, 2018, compared to \$70.4 million as of January 28, 2017, primarily due to lower sales and the lower eBook settlement receivable.
- Merchandise inventories, net decreased \$35.3 million, or 3.5%, to \$975.1 million as of January 27, 2018, compared to \$1.010 billion as of January 28, 2017.
- Prepaid expenses and other current assets increased \$17.0 million, or 27.4%, to \$79.2 million as of January 27, 2018, compared to \$62.2 million as of January 28, 2017 primarily related to income taxes.
- Property and equipment, net decreased \$19.1 million, or 6.8%, to \$262.4 million as of January 27, 2018, compared to \$281.5 million as of January 28, 2017, as depreciation outpaced capital expenditures.
- Goodwill decreased \$137.5 million, or 65.1%, to \$73.8 million as of January 27, 2018, compared to \$211.3 million as of January 28, 2017 primarily related to the \$133.6 million impairment charge.
- Intangible assets, net decreased \$0.6 million, or 0.2%, to \$309.8 million as of January 27, 2018, compared to \$310.4 million as of January 28, 2017, on additional amortization.
- Other non-current assets increased \$2.0 million, or 17.8%, to \$13.3 million as of January 27, 2018, compared to \$11.3 million as of January 28, 2017 related to income taxes, partially offset by amortization of deferred financing fees.
- Accounts payable decreased \$9.9 million, or 2.0%, to \$490.9 million as of January 27, 2018, compared to \$500.8 million as of January 28, 2017. Accounts payable represented 50.3% and 49.6% of merchandise inventories as of January 27, 2018 and January 28, 2017, respectively. This ratio is subject to changes in product mix and the timing of purchases, payments and returns.
- Accrued liabilities decreased \$33.5 million, or 10.5%, to \$285.6 million as of January 27, 2018, compared to \$319.1 million as of January 28, 2017. Accrued liabilities include deferred income, compensation, occupancy related, legal and other selling and administrative miscellaneous accruals.
- Gift card liabilities decreased \$26.2 million, or 6.8%, to \$358.6 million as of January 27, 2018, compared to \$384.8 million as of January 28, 2017. 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 \$27.5 million and \$20.8 million during the 13 weeks ended January 27, 2018 and January 28, 2017, respectively, and \$37.2 million and \$30.6 million during the 39 weeks ended January 27, 2018 and January 28, 2017, 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 \$3.8 million, or 7.1%, to \$58.1 million as of January 27, 2018, compared to \$54.3 million as of January 28, 2017, due to the remeasurement of deferred taxes as a result of the Tax Cuts and Jobs Act and the deferred tax impact of the goodwill impairment charge, partially offset by the valuation allowance recorded.
- Other long-term liabilities decreased \$13.5 million, or 12.8%, to \$91.7 million as of January 27, 2018, compared to \$105.2 million as of January 28, 2017, due to lower deferred rent.

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.

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### **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.

### **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.

### **Business Overview**

Barnes & Noble has been experiencing declining sales trends primarily due to lower store traffic. The Company has been able to offset some of the traffic decline through its efforts to increase conversion through higher customer engagement. Additionally, the Company has been able to mitigate the impact of the sales decline on profit levels through cost reductions. While the Company believes it has lost share on its recent sales performance, it sees opportunities in an industry that has become more stable.

To improve its performance, the Company has initiated a strategic turnaround plan. The Company's long-term strategic plan is focused on strengthening the core business by enhancing the customer value proposition; improving profitability through an aggressive expense management program, which will be used to fund growth initiatives; accelerating execution through simplification; and innovating for the future, which will position the Company for long-term growth.

To strengthen its core business, the Company is enhancing this customer value proposition by improving its merchandise mix, enhancing the overall shopping experience, increasing the value of its Membership program and improving its omni-channel capabilities. The Company will leverage the strength of its Barnes & Noble brand, knowledgeable booksellers, vast book selection and retail footprint to attract customers to its omni-channel offerings and grow sales.

Merchandising initiatives are focused on increasing the number of value offers, narrowing product assortments, 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 through higher customer engagement and 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.

The Company's Member 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.

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To improve profitability and accelerate execution, the Company is focused on simplification throughout its organization to create efficiencies and reinvest resources to support sales growth. The Company is also committed to right sizing its cost structure. 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. NOOK expects to continue to re-calibrate its cost structure commensurate with sales, further reducing its losses.

In addition to initiatives focused on growing sales through its existing store base, the Company is innovating for the future, and is currently testing new bookstore formats, which it believes could foster sales growth in the future. The Company has also created a Test & Learn pipeline process, through which it is testing a number of new initiatives to improve future performance.

### Results of Operations

The following tables summarize the Company's results of operations for the 13 and 39 weeks ended January 27, 2018 compared with the 13 and 39 weeks ended January 28, 2017.

#### Sales

<i>Dollars in thousands</i>	13 weeks ended				39 weeks ended			
	January 27, 2018	% of Total	January 28, 2017	% of Total	January 27, 2018	% of Total	January 28, 2017	% of Total
B&N Retail	\$1,210,417	98.3%	\$1,276,039	98.1%	\$2,810,162	97.7%	\$2,988,471	97.2%
NOOK	30,930	2.5%	38,434	3.0%	86,394	3.0%	114,524	3.7%
Elimination	(9,576)	(0.8)%	(13,565)	(1.0)%	(20,352)	(0.7)%	(29,657)	(1.0)%
Total Sales	<u>\$1,231,771</u>	<u>100.0%</u>	<u>\$1,300,908</u>	<u>100.0%</u>	<u>\$2,876,204</u>	<u>100.0%</u>	<u>\$3,073,338</u>	<u>100.0%</u>

During the 13 weeks ended January 27, 2018, the Company's sales decreased \$69.1 million, or 5.3%, to \$1.232 billion from \$1.301 billion during the 13 weeks ended January 28, 2017. The changes by segment are as follows:

- B&N Retail sales for the 13 weeks ended January 27, 2018 decreased \$65.6 million, or 5.1%, to \$1.210 billion from \$1.276 billion during the same period one year ago, and accounted for 98.3% of total Company sales. Comparable store sales decreased \$62.1 million, or 5.8%, as compared to the prior year on lower store traffic. Closed stores decreased sales by \$8.4 million, while new stores increased sales by \$2.5 million. Online sales decreased \$5.9 million, or 5.2%. B&N Retail also includes third-party sales of Sterling Publishing Co., Inc., which increased by \$1.9 million, or 21.7%, versus the prior year. Gift card breakage also increased \$6.7 million as redemptions continue to run lower than historical patterns.

Of the \$62.1 million decrease in comparable store sales, non-book core categories decreased sales by \$31.0 million, or 7.5%. Book categories decreased sales by \$26.4 million, or 4.1%. Coloring books and Artist supplies decreased comparable sales by 1.0%. Comparable sales of NOOK® products at B&N Retail stores decreased \$4.7 million, or 35.5%, primarily on lower device unit volume and lower average selling prices.

- NOOK sales decreased \$7.5 million, or 19.5%, to \$30.9 million during the 13 weeks ended January 27, 2018 from \$38.4 million during the 13 weeks ended January 28, 2017, and accounted for 2.5% of total Company sales. Digital content sales decreased \$4.6 million, or 18.6%, compared to the prior year on lower unit sales. Device and accessories sales decreased \$2.9 million, or 21.1%, primarily on lower unit sales and lower average selling prices.

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- Elimination sales, which represent sales from NOOK to B&N Retail on a sell-through basis, decreased \$4.0 million, or 29.4%, versus the prior year. NOOK sales, net of elimination, accounted for 1.7% of total Company sales.

During the 13 weeks ended January 27, 2018, B&N Retail had two store openings and four store closings.

During the 39 weeks ended January 27, 2018, the Company's sales decreased \$197.1 million, or 6.4%, to \$2.876 billion from \$3.073 billion during the 39 weeks ended January 28, 2017. The changes by segment are as follows:

- B&N Retail sales for the 39 weeks ended January 27, 2018 decreased \$178.3 million, or 6.0%, to \$2.810 billion from \$2.988 billion during the same period one year ago, and accounted for 97.7% of total Company sales. Comparable store sales decreased \$144.2 million, or 5.7%, as compared to the prior year on lower store traffic and comparisons to the prior year release of *Harry Potter and the Cursed Child*. Closed stores decreased sales by \$24.7 million, while new stores increased sales by \$9.9 million. Online sales decreased \$25.7 million, or 10.4%, on sales of *Harry Potter and the Cursed Child* in the prior year, lower promotional activity and comparisons to the prior year eBook settlement. Gift card breakage also increased \$6.7 million as redemptions continue to run lower than historical patterns.

Of the \$144.2 million decrease in comparable store sales, book categories decreased sales by \$67.4 million, or 4.2%, due primarily to declines in Juvenile as the prior year included the release of *Harry Potter and the Cursed Child*, Trade titles and Bargain (primarily coloring books). Non-book core categories decreased sales by \$67.0 million, or 7.6%, across most departments. Coloring books and Artist supplies decreased comparable sales by 0.9%. Comparable sales of NOOK® products at B&N Retail stores decreased \$9.8 million, or 32.8%, primarily on lower average selling prices due to product mix and lower device unit volume.

- NOOK sales decreased \$28.1 million, or 24.6%, to \$86.4 million during the 39 weeks ended January 27, 2018 from \$114.5 million during the 39 weeks ended January 28, 2017, and accounted for 3.0% of total Company sales. Digital content sales decreased \$17.6 million, or 21.5%, compared to the prior year primarily on lower unit sales. Device and accessories sales decreased \$10.5 million, or 32.5%, primarily on lower average selling prices and lower unit sales.
- Elimination sales, which represent sales from NOOK to B&N Retail on a sell-through basis, decreased \$9.3 million, or 31.4%, versus the prior year. NOOK sales, net of elimination, accounted for 2.3% of total Company sales.

During the 39 weeks ended January 27, 2018, B&N Retail had two store openings and five store closings.

### Cost of Sales and Occupancy

<i>Dollars in thousands</i>	13 weeks ended				39 weeks ended			
	January 27, 2018	% of Sales	January 28, 2017	% of Sales	January 27, 2018	% of Sales	January 28, 2017	% of Sales
B&N Retail	\$ 825,858	68.2%	\$ 853,788	66.9%	\$1,972,277	70.2%	\$2,068,998	69.2%
NOOK	15,463	50.0%	23,884	62.1%	42,077	48.7%	64,282	56.1%
Elimination	(9,576)	(31.0)%	(13,565)	(35.3)%	(20,352)	(23.6)%	(29,657)	(25.9)%
Total Cost of Sales and Occupancy	<u>\$ 831,745</u>	<u>67.5%</u>	<u>\$ 864,107</u>	<u>66.4%</u>	<u>\$1,994,002</u>	<u>69.3%</u>	<u>\$2,103,623</u>	<u>68.4%</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.

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During the 13 weeks ended January 27, 2018, cost of sales and occupancy decreased \$32.4 million, or 3.7%, to \$831.7 million from \$864.1 million during the 13 weeks ended January 28, 2017. Cost of sales and occupancy increased as a percentage of sales to 67.5% from 66.4% during the same period one year ago. The changes by segment are as follows:

- B&N Retail cost of sales and occupancy increased as a percentage of sales to 68.2% from 66.9%, or 130 basis points, during the same period one year ago primarily due to increased promotions (45 basis points), occupancy deleverage (45 basis points) and higher markdowns (35 basis points). The remaining variance was attributable to timing differences and sales mix.
- NOOK cost of sales and occupancy decreased as a percentage of sales to 50.0% from 62.1% during the same period one year ago primarily due to a favorable channel partner settlement, lower occupancy costs and sales mix.

During the 39 weeks ended January 27, 2018, cost of sales and occupancy decreased \$109.6 million, or 5.2%, to \$1.994 billion from \$2.104 billion during the 39 weeks ended January 28, 2017. Cost of sales and occupancy increased as a percentage of sales to 69.3% from 68.4% during the same period one year ago. The changes by segment are as follows:

- B&N Retail cost of sales and occupancy increased as a percentage of sales to 70.2% from 69.2%, or 95 basis points, during the same period one year ago primarily on occupancy deleverage (60 basis points) and higher markdowns (10 basis points). The remaining variance was attributable to sales deleverage, sales mix and general timing of expenses.
- NOOK cost of sales and occupancy decreased as a percentage of sales to 48.7% from 56.1% during the same period one year ago on lower occupancy costs and sales mix.

### Gross Profit

<i>Dollars in thousands</i>	13 weeks ended				39 weeks ended			
	January 27, 2018	% of Sales	January 28, 2017	% of Sales	January 27, 2018	% of Sales	January 28, 2017	% of Sales
B&N Retail	\$ 384,559	31.8%	\$ 422,251	33.1%	\$ 837,885	29.8%	\$ 919,473	30.8%
NOOK	15,467	72.4%	14,550	58.5%	44,317	67.1%	50,242	59.2%
<b>Total Gross Profit</b>	<b>\$ 400,026</b>	<b>32.5%</b>	<b>\$ 436,801</b>	<b>33.6%</b>	<b>\$ 882,202</b>	<b>30.7%</b>	<b>\$ 969,715</b>	<b>31.6%</b>

The Company's consolidated gross profit decreased \$36.8 million, or 8.4%, to \$400.0 million during the 13 weeks ended January 27, 2018 from \$436.8 million during the 13 weeks ended January 28, 2017. This change was due to the matters discussed above.

The Company's consolidated gross profit decreased \$87.5 million, or 9.0%, to \$882.2 million during the 39 weeks ended January 27, 2018 from \$969.7 million during the 39 weeks ended January 28, 2017. This change was due to the matters discussed above.

### Selling and Administrative Expenses

<i>Dollars in thousands</i>	13 weeks ended				39 weeks ended			
	January 27, 2018	% of Sales	January 28, 2017	% of Sales	January 27, 2018	% of Sales	January 28, 2017	% of Sales
B&N Retail	\$ 259,198	21.4%	\$ 262,024	20.5%	\$ 727,149	25.9%	\$ 738,176	24.7%
NOOK	13,846	64.8%	16,938	68.1%	41,918	63.5%	63,323	74.6%
<b>Total Selling and Administrative Expenses</b>	<b>\$ 273,044</b>	<b>22.2%</b>	<b>\$ 278,962</b>	<b>21.4%</b>	<b>\$ 769,067</b>	<b>26.7%</b>	<b>\$ 801,499</b>	<b>26.1%</b>

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Selling and administrative expenses decreased \$5.9 million, or 2.1%, to \$273.0 million during the 13 weeks ended January 27, 2018 from \$279.0 million during the 13 weeks ended January 28, 2017. Selling and administrative expenses increased as a percentage of sales to 22.2% from 21.4% as compared to the same period one year ago. The changes by segment are as follows:

- B&N Retail selling and administrative expenses decreased \$2.8 million as compared to prior year, increasing 90 basis points as a percentage of sales to 21.4% from 20.5%. The Company implemented a new labor model for its stores, resulting in the elimination of certain store positions. The estimated severance costs are \$10.7 million (75 basis points). Store payroll (excluding the severance charge) increased 25 basis points (on store sales) as sales deleverage and wage increases were partially offset by productivity gains. The current year also includes higher employee benefit costs (15 basis points) and a higher store impairment charge (15 basis points). These increases were partially offset by lower bonus accruals (50 basis points). The remaining variance was attributable to sales deleverage and the general timing of expenses.
- NOOK selling and administrative expenses decreased \$3.1 million as compared to prior year, decreasing as a percentage of sales to 64.8% from 68.1% for the quarter primarily attributable to continued cost rationalization efforts, including lower compensation expense and lower variable costs on the sales decline, partially offset by higher legal and advertising expenses. In addition, expenses were favorably impacted by the channel partner settlement.

Selling and administrative expenses decreased \$32.4 million, or 4.0%, to \$769.1 million during the 39 weeks ended January 27, 2018 from \$801.5 million during the 39 weeks ended January 28, 2017. Selling and administrative expenses increased as a percentage of sales to 26.7% from 26.1% as compared to the same period one year ago. The changes by segment are as follows:

- B&N Retail selling and administrative expenses decreased \$11.0 million as compared to prior year. As a percent of sales, B&N Retail expenses increased 120 basis points to 25.9% from 24.7%. The Company implemented a new labor model for its stores, resulting in the elimination of certain store positions. The estimated severance costs are \$10.7 million (40 basis points). Excluding this charge, severance costs decreased 50 basis points on prior year cost reductions. The current year also includes higher store payroll (70 basis points on store sales) on sales deleverage and wage increases, higher employee benefit costs (25 basis points) on increased medical claims, increased legal and professional fees (20 basis points) partially related to strategic consulting and higher website expenses (15 basis points). The remaining variance was attributable to sales deleverage and the general timing of expenses.
- NOOK selling and administrative expenses decreased \$21.4 million as compared to prior year, decreasing as a percentage of sales to 63.5% from 74.6%. The prior year included severance and transitional costs of \$9.1 million related to the outsourcing of certain services and the closure of NOOK's California and Taiwan offices. Excluding these costs, the decrease in dollars was primarily attributable to continued cost rationalization efforts, including lower compensation expense, lower severance and consulting costs, as well as lower variable costs on the sales decline, partially offset by higher legal costs. The current year also includes a favorable expense impact from the channel partner settlement.



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### Depreciation and Amortization

<i>Dollars in thousands</i>	13 weeks ended				39 weeks ended			
	January 27, 2018	% of Sales	January 28, 2017	% of Sales	January 27, 2018	% of Sales	January 28, 2017	% of Sales
B&N Retail	\$ 25,295	2.1%	\$ 25,236	2.0%	\$ 72,491	2.6%	\$ 74,756	2.5%
NOOK	2,950	13.8%	3,816	15.3%	9,351	14.2%	15,327	18.1%
Total Depreciation and Amortization	<u>\$ 28,245</u>	<u>2.3%</u>	<u>\$ 29,052</u>	<u>2.2%</u>	<u>\$ 81,842</u>	<u>2.8%</u>	<u>\$ 90,083</u>	<u>2.9%</u>

During the 13 weeks ended January 27, 2018, depreciation and amortization decreased \$0.8 million, or 2.8%, to \$28.2 million from \$29.1 million during the same period one year ago. This decrease was primarily attributable to fully depreciated assets, partially offset by additional capital expenditures.

During the 39 weeks ended January 27, 2018, depreciation and amortization decreased \$8.2 million, or 9.1%, to \$81.8 million from \$90.1 million during the same period one year ago. This decrease was primarily attributable to fully depreciated assets, partially offset by additional capital expenditures.

### Goodwill Impairment

<i>Dollars in thousands</i>	13 weeks ended		39 weeks ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
Goodwill Impairment	\$ 133,612	\$ —	\$ 133,612	\$ —

The costs in excess of net assets of businesses acquired are carried as goodwill in the accompanying consolidated balance sheets. ASC 350-30, *Goodwill and Other Intangible Assets*, requires that goodwill and other unamortizable intangible assets be tested for impairment at least annually or earlier if there are impairment indicators.

In January 2017, the FASB issued ASU 2017-04, which simplifies the subsequent measurement of goodwill by removing the requirement to perform a hypothetical purchase price allocation to compute the implied fair value of goodwill to measure impairment.

The Company completed its annual goodwill impairment test as of the first day of the third quarter of fiscal 2018. Given the lower than expected sales results, the Company revised its forecasted outlook. Following the announcement of its holiday sales results and revised outlook, the market price of the Company's common stock sharply declined. Due to these impairment indicators, the Company performed an interim test of its goodwill during the period. While the Company has initiated a strategic turnaround plan focused on stabilizing sales, improving productivity and reducing expenses, achievement of its long-term goals requires a significant multi-year transformation. As a result of performing the interim test of impairment, the Company recognized an impairment of its B&N Retail reporting unit of \$133.6 million during the 13 weeks ended January 27, 2018.

### Operating Income (Loss)

<i>Dollars in thousands</i>	13 weeks ended				39 weeks ended			
	January 27, 2018	% of Sales	January 28, 2017	% of Sales	January 27, 2018	% of Sales	January 28, 2017	% of Sales
B&N Retail	\$ (33,546)	(2.8)%	\$ 134,991	10.6%	\$ (95,367)	(3.4)%	\$ 106,541	3.6%
NOOK	(1,329)	(6.2)%	(6,204)	(24.9)%	(6,952)	(10.5)%	(28,408)	(33.5)%
Total Operating Income (Loss)	<u>\$ (34,875)</u>	<u>(2.8)%</u>	<u>\$ 128,787</u>	<u>9.9%</u>	<u>\$(102,319)</u>	<u>(3.6)%</u>	<u>\$ 78,133</u>	<u>2.5%</u>

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The Company's consolidated operating income decreased \$163.7 million, or 127.1%, to an operating loss of \$34.9 million during the 13 weeks ended January 27, 2018 from an operating income of \$128.8 million during the 13 weeks ended January 28, 2017. This change was due to the matters discussed above.

The Company's consolidated operating income decreased \$180.5 million, or 231.0%, to an operating loss of \$102.3 million during the 39 weeks ended January 27, 2018 from an operating income of \$78.1 million during the 39 weeks ended January 28, 2017. This change was due to the matters discussed above.

### Interest Expense, Net and Amortization of Deferred Financing Fees

<i>Dollars in thousands</i>	13 weeks ended			39 weeks ended		
	January 27, 2018	January 28, 2017	% of Change	January 27, 2018	January 28, 2017	% of Change
Interest Expense, Net and Amortization of Deferred Financing Fees	\$ 2,536	\$ 2,076	22.2%	\$ 7,254	\$ 5,666	28.0%

Net interest expense and amortization of deferred financing fees increased \$0.5 million, or 22.2%, to \$2.5 million during the 13 weeks ended January 27, 2018 from \$2.1 million during the 13 weeks ended January 28, 2017 primarily on higher average borrowings.

Net interest expense and amortization of deferred financing fees increased \$1.6 million, or 28.0%, to \$7.3 million during the 39 weeks ended January 27, 2018 from \$5.7 million during the 39 weeks ended January 28, 2017 primarily on higher average borrowings.

### Income Tax Provision (Benefit)

<i>Dollars in thousands</i>	13 weeks ended				39 weeks ended			
	January 27, 2018	Effective Rate	January 28, 2017	Effective Rate	January 27, 2018	Effective Rate	January 28, 2017	Effective Rate
Income Tax Provision (Benefit)	\$ 26,125	(69.8)%	\$ 56,435	44.5%	\$ (5,165)	4.7%	\$ 37,016	51.1%

The Company recorded an income tax provision of \$26.1 million on a pre-tax loss of \$37.4 million during the 13 weeks ended January 27, 2018, which represented an effective income tax rate of (69.8)%. The Company recorded an income tax provision of \$56.4 million on a pre-tax income of \$126.7 million during the 13 weeks ended January 28, 2017, which represented an effective income tax rate of 44.5%. The Company's effective tax rates for the 13 weeks ended January 27, 2018 and January 28, 2017 differ from the statutory rates due to the impact of permanent items such as meals and entertainment, non-deductible executive compensation, tax credits, changes in uncertain tax positions, state tax provision, net of federal benefit and for the 13 weeks ended January 27, 2018, the impact of the Tax Cuts and Jobs Act, goodwill impairment, and changes to valuation allowance. The change in effective tax rates for the 13 weeks ended January 27, 2018 and January 28, 2017 was due to changes in uncertain tax positions, return to provision adjustments, goodwill impairment, valuation allowance, and the impact of the Tax Cuts and Jobs Act.

The Company recorded an income tax benefit of \$5.2 million on a pre-tax loss of \$109.6 million during the 39 weeks ended January 27, 2018, which represented an effective income tax rate of 4.7%. The Company recorded an income tax provision of \$37.0 million on a pre-tax income of \$72.5 million during the 39 weeks ended January 28, 2017, which represented an effective income tax rate of 51.1%. The Company's effective tax rates for the 39 weeks ended January 27, 2018 and January 28, 2017 differ from the statutory rates due to the impact of permanent items such as meals and entertainment, non-deductible executive compensation, tax credits, changes in uncertain tax positions, state tax provision, net of federal benefit and for the 39 weeks ended January 27, 2018, the impact of the Tax Cuts and Jobs Act, goodwill impairment, and changes to valuation allowance. The change in effective tax rates for the 39 weeks ended January 27, 2018 and January 28, 2017 was due to changes in uncertain tax positions, return to provision adjustments, goodwill impairment, valuation allowance and the impact of the Tax Cuts and Jobs Act.

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The Company believes that it is reasonably possible that the total amount of unrecognized tax benefits at January 27, 2018 could decrease by approximately \$0.9 million within the next twelve months, as a result of settlement of certain tax audits or lapses of statutes of limitations, which could impact the effective tax rate.

### *Net Income (Loss)*

<i>Dollars in thousands</i>	13 weeks ended		39 weeks ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
Net Income (loss)	\$ (63,536)	\$ 70,276	\$(104,408)	\$ 35,451

As a result of the factors discussed above, the Company reported consolidated net loss of \$63.5 million during the 13 weeks ended January 27, 2018, compared with consolidated net income of \$70.3 million during the 13 weeks ended January 28, 2017.

As a result of the factors discussed above, the Company reported consolidated net loss of \$104.4 million during the 39 weeks ended January 27, 2018, compared with consolidated net income of \$35.5 million during the 39 weeks ended January 28, 2017.

### **Critical Accounting Policies**

During the 39 weeks ended January 27, 2018, except for the adoption of ASU 2016-09 during the first quarter of fiscal 2018 and adoption of ASU 2017-04 during the third quarter of fiscal 2018, there were no changes in the Company's policies regarding the use of estimates and other critical accounting policies.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations," found in the Company's Annual Report on Form 10-K for the fiscal year ended April 29, 2017 for additional information relating to the Company's use of estimates and other critical accounting policies.

### **Disclosure Regarding Forward-Looking Statements**

This quarterly report on Form 10-Q 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, risks associated with the eCommerce business, including the possible loss of eCommerce customers and declines in eCommerce sales, the risk that financial and operational forecasts and projections are not achieved, the performance of Barnes & Noble's initiatives including but not limited to new store concepts and eCommerce initiatives, unanticipated adverse litigation results or

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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," in Barnes & Noble's Annual Report on Form 10-K for the fiscal year ended April 29, 2017, 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 Form 10-Q.

### **Item 3: 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 January 27, 2018, the Company's cash and cash equivalents totaled approximately \$11.5 million. A 50 basis point increase in annual interest rates would have increased the Company's interest income by \$0.0 million in the third quarter of fiscal 2018. Conversely, a 50 basis point decrease in annual interest rates would have reduced interest income by \$0.0 million in the third quarter of fiscal 2018.

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 described in the Quarterly 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 borrowings under its credit facility of \$59.8 million at January 27, 2018 and \$18.2 million at January 28, 2017. A 50 basis point increase in annual interest rates would have increased the Company's interest expense by \$0.2 million in the third quarter of fiscal 2018. Conversely, a 50 basis point decrease in annual interest rates would have reduced interest expense by \$0.2 million in the third quarter of fiscal 2018.

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

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

#### **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.

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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.

## PART II—OTHER INFORMATION

### **Item 1. 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.

With respect to the legal matters described below, the Company has determined, based on its current knowledge, 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 reasonably estimable. However, 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.

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,

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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. Plaintiffs filed a notice of appeal to the United States Court of Appeals for the Seventh Circuit. The appeal is fully briefed, and the Court heard oral argument on December 6, 2017. The Court of Appeals' decision is pending.

### ***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.

### ***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, 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. Ms. Hartpence then voluntarily dismissed her complaint and subsequently re-filed a similar complaint in the Philadelphia County Court of Common Pleas. The re-filed complaint alleged only claims of unpaid overtime under Pennsylvania law and class claims under Pennsylvania law that are limited to current and former Café Managers within Pennsylvania. On June 22, 2017, Ms. Hartpence filed an additional, separate action in Philadelphia County Court of Common Pleas in which she repeats her allegations under Pennsylvania law and asserts a similar claim for unpaid wages under New Jersey law, purportedly on behalf of herself and others similarly situated. The Court consolidated the two pending cases on November 1, 2017. On December 8, 2017, Barnes & Noble removed the consolidated action after Ms. Hartpence amended her complaint to add a cause of action under the FLSA in which Ms. Hartpence purports to assert claims on behalf of herself and a national class of all similarly situated Café Managers.

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 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

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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. On May 2, 2017, the Court denied Plaintiffs' Motion for Conditional Certification, without prejudice. The Plaintiffs filed a renewed motion for Conditional Certification on November 17, 2017, which is now fully briefed by the parties and pending before the Court. There are currently 18 former Café Managers who have joined the action as opt-in plaintiffs.

### ***Bernardino v. Barnes & Noble Booksellers, Inc.***

On June 16, 2017, a putative class action complaint was filed against Barnes & Noble Booksellers, Inc. (B&N Booksellers) in the United States District Court for the Southern District of New York, alleging violations of the federal Video Privacy Protection Act and related New York law. The plaintiff, who seeks to represent a class of subscribers of Facebook, Inc. (Facebook) who purchased DVDs or other video media from the Barnes & Noble website, seeks damages, injunctive relief and attorneys' fees, among other things, based on her allegation that B&N Booksellers supposedly knowingly disclosed her personally identifiable information to Facebook without her consent when she bought a DVD from Barnes & Noble's website. On July 10, 2017, the plaintiff moved for a preliminary injunction requiring Barnes & Noble to change the operation of its website, which motion B&N Booksellers opposed. On July 31, 2017, B&N Booksellers moved to compel the case to arbitration, consistent with the terms of use on Barnes & Noble's website. On August 28, 2017, the court denied the plaintiff's motion for a preliminary injunction. On January 31, 2018, the court granted B&N Booksellers' motion to compel arbitration, and the clerk of court closed the case on February 1, 2018.

### **Item 1A. Risk Factors**

There have been no material changes to the risk factors disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended April 29, 2017.

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

#### **Issuer Purchases of Equity Securities**

The following table provides information with respect to purchases by the Company of shares of its common stock:

<u>Period</u>	<u>Total Number of Shares Purchased (a)</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs</u>
October 29, 2017—November 25, 2017	—	\$ —	—	\$ 50,000,000
November 26, 2017—December 30, 2017	1,233	\$ 6.70	—	\$ 50,000,000
December 31, 2017—January 27, 2018	3,523	\$ 6.50	—	\$ 50,000,000
Total	<u>4,756</u>	<u>\$ 6.55</u>	<u>—</u>	

- (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.

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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. 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 did not repurchase shares under this plan during the 13 and 39 weeks ended January 27, 2018. During the 13 and 39 weeks ended January 28, 2017, the Company repurchased 311,020 shares at a cost of \$3.5 million and 2,019,798 shares at a cost of \$23.3 million, respectively, under the prior repurchase plan. The Company has remaining capacity of \$50.0 million under the new repurchase program as of January 27, 2018.

As of January 27, 2018, the Company has repurchased 39,584,907 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.



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**Item 6.**      **Exhibits**

*Exhibits filed with this Form 10-Q:*

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

**SIGNATURES**

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

BARNES & NOBLE, INC.  
(Registrant)

By: /s/ ALLEN W. LINDSTROM  
Allen W. Lindstrom  
*Chief Financial Officer*  
*(principal financial officer)*

By: /s/ PETER M. HERPICH  
Peter M. Herpich  
*Vice President and Corporate Controller (principal*  
*accounting officer)*

March 1, 2018

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

I, Demos Pamerros, certify that:

1. I have reviewed this report on Form 10-Q for the quarterly period ended January 27, 2018 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
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2018

By: /s/ Demos Pamerros  
Demos Pamerros  
Chief Executive Officer  
Barnes & Noble, Inc.

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

I, Allen W. Lindstrom, certify that:

1. I have reviewed this report on Form 10-Q for the quarterly period ended January 27, 2018 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
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2018

By: /s/ Allen W. Lindstrom  
Allen W. Lindstrom  
Chief Financial Officer  
Barnes & Noble, Inc.

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

In connection with the quarterly report of Barnes & Noble, Inc. (the "Company") on Form 10-Q for the period ended January 27, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, 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

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Demos Parneros  
Chief Executive Officer  
Barnes & Noble, Inc.  
March 1, 2018

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

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

In connection with the quarterly report of Barnes & Noble, Inc. (the "Company") on Form 10-Q for the period ended January 27, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, 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

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Allen W. Lindstrom  
Chief Financial Officer  
Barnes & Noble, Inc.  
March 1, 2018

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

