BARNES & NOBLE INC
Form 10-Q
March 07, 2019
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended January 26, 2019**

**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**

**BARNES & NOBLE, INC.**

**(Exact Name of Registrant as Specified in Its Charter)**

| | |
|---|---|
| **Delaware** | **06-1196501** |
| **(State or Other Jurisdiction of Incorporation or Organization)** | **(I.R.S. Employer Identification No.)** |
| **122 Fifth Avenue, New York, NY** | **10011** |
| **(Address of Principal Executive Offices)** | **(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)**

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 every Interactive Data File required to be submitted 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 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 | Accelerated filer |
| Non-accelerated filer | Smaller reporting company |
| | Emerging growth company |

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

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

As of February 28, 2019, 73,195,430 shares of Common Stock, par value $0.001 per share, were outstanding, which number includes 169,899 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 26, 2019**

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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 January 26, 2019 | 13 weeks ended January 27, 2018 | 39 weeks ended January 26, 2019 | 39 weeks ended January 27, 2018 |
|---|---|---|---|---|
| Sales | $ 1,231,348 | 1,231,771 | $ 2,797,312 | 2,876,204 |
| Cost of sales and occupancy | 833,990 | 831,745 | 1,946,535 | 1,994,002 |
| Gross profit | 397,358 | 400,026 | 850,777 | 882,202 |
| Selling and administrative expenses | 269,442 | 271,220 | 717,489 | 767,243 |
| Depreciation and amortization | 26,622 | 28,245 | 74,955 | 81,842 |
| Asset impairments | 22,067 | 135,436 | 22,067 | 135,436 |
| Operating income (loss) | 79,227 | (34,875) | 36,266 | (102,319) |
| Interest expense, net and amortization of deferred financing fees | 3,372 | 2,536 | 10,056 | 7,254 |
| Income (loss) before taxes | 75,855 | (37,411) | 26,210 | (109,573) |
| Income tax provision (benefit) | 8,925 | 26,125 | 3,712 | (5,165) |
| Net income (loss) | $ 66,930 | (63,536) | $ 22,498 | (104,408) |
| Income (loss) per common share: | | | | |
| Basic | $ 0.91 | (0.87) | $ 0.31 | (1.44) |
| Diluted | $ 0.91 | (0.87) | $ 0.31 | (1.44) |
| Weighted average common shares outstanding: | | | | |
| Basic | 73,022 | 72,649 | 72,881 | 72,566 |
| Diluted | 73,317 | 72,649 | 73,075 | 72,566 |
| Dividends declared per common share | $ 0.15 | 0.15 | $ 0.45 | 0.45 |

See accompanying notes to consolidated financial statements.

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

**Consolidated Statements of Comprehensive Income (Loss)**

**(In thousands)**

**(unaudited)**

| | 13 weeks ended January 26, 2019 | 13 weeks ended January 27, 2018 | 39 weeks ended January 26, 2019 | 39 weeks ended January 27, 2018 |
|---|---|---|---|---|
| Net income (loss) | $ 66,930 | (63,536) | $ 22,498 | (104,408) |
| Other comprehensive income (loss), net of tax | | | | |
| Total comprehensive income (loss) | $ 66,930 | (63,536) | $ 22,498 | (104,408) |

See accompanying notes to consolidated financial statements.

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

**Consolidated Balance Sheets**

**(In thousands, except per share data)**

| | January 26, 2019 (unaudited) | January 27, 2018 (unaudited) | April 28, 2018 |
|---|---|---|---|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 15,863 | 11,500 | 10,769 |
| Receivables, net | 62,246 | 62,952 | 64,562 |
| Merchandise inventories, net | 1,000,306 | 975,055 | 958,196 |
| Prepaid expenses and other current assets | 68,178 | 79,175 | 65,153 |
| Total current assets | 1,146,593 | 1,128,682 | 1,098,680 |
| Property and equipment: | | | |
| Land and land improvements | 2,541 | 2,541 | 2,541 |
| Buildings and leasehold improvements | 1,062,749 | 1,075,491 | 1,080,952 |
| Fixtures and equipment | 1,538,834 | 1,650,352 | 1,523,485 |
| | 2,604,124 | 2,728,384 | 2,606,978 |
| Less accumulated depreciation and amortization | 2,358,560 | 2,466,032 | 2,351,454 |
| Net property and equipment | 245,564 | 262,352 | 255,524 |
| Goodwill | 71,593 | 73,769 | 71,593 |
| Intangible assets, net | 303,732 | 309,757 | 309,649 |
| Other non-current assets | 16,667 | 13,285 | 14,122 |
| Total assets | $ 1,784,149 | 1,787,845 | 1,749,568 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable | $ 510,532 | 490,886 | 458,896 |
| Accrued liabilities | 271,623 | 285,598 | 260,209 |
| Gift card liabilities | 239,296 | 358,609 | 323,465 |
| Total current liabilities | 1,021,451 | 1,135,093 | 1,042,570 |
| Long-term debt | 129,251 | 59,805 | 158,700 |
| Deferred taxes | 72,147 | 58,118 | 52,044 |
| Other long-term liabilities | 87,802 | 91,712 | 84,271 |

| | | | |
|---|---|---|---|
| Shareholders equity: | | | |
| Common stock; $0.001 par value; 300,000 shares authorized; 112,763, 112,238 and 112,238 shares issued, respectively | 112 | 112 | 112 |
| Additional paid-in capital | 1,752,646 | 1,747,478 | 1,749,555 |
| Accumulated other comprehensive income | 276 | 315 | 276 |
| Retained earnings | (156,965) | (183,064) | (216,236) |
| Treasury stock, at cost, 39,738, 39,585 and 39,585 shares, respectively | (1,122,571) | (1,121,724) | (1,121,724) |
| Total shareholders equity | 473,498 | 443,117 | 411,983 |
| Commitments and contingencies | | | |
| Total liabilities and shareholders equity | $ 1,784,149 | 1,787,845 | 1,749,568 |

See accompanying notes to consolidated financial statements.

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

**Consolidated Statement of Changes in Shareholders Equity**

**For the 39 weeks ended January 26, 2019**

**(In thousands)**

**(unaudited)**

| | Common Stock | Additional Paid-In Capital | Accumulated Other Comprehensive Gains | Retained Earnings | Treasury Stock, at Cost | Total |
|---|---|---|---|---|---|---|
| Balance at April 28, 2018 | $ 112 | 1,749,555 | 276 | (216,236) | (1,121,724) | $ 411,983 |
| Net income | | | | 22,498 | | 22,498 |
| Stock-based compensation expense | | 3,091 | | | | 3,091 |
| Cash dividends declared/paid | | | | (32,874) | | (32,874) |
| Accrued dividends for long-term incentive awards | | | | (397) | | (397) |
| Purchase of treasury stock related to stock-based compensation, 153 shares | | | | | (847) | (847) |
| Adoption of ASU 2014-09 (see Note 1 and Note 4) | | | | 70,044 | | 70,044 |
| Balance at January 26, 2019 | $ 112 | 1,752,646 | 276 | (156,965) | (1,122,571) | $ 473,498 |

See accompanying notes to consolidated financial statements.

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

**Consolidated Statements of Cash Flows**

**(In thousands)**

**(unaudited)**

| | 39 weeks ended January 26, 2019 | 39 weeks ended January 27, 2018 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income (loss) | $ 22,498 | (104,408) |
| Adjustments to reconcile net income (loss) to net cash flows from operating activities: | | |
| Depreciation and amortization (including amortization of deferred financing fees) | 76,515 | 83,306 |
| Stock-based compensation expense | 3,091 | 4,788 |
| Impairment charges | 22,067 | 135,436 |
| Deferred taxes | | (25,667) |
| Loss on disposal of property and equipment | 699 | 589 |
| Net increase (decrease) in other long-term liabilities | 1,474 | (7,599) |
| Net (increase) decrease in other non-current assets | 255 | (3,614) |
| Changes in operating assets and liabilities, net | 26,291 | 25,302 |
| Net cash flows provided by operating activities | 152,890 | 108,133 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (79,722) | (69,971) |
| Net cash flows used in investing activities | (79,722) | (69,971) |
| Cash flows from financing activities: | | |
| Proceeds from credit facility | 912,025 | 877,822 |
| Payments on credit facility | (941,474) | (882,917) |
| Cash dividends paid | (32,874) | (32,719) |
| Purchase of treasury stock related to stock-based compensation | (847) | (653) |
| Payment of amended credit facility related fees | (4,425) | |
| Cash dividends paid for long-term incentive awards | (479) | (188) |
| Net cash flows used in financing activities | (68,074) | (38,655) |
| Net increase (decrease) in cash and cash equivalents | 5,094 | (493) |
| Cash and cash equivalents at beginning of period | 10,769 | 11,993 |
| Cash and cash equivalents at end of period | $ 15,863 | 11,500 |

| | | |
|---|---|---|
| Changes in operating assets and liabilities, net: | | |
| Receivables, net | $ 2,316 | 4,342 |
| Merchandise inventories, net | (42,110) | (28,146) |
| Prepaid expenses and other current assets | (3,025) | 22,641 |
| Accounts payable, accrued liabilities and gift card liabilities | 69,110 | 26,465 |
| Changes in operating assets and liabilities, net | $ 26,291 | 25,302 |
| Supplemental cash flow information | | |
| Cash paid during the period for: | | |
| Interest | $ 8,688 | 5,729 |
| Income taxes (net of refunds) | $ 187 | (1,416) |
| Non-cash financing activity: | | |
| Accrued dividends for long-term incentive awards | $ 1,155 | 938 |

See accompanying notes to consolidated financial statements.

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

**Notes to Consolidated Financial Statements**

**For the 39 weeks ended January 26, 2019 and January 27, 2018**

**(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 26, 2019 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 28, 2018 (fiscal 2018).

Due to the seasonal nature of the business, the results of operations for the 39 weeks ended January 26, 2019 are not indicative of the results expected for the 52 weeks ending April 27, 2019 (fiscal 2019).

## 1. Recent Accounting Pronouncements

*Recently Adopted Accounting Pronouncements*

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updates (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. The Company adopted ASU 2016-15 effective April 29, 2018 using the retrospective approach with no impact on the Company s consolidated statement of cash flows.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which was further amended in 2015 and 2016 (Topic 606). The standard provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes previous 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 previous revenue guidance. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented (full retrospective method), or apply the requirements in the year of adoption, through a cumulative adjustment (modified retrospective method). The Company adopted Topic 606 effective April 29, 2018 using the modified retrospective method.

The majority of the Company s revenue is generated from the sale of product in its retail stores, which will continue to be recognized when control of the product is transferred to the customer. The adoption of Topic 606 resulted in the following changes: 1) presentation of estimated merchandise returns as both an asset, equal to the inventory value net of processing costs, and a corresponding return liability, compared to the previous practice of recording an estimated net return liability; and 2) the timing of revenue recognition for gift card breakage. 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. Prior to adoption of Topic 606, the Company recorded this amount in revenue on a straight-line basis over a 12-month period beginning in the 13th month after the month the gift card was originally sold. Upon adoption, the Company now recognizes estimated gift card breakage as revenue proportionately as redemption occurs.

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The below tables set forth the adjustments to the Company s consolidated statement of operations and consolidated balance sheet as a result of the newly adopted revenue recognition standard.

| | 13 Weeks Ended January 26, 2019 | | | 39 Weeks Ended January 26, 2019 | | |
|---|---|---|---|---|---|---|
| | As Reported | Balances Without Adoption of Topic 606 | Impact of Adoption Increase (Decrease) | As Reported | Balances Without Adoption of Topic 606 | Impact of Adoption Increase (Decrease) |
| Sales | $ 1,231,348 | 1,239,399 | (8,051) | $ 2,797,312 | 2,807,015 | (9,703) |
| Cost of sales and occupancy | 833,990 | 833,990 | | 1,946,535 | 1,946,535 | |
| Gross profit | $ 397,358 | 405,409 | (8,051) | $ 850,777 | 860,480 | (9,703) |

| | January 26, 2019 | | |
|---|---|---|---|
| | As Reported | Balances Without Adoption of Topic 606 | Impact of Adoption Increase (Decrease) |
| **Assets** | | | |
| Prepaid expenses and other current assets | $ 68,178 | 68,449 | (271) |
| **Liabilities and Shareholders Equity** | | | |
| Accrued liabilities | $ 271,623 | 270,516 | 1,107 |
| Gift card liabilities | $ 239,296 | 319,739 | (80,443) |
| Deferred taxes | $ 72,147 | 52,044 | 20,103 |
| Retained earnings | $ (156,965) | (218,684) | 61,719 |

*Recent Accounting Pronouncements*

In February 2018, the FASB issued ASU 2018-02, *Income Statement Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which allows for an optional reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects as a result of the newly enacted federal corporate income tax rate under the Tax Cuts and Jobs Act. This guidance is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. Two transition methods are available: at the beginning of the period of adoption, or retrospective to each period in which the income tax effects of the Tax Cuts and Jobs Act related to items remaining in accumulated other comprehensive income are recognized. The Company does not expect the adoption will have a material impact on its consolidated financial statements and related disclosures.

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.

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## 2. Asset Impairments

The following table summarizes the Company s asset impairment charges for the 13 and 39 weeks ended January 26, 2019 and January 27, 2018.

| | 13 weeks ended | | 39 weeks ended | |
|---|---|---|---|---|
| | January 26, 2019 | January 27, 2018 | January 26, 2019 | January 27, 2018 |
| Store impairment | $ 16,473 | 1,824 | $ 16,473 | 1,824 |
| Publishing contracts impairment | 5,594 | | 5,594 | |
| Goodwill impairment | | 133,612 | | 133,612 |
| Total Asset Impairments | $ 22,067 | 135,436 | $ 22,067 | 135,436 |

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.

Historically, the Company completed its annual goodwill and trade name impairment test as of the first day of its fiscal third quarter (November) of each fiscal year. During the 13 weeks ended January 26, 2019, the Company voluntarily changed the date of its annual goodwill and trade name impairment testing from the first day of fiscal November to the first day of fiscal January. This voluntary change is preferable as it better aligns the timing of the goodwill and trade name impairment testing with the Company s strategic and annual operating planning process and allows for the inclusion of the most recent holiday sales results in the quantitative and qualitative considerations of the annual impairment tests. The voluntary change in accounting principle related to the annual testing date will not delay, accelerate or avoid an impairment charge. This change is not applied retrospectively as it is impracticable to do so because retrospective application would require application of significant estimates and assumptions with the use of hindsight. Accordingly, the change will be applied prospectively.

The Company completed its annual goodwill impairment test as of the first day of the third quarter of fiscal 2019 (October 28, 2018). The fair value of the B&N Retail reporting unit exceeded its carrying value and no impairment existed. The Company completed its new annual goodwill impairment test as of the first day of fiscal January (December 30, 2018). The fair value of the B&N Retail reporting unit exceeded its carrying value and no impairment existed. Although no impairment existed, the Company s goodwill is at risk of impairment if B&N Retail comparable store sales decline, store closings accelerate, the assumed long-term discount rate increases, or in general the Company does not achieve its forecasted multi-year strategic plan.

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 exceeded its carrying value based on the annual goodwill impairment test performed as of that date. Subsequent to the annual goodwill impairment test as of October 29, 2017, sales trends unexpectedly softened during the holiday selling season. Given the 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 those new impairment indicators, the Company performed an interim goodwill impairment test as of December 30, 2017. As a result of the interim testing, the Company recognized an impairment of its B&N Retail reporting unit goodwill of $133,612 during the 13 weeks ended January 27, 2018.

The Company completed its annual other unamortizable intangible assets impairment test as of the first day of the third quarter of fiscal 2019 (October 28, 2018) and determined that no impairment was necessary. The Company completed its new annual other unamortizable intangible assets impairment test as of the first day of fiscal January (December 30, 2018) and determined that no impairment was necessary. Although no impairment was necessary, the Company s trade name is at risk of impairment if B&N Retail comparable store sales decline, store closings accelerate, the assumed long-term discount rate increases, or in general the Company does not achieve its forecasted multi-year strategic plan.

The Company completed its annual other unamortizable intangible assets impairment test for its publishing contracts as of the first day of fiscal January (December 30, 2018). As a result of the testing, the Company recognized an impairment of $5,594 during the 13 weeks ended January 26, 2019. The publishing contracts include the value of long-standing relationships with authors, agents and publishers. Given Sterling s strong history of maintaining such relationships, the Company believes they produce value indefinitely without an identifiable remaining useful life. However, given the increased costs related to these publishing contracts, these contracts were impaired.

The Company also reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and considers market participants in accordance with ASC 360-10, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The Company evaluates its stores long-lived assets and its other long-lived assets for impairment at the individual Barnes & Noble store level and at the reporting unit level, respectively, which is the lowest level at which individual cash flows can be identified. Store impairment losses related to amortizable assets were $16,473 and $1,824 for the 13 and 39 weeks ended January 26, 2019 and January 27, 2018, respectively.

## 3. 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 or 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.

## 4. Revenue Recognition

On April 29, 2018, the Company adopted Topic 606 using the modified retrospective approach for all contracts not completed as of the adoption date. Financial results for reporting periods beginning after April 28, 2018 are presented in accordance with Topic 606, while prior periods will continue to be reported in accordance with our pre-adoption accounting policies and therefore have not been adjusted to conform to Topic 606.

The primary impact of adopting Topic 606 relates to the timing of revenue recognition for gift card breakage. 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. Prior to adoption of Topic 606, the Company recorded this amount in revenue on a straight-line basis over a 12-month period beginning in the 13th month after the month the gift card was originally sold. Upon adoption, the Company now recognizes estimated gift card breakage as revenue proportionately as redemption occurs. This change in accounting policy was accounted for through a cumulative effect adjustment to increase retained earnings during the first quarter of fiscal 2019. The Company reclassified $90,147 from gift card liabilities resulting in a cumulative effect adjustment of $70,044, net of tax, to retained earnings on the Company s consolidated balance sheets and consolidated statement of changes in stockholders equity. Additionally, the adoption of Topic 606 resulted in insignificant financial statement presentation reclassifications related to sales return reserve. The Company does not expect the adoption of Topic 606 to have a significant impact on the consolidated financial statements on a prospective basis.

In accordance with Topic 606, revenue shall be recognized upon satisfaction of all contractual performance obligations and transfer of control to the customer. Revenue is measured as the amount of consideration the Company expects to be entitled to in exchange for corresponding goods or services. Substantially all of the Company s sales are single performance obligation arrangements for retail sale transactions for which the transaction price is equivalent to the stated price of the product or service, net of any stated discounts applicable at a point in time. Each sales transaction results in an implicit contract with the customer to deliver a product or service at the point of sale. Revenue from retail sales is recognized at the point of sale, net of sales tax and estimated future returns. Revenue from eCommerce sales is recognized upon estimated delivery and receipt of the shipment by the Company s customers. Freight costs are included within the Company s cost of sales and occupancy. A provision for anticipated merchandise returns is provided through a reduction of sales and cost of goods sold in the period that the related sales are recorded. 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.

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

The Barnes & Noble Membership 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.

The following table summarizes disaggregated revenue from contracts with customers by product line:

| *Sales by Product Line* | 13 weeks ended | | 39 weeks ended | |
|---|---|---|---|---|
| | January 26, 2019 | January 27, 2018 | January 26, 2019 | January 27, 2018 |
| Media [(a)] | 63% | 66% | 67% | 69% |
| Digital [(b)] | 2% | 2% | 2% | 3% |
| Other [(c)] | 35% | 32% | 31% | 28% |
| Total | 100% | 100% | 100% | 100% |

(a) Includes tangible books, music, movies, rentals and newsstand.
(b) Includes NOOK®, related accessories, eContent and warranties.
(c) Includes Toys & Games, café products, gifts and miscellaneous other.

**5. 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 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.

**6. 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 $9,604 and $12,843 during the 39 weeks ended January 26, 2019 and January 27, 2018, respectively. Amortization of previously capitalized amounts was $5,695 and $5,543 during the 13 weeks ended January 26, 2019 and January 27, 2018, respectively, and $17,382 and $16,388 during the 39 weeks ended January 26, 2019 and January 27, 2018, respectively. Costs related to the design or maintenance of internal-use software and website development are expensed as incurred.

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## 7. 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 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 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 294,874, 56,776, 193,804 and 44,279 for the 13 weeks ended January 26, 2019 and January 27, 2018 and the 39 weeks ended January 26, 2019 and January 27, 2018, respectively, were excluded from the calculation of loss per share using the two-class method because the effect would be antidilutive.

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

| | 13 weeks ended | | 39 weeks ended | |
|---|---|---|---|---|
| | January 26, 2019 | January 27, 2018 | January 26, 2019 | January 27, 2018 |
| **Numerator for basic income (loss) per share:** | | | | |
| Net income (loss) | $ 66,930 | (63,536) | $ 22,498 | (104,408) |
| Less allocation of dividends to participating securities | (25) | (21) | (69) | (59) |
| Less allocation of undistributed earnings to participating securities | (130) | | | |
| Net income (loss) available to common shareholders | $ 66,775 | (63,557) | $ 22,429 | (104,467) |
| **Numerator for diluted income (loss) per share:** | | | | |
| Net income (loss) available to common shareholders | $ 66,775 | (63,557) | $ 22,429 | (104,467) |

| | | | | |
|---|---|---|---|---|
| Allocation of undistributed earnings to participating securities | 130 | | | |
| Less diluted allocation of undistributed earnings to participating securities | (129) | | | |
| Net income (loss) available to common shareholders | $ 66,776 | (63,557) | $ 22,429 | (104,467) |

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| | 13 weeks ended | | 39 weeks ended | |
|---|---|---|---|---|
| | January 26, 2019 | January 27, 2018 | January 26, 2019 | January 27, 2018 |
| **Denominator for basic income (loss) per share:** | | | | |
| Basic weighted average common shares | 73,022 | 72,649 | 72,881 | 72,566 |
| **Denominator for diluted income (loss) per share:** | | | | |
| Basic weighted average common shares | 73,022 | 72,649 | 72,881 | 72,566 |
| Average dilutive options | | | | |
| Average dilutive non-participating securities | 295 | | 194 | |
| Diluted weighted average common shares | 73,317 | 72,649 | 73,075 | 72,566 |
| **Income (loss) per common share:** | | | | |
| Basic | $ 0.91 | (0.87) | $ 0.31 | (1.44) |
| Diluted | $ 0.91 | (0.87) | $ 0.31 | (1.44) |

**8. Segment Reporting**

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

***B&N Retail***

This segment includes 627 bookstores as of January 26, 2019, 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 Kids, Toys & Games, DVDs, Music & Vinyl, Gift, Magazine, Bargain products and a dedicated NOOK® area. The stores also offer a calendar of ongoing events, including author appearances and children s activities. The B&N Retail segment also includes the Company s eCommerce website, www.barnesandnoble.com, and its publishing operation, Sterling Publishing Co., Inc.

***NOOK***

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

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

| *Sales by Segment* | 13 weeks ended | | 39 weeks ended | |
|---|---|---|---|---|
| | January 26, 2019 | January 27, 2018 | January 26, 2019 | January 27, 2018 |
| B&N Retail | $ 1,214,552 | 1,210,417 | $ 2,743,455 | 2,810,162 |
| NOOK | 24,372 | 30,930 | 71,405 | 86,394 |
| Elimination [(a)] | (7,576) | (9,576) | (17,548) | (20,352) |

| | | | | |
|---|---|---|---|---|
| Total | $ 1,231,348 | 1,231,771 | $ 2,797,312 | 2,876,204 |

| *Depreciation and Amortization* | 13 weeks ended | | 39 weeks ended | |
|---|---|---|---|---|
| | January 26, 2019 | January 27, 2018 | January 26, 2019 | January 27, 2018 |
| B&N Retail | $ 24,347 | 25,295 | $ 67,513 | 72,491 |
| NOOK | 2,275 | 2,950 | 7,442 | 9,351 |
| Total | $ 26,622 | 28,245 | $ 74,955 | 81,842 |

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| *Operating Income (Loss)* | 13 weeks ended | | 39 weeks ended | |
|---|---|---|---|---|
| | January 26, 2019 | January 27, 2018 | January 26, 2019 | January 27, 2018 |
| B&N Retail | $ 83,517 | (33,546) | $ 42,407 | (95,367) |
| NOOK | (4,290) | (1,329) | (6,141) | (6,952) |
| Total | $ 79,227 | (34,875) | $ 36,266 | (102,319) |

| *Capital Expenditures* | 13 weeks ended | | 39 weeks ended | |
|---|---|---|---|---|
| | January 26, 2019 | January 27, 2018 | January 26, 2019 | January 27, 2018 |
| B&N Retail | $ 26,528 | 18,833 | $ 75,507 | 64,777 |
| NOOK | 1,348 | 1,606 | 4,215 | 5,194 |
| Total | $ 27,876 | 20,439 | $ 79,722 | 69,971 |

| *Total Assets* [b] | January 26, 2019 | January 27, 2018 |
|---|---|---|
| B&N Retail | $ 1,756,713 | 1,761,571 |
| NOOK | 27,436 | 26,274 |
| Total | $ 1,784,149 | 1,787,845 |

(a) Represents sales from NOOK to B&N Retail on a sell-through basis.
(b) 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 26, 2019 | January 27, 2018 | January 26, 2019 | January 27, 2018 |
| Reportable segments operating income (loss) | $ 79,227 | (34,875) | $ 36,266 | (102,319) |
| Interest expense, net and amortization of deferred financing fees | 3,372 | 2,536 | 10,056 | 7,254 |
| Consolidated income (loss) before taxes | $ 75,855 | (37,411) | $ 26,210 | (109,573) |

**9. Intangible Assets and Goodwill**

| | As of January 26, 2019 | | | |
|---|---|---|---|---|
| **Amortizable Intangible Assets** | Useful Life | Gross Carrying Amount | Accumulated Amortization | Total |
| Other | 3-10 | $ 6,611 | (6,579) | $ 32 |
| | | $ 6,611 | (6,579) | $ 32 |

| **Unamortizable Intangible Assets** [a] | Trade name | Publishing contracts | Total |
|---|---|---|---|
| Balance at January 27, 2018 | $ 293,400 | $ 15,894 | $ 309,294 |
| Impairment | | (5,594) | (5,594) |
| Balance at January 26, 2019 | $ 293,400 | $ 10,300 | $ 303,700 |

| | |
|---|---|
| Total amortizable and unamortizable intangible assets as of January 26, 2019 | $ 303,732 |

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

| | |
|---|---|
| **Unamortizable Intangible Assets** [(a)] | |
| Trade name | $ 293,400 |
| Publishing contracts | 15,894 |
| | $ 309,294 |
| Total amortizable and unamortizable intangible assets as of January 27, 2018 | $ 309,757 |

(a) See Note 3 to these Consolidated Financial Statements.

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

| **Aggregate Amortization Expense** | |
|---|---|
| For the 39 weeks ended January 26, 2019 | $ 388 |
| For the 39 weeks ended January 27, 2018 | $ 514 |

| **Estimated Amortization Expense** | |
|---|---|
| (12 months ending on or about April 30) | |
| 2019 | $ 404 |
| 2020 | $ 16 |

The carrying amounts of goodwill, which relate to the B&N Retail reporting unit, was $71,593 and $73,769 as of January 26, 2019 and January 27, 2018, respectively. See Note 3 to these Consolidated Financial Statements.

**10. Gift Cards**

The Company sells gift cards, which can be used in its stores, on 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. This is referred to as gift card breakage. Effective April 29, 2018, the Company adopted Topic 606. The adoption of Topic 606 resulted in changes in the timing of revenue recognition for gift card breakage. 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. Prior to adoption of Topic 606, the Company recorded this amount in revenue on a straight-line basis over a 12-month period beginning in the 13th month after the month the gift card was originally sold. Upon adoption, the Company now recognizes estimated gift card breakage as revenue proportionately as redemption occurs.

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The Company s contract liabilities relate to its gift card program. Below is a summary of the changes during the 39 weeks ended January 26, 2019:

| | Total Company |
|---|---|
| Gift card liabilities balance as of April 28, 2018 | $ 323,465 |
| Adoption of Topic 606 | (90,147) |
| Gift card breakage | (36,304) |
| Gift card redemptions | (189,527) |
| Gift card issuances | 231,809 |
| Gift card liabilities balance as of January 26, 2019 | $ 239,296 |

The Company recognized gift card breakage of $28,258 and $27,496 during the 13 weeks ended January 26, 2019 and January 27, 2018, respectively, and $36,304 and $37,224 during the 39 weeks ended January 26, 2019 and January 27, 2018, respectively.

### 11. Other Long-Term Liabilities

Other long-term liabilities consist primarily of deferred rent, long-term insurance liabilities, asset retirement obligations and tax liabilities and reserves. 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 26, 2019, January 27, 2018 and April 28, 2018:

| | January 26, 2019 | January 27, 2018 | April 28, 2018 |
|---|---|---|---|
| Deferred rent | $ 51,747 | 52,087 | 50,720 |
| Insurance liabilities | 12,675 | 13,498 | 12,589 |
| Asset retirement obligations | 15,055 | 13,207 | 11,629 |
| Tax liabilities and reserves | 5,124 | 8,711 | 5,124 |
| Other | 3,201 | 4,209 | 4,209 |
| Total other long-term liabilities | $ 87,802 | 91,712 | 84,271 |

### 12. Income Taxes

The Company recorded an income tax provision of $8,925 on a pre-tax income of $75,855 during the 13 weeks ended January 26, 2019, which represented an effective income tax rate of 11.8%. 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 $3,712 on a pre-tax income of $26,210 during the 39 weeks ended January 26, 2019, which represented an effective income tax rate of 14.2%. 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 s effective tax rates for the 13 and 39 weeks ended January 26, 2019 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, expected changes in valuation allowance based on forecasted full year income and state tax provision, net of federal benefit. The Company s effective tax rates for the 13 and 39 weeks ended January 27, 2018 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, the impact of the Tax Cuts and Jobs Act, goodwill impairment, changes to valuation allowance and state tax provision, net of federal benefit.

During the 13 weeks ended January 26, 2019 and January 27, 2018 and the 39 weeks ended January 26, 2019 and January 27, 2018, the Company recognized tax expense of $8, $11, $722 and $915, respectively, in accordance with ASU 2016-09, *Compensation Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting*, 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 approximately $477 of the remaining unrecognized tax benefits may be recognized 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, were recorded in the Company s financial statements during fiscal year end 2018 as a provisional estimate under the Securities and Exchange Commission (SEC) staff issued Staff Accounting Bulletin No. 118 (SAB 118), which allowed registrants to record provisional amounts during a one year measurement period similar to that used when accounting for business combinations.

Items for which a reasonable estimate was 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 recorded a benefit of $27,128 on the remeasurement of its deferred tax assets and liabilities during fiscal 2018. During fiscal 2018, the Company also recorded a net tax detriment as a result of the changes to the non-deductible executive compensation provisions. The IRS issued Notice 2018-68 during the second quarter of fiscal 2019, which clarified the transition rule. As a result, there have been no significant changes. During the third quarter of fiscal 2019, the Company completed its analysis of the provisional amounts recorded during fiscal 2018 and recorded an additional provision of $170. The Company was not subject to the transition tax as there were no untaxed foreign earnings.

*Valuation Allowance Considerations*

The Company routinely performs an analysis of its deferred tax assets and considers all evidence both positive and negative to determine realizability of these assets. As a result of the Company s analysis, $3,894 of previously established valuation allowance against definite lived net operating losses was released through retained earnings as a direct result of the Company s adoption of Topic 606 during the first quarter of fiscal 2019. The Company still maintains a valuation allowance against certain state items and definite lived net operating losses that was recorded in prior periods.

## 13. 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

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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.

**14. 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. The Company generally must draw down the FILO Credit Facility before making any borrowings under the Revolving Credit Facility. On July 13, 2018, the Company entered into a second amendment to the Credit Agreement which, among other things, extended the maturity date of the $750,000 Credit Facility to July 13, 2023 and reduced the interest rate margins applicable to the loans thereunder (Amended Credit Facility).

Proceeds from the Amended Credit Facility are primarily used for general corporate purposes, including seasonal working capital needs. The Amended Credit Facility is secured by substantially all of the inventory, accounts receivable and related assets of the Company and certain of its subsidiaries (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 Amended Credit Facility are limited to a specified percentage of eligible collateral. The Company has the option to request an increase in commitments under the Amended Credit Facility of up to $250,000, subject to certain restrictions.

The Amended 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 between LIBOR plus 1.750% per annum and LIBOR plus 1.250% per annum or between the alternate base rate plus 0.750% per annum and the alternate base rate plus 0.250%

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 Amended 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 Amended

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

The Company wrote off $275 of deferred financing fees related to the Credit Facility during the 13 weeks ended July 28, 2018 and the remaining unamortized deferred financing fees of $3,780 were deferred and are being amortized over the five-year term of the Amended Credit Facility. The Company also incurred $4,425 of fees to secure the Amended Credit Facility, which are being amortized over the five-year term accordingly.

The Company had $129,251 and $59,805 of outstanding debt under the Credit Facility as of January 26, 2019 and January 27, 2018, respectively. The Company had $33,213 and $35,233 of outstanding letters of credit under the Credit Facility as of January 26, 2019 and January 27, 2018, respectively.

**15. Stock-Based Compensation**

For the 13 and 39 weeks ended January 26, 2019 and January 27, 2018, the Company recognized stock-based compensation expense in selling and administrative expenses as follows:

| | 13 weeks ended | | 39 weeks ended | |
|---|---|---|---|---|
| | January 26, 2019 | January 27, 2018 | January 26, 2019 | January 27, 2018 |
| Restricted Stock Expense | $ 284 | 250 | $ 701 | 697 |
| Restricted Stock Units Expense | 679 | 1,032 | 1,767 | 3,020 |
| Performance-Based Stock Unit Expense | 425 | 374 | 623 | 1,071 |
| Stock-Based Compensation Expense | $ 1,388 | 1,656 | $ 3,091 | 4,788 |

**16. 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 $2,283 and $2,660 for the 13 weeks ended January 26, 2019 and January 27, 2018, respectively, and $7,433 and $8,498 for the 39 weeks ended January 26, 2019 and January 27, 2018, respectively.

**17. Shareholders Equity**

On March 15, 2017, the Company s Board of Directors authorized a 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 stock repurchase program has no expiration date and may be suspended or discontinued at any time. The Company s repurchase plan is intended to comply with the requirements of Rule 10b-18 under the Securities Exchange Act of 1934, as amended. The Company did not repurchase shares under this plan during the 13 and 39 weeks ended January 26, 2019 and January 27, 2018. The Company has remaining capacity of $50,000 under the repurchase program as of January 26, 2019.

As of January 26, 2019, the Company has repurchased 39,737,720 shares at a cost of approximately $1,087,913 since the inception of the Company s current and prior stock repurchase programs. The repurchased shares are held in treasury.

On October 3, 2018, the Company s Board of Directors approved the adoption of a short-term stockholder rights plan (Rights Plan) with an expiration date of October 2, 2019 and ownership trigger threshold of 20%. In connection with the Rights Plan, the Company s Board of Directors authorized and declared a dividend, payable to stockholders of record on October 13, 2018, of one right (Right) per each share of common stock outstanding, to purchase 1/1,000th of a share of Series K Preferred Stock, par value $0.001 per share, of the Company, at a price of $24.00 per share (such amount, as may be adjusted from time to time as provided in the Rights Agreement, the Purchase Price). If a person or group acquires beneficial ownership of 20% or more of the common shares outstanding or announces a tender offer or exchange offer, the consummation of which would result in such person or group beneficially owning 20% or more of the common shares outstanding, in each case, without prior approval of the Company s Board of Directors, each holder of a Right (other than acquiring person or group whose Rights will become void) will have the right to purchase, upon payment of the Purchase Price and in accordance with the terms of the Rights Plan, a number of common shares having a market value of twice the Purchase Price. The complete terms of the Rights are set forth in a Rights Agreement (Rights Agreement) dated as of October 3, 2018, between the Company and Computershare Trust Company, N.A., as rights agent. The Rights expire on October 2, 2019 or upon an earlier redemption or exchange as provided in the Rights Agreement.

## 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. 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, 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. On April 11, 2018, the Court of Appeals reversed the District Court s decision granting the motion to dismiss the case, and remanded the case to the District Court for further proceedings. The Company filed with the Court of Appeals a petition for rehearing and rehearing en banc; that petition was denied on May 10, 2018. The case is currently pending in the District Court.

***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). Plaintiff sought relief from the mandatory five-year trial deadline and the Court denied the application.

***Café Manager Class Action***

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 alleges that she is entitled to unpaid compensation under the Fair Labor Standards Act (FLSA) and Illinois law. Ms. Brown seeks to represent a class of allegedly similarly situated employees who performed the same position (Café Manager) 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. Plaintiffs filed a renewed motion for Conditional Certification on November 17, 2017, which the Court denied on June 25, 2018. There are currently 24 former Café Managers who have joined the action as opt-in plaintiffs.

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***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. On March 2, 2018, the plaintiff filed an appeal in the United States Court of Appeals for the Second Circuit from the district court s grant of B&N Booksellers motion to compel arbitration.

***Parneros v. Barnes & Noble, Inc.***

On August 28, 2018, Demos Parneros, the former Chief Executive Officer of Barnes & Noble, Inc., filed a complaint against Barnes & Noble, Inc. in the United States District Court for the Southern District of New York. The plaintiff asserts claims for breach of contract and defamation under New York law. On October 5, 2018, the plaintiff filed an amended complaint asserting a third cause of action for breach of the covenant of good faith and fair dealing. The plaintiff seeks injunctive relief, compensatory damages, and punitive damages, among other things, based on allegations that he did not violate the Company s policies prior to his employment termination, and that the Company s press release damaged his reputation. On October 30, 2018, Barnes & Noble, Inc. filed its answer, affirmative defenses and counterclaims. Specifically, the Company asserted counterclaims for breach of fiduciary duty and faithless servant, based on allegations that the plaintiff violated his fiduciary duties of loyalty and good faith in connection with a potential transaction, as well as for a declaratory judgment that the plaintiff s outstanding equity awards at the time of his termination were subject to cancellation under the Company s Amended and Restated 2009 Incentive Plan. Barnes & Noble, Inc. seeks, among other things, damages in connection with the plaintiff s breach of his fiduciary duties. The Court held an initial conference on November 13, 2018. The Court adopted the parties proposed scheduling order, which provides, inter alia, that discovery will be completed by June 14, 2019, that dispositive motions will be completed by August 23, 2019, and that the parties will be ready for trial on or after October 23, 2019. On December 21, 2018, the plaintiff moved to dismiss the Company s faithless servant counterclaim, and the Company filed an opposition on January 18, 2019. The plaintiff has also filed a motion for advancement of 50% of his attorneys fees and expenses incurred in defending against the Company s counterclaims. The Company filed an opposition to that motion on February 15, 2019. The plaintiff filed reply papers on March 1, 2019.

***Vickie Hebert individually and on behalf of others similarly situated v. Barnes & Noble, Inc., and DOES 1 through 100 inclusive***

On February 6, 2019, Vicki Hebert filed a complaint against Barnes & Noble in the Superior Court of the State of California, County of San Diego in which she alleges that she is entitled to statutory and punitive damages under the Fair Credit Reporting Act (FCRA). Ms. Hebert seeks to represent a class of allegedly similarly situated individuals for whom Barnes & Noble procured a consumer report for reporting purposes under the FCRA. The Company has until April 2, 2019 to answer, move or otherwise respond to the complaint.

**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. The Company generally must draw down the FILO Credit Facility before making any borrowings under the Revolving Credit Facility. On July 13, 2018, the Company entered into a second amendment to the Credit Agreement which, among other things, extended the maturity date of the $750.0 million Credit Facility to July 13, 2023 and reduced the interest rate margins applicable to the loans thereunder (Amended Credit Facility).

Proceeds from the Amended Credit Facility are primarily used for general corporate purposes, including seasonal working capital needs. The Amended Credit Facility is secured by substantially all of the inventory, accounts receivable and related assets of the Company and certain of its subsidiaries (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 Amended Credit Facility are limited to a specified percentage of eligible collateral. The Company has the option to request an increase in commitments under the Amended Credit Facility of up to $250.0 million, subject to certain restrictions.

The Amended 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 between LIBOR plus 1.750% per annum and LIBOR plus 1.250% per annum or between the alternate base rate plus 0.750% per annum and the alternate base rate plus 0.250% 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 Amended 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 Amended 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 Amended 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 Amended Credit Agreement also contains customary affirmative covenants and representations and warranties.

The Company wrote off $0.3 million of deferred financing fees related to the Credit Facility during the 13 weeks ended July 28, 2018 and the remaining unamortized deferred financing fees of $3.8 million were deferred and are being amortized over the five-year term of the Amended Credit Facility. The Company also incurred $4.4 million of fees to secure the Amended Credit Facility, which are being amortized over the five-year term accordingly.

The Company had $129.3 million and $59.8 million of outstanding debt under the Credit Facility as of January 26, 2019 and January 27, 2018, respectively. The Company had $33.2 million and $35.2 million of outstanding letters of credit under the Credit Facility as of January 26, 2019 and January 27, 2018, respectively.

*Cash Flows*

The Company s cash and cash equivalents were $15.9 million as of January 26, 2019, compared with $11.5 million as of January 27, 2018. The increase in cash and cash equivalents of $4.4 million as compared to 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 $152.9 million for the 39 weeks ended January 26, 2019 as compared to $108.1 million for the 39 weeks ended January 27, 2018. The favorable year-over-year comparison was primarily attributable to higher earnings and the timing of purchases.

Net cash flows used in investing activities were $79.7 million for the 39 weeks ended January 26, 2019 as compared to $70.0 million for the 39 weeks ended January 27, 2018. The increase was primarily related to an increase in capital expenditures related to new stores and merchandising initiatives.

Net cash flows used in financing activities were $68.1 million for the 39 weeks ended January 26, 2019 as compared to $38.7 million for the 39 weeks ended January 27, 2018. The increase was primarily related to repayment of debt and bank fees related to the Amended Credit Facility.

Over the past 12 months, the Company has returned $43.8 million in cash to its shareholders through dividends.

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

Receivables, net decreased $0.7 million, or 1.1%, to $62.2 million as of January 26, 2019, compared to $63.0 million as of January 27, 2018.

Merchandise inventories, net increased $25.3 million, or 2.6%, to $1.000 billion as of January 26, 2019, compared to $975.1 million as of January 27, 2018 as the Company increased its non-book in-stock position.

Prepaid expenses and other current assets decreased $11.0 million, or 13.9%, to $68.2 million as of January 26, 2019, compared to $79.2 million as of January 27, 2018, primarily related to income taxes.

Property and equipment, net decreased $16.8 million, or 6.4%, to $245.6 million as of January 26, 2019, compared to $262.4 million as of January 27, 2018, due to a store impairment charge of

$16.5 million during the 13 weeks ended January 26, 2019.

Intangible assets, net decreased $6.0 million, or 1.9%, to $303.7 million as of January 26, 2019, compared to $309.8 million as of January 27, 2018, due to a publishing contracts impairment charge of $5.6 million during the 13 weeks ended January 26, 2019.

Other non-current assets increased $3.4 million, or 25.5%, to $16.7 million as of January 26, 2019, compared to $13.3 million as of January 27, 2018, related to income taxes and net increase in deferred financing fees related to the Credit Facility amendment.

Accounts payable increased $19.6 million, or 4.0%, to $510.5 million as of January 26, 2019, compared to $490.9 million as of January 27, 2018. Accounts payable represented 51.0% and 50.3% of merchandise inventories as of January 26, 2019 and January 27, 2018, respectively. This ratio is subject to changes in product mix and the timing of purchases, payments and returns.

Accrued liabilities decreased $14.0 million, or 4.9%, to $271.6 million as of January 26, 2019, compared to $285.6 million as of January 27, 2018. Accrued liabilities include deferred income, compensation, occupancy related, legal and other selling and administrative miscellaneous accruals.

Gift card liabilities decreased $119.3 million, or 33.3%, to $239.3 million as of January 26, 2019, compared to $358.6 million as of January 27, 2018, due primarily to the adoption of Topic 606. The Company recognized gift card breakage of $28.3 million and $27.5 million during the 13 weeks ended January 26, 2019 and January 27, 2018, respectively, and $36.3 million and $37.2 million during the 39 weeks ended January 26, 2019 and January 27, 2018, respectively.

Other long-term liabilities decreased $3.9 million, or 4.3%, to $87.8 million as of January 26, 2019, compared to $91.7 million as of January 27, 2018, primarily due to lower tax reserves.

***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 typically 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 partially mitigate the impact of the sales decline on profit levels through cost reductions. More recently, the Company began to reinvest some of its cost savings into growing the business, including the launch of a new advertising campaign and increased promotional offers, which contributed to a comparable store sales increase during the third quarter. 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 multi-year strategic plan, focused on strengthening the core business by enhancing the customer value proposition; improving profitability through an aggressive expense management program, which will be redeployed 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 focused on enhancing its customer value proposition by improving its merchandise offerings, enriching the overall shopping experience, increasing the value of its Membership Program and expanding its omni-channel capabilities. The Company will continue to leverage the strength of its Barnes & Noble brand, knowledgeable booksellers, vast book selection, omni-channel offering and retail footprint to attract customers and grow sales.

Merchandising initiatives are focused on increasing the impact of promotional activities, narrowing product assortments, improving SKU productivity, refining 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.

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

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

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 has implemented a new labor model for its stores, increasing store productivity and streamlining store operations. 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.

In addition to initiatives focused on growing sales through its existing store base, the Company is innovating for the future and is opening newly designed prototype stores, which it believes could foster sales growth in the future.

***Results of Operations***

The following tables summarize the Company s results of operations for the 13 and 39 weeks ended January 26, 2019 compared with the 13 and 39 weeks ended January 27, 2018.

*Sales*

| | 13 weeks ended | | | | 39 weeks ended | | | |
|---|---|---|---|---|---|---|---|---|
| *Dollars in thousands* | January 26, 2019 | % of Total | January 27, 2018 | % of Total | January 26, 2019 | % of Total | January 27, 2018 | % of Total |
| B&N Retail | $ 1,214,552 | 98.6% | $ 1,210,417 | 98.3% | $ 2,743,455 | 98.1% | $ 2,810,162 | 97.7% |
| NOOK | 24,372 | 2.0% | 30,930 | 2.5% | 71,405 | 2.6% | 86,394 | 3.0% |
| Elimination | (7,576) | (0.6)% | (9,576) | (0.8)% | (17,548) | (0.6)% | (20,352) | (0.7)% |
| Total Sales | $ 1,231,348 | 100.0% | $ 1,231,771 | 100.0% | $ 2,797,312 | 100.0% | $ 2,876,204 | 100.0% |

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During the 13 weeks ended January 26, 2019, the Company s sales decreased $0.4 million, or 0.0%, to $1.231 billion from $1.232 billion during the 13 weeks ended January 27, 2018. The changes by segment are as follows:

B&N Retail sales increased $4.1 million, or 0.3%, to $1.215 billion for the 13 weeks ended January 26, 2019 from $1.210 billion during the same period one year ago, and accounted for 98.6% of total Company sales. Comparable store sales increased $11.5 million, or 1.1%, as non-book categories increased sales by $19.1 million, or 4.9%, while book categories decreased sales by $7.6 million, or 1.2%. New stores increased sales by $5.5 million, while closed stores decreased sales by $11.8 million. Online sales decreased $2.4 million, or 2.3%, as compared to the prior year.

NOOK sales decreased $6.6 million, or 21.2%, to $24.4 million during the 13 weeks ended January 26, 2019 from $30.9 million during the 13 weeks ended January 27, 2018, and accounted for 2.0% of total Company sales.

Elimination sales, which represent sales from NOOK to B&N Retail on a sell-through basis, decreased $2.0 million, or 20.9%, as compared to the prior year. NOOK sales, net of elimination, accounted for 1.4% of total Company sales.

During the 13 weeks ended January 26, 2019, the Company had two store openings and five store closings.

During the 39 weeks ended January 26, 2019, the Company s sales decreased $78.9 million, or 2.7%, to $2.797 billion from $2.876 billion during the 39 weeks ended January 27, 2018. The changes by segment are as follows:

B&N Retail sales decreased $66.7 million, or 2.4%, to $2.743 billion for the 39 weeks ended January 26, 2019 from $2.810 billion during the same period one year ago, and accounted for 98.1% of total Company sales. Comparable store sales decreased $41.2 million, or 1.7%, as book categories decreased sales by $56.3 million, or 3.7%, while non-book categories increased sales by $15.1 million, or 1.8%. Closed stores decreased sales by $24.2 million, while new stores increased sales by $9.3 million. Online sales decreased $14.8 million, or 6.7%, as compared to the prior year.

NOOK sales decreased $15.0 million, or 17.3%, to $71.4 million during the 39 weeks ended January 26, 2019 from $86.4 million during the 39 weeks ended January 27, 2018, and accounted for 2.6% of total Company sales.

Elimination sales, which represent sales from NOOK to B&N Retail on a sell-through basis, decreased $2.8 million, or 13.8%, as compared to the prior year. NOOK sales, net of elimination, accounted for 1.9% of total Company sales.

During the 39 weeks ended January 26, 2019, the Company had four store openings and seven store closings.

*Cost of Sales and Occupancy*

| | 13 weeks ended | | | | 39 weeks ended | | | |
|---|---|---|---|---|---|---|---|---|
| *Dollars in thousands* | January 26, 2019 | % of Sales | January 27, 2018 | % of Sales | January 26, 2019 | % of Sales | January 27, 2018 | % of Sales |
| B&N Retail | $ 827,698 | 68.1% | $ 825,858 | 68.2% | $ 1,925,984 | 70.2% | $ 1,972,277 | 70.2% |
| NOOK | 13,868 | 56.9% | 15,463 | 50.0% | 38,099 | 53.4% | 42,077 | 48.7% |
| Elimination | (7,576) | (31.1)% | (9,576) | (31.0)% | (17,548) | (24.6)% | (20,352) | (23.6)% |
| Total Cost of Sales and Occupancy | $ 833,990 | 67.7% | $ 831,745 | 67.5% | $ 1,946,535 | 69.6% | $ 1,994,002 | 69.3% |

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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 and common area maintenance, partially offset by landlord tenant allowances amortized over the life of the lease.

During the 13 weeks ended January 26, 2019, cost of sales and occupancy increased $2.2 million, or 0.3%, to $834.0 million from $831.7 million during the 13 weeks ended January 27, 2018. Cost of sales and occupancy increased as a percentage of sales to 67.7% from 67.5% during the same period one year ago. The changes by segment are as follows:

B&N Retail cost of sales and occupancy decreased as a percentage of sales to 68.1% from 68.2%, or 10 basis points, during the same period one year ago primarily due to decreased online promotions (70 basis points), favorable sales mix (25 basis points) and higher vendor incentives (10 basis points), partially offset by higher store markdowns (75 basis points) and occupancy deleverage (15 basis points). The remaining variance was primarily due to sales deleverage and timing differences.

NOOK cost of sales and occupancy increased as a percentage of sales to 56.9% from 50.0% during the same period one year ago primarily due to a prior year favorable channel partner settlement, cost deleverage and sales mix.

During the 39 weeks ended January 26, 2019, cost of sales and occupancy decreased $47.5 million, or 2.4%, to $1.947 billion from $1.994 billion during the 39 weeks ended January 27, 2018. Cost of sales and occupancy increased as a percentage of sales to 69.6% from 69.3% during the same period one year ago. The changes by segment are as follows:

B&N Retail cost of sales and occupancy remained flat as a percentage of sales at 70.2% compared to the same period one year ago primarily due to occupancy deleverage (40 basis points) and higher store markdowns (25 basis points), partially offset by decreased online promotions (35 basis points) and higher vendor incentives (15 basis points). The remaining variance was attributable to sales mix and timing differences.

NOOK cost of sales and occupancy increased as a percentage of sales to 53.4% from 48.7% during the same period one year ago primarily on sales mix, cost deleverage and a prior year favorable channel partner settlement.

*Gross Profit*

| | 13 weeks ended | | | | 39 weeks ended | | | |
|---|---|---|---|---|---|---|---|---|
| *Dollars in thousands* | January 26, 2019 | % of Sales | January 27, 2018 | % of Sales | January 26, 2019 | % of Sales | January 27, 2018 | % of Sales |
| B&N Retail | $ 386,854 | 31.9% | $ 384,559 | 31.8% | $ 817,471 | 29.8% | $ 837,885 | 29.8% |
| NOOK | 10,504 | 62.5% | 15,467 | 72.4% | 33,306 | 61.8% | 44,317 | 67.1% |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total Gross Profit | $ 397,358 | 32.3% | $ 400,026 | 32.5% | $ 850,777 | 30.4% | $ 882,202 | 30.7% |

The Company s consolidated gross profit decreased $2.7 million, or 0.7%, to $397.4 million during the 13 weeks ended January 26, 2019 from $400.0 million during the 13 weeks ended January 27, 2018. This change was due to the matters discussed above.

The Company s consolidated gross profit decreased $31.4 million, or 3.6%, to $850.8 million during the 39 weeks ended January 26, 2019 from $882.2 million during the 39 weeks ended January 27, 2018. This change was due to the matters discussed above.

*Selling and Administrative Expenses*

| | 13 weeks ended | | | | 39 weeks ended | | | |
|---|---|---|---|---|---|---|---|---|
| *Dollars in thousands* | January 26, 2019 | % of Sales | January 27, 2018 | % of Sales | January 26, 2019 | % of Sales | January 27, 2018 | % of Sales |
| B&N Retail | $ 256,923 | 21.2% | $ 257,374 | 21.3% | $ 685,484 | 25.0% | $ 725,325 | 25.8% |
| NOOK | 12,519 | 74.5% | 13,846 | 64.8% | 32,005 | 59.4% | 41,918 | 63.5% |
| Total Selling and Administrative Expenses | $ 269,442 | 21.9% | $ 271,220 | 22.0% | $ 717,489 | 25.6% | $ 767,243 | 26.7% |

Selling and administrative expenses decreased $1.8 million, or 0.7%, to $269.4 million during the 13 weeks ended January 26, 2019 from $271.2 million during the 13 weeks ended January 27, 2018. Selling and administrative expenses decreased as a percentage of sales to 21.9% from 22.0% during the same period one year ago. The changes by segment are as follows:

B&N Retail selling and administrative expenses decreased $0.5 million as compared to prior year, or 10 basis points as a percentage of sales to 21.2% from 21.3%, primarily due to lower severance costs (85 basis points), lower store payroll (40 basis points on store sales) and lower employee benefit costs (35 basis points), partially offset by current year holiday advertising expenses (80 basis points) and non-recurring professional fees (40 basis points). The remaining variance was primarily attributable to sales deleverage and the general timing of expenses.

NOOK selling and administrative expenses decreased $1.3 million as compared to prior year, increasing as a percentage of sales to 74.5% from 64.8% for the quarter. The dollar decrease was primarily attributable to continued cost rationalization efforts, as well as lower variable costs on the sales decline.

Selling and administrative expenses decreased $49.8 million, or 6.5%, to $717.5 million during the 39 weeks ended January 26, 2019 from $767.2 million during the 39 weeks ended January 27, 2018. Selling and administrative expenses decreased as a percentage of sales to 25.6% from 26.7% during the same period one year ago. The changes by segment are as follows:

B&N Retail selling and administrative expenses decreased $39.8 million as compared to prior year, or 80 basis points as a percentage of sales to 25.0% from 25.8%, primarily due to lower store payroll (100 basis points on store sales), lower severance costs (35 basis points) and lower employee benefit costs (35 basis points) on lower payroll and favorable claims, partially offset by current year holiday advertising expenses (40 basis points) and non-recurring professional fees (35 basis points). The remaining variance was attributable to indirect procurement savings, sales deleverage and the general timing of expenses.

NOOK selling and administrative expenses decreased $9.9 million as compared to prior year, decreasing as a percentage of sales to 59.4% from 63.5% for the year. The dollar decrease was primarily attributable to continued cost rationalization efforts, as well as lower variable costs on the sales decline.

*Depreciation and Amortization*

| *Dollars in thousands* | 13 weeks ended January 26, 2019 | % of Sales | January 27, 2018 | % of Sales | 39 weeks ended January 26, 2019 | % of Sales | January 27, 2018 | % of Sales |
|---|---|---|---|---|---|---|---|---|
| B&N Retail | $ 24,347 | 2.0% | $ 25,295 | 2.1% | $ 67,513 | 2.5% | $ 72,491 | 2.6% |
| NOOK | 2,275 | 13.5% | 2,950 | 13.8% | 7,442 | 13.8% | 9,351 | 14.2% |
| Total Depreciation and Amortization | $ 26,622 | 2.2% | $ 28,245 | 2.3% | $ 74,955 | 2.7% | $ 81,842 | 2.8% |

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During the 13 weeks ended January 26, 2019, depreciation and amortization decreased $1.6 million, or 5.7%, to $26.6 million from $28.2 million during the same period one year ago. This decrease was primarily attributable to fully depreciated assets and store closures, partially offset by additional capital expenditures.

During the 39 weeks ended January 26, 2019, depreciation and amortization decreased $6.9 million, or 8.4%, to $75.0 million from $81.8 million during the same period one year ago. This decrease was primarily attributable to fully depreciated assets and store closures, partially offset by additional capital expenditures.

*Asset Impairments*

| | 13 weeks ended | | | | 39 weeks ended | | | |
|---|---|---|---|---|---|---|---|---|
| *Dollars in thousands* | January 26, 2019 | % of Sales | January 27, 2018 | % of Sales | January 26, 2019 | % of Sales | January 27, 2018 | % of Sales |
| B&N Retail | $ 22,067 | 1.8% | $ 135,436 | 11.2% | $ 22,067 | 0.8% | $ 135,436 | 4.8% |
| NOOK | | 0.0% | | 0.0% | | 0.0% | | 0.0% |
| Total Asset Impairments | $ 22,067 | 1.8% | $ 135,436 | 11.0% | $ 22,067 | 0.8% | $ 135,436 | 4.7% |

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.

Historically, the Company completed its annual goodwill and trade name impairment test as of the first day of its fiscal third quarter (November) of each fiscal year. During the 13 weeks ended January 26, 2019, the Company voluntarily changed the date of its annual goodwill and trade name impairment testing from the first day of fiscal November to the first day of fiscal January. This voluntary change is preferable as it better aligns the timing of the goodwill and trade name impairment testing with the Company s strategic and annual operating planning process and allows for the inclusion of the most recent holiday sales results in the quantitative and qualitative considerations of the annual impairment tests. The voluntary change in accounting principle related to the annual testing date will not delay, accelerate or avoid an impairment charge. This change is not applied retrospectively as it is impracticable to do so because retrospective application would require application of significant estimates and assumptions with the use of hindsight. Accordingly, the change will be applied prospectively.

The Company completed its annual goodwill impairment test as of the first day of the third quarter of fiscal 2019 (October 28, 2018). The fair value of the B&N Retail reporting unit exceeded its carrying value and no impairment existed. The Company completed its new annual goodwill impairment test as of the first day of fiscal January (December 30, 2018). The fair value of the B&N Retail reporting unit exceeded its carrying value and no impairment existed. Although no impairment existed, the Company s goodwill is at risk of impairment if B&N Retail comparable store sales decline, store closings accelerate, the assumed long-term discount rate increases, or in general the Company does not achieve its forecasted multi-year strategic plan.

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 exceeded its carrying value based on the annual goodwill impairment test performed as of that date. Subsequent to the annual goodwill impairment test as of October 29, 2017, sales trends unexpectedly softened during the holiday selling season. Given the 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 those new impairment indicators, the Company performed an interim goodwill impairment test as of December 30, 2017. As a result of the interim testing, the Company recognized an impairment of its B&N Retail reporting unit goodwill of $133.6 million during the 13 weeks ended January 27, 2018.

The Company completed its annual other unamortizable intangible assets impairment test as of the first day of the third quarter of fiscal 2019 (October 28, 2018) and determined that no impairment was necessary. The Company completed its new annual other unamortizable intangible assets impairment test as of the first day of fiscal January (December 30, 2018) and determined that no impairment was necessary. Although no impairment was necessary, the Company s trade name is at risk of impairment if B&N Retail comparable store sales decline, store closings accelerate, the assumed long-term discount rate increases, or in general the Company does not achieve its forecasted multi-year strategic plan.

The Company completed its annual other unamortizable intangible assets impairment test for its publishing contracts as of the first day of fiscal January (December 30, 2018). As a result of the testing, the Company recognized an impairment of $5.6 million during the 13 weeks ended January 26, 2019. The publishing contracts include the value of long-standing relationships with authors, agents and publishers. Given Sterling s strong history of maintaining such relationships, the Company believes they produce value indefinitely without an identifiable remaining useful life. However, given the increased costs related to these publishing contracts, these contracts were impaired.

The Company also reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and considers market participants in accordance with ASC 360-10, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The Company evaluates its stores long-lived assets and its other long-lived assets for impairment at the individual Barnes & Noble store level and at the reporting unit level, respectively, which is the lowest level at which individual cash flows can be identified. Store impairment losses related to amortizable assets were $16.5 million and $1.8 million for the 13 and 39 weeks ended January 26, 2019 and January 27, 2018, respectively.

*Operating Income (Loss)*

| | 13 weeks ended | | | | 39 weeks ended | | | |
|---|---|---|---|---|---|---|---|---|
| *Dollars in thousands* | January 26, 2019 | % of Sales | January 27, 2018 | % of Sales | January 26, 2019 | % of Sales | January 27, 2018 | % of Sales |
| B&N Retail | $ 83,517 | 6.9% | $ (33,546) | (2.8)% | $ 42,407 | 1.5% | $ (95,367) | (3.4)% |
| NOOK | (4,290) | (25.5)% | (1,329) | (6.2)% | (6,141) | (11.4)% | (6,952) | (10.5)% |
| Total Operating Income (Loss) | $ 79,227 | 6.4% | $ (34,875) | (2.8)% | $ 36,266 | 1.3% | $ (102,319) | (3.6)% |

The Company s consolidated operating income increased $114.1 million, or 327.2%, to an operating income of $79.2 million during the 13 weeks ended January 26, 2019 from an operating loss of $34.9 million during the 13 weeks ended January 27, 2018. This change was due to the matters discussed above.

The Company s consolidated operating income increased $138.6 million, or 135.4%, to an operating income of $36.3 million during the 39 weeks ended January 26, 2019 from an operating loss of $102.3 million during the 39 weeks ended January 27, 2018. This change was due to the matters discussed above.

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

| | 13 weeks ended | | | 39 weeks ended | | |
|---|---|---|---|---|---|---|
| *Dollars in thousands* | January 26, 2019 | January 27, 2018 | % of Change | January 26, 2019 | January 27, 2018 | % of Change |
| Interest Expense, Net and Amortization of Deferred Financing Fees | $ 3,372 | $ 2,536 | 33.0% | $ 10,056 | $ 7,254 | 38.6% |

Net interest expense and amortization of deferred financing fees increased $0.8 million, or 33.0%, to $3.4 million during the 13 weeks ended January 26, 2019 from $2.5 million during the 13 weeks ended January 27, 2018 primarily on higher average borrowings.

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Net interest expense and amortization of deferred financing fees increased $2.8 million, or 38.6%, to $10.1 million during the 39 weeks ended January 26, 2019 from $7.3 million during the 39 weeks ended January 27, 2018 primarily on higher average borrowings.

*Income Tax Provision (Benefit)*

| | 13 weeks ended | | | | 39 weeks ended | | | |
|---|---|---|---|---|---|---|---|---|
| *Dollars in thousands* | January 26, 2019 | Effective Rate | January 27, 2018 | Effective Rate | January 26, 2019 | Effective Rate | January 27, 2018 | Effective Rate |
| Income Tax Provision (Benefit) | $ 8,925 | 11.8% | $ 26,125 | (69.8)% | $ 3,712 | 14.2% | $ (5,165) | 4.7% |

The Company recorded an income tax provision of $8.9 million on a pre-tax income of $75.9 million during the 13 weeks ended January 26, 2019, which represented an effective income tax rate of 11.8%. 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 $3.7 million on a pre-tax income of $26.2 million during the 39 weeks ended January 26, 2019, which represented an effective income tax rate of 14.2%. 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 s effective tax rates for the 13 and 39 weeks ended January 26, 2019 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, expected changes in valuation allowance based on forecasted full year income and state tax provision, net of federal benefit. The Company s effective tax rates for the 13 and 39 weeks ended January 27, 2018 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, the impact of the Tax Cuts and Jobs Act, goodwill impairment, changes to valuation allowance and state tax provision, net of federal benefit.

The Company believes that it is reasonably possible that approximately $0.5 million of the remaining unrecognized tax benefits may be recognized 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)*

| | 13 weeks ended | | 39 weeks ended | |
|---|---|---|---|---|
| *Dollars in thousands* | January 26, 2019 | January 27, 2018 | January 26, 2019 | January 27, 2018 |
| Net Income (Loss) | $ 66,930 | $ (63,536) | $ 22,498 | $ (104,408) |

As a result of the factors discussed above, the Company reported consolidated net income of $66.9 million during the 13 weeks ended January 26, 2019, compared with consolidated net loss of $63.5 million during the 13 weeks ended January 27, 2018.

As a result of the factors discussed above, the Company reported consolidated net income of $22.5 million during the 39 weeks ended January 26, 2019, compared with consolidated net loss of $104.4 million during the 39 weeks ended January 27, 2018.

***Critical Accounting Policies***

During the 39 weeks ended January 26, 2019, except for the adoption of Topic 606 and the voluntary change of the annual goodwill and other indefinite-lived intangible assets impairment testing date, there were no changes in the Company s policies regarding the use of estimates and other critical accounting policies.

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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 28, 2018 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, projectio 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 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 28, 2018, 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 26, 2019, the Company s cash and cash equivalents totaled approximately $15.9 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 2019. 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 2019.

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 $129.3 million at January 26, 2019 and $59.8 million at January 27, 2018. A 50 basis point increase in annual interest rates would have increased the Company s interest expense by $0.3 million in the third quarter of fiscal 2019. Conversely, a 50 basis point decrease in annual interest rates would have reduced interest expense by $0.3 million in the third quarter of fiscal 2019.

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 members of the Office of the Chief Executive Officer of the Company and Chief Financial Officer of the Company, as appropriate to allow timely decisions regarding required disclosures. As of the end of the period covered by this report, the Company s management conducted an evaluation (as required under Rules 13a-15(b) and 15d-15(b) under the Exchange Act), under the supervision and with the participation of the principal executive officer and principal financial officer, of the Company s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in the Company s periodic reports.

Based on management s evaluation, the principal executive officers 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.

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## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

See Item 1 of Part I, Notes to Consolidated Financial Statements, Note 18. Legal Proceedings.

### 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 28, 2018.

### 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:

| Period | Total Number of Shares Purchased (a) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| October 28, 2018 November 24, 2018 | | $ | | $ 50,000,000 |
| November 25, 2018 December 29, 2018 | 1,133 | $ 7.57 | | $ 50,000,000 |
| December 30, 2018 January 26, 2019 | 4,523 | $ 7.60 | | $ 50,000,000 |
| Total | 5,656 | $ 7.59 | | |

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

On March 15, 2017, the Company s Board of Directors authorized a 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 stock repurchase program has no expiration date and may be suspended or discontinued at any time. The Company s repurchase plan is intended to comply with the requirements of Rule 10b-18 under the Securities Exchange Act of 1934, as amended. The Company did not repurchase shares under this plan during the 13 and 39 weeks ended January 26, 2019 and January 27, 2018. The Company has remaining capacity of $50.0 million under the repurchase program as of January 26, 2019.

As of January 26, 2019, the Company has repurchased 39,737,720 shares at a cost of approximately $1.09 billion since the inception of the Company s current and prior stock repurchase programs. The repurchased shares are held in treasury.

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## Item 6. Exhibits

| | |
|---|---|
| 10.1 | Barnes & Noble, Inc. Change in Control Severance Plan, dated December 4, 2018. (1) |
| 31.1 | Certification by the Chief Financial Officer and a Member of the Office of 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. (1) |
| 31.2 | Certification by a Member of the Office of 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. (1) |
| 32.1 | Certification of the Chief Financial Officer and a Member of the Office 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. (1) |
| 32.2 | Certification of a Member of the Office 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. (1) |
| 101.INS | XBRL Instance Document (1) |
| 101.SCH | XBRL Taxonomy Extension Schema Document (1) |
| 101.CAL | XBRL Taxonomy Calculation Linkbase Document (1) |
| 101.DEF | XBRL Taxonomy Definition Linkbase Document (1) |
| 101.LAB | XBRL Taxonomy Label Linkbase Document (1) |
| 101.PRE | XBRL Taxonomy Presentation Linkbase Document (1) |

(1) Filed herewith.

## 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 and a Member of the Office of the Chief Executive Officer (principal financial officer)*

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

March 7, 2019