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| Form 10-K  BARNES & NOBLE INC - BKS  Filed: June 29, 2011 (period: April 30, 2011)  Annual report with a comprehensive overview of the company |
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

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

For the fiscal year ended April 30, 2011

OR

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

For the transition period from                      to

Commission File No. 1-12302

**Barnes & Noble, Inc.**

**(Exact name of registrant as specified in its Charter)**

|  |  |  |
| --- | --- | --- |
|  |  |  |
| **Delaware** |  | **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)** |

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

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

|  |  |  |
| --- | --- | --- |
|  |  |  |
| **Title of Class** |  | **Name of Exchange on which registered** |
| Common Stock, $0.001 par value per share |  | New York Stock Exchange |

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.  

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |
| Large Accelerated Filer   |  | Accelerated filer   |  | Non-accelerated filer   |  | Smaller reporting company    |
|  |  | |  | |  | |
|  |  |  |  | (Do not check if a smaller  reporting company) |  |  |

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

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant was approximately $627,615,951 based upon the closing market price of $14.98 per share of Common Stock on the New York Stock Exchange as of October 30, 2010.

As of May 31, 2011, 60,175,793 shares of Common Stock, par value $0.001 per share, were outstanding, which number includes 2,331,666 shares of unvested restricted stock that have voting rights and are held by members of the Board of Directors and the Company’s employees.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant’s Proxy Statement for the 2011 Annual Meeting of Shareholders are incorporated by reference into Part III.

Portions of the Registrant’s Annual Report to Shareholders for the fiscal year ended April 30, 2011 are incorporated by reference into Parts II and IV.

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**FORWARD-LOOKING STATEMENTS**

This annual report on Form 10-K may contain certain forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act)) and information relating to the Company that are based on the beliefs of the management of the Company as well as assumptions made by and information currently available to the management of the Company. When used in this report, the words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “will” and similar expressions, as they relate to the Company or the management of the Company, identify forward-looking statements. Such statements reflect the current views of the Company 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 the Company’s products, low growth or declining sales and net income due to various factors, possible disruptions in the Company’s computer systems, telephone systems or supply chain (including supplier risks resulting from the Company’s reliance on suppliers outside the United States, including suppliers in China), possible risks associated with data privacy, information security and intellectual property, possible work stoppages or increases in labor costs, possible increases in shipping rates or interruptions in shipping service, effects of competition, potential effects of a bankruptcy filing by one of the Company’s largest competitors and actions taken by that competitor during bankruptcy, including store closures or store closures at a rate different than anticipated, sales of inventory at discounted prices and elimination of liabilities, higher-than-anticipated store closing or relocation costs, higher interest rates, the performance of the Company’s online, digital and other initiatives, effects of government regulation on the Company’s business, including its online and digital businesses (including with respect to the agency pricing model for digital content distribution), the performance and successful integration of acquired businesses, the success of the Company’s strategic investments, unanticipated increases in merchandise, component or occupancy costs, unanticipated adverse litigation results or effects, including with respect to intellectual property product and component shortages, the outcome of the Company’s evaluation of strategic alternatives, including a possible sale of the Company, as announced on August 3, 2010 or the outcome of the proposal from Liberty Media announced on May 19, 2011, and other factors which may be outside of the Company’s control, including those factors discussed in detail in Item 1A, “Risk Factors,” and in the Company’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 the Company or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements in this paragraph. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this Form 10-K.

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**PART I**

|  |  |
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| **ITEM 1.** | **BUSINESS** |

**General**

Barnes & Noble, Inc. (Barnes & Noble or the Company), the nation’s largest bookseller,1 is a leading content, commerce and technology company providing customers easy and convenient access to books, magazines, newspapers and other content across its multi-channel distribution platform. As of April 30, 2011, the Company operated 1,341 bookstores in 50 states, including 636 bookstores on college campuses, and one of the Web’s largest eCommerce sites, which includes the development of digital content products and software. Given the dynamic nature of the book industry, the challenges faced by traditional booksellers, and the robust innovation pipeline fueling new opportunities in hardware, software and content creation and delivery, Barnes & Noble is utilizing the strength of its retail footprint to bolster its leadership and fuel sales growth across multiple channels.

Of the 1,341 bookstores, 705 operate primarily under the Barnes & Noble Booksellers trade name. Barnes & Noble College Booksellers, LLC (B&N College), a wholly-owned subsidiary of Barnes & Noble, operates 636 college bookstores serving over 4.6 million students and faculty members at colleges and universities across the United States. barnesandnoble.com llc (Barnes & Noble.com) encompasses one of the Web’s largest eCommerce sites, Barnes & Noble eBookstore, Barnes & Noble eReader software, and the Company’s devices and other hardware support. Sterling Publishing Co., Inc. (Sterling or Sterling Publishing), bolsters the Company as a leader in general trade book publishing. The Company employed approximately 35,000 full and part-time employees as of April 30, 2011.

The Company’s principal business is the sale of trade books (generally hardcover and paperback consumer titles), mass market paperbacks (such as mystery, romance, science fiction and other popular fiction), children’s books, eBooks and other digital content, NOOK (references to NOOK™ include the Company’s NOOK 1 st Edition™, NOOK Wi-Fi 1 st Edition™, NOOK Color™ and The All-New NOOK™ eBook Reader devices) 2 and related accessories, bargain books, magazines, gifts, café products and services, educational toys & games, music and movies direct to customers through its bookstores or on Barnes & Noble.com. On September 30, 2009 Barnes & Noble completed the acquisition of Barnes & Noble College Booksellers, Inc. (B&N College) from Leonard Riggio and Louise Riggio pursuant a Stock Purchase Agreement dated as of August 7, 2009 among the Company and the Sellers (the Acquisition). The Acquisition of B&N College has allowed the Company to expand into sales of textbooks and course-related materials, emblematic apparel and gifts, trade books, school and dorm supplies, and convenience and café items on college and university campuses. In fiscal year ending April 30, 2011 (fiscal 2011), B&N College began offering a textbook rental option to its customers, and expanded its electronic textbooks and other course materials through a proprietary digital platform (NOOK Study™). B&N College offers its customers a full suite of textbook options—new, used, digital and rental. The Company previously licensed the “Barnes & Noble” trade name from B&N College under certain agreements. The Acquisition gave the Company exclusive ownership of its trade name.

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| --- | --- |
| 1 | Based upon sales reported in trade publications and public filings. |
| 2 | Any reference to NOOK™, NOOK 1stEdition™, NOOK Wi-Fi 1stEdition™, NOOK Color™ and The All-New NOOK™ includes the trademark symbol (™) even if a superscript “TM” is not included. | |

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To address dynamic changes in the book selling industry, Barnes & Noble has repositioned its business from a store-based model to a multi-channel model centered in internet and digital commerce. Barnes & Noble is currently the only enterprise to offer readers the option of store visits, eCommerce, and digital delivery of books to Barnes & Noble-branded devices or other devices of their choosing.

Barnes & Noble’s strategy is to:

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| --- | --- | --- | --- |
|  | • |  | continue to invest in the digital business to fuel NOOK and seize the market opportunity; |

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| --- | --- | --- | --- |
|  | • |  | use its infrastructure to deliver digital content to customers wirelessly and online; |

|  |  |  |  |
| --- | --- | --- | --- |
|  | • |  | utilize the strong Barnes & Noble brand and retail footprint to attract customers to its multi-channel platform; |

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| --- | --- | --- | --- |
|  | • |  | develop innovative technology; and |

|  |  |  |  |
| --- | --- | --- | --- |
|  | • |  | expand its distribution channels through strategic partnerships with world-class hardware and software companies and retail partners. |

The Company has a multi-channel marketing strategy that deploys various merchandising programs and promotional activities to drive traffic to both its stores and website. At the center of this program is Barnes & Noble.com, which receives over one billion visits annually.

On September 29, 2009, the Board of Directors of Barnes & Noble authorized a change in the Company’s fiscal year end from the Saturday closest to the last day of January to the Saturday closest to the last day of April. The change in fiscal year, which became effective upon the closing of the Acquisition, gives the Company and B&N College the same fiscal year. The change was intended to better align the Company’s fiscal year with the business cycles of both Barnes & Noble and B&N College.

The Company was incorporated in Delaware in 1986.

**Segments**

Due to the increased focus on the internet and digital businesses, the Company performed an evaluation on the effect of its impact on the identification of operating segments. The assessment considered 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. As a result of this assessment, the Company has determined that it has three operating segments: B&N Retail, B&N College and B&N.com.

**B&N Retail**

This segment includes 705 bookstores as of April 30, 2011, primarily under the Barnes & Noble Booksellers trade name. These stores generally offer a NOOK Boutique/Counter, a comprehensive title base, a café, a children’s section, an Educational Toys & Games department, a DVDs/BluRay department, a gift department, a music department, a magazine section and a calendar of ongoing events, including author appearances and children’s activities. The B&N Retail segment also includes the Company’s publishing operation, Sterling Publishing.

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Barnes & Noble stores range in size from 3,000 to 60,000 square feet depending upon market size, with an overall average store size of 26,000 square feet. In fiscal 2011, the Company reduced the Barnes & Noble store base by 0.3 million square feet, bringing the total square footage to 18.4 million square feet, a 1.7% decrease from fiscal 2010. The Company opened one Barnes & Noble store in fiscal 2011, which is 30,000 square feet in size.

The Company believes that the key elements contributing to the success of the Barnes & Noble stores are:

*Proximity to Customers.* The Company’s strategy has been to increase its share of the consumer book market, as well as to increase the size of the market through a market clustering strategy. As of April 30, 2011, Barnes & Noble had stores in 162 of the total 210 DMA (Designated Market Area) markets. In 65 of the 162 markets, the Company has only one Barnes & Noble store. The Company believes its bookstores’ proximity to its customers strengthens its market position and increases the value of its brand. Most Barnes & Noble stores are located in high-traffic areas with convenient access to major commercial thoroughfares and ample parking. Most stores offer extended shopping hours seven days a week.

*Extensive Title Selection.* Each Barnes & Noble store features an authoritative selection of books, ranging from 20,000 to 200,000 titles. The comprehensive title selection is diverse and reflects local interests. In addition, Barnes & Noble emphasizes books published by small and independent publishers and university presses. Bestsellers typically represent between 2% and 5% of Barnes & Noble store sales. Complementing this extensive on-site selection, all Barnes & Noble stores provide customers with access to the millions of books available to online shoppers at Barnes & Noble.com while offering an option to have the book sent to the store or shipped directly to the customer. The Company believes that its tremendous selection, including many otherwise hard-to-find titles, builds customer loyalty.

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

*NOOK*™ *Boutique.* The Company now features NOOK™ Boutiques in many of its retail store locations to showcase the launch of its NOOK™ brand of eReading products, garnering a hold in the digital eReader device and eBook market. These boutiques employ booksellers experienced with the devices and their related products to usher customers into a seamless transition from the physical to the digital domain. The devices, which provide a fun, easy-to-use and immersive reading experience, include NOOK 1 st Edition™, NOOK Wi-Fi 1 st Edition™, NOOK Color™ and most recently, The All-New NOOK™. These devices have received numerous accolades in product reviews from msnbc.com, PCWorld, ZDNet, Time ® Magazine, PCMAG.com, CNET and The Wall Street Journal, just to name a few, and the NOOK Color™ was the winner of the coveted “People’s Choice Award” in the Last Gadget Standing competition at the 2011 International Consumer Electronics Show in Las Vegas. The NOOK™ devices have also opened up an additional market for NOOK™ related accessories such as stands, covers, lights and other items. The Company is collaborating with top designers such as Jonathan Adler, Kate Spade, Jack Spade and Legendary Palm Beach Design House Lilly Pulitzer ® to further personalize customers reading experience.

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*Educational Toys & Games Department.* Barnes & Noble stores have expanded the educational toys & games and adult games & puzzles departments both in stores and online. The Company has also created the “ultimate playroom” for children with the rollout of 3,000 square foot boutiques in select stores. The department has implemented a program that enhances ease and appropriateness of product choice for consumers by designating products to specific age groupings based on development milestones. This strategy is complemented by the launch of B&N Kids’ Expert Circle on Barnes & Noble.com. The program is meant to serve as a trusted resource for parents and educators by partnering with experts in the fields of literacy, arts and educations, child development and pediatric medicine, who will share advice and parenting tips and offer book and toy suggestions on B&N Kids.

*Music/DVD/Blu-Ray Departments.* Many of the Barnes & Noble stores have music/DVD/Blu-Ray departments, which range in size from 1,300 to 8,000 square feet. The music/DVD/Blu-Ray departments typically stock over 14,000 titles. The Company’s DVD and Blu-Ray selection focuses on foreign films, documentaries and episodic TV shows. The music selection is tailored to the tastes of the Company’s core customers, centering on classical music, opera, jazz, blues and pop rock.

*Discount Pricing.* Barnes & Noble stores employ an aggressive nationwide discount pricing strategy. The current pricing is 30% off publishers’ suggested retail prices for hardcover bestsellers and 20% off select feature titles in departments such as children’s books and computer books. The Barnes & Noble Member Program offers members greater discounts and other benefits for products and services as well as exclusive offers and promotions via email or direct mail. Barnes & Noble.com also utilizes an “everyday low pricing” model that provides a single, low price for each item site-wide for members and non-members and enables the Company to offer better value to its customers.

The Barnes & Noble Kids’ Club Program provides exclusive benefits and discounts to participants.

*Marketing and Community Relations.* Barnes & Noble stores are generally launched with a major grand opening campaign involving extensive print and radio advertising, direct-mail marketing and community events. Each store plans its own community-based calendar of events, including author appearances, children’s storytelling hours, poetry readings and discussion groups. The Company believes its community focus encourages customer loyalty, word-of-mouth publicity and media coverage. The Company also supports communities through efforts on behalf of local non-profit organizations that focus on literacy, the arts or K-12 education.

*Merchandising and Marketing*. The Company’s merchandising strategy for its Barnes & Noble stores is to be the authoritative community bookstore carrying an extensive selection of titles in all subjects, including an extensive selection of titles from small independent publishers and university presses. Each Barnes & Noble store features an extensive selection of books from 20,000 to 200,000 unique titles, of which approximately 30,000 titles are common to all stores. Each store is tailored to reflect the lifestyles and interests of the area’s customers. Before a store opens, the Company’s buyers study the community and customize the title selection with offerings from the store’s local publishers and authors. After the store opens, each Barnes & Noble store manager is responsible for adjusting the buyers’ selection to the interests, lifestyles and demands of the store’s local customers. BookMaster, the Company’s proprietary inventory management database, has more than 10 million titles. It includes over 3 million active titles and provides each store with comprehensive title selections. By enhancing the Company’s existing

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merchandise replenishment systems, BookMaster allows the Company to achieve high in-stock positions and productivity at the store level through efficiencies in receiving, cashiering and returns processing. The Company also leverages its system investments through utilization of Barnes & Noble.com’s proprietary order management system, which enables customers to place orders at stores for any of the over one million titles in stock throughout the Company’s supply chain.

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

The B&N Retail segment includes 705 bookstores as of April 30, 2011, primarily under the Barnes & Noble Booksellers trade name. The number of Barnes & Noble stores located in each state and the District of Columbia as of April 30, 2011 are listed below:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |
| **STATE** |  | **NUMBER**  **OF STORES** |  | **STATE** |  | **NUMBER**  **OF STORES** |
| Alabama |  | 7 |  | Missouri |  | 14 |
| Alaska |  | 2 |  | Montana |  | 4 |
| Arizona |  | 19 |  | Nebraska |  | 4 |
| Arkansas |  | 5 |  | Nevada |  | 5 |
| California |  | 82 |  | New Hampshire |  | 4 |
| Colorado |  | 17 |  | New Jersey |  | 25 |
| Connecticut |  | 13 |  | New Mexico |  | 3 |
| Delaware |  | 2 |  | New York |  | 47 |
| District of Columbia |  | 3 |  | North Carolina |  | 21 |
| Florida |  | 45 |  | North Dakota |  | 3 |
| Georgia |  | 21 |  | Ohio |  | 19 |
| Hawaii |  | 3 |  | Oklahoma |  | 5 |
| Idaho |  | 3 |  | Oregon |  | 8 |
| Illinois |  | 30 |  | Pennsylvania |  | 27 |
| Indiana |  | 13 |  | Rhode Island |  | 3 |
| Iowa |  | 8 |  | South Carolina |  | 11 |
| Kansas |  | 5 |  | South Dakota |  | 1 |
| Kentucky |  | 7 |  | Tennessee |  | 8 |
| Louisiana |  | 7 |  | Texas |  | 56 |
| Maine |  | 1 |  | Utah |  | 10 |
| Maryland |  | 13 |  | Vermont |  | 1 |
| Massachusetts |  | 18 |  | Virginia |  | 25 |
| Michigan |  | 22 |  | Washington |  | 19 |
| Minnesota |  | 20 |  | West Virginia |  | 1 |
| Mississippi |  | 3 |  | Wisconsin |  | 11 |
|  |  |  |  | Wyoming |  | 1 |

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*Sterling Publishing*

Sterling Publishing is a leading publisher of non-fiction trade titles. Founded in 1949, Sterling publishes a wide range of non-fiction and illustrated books and kits across a variety of imprints, in categories such as health & wellness, music & popular culture, food & wine, crafts & photography, puzzles & games and history & current affairs, as well as a large and growing presence in children’s books. In addition, there are over 500 titles in the Barnes & Noble Classics ® and its Library of Essential Reading ® series. Sterling combines its distinguished heritage with an open mind to incubating new businesses and an all-consuming, entrepreneurial zest. Sterling’s most recent evolutions include adding two fiction imprints, Silver Oak for the adult titles, and Splinter for the children’s titles. These additions expand its 6,000+ title base of eBooks and print books, bringing books to life through social events, and creating new ways of storytelling that entertain, enrich and educate.

***Operations***

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

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

Each Barnes & Noble store generally employs a store manager, two assistant store managers, a café manager and approximately 50 full- and part-time booksellers. Many Barnes & Noble stores also employ a full-time community relations manager. The large employee base provides the Company with experienced booksellers to fill new positions in the Company’s Barnes & Noble stores. The Company anticipates that a significant percentage of the personnel required to manage its stores will continue to come from within its existing operations.

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

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

***Purchasing***

Barnes & Noble’s buyers negotiate terms, discounts and cooperative advertising allowances with publishers and other suppliers for Barnes & Noble.com and all of the Company’s bookstores. The Company’s distribution centers enable it to maximize available discounts and

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enhance its ability to create marketing programs with many of its vendors. The Company has buyers who specialize in customizing inventory for bookselling in stores and online. Store inventories are further customized by store managers, who may respond to local demand by purchasing a limited amount of fast-selling titles through a nationwide wholesaling network, including the Company’s distribution centers.

The Company’s B&N Retail segment purchases physical books on a regular basis from over 1,700 publishers and over 50 wholesalers or distributors. Purchases from the top five suppliers (including publishers, wholesalers and distributors) accounted for approximately 50% of the B&N Retail’s book purchases during fiscal 2011, and no single supplier accounted for more than 14% of B&N Retail’s purchases during this period. Consistent with industry practice, a substantial majority of the physical book purchases are returnable for full credit, a practice which substantially reduces the Company’s risk of inventory obsolescence.

Publishers control the distribution of titles by virtue of copyright protection, which limits availability on most titles to a single publisher. Since the retail, or list, prices of titles, as well as the retailers’ cost price, are also generally determined by publishers, the Company has limited options concerning availability, cost and profitability of its book inventory. The Company also operates under agency agreements for the purchase of eBooks which limit the ability of the Company to set prices to consumers. However, these limitations are mitigated by the substantial number of titles available, the Company’s ability to maximize available discounts and its well-established relationships with publishers, which are enhanced by the Company’s significant purchasing volume.

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

***Distribution***

The Company has invested significant capital in its systems and technology by building new platforms, implementing new software applications and building and maintaining efficient distribution centers. This investment has enabled the Company to source an increasingly larger percentage of its inventory through its own distribution centers, resulting in increased direct buying from publishers rather than wholesalers. Greater volume through the Company’s own distribution centers lowers distribution costs per unit, increases inventory turns, and improves product margins. This has also led to improved just-in-time deliveries to stores and the ability to offer “Fast&Free Delivery” through its website and for in-store orders placed by customers for home delivery.

As of April 30, 2011, the Company had approximately 2,000,000 square feet of distribution center capacity. The Company has an approximately 1,145,000 square foot distribution center in Monroe Township, New Jersey, which ships merchandise to stores throughout the country and to online customers. The Company also has an approximately 600,000 square foot distribution center in Reno, Nevada, which is used to facilitate distribution to stores and online customers in the western United States. The Company also has approximately 230,000 square feet of distribution center capacity for facilitating sales by Sterling Publishing to third parties.

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***Management Information and Control Systems***

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

BookMaster, the Company’s proprietary bookstore inventory management system, integrates point-of-sale features that utilize a proprietary data-warehouse based replenishment system. BookMaster enhances communications and real-time access to the Company’s network of bookstores, distribution centers and wholesalers. In addition, the implementation of just-in-time replenishment has provided for more rapid replenishment of books to all of the Company’s bookstores, resulting in higher in-stock positions and better productivity at the bookstore level through efficiencies in receiving, cashiering and returns processing.

The Company continues to implement systems to improve efficiencies in back office processing in the human resources, finance and merchandising areas. An offsite business recovery capability has been developed and implemented to help assure uninterrupted systems support.

***Competition***

The book business is highly competitive in every channel in which Barnes & Noble competes. Barnes & Noble retail stores compete primarily on the quality of the shopping and store experience and the price and availability of products. The importance of price varies depending on the competitor, with some of Barnes & Noble’s competitors engaging in significant discounting and other promotional activities. NOOK competes primarily with other eBook readers on functionality, consumer appeal, availability of digital content and price. Barnes & Noble competes with large bookstores including Borders Group, Inc. (Borders) and Books-A-Million and smaller format bookstores such as Waldenbooks. In particular, Borders filed Chapter 11 bankruptcy in February 2011 and has closed and liquidated a number of stores. Actions Borders may take during its bankruptcy, such as liquidating inventory at discounted prices and eliminating liabilities and costs, could present competitive challenges and commercial risks to Barnes & Noble’s bookstore business. It also faces competition from many online businesses, notably Amazon.com and Apple. Increases in consumer spending via the Internet may significantly affect its ability to generate sales in Barnes & Noble retail stores. Barnes & Noble also faces competition from mass merchandisers, such as Costco, Target and Wal-Mart. Some of the Company’s competitors may have greater financial and other resources and different business strategies than Barnes & Noble does. Barnes & Noble retail stores also compete with specialty retail stores that offer books in particular subject areas, independent store operators, variety discounters, drug stores, warehouse clubs, mail-order clubs and other retailers offering books, music, toys, games, gifts and other products in its market segments.

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

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***Seasonality***

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

***Employees***

The Company cultivates a culture of outgoing, helpful and knowledgeable employees. As of April 30, 2011, the B&N Retail segment had approximately 30,000 full- and part-time booksellers. The B&N Retail segment’s employees are not represented by unions, with the exception of 42 employees, and the Company believes that its relationship with its employees is generally excellent.

**B&N College**

On September 30, 2009, the Company acquired B&N College, one of the largest contract operators of bookstores on college and university campuses across the United States. As of April 30, 2011, B&N College operated 636 stores nationwide serving over 4.6 million students and faculty members. B&N College’s customer base, which is mainly comprised of students and faculty, can purchase various items from their campus stores, including textbooks and course-related materials, emblematic apparel and gifts, trade books, computer products and eReaders, school and dorm supplies, and convenience and café items. In fiscal 2011, B&N College began offering a textbook rental option to its customers and expanded its electronic textbooks and other course materials through a proprietary digital platform (NOOK Study™). NOOK B&N College offers its customers a full suite of textbook option—new, used, digital and rental.

B&N College operates 603 traditional college bookstores and 33 academic superstores, which are generally larger in size, offer cafés and provide a sense of community that engages the surrounding campus and local communities in college activities and culture. The traditional bookstores range in size from 500 to 48,000 square feet. The academic superstores range in size from 8,000 to 75,000 square feet.

B&N College generally operates its stores pursuant to multi-year management service agreements under which a school designates B&N College to operate the official school bookstore on campus and B&N College provides the school with regular payments that represent a percentage of store sales and, in some cases, include a minimum fixed guarantee.

B&N College’s business strategy is to maintain long-term relationships with colleges and universities by providing high-quality service to college administrators, faculty and students. The Company believes that the key elements contributing to the success of the B&N College stores are:

|  |  |  |  |
| --- | --- | --- | --- |
|  | • |  | Conversion of more institutionally run college bookstores to contract-managed stores; |

|  |  |  |  |
| --- | --- | --- | --- |
|  | • |  | Opening College Superstores in select markets; |

|  |  |  |  |
| --- | --- | --- | --- |
|  | • |  | Optimizing comparable store sales through: |

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  | Growth in enrollments; |

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  | Expanding local and internet marketing; |

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  | Increasing web sales of textbooks and other collegiate merchandise; |

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  | Expansion of textbook rentals and electronic textbook sales; and |

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  | New merchandising initiatives to roll out additional products and services to B&N College locations. |

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*Customers.* B&N College’s three customer constituencies are students, faculty members and campus administrators. B&N College’s customer base consists of over 4.6 million students and faculty members who exhibit relatively predictable purchasing patterns based on the timing of university and college terms.

*Marketing*. B&N College uses a variety of marketing efforts and promotional campaigns to raise awareness for special initiatives, such as holiday promotions, freshman orientation, homecoming and graduation events, and to drive traffic to the stores. To reach its target customers, B&N College implements focused e-mail marketing campaigns for students and alumni, customized in-store promotions, and special events.

In fiscal 2011, B&N College introduced a social commerce platform which integrates the social networking features of its more than 500 campus bookstore facebook pages with its eCommerce website. This creates a seamless social shopping experience and expands the Company’s social media and communication capabilities. B&N College also integrates this tool in its marketing, communications, and customer service initiatives.

B&N College leverages its advanced online bookstore platform to simplify the purchasing experience for its customers and drive textbook sales. B&N College’s Registration Integration™ service enables students to reserve and order textbooks online at the time they enroll in a course. Up to 40% of our stores are actively utilizing Registration Integration.

***Store Locations***

*Traditional Bookstores.* As of April 30, 2011, B&N College operated 603 bookstores in its traditional format. The typical B&N College bookstore is located on campus in a location convenient to students and faculty. These bookstores range in size from 500 to 48,000 square feet.

*Academic Superstores*. As of April 30, 2011, B&N College operated 33 B&N College academic superstores at select major campuses, such as the University of Pennsylvania, Yale University, the College of William and Mary, Boston University, DePaul University, and Georgia Institute of Technology (Georgia Tech). B&N College academic superstores offer universities an exciting establishment on their campuses and further enable B&N College to differentiate itself. B&N College academic superstores, which range in size from 8,000 to 75,000 square feet, include a café, and carry a large selection of course-required textbooks, supplies, emblematic clothing and gifts, and 10,000 to 112,000 titles of trade and reference books. B&N College academic superstores are positioned in locations that attract customers from the neighborhood community as well as students and faculty from the university. They are open extended hours and have ongoing events such as author signings. These stores differ from traditional format B&N College stores since the majority have a customer base that includes the general public and sales which are less dependent on course-required materials.

B&N College maintains individual customized web sites for the bookstores it manages. Students can choose to shop in the comfortable and inviting atmosphere of B&N College’s bookstores, or they can opt to go to the virtual bookstore for their collegiate needs. Designed to appeal to faculty, students, alumni, and parents, the sites feature both services and eCommerce options. Services include faculty and author profiles, calendars of events, and general store operating policies. eCommerce options include a full college shopping experience, from online textbook ordering to school specific merchandise to general reading.

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The number of B&N College stores located in each state listed below and the District of Columbia as of April 30, 2011 is listed below:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |
| **STATE** |  | **NUMBER**  **OF STORES** |  | **STATE** |  | **NUMBER**  **OF STORES** |
| Alabama |  | 14 |  | Missouri |  | 10 |
| Arizona |  | 8 |  | Nevada |  | 1 |
| Arkansas |  | 6 |  | New Hampshire |  | 4 |
| California |  | 26 |  | New Jersey |  | 18 |
| Colorado |  | 4 |  | New Mexico |  | 6 |
| Connecticut |  | 7 |  | New York |  | 70 |
| Delaware |  | 3 |  | North Carolina |  | 14 |
| Florida |  | 27 |  | North Dakota |  | 1 |
| Georgia |  | 13 |  | Ohio |  | 28 |
| Idaho |  | 1 |  | Oklahoma |  | 6 |
| Illinois |  | 17 |  | Oregon |  | 3 |
| Indiana |  | 15 |  | Pennsylvania |  | 59 |
| Iowa |  | 1 |  | Rhode Island |  | 5 |
| Kansas |  | 2 |  | South Carolina |  | 13 |
| Kentucky |  | 30 |  | South Dakota |  | 2 |
| Louisiana |  | 10 |  | Tennessee |  | 11 |
| Maryland |  | 20 |  | Texas |  | 63 |
| Massachusetts |  | 30 |  | Virginia |  | 24 |
| Michigan |  | 25 |  | Washington |  | 10 |
| Minnesota |  | 5 |  | West Virginia |  | 12 |
| Mississippi |  | 6 |  | Wisconsin |  | 6 |

***Operations***

B&N College has seasoned management teams for its college bookstores, including those for marketing to prospective new accounts, merchandising and store operations. Field management includes store vice presidents and regional managers supervising multiple store locations.

Each B&N College store generally employs a store manager and assistant store manager, a textbook manager and a range of full- and part-time booksellers, with the larger stores staffed with up to 100 employees. The large employee base provides the Company with experienced booksellers to fill positions in new B&N College stores. In addition, over 100 student employees participate in management training programs each year, which has historically resulted in several new store managers annually. B&N College anticipates that a significant percentage of the personnel required to manage its new stores will continue to come from within its existing operations.

Field management for all B&N College stores, including store vice presidents, regional managers and store managers, participate in an incentive program tied to store productivity. B&N College believes that the compensation of its field management is competitive with that offered by other specialty retailers of comparable size.

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B&N College has in-store training programs providing specific information needed for success at each level, beginning with the entry-level positions of bookseller. Store managers participate in annual sales and leadership conferences, and regional managers participate in at least semi-annual sales and leadership conferences. Store and regional managers are generally responsible for training other booksellers and employees in accordance with detailed procedures and guidelines prescribed by B&N College, the Company utilizes a blended learning approach, including on-the job training, e-Learning, facilitator-led training and training aids available at each bookstore.

***Purchasing***

B&N College’s purchasing procedures vary by product type and are usually made at the store level, with corporate oversight. Faculty members are responsible for selecting the appropriate textbooks for their course offerings. This process typically occurs three months in advance of the academic term. After titles are adopted, B&N College determines how much inventory it will need to purchase based on several factors. B&N College first uses the Text Net™ system to determine if other company stores have the necessary new or used books on hand and may transfer the inventory to the appropriate stores. After internal sourcing, B&N College purchases books from outside suppliers. In the smaller stores, trade book purchasing also is controlled at the store level. The larger superstores, which feature an expanded selection of trade books, use the Barnes & Noble BookMaster system. Books are generally returnable to publishers for full credit.

B&N College’s primary suppliers of new textbooks include Pearson Education (Prentice Hall), Cengage (Thomson) Learning, MBS Textbook Exchange, Inc. (“MBS”), McGraw-Hill, MPS (VHPS) and John Wiley & Sons. B&N College’s intra-year sales experience and buying schedule corresponds to the academic schedules of the schools it serves. B&N College has two peak selling periods within the year: the beginning of the fall term (August/September) and the beginning of the spring term (January/February), when students purchase course materials and supplies for upcoming classes. Ahead of each season, orders for textbooks are placed based on student enrollment and the previous term’s textbook sales histories. B&N College also offers eBook options for thousands of textbooks. As part of its contract with the particular institution, B&N College guarantees that it will order textbooks for all courses.

B&N College’s primary suppliers of used textbooks are students and MBS. The stores offer a “cash for books” program in which students can sell their books back to the store at the end of the semester. Buybacks are heaviest in December and May. Students typically receive 50% of the price they originally paid for the book if it has been adopted for a future class or the current wholesale price if it has not.

B&N College also offers a selection of complementary merchandise such as general reading books, magazines, notebooks, backpacks, school supplies, and related items. In addition, many stores also provide students with a place to purchase convenience items, such as food, beverages, and dormitory products. Moreover, all stores feature collegiate and athletic apparel relating to a school and/or its sports programs and other custom-branded school spirit products, including t-shirts, sweatshirts, and hats.

***Competition***

Approximately 56% of college bookstores are operated by the education institutions themselves. Follett, a contract operator of campus bookstores, Nebraska Book Company, a

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contract operator of on-campus and off-campus bookstores, and Amazon, an online retailer and Chegg.com, an online textbook rental company, compete directly with B&N College. B&N College offers customers a full suite of textbook options—new, used, digital and rental.

***Seasonality***

The B&N College business is highly seasonal, with the major portion of sales and operating profit realized during the second and third fiscal quarters, when college students generally purchase textbooks for the upcoming semesters.

***Employees***

As of April 30, 2011, B&N College had approximately 5,000 full- and part-time employees. B&N College’s employees are not represented by unions, with the exception of 36 employees, and the Company believes that its relationship with its employees is generally excellent.

**B&N.com**

This segment includes the Company’s online business, which includes the Company’s eCommerce site and features an eBookstore and digital newsstand. Additionally, this segment includes the development and support of the Company’s NOOK product offerings.

The eBookstore and digital newsstand allows customers to purchase over two million eBooks, newspapers and magazines. Barnes & Noble’s eBookstore is available on a wide range of digital platforms, including NOOK™, iPad™, iPhone ® , Android™ smartphones and tablets, select BlackBerry ® smartphones, as well as most laptops or full-sized desktop computers. Barnes & Noble has implemented innovative features on its digital platform to ensure that customers have a seamless experience across their devices.

*Marketing.* The Company has a multi-channel marketing strategy that deploys various merchandising programs and promotional activities to drive traffic to both its stores and website. At the center of this program is Barnes & Noble.com, which receives over one billion visits annually. In this way, Barnes & Noble.com serves as both the Company’s direct-to-home delivery service and as an important broadcast channel and advertising medium for the Barnes & Noble brand. For example, the online store locator at Barnes & Noble.com receives millions of customer visits each year providing store hours, directions, information about author events and other in-store activities. Similarly, in Barnes & Noble stores, NOOK customers can access free Wi-Fi connectivity; enjoy the Read In Store™ feature to browse many complete eBooks for free, and the More In Store™ program, which offers free, exclusive content and special promotions.

Another example of a multi-channel initiative is the Barnes & Noble MasterCard®, an affinity credit card issued by Barclays Bank Delaware. Holders of the Barnes & Noble MasterCard receive an additional 5% rebate for all purchases made in Barnes & Noble stores or at Barnes & Noble.com. In addition, points are accumulated for purchases made elsewhere, and may be redeemed for Barnes & Noble gift cards which can be used for purchases in either channel. The Company firmly believes that its website is a key factor behind its industry-leading comparable store sales.

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***Operations***

The digital products group has knowledgeable product development and operational management teams for designing and delivering on the digital products business. Barnes & Noble has brought in many new managers to its Manhattan and Palo Alto digital operations centers to promote the host of established and emerging digital products. Digital product management oversees product concept, software development, engineering, and user experience. Operational management oversees demand planning, strategic sourcing, manufacturing, return and refurbishment and customer service.

The Company has also opened a development office in Palo Alto, employing experienced engineers into the Company’s digital product area. The B&N digital products management team is focused on next generation strategic products that offer customers with a range of digital reading products to enhance the reading experience. The software, engineering and user interface teams provide for new or upgraded products. B&N digital products remain competitive by Barnes & Noble.com’s investing in ongoing research and development efforts.

These Barnes & Noble.com employees participate in an incentive program tied to physical and digital eCommerce sales. The Company believes that the compensation of its management is competitive with that offered by other technology companies.

***Purchasing/Distribution***

Barnes & Noble acquires rights to distribute digital content from publishers and distributes the content on Barnes & Noble.com. Certain digital content is distributed under an agency pricing model in which the publishers set fixed prices for eBooks and Barnes & Noble receives a fixed commission on content sold through Barnes & Noble.com.

Barnes & Noble.com utilizes the Company’s purchasing power and its world class distribution centers to synergistically facilitate the purchasing and shipping of its physical product sales.

Barnes & Noble.com also sells its award winning NOOK through its distribution partners, Best Buy, BestBuy.com, Wal-Mart, Books-A-Million and recently, Staples.

***Management Information and Control Systems***

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

The Company uses Intel®-based server technology in a fully redundant configuration to power its website, which is hosted in two locations. At these locations, the Company maintains computers that store its web pages in electronic form and transmits them to requesting users (known as hosting). The Company utilizes two hosting locations. One location is hosted

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internally by the Company and the other is maintained by a third-party hosting vendor. Either site has sufficient capacity to support the volume of traffic directed toward the Company’s website during peak periods. Both hosting locations are configured with excess Internet telecommunications capacity to ensure quick response time and use three separate Internet service providers. By maintaining redundant host locations, the Company has significantly reduced its exposure to downtime and service outages. Additionally, the Company believes its technology investments are scalable.

***Competition***

The book business is highly competitive in every channel in which Barnes & Noble competes. Barnes & Noble.com competes primarily on price and availability of products. The importance of price varies depending on the competitor, with some of Barnes & Noble’s competitors engaging in significant discounting and other promotional activities. NOOK competes primarily with other eBook readers on functionality, consumer appeal, availability of digital content and price. Barnes & Noble competes with large bookstores including Borders and Books-A-Million and smaller format bookstores such as Waldenbooks. It also faces competition from many online businesses, notably Amazon.com and Apple. Barnes & Noble also faces competition from mass merchandisers, such as Costco, Target and Wal-Mart. Some of the Company’s competitors may have greater financial and other resources and different business strategies than Barnes & Noble does.

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

***Seasonality***

The Barnes & Noble.com business, like that of many retailers, is seasonal, with the major portion of sales and operating profit realized during its third fiscal quarter, which includes the holiday selling season.

***Employees***

As of April 30, 2011, Barnes & Noble.com had approximately 835 full- and part-time employees. Barnes & Noble.com’s employees are not represented by unions and the Company believes that its relationship with its employees is generally excellent.

**Trademarks and Service Marks**

B&N®, Barnes & Noble®, Barnes & Noble.com®, barnesandnoble.com®, Barnes & Noble Booksellers®, NOOK™, The All-New NOOK™, The Simple Touch Reader™, NOOK 1st Edition™, NOOK Wi-Fi 1st Edition™, NOOK Color™, Reader’s Tablet™, Fast Page™, NOOK Books™, NOOK Bookstore™, NOOK Newsstand™, PubIt!™, NOOK Kids™, Read In Store™, More In Store™, NOOK Friends™, LendMe ® , NOOK Library™, NOOK Boutiques™, The Barnes & Noble Promise™, NOOK Books en español™, NOOK Study™, Free Friday™, Lifetime Library™ and Read What You Love. Anywhere You Like.™ are Company-owned trademarks and service marks, some of which are registered or pending with the United States Patent and Trademark Office. On September 30, 2009, the Company completed the Acquisition from Leonard Riggio and Louise Riggio (Sellers) pursuant a Stock Purchase Agreement dated as

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of August 7, 2009 among the Company and the Sellers. B&N College, which was founded by Leonard Riggio in 1965, owned the “Barnes & Noble” trade name, which it had previously licensed to the Company under a royalty-free license agreement dated February 11, 1987 and to Barnes & Noble.com under a royalty-free license agreement dated October 31, 1998. As a result of the Acquisition, the Company acquired the trade name that had been owned by B&N College. Also in connection with the Acquisition, the Company terminated its existing license agreement dated January 31, 2001 with Textbooks.com, Inc., which is wholly-owned by Leonard Riggio, and as a result no longer pays a royalty with respect to online textbook sales.

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

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

**Available Information**

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

The Company makes available on its corporate website at *www.barnesandnobleinc.com* under “For Investors” - “SEC Documents,” free of charge, all its SEC filings as soon as reasonably practicable after the Company electronically files such material with or furnishes such materials to the SEC.

The Company has adopted Corporate Governance Guidelines, a Code of Business Conduct and Ethics and written charters for the Company’s Audit Committee, Compensation Committee and Corporate Governance & Nominating Committee. Each of the foregoing is available on the Company’s website at *www.barnesandnobleinc.com* under “For Investors” – “Corporate Governance” and in print to any stockholder who requests it, in writing to the Company’s Corporate Secretary, Barnes & Noble, Inc., 122 Fifth Avenue, New York, New York 10011. In accordance with SEC rules, the Company intends to disclose any amendment (other

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than any technical, administrative, or other non-substantive amendment) to either of the above codes, or any waiver of any provision thereof with respect to any of the executive officers, on the Company’s website within four business days following such amendment or waiver.

|  |  |
| --- | --- |
| **ITEM 1A.** | **Risk Factors** |

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

*Unless otherwise specified or the context otherwise requires, references below to (1) “the Company” refer to Barnes & Noble, Inc. and its subsidiaries, including Barnes & Noble College Booksellers, LLC, (2) “Barnes & Noble” refer to Barnes & Noble, Inc. and its subsidiaries excluding Barnes & Noble College Booksellers, LLC, (3) “B&N College” refer to Barnes & Noble College Booksellers, LLC and (4) “NOOK™” refer to NOOK 1st Edition™, NOOK Wi-Fi 1st Edition™, NOOK Color™ and/or, The All-New NOOK™ Reader devices .*

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

The Company’s businesses have been adversely impacted by the economic downturn in the United States over the last several years which, among other things, has decreased discretionary consumer spending. A deterioration of the current economic environment could have a material adverse effect on the Company’s financial condition and operating results, as well as the Company’s ability to fund its growth or its strategic business initiatives.

Barnes & Noble’s sales are primarily dependent upon discretionary consumer spending, which is affected by the overall economic environment, consumer confidence and other factors beyond its control. In addition, Barnes & Noble’s sales are dependent in part on the strength of new release products which are controlled by publishers and other suppliers. The economic downturn over the last several years has led to declines in consumer traffic and spending patterns, adversely impacting Barnes & Noble’s financial performance. The effect of the economic downturn on other retailers in shopping malls in which Barnes & Noble is located also may adversely affect Barnes & Noble. For example, if the downturn leads to one or more vacancies in a shopping mall, traffic to its store in the mall may decrease.

B&N College’s sales are also affected by the overall economic environment, including as a result of reductions in funding levels at colleges and universities, although historically the effect has been less significant than in the Barnes & Noble retail stores. Students also may spend less on textbooks and other general merchandise in a difficult economic environment. B&N College’s business is also dependent on, among other things, college and university funding, which may be negatively impacted in an economic downturn. The economic downturn has adversely impacted B&N College’s business during the past fiscal year.

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***Because of the Company’s existing penetration of attractive retail locations and the maturity of the market for traditional retail stores, the Company’s sales or net income may decline unless it successfully implements its business strategies.***

The Company’s core business is its operation of Barnes & Noble retail stores across the United States, and it derived well over a majority of its sales from Barnes & Noble retail stores in its most recent fiscal year. Management generally believes that the Company’s retail stores are located in attractive geographic markets, and generally does not have a strategy to open retail stores in new geographic markets or to expand the total number of retail stores, and may close more retail stores than it opens. Management’s strategies are subject to the risks described herein and elsewhere, and may be subject to other risks that have not yet been identified, and management cannot make assurances that its business strategies will be successful.

***Increases in the complexity of the Company’s businesses could place a significant strain on its management, operations, performance and resources.***

Increases in the complexity of the Company’s business could place a significant strain on its management, operations, technical performance, financial resources, and internal financial control and reporting functions. These increases in complexity include both the increase in the size and scope of the Company’s operations as a result of the acquisition of B&N College and the expansion of the Company’s digital strategy. There can be no assurance that the Company will be able to manage increases in the complexity of its businesses effectively. The Company’s current and planned personnel, systems, procedures and controls may not be adequate to support and effectively manage its future operations, especially as it employs personnel in multiple geographic locations. The Company may not be able to hire, train, retain, motivate and manage required personnel, which may limit its growth. If any of this were to occur, it could damage the Company’s reputation, limit growth, negatively affect operating results and harm its business.

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

The products that the Company sells originate from a wide variety of domestic and international vendors. During fiscal 2011, Barnes & Noble’s five largest suppliers accounted for approximately 50 percent of the dollar value of merchandise purchased. During fiscal 2011, B&N College’s five largest suppliers accounted for approximately 55 percent of its merchandise purchased. While the Company believes that its relationships with its suppliers are strong, most suppliers may modify the terms of these relationships due to general economic conditions or otherwise. The Company does not have long-term arrangements with most of its suppliers to guarantee availability of merchandise, content, components or services, particular payment terms or the extension of credit limits. If the Company’s current suppliers were to stop selling merchandise, content, components or services to it on acceptable terms, including as a result of one or more supplier bankruptcies due to poor economic conditions, the Company may be unable to procure the same merchandise, content, components or services from other suppliers in a timely and efficient manner and on acceptable terms, or at all. In addition, certain of our merchandise, including electronic readers, are sourced, directly or indirectly, from outside the United States, including, without limitation, from suppliers in China. Political or financial instability, merchandise quality issues, product safety concerns, trade restrictions, work stoppages, tariffs, foreign currency exchange rates, transportation capacity and costs, inflation, civil unrest, natural disasters, outbreaks of pandemics and other factors relating to foreign trade are beyond our control and could disrupt our supply of foreign-sourced merchandise and/or adversely affect our results of operations. Furthermore, the Barnes & Noble and B&N College businesses are each dependent on the continued supply of trade books, in the case of Barnes & Noble, and textbooks, in the case of B&N College. The publishing industry generally has suffered due, among other things, to changing consumer

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preferences away from the print medium and due to the difficult economic climate. A significant disruption in this industry generally could adversely impact the Company’s business. A significant unfavorable change in the Company’s relationships with key suppliers could materially adversely affect its sales and profits. In addition, any significant change in the payment terms that the Company has with its key suppliers could adversely affect its financial condition and liquidity.

***The Company’s businesses rely on certain key personnel.***

Management believes that the Company’s continued success will depend to a significant extent upon the efforts and abilities of Leonard Riggio, Chairman, Stephen Riggio, Vice Chairman, William J. Lynch Jr., Chief Executive Officer, Mitchell S. Klipper, Chief Executive Officer-Barnes & Noble Retail, Joseph J. Lombardi, Chief Financial Officer, Max J. Roberts, President of B&N College and Eugene V. DeFelice, Vice President, General Counsel and Corporate Secretary, as well as certain other key officers of the Company and its subsidiaries including Barnes & Noble.com. The loss of the services of these key officers could have a material adverse effect on the Company. The Company does not maintain “key man” life insurance on any of its officers.

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

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

***The Company’s businesses are seasonal.***

The Company’s businesses are seasonal. For the Company’s businesses other than B&N College, sales are generally highest in the third fiscal quarter and lowest in the fourth fiscal quarter. For fiscal 2011, 34% of sales and 151% of operating income of B&N Retail were generated in its third fiscal quarter. Operating results in the Company’s businesses other than B&N College depend significantly upon the holiday selling season in the third fiscal quarter. The B&N College business is also seasonal, with sales generally highest in the second and third fiscal quarters, when college students generally purchase textbooks for the upcoming semesters, and lowest in the first and fourth fiscal quarters. Less than satisfactory net sales for any fiscal quarter could have a material adverse effect on the Company’s financial condition or operating results for the year and may not be sufficient to cover any losses which may be incurred in the other fiscal quarters of the year.

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

The Company’s results of operations may fluctuate from quarter to quarter depending upon several factors, some of which are beyond its control. These factors include the timing of new product releases, the timing of store openings or closings, the addition or termination of B&N College contracts to manage bookstores for colleges and universities, the timing of the start of college and university semesters, shifts in the timing of certain promotions and the effect of impairments on the Company’s assets. These and other factors could affect the Company’s business, financial condition and results of operations, and this makes the prediction of the Company’s financial results on a quarterly basis difficult. Also, it is possible that the Company’s quarterly financial results may be below the expectations of public market analysts and investors.

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

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

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

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

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property it does not own in providing services to other businesses and individuals under commercial agreements. These risks have been amplified by the increase in third parties whose primary business appears to be to assert such claims. If any infringement or other intellectual property claim made against the Company by any third party is successful, if the Company is required to indemnify a customer with respect to a claim against the customer, or if the Company is unable to develop non-infringing technology or license the proprietary rights on commercially reasonable terms and conditions, the Company’s business, operating results, and financial condition could be materially and adversely affected.

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

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

The Company’s business involves the receipt and storage of personal information about customers and employees. The Company’s use of personal information is regulated at the international, federal and state levels. Privacy and information security laws and regulations change from time to time, and compliance with them may result in cost increases due to necessary systems changes and the development of new processes. If the Company fails to comply with these laws and regulations, it could be subjected to legal risk. In addition, even if the Company fully complies with all laws and regulations and even though the Company has taken significant steps to protect personal information, the Company could experience a data security breach and its reputation could be damaged, possibly resulting in lost future sales or decreased usage of credit and debit card products.

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

Leonard Riggio, the Company’s Founder and Chairman, and Stephen Riggio, the Company’s Vice Chairman, are brothers and together are currently the beneficial owners of an aggregate of approximately 31.5% of the Company’s outstanding capital stock as of May 29, 2011, a majority of which is beneficially owned solely by Leonard Riggio. This concentrated control may limit the ability of the Company’s other stockholders to influence corporate matters and, as a result, the Company may take actions with which its other stockholders do not agree. Leonard Riggio is also the beneficial owner of a note issued in connection with the acquisition of B&N College and therefore one of the Company’s largest creditors. In addition, there may be risks related to the relationships Leonard Riggio, Stephen Riggio and other members of the Riggio family have with the various entities with which the Company has related party transactions.

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

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

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***Changes in sales and other tax collection regulations could harm the Company’s businesses.***

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

***The Company’s announced evaluation of strategic alternatives may not result in a sale of the Company or other strategic transaction.***

The Company has previously announced that its Board of Directors has formed a Special Committee to oversee an evaluation of strategic alternatives for the Company. On May 19, 2011, the Company announced that the Special Committee received a proposal from Liberty Media to acquire the Company. There can be no assurance that any definitive offer to acquire the Company will be made, or if made what the terms thereof will be, or that this or any other transaction will be approved or consummated. Moreover, there can be no assurance that the evaluation of strategic alternatives will, in fact, result in a sale of the Company or other strategic transaction, which could have an adverse impact on the market price of the Company’s stock.

***The Company’s shareholder rights plan, classified board of directors and other anti-takeover defenses could deter acquisition proposals and make it difficult for a third party to acquire control of the Company. This could have a negative effect on the price of the Company’s common stock.***

The Company has a shareholder rights plan, a classified board of directors and other takeover defenses in its certificate of incorporation and by-laws. These defenses could discourage potential acquisition proposals and could delay or prevent a change in control of the Company. These deterrents could adversely affect the price of the Company’s common stock and make it difficult to remove or replace members of the Board of Directors or management of the Company.

***Barnes & Noble’s business is subject to the risks of international operations.***

Barnes & Noble, which has historically limited its operations to the United States, has begun to conduct operations internationally, including in China. Compliance with U.S. and foreign laws and regulations that apply to international operations, including without limitation import and export requirements, anti-corruption laws, tax laws (including U.S. taxes on foreign subsidiaries), foreign exchange controls and cash repatriation restrictions, data privacy requirements, labor laws, and anti-competition regulations, increases the costs of doing business in foreign jurisdictions, and any such costs, which may rise in the future as a result of changes in these laws and regulations or in their interpretation. There can be no assurance that Barnes & Noble’s employees, contractors, or agents will not violate such laws and regulations or Barnes & Noble’s policies with respect to foreign operations.

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***Intense competition from traditional retail sources, the Internet and suppliers of digital content and hardware may adversely affect Barnes & Noble’s businesses.***

The book business is highly competitive in every channel in which Barnes & Noble competes. Barnes & Noble retail stores compete primarily on the quality of the shopping and store experience and the price and availability of products. The importance of price varies depending on the competitor, with some of Barnes & Noble’s competitors engaging in significant discounting and other promotional activities. NOOK™ competes primarily with other eBook readers on functionality, consumer appeal, availability of digital content and price. Barnes & Noble competes with large bookstores including Borders and Books-A-Million and smaller format bookstores such as Waldenbooks. In particular, Borders filed Chapter 11 bankruptcy in February 2011 and announced plans to close and liquidate a number of stores. Actions Borders may take during its bankruptcy, such as liquidating inventory at discounted prices and eliminating liabilities and costs, could present competitive challenges and commercial risks to Barnes & Noble’s bookstore business. It faces competition from many online businesses, notably Amazon.com and Apple. Increases in consumer spending via the Internet may significantly affect its ability to generate sales in Barnes & Noble retail stores. Barnes & Noble also faces competition from mass merchandisers, such as Costco, Target and Wal-Mart. Some of the Company’s competitors may have greater financial and other resources and different business strategies than Barnes & Noble does. Barnes & Noble retail stores also compete with specialty retail stores that offer books in particular subject areas, independent store operators, variety discounters, drug stores, warehouse clubs, mail-order clubs and other retailers offering books, music, toys, games, gifts and other products in its market segments. The music and DVD businesses are also highly competitive, and Barnes & Noble faces competition from mass merchants, discounters, the Internet and digital distribution. Barnes & Noble faces competition from the expanding market for digital content and hardware, including without limitation electronic books or “eBooks” and eBook readers. New and enhanced technologies, including new digital technologies and new web services technologies, may increase Barnes & Noble’s competition. Competition may also intensify as Barnes & Noble’s competitors enter into business combinations or alliances or established companies in other market segments expand into its market segments. Increased competition may reduce Barnes & Noble’s sales and profits.

***If Barnes & Noble is unable to renew or enter into new leases on favorable terms, or at all, its sales and earnings may decline.***

Substantially all of Barnes & Noble’s retail stores are located in leased premises. Barnes & Noble’s profitability depends in part on its ability to continue to optimize its store lease portfolio as to number of retail stores, store locations and lease terms and conditions. Its ability to do so depends on, among other things, general economic and business conditions and general real estate development conditions, which are beyond its control. Barnes & Noble has 375 leases up for renewal by April 30, 2015. If the cost of leasing existing retail stores increases, Barnes & Noble may not be able to maintain its existing store locations as leases expire. In addition, Barnes & Noble may not be able to enter into new leases on acceptable terms, or at all, or it may not be able to locate suitable alternative sites or additional sites for new retail stores in a timely manner. Barnes & Noble’s sales and earnings may decline if it fails to maintain existing store locations, enter into new leases, renew leases or relocate to alternative sites, in each case on attractive terms.

***Barnes & Noble faces various risks as an Internet retailer and as a digital retailer.***

Business risks related to its online and digital businesses include risks associated with the need to keep pace with rapid technological change, risks associated with the timing of the adoption of new digital products or platforms, Internet security risks, risks of system failure or inadequacy,

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supply chain risks, government regulation and legal uncertainties with respect to the Internet and digital content, risks related to data privacy and collection of sales or other taxes by one or more states or foreign jurisdictions. If any of these risks materializes, it could have an adverse effect on Barnes & Noble’s business.

***The Company faces the risk of a shift in consumer spending patterns to Internet retailers and digital content.***

The Company has entered parts of the online and digital markets in which it has limited experience and may in the future expand into additional areas. The offering of digital content may present new and difficult challenges. Gross margin for digital content and products may be lower than for the Company’s traditional product lines. The gross margin for Barnes & Noble’s online sales is generally lower than for sales in its retail stores. Although the Company has entered into the online and digital spaces, it may not be able to compete effectively in those spaces and any investments made in those spaces may not be successful. Barnes & Noble also faces competition from companies engaged in the business of selling books, music and movies via electronic means, including the downloading of books, music and movie content. For example, historically Barnes & Noble offered a selection of music products in its retail stores, but has had to decrease such selection because of the increased competition from the download of digital music. B&N College is experiencing growing competition from alternative media and alternative sources of textbooks and course-related materials, such as websites that sell textbooks, eBooks, digital content and other merchandise directly to students; online resources; publishers selling directly to students; print-on-demand textbooks; CD-ROMs; textbook rental companies; and student-to-student transactions over the Internet. These challenges may negatively affect the Company’s operating results.

***Barnes & Noble’s expansion into new products, services and technologies subjects it to additional business, legal, financial and competitive risks.***

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

***Barnes & Noble depends on component and product manufacturing provided by third parties, many of whom are located outside of the U.S.***

NOOK™ and other Company products are manufactured by a third-party manufacturer outside the United States, and Barnes & Noble relies on components provided from a number of different manufacturers both within and outside the United States. Many of these manufacturers are concentrated in geographic areas outside the United States. While Barnes & Noble’s arrangements with these manufacturers may lower costs, they also reduce its direct control over production. It is uncertain what effect such diminished control will have on the quality or quantity

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of products or services, or Barnes & Noble’s flexibility to respond to changing conditions. Although arrangements with such manufacturers may contain provisions for warranty expense reimbursement, if reimbursement from such manufacturers is unenforceable or insufficient, Barnes & Noble may remain responsible to the consumer for warranty service in the event of product defects. Any unanticipated product defect or warranty liability, whether pursuant to arrangements with contract manufacturers or otherwise, could materially adversely affect Barnes & Noble’s reputation, financial condition and operating results. If manufacturing in these locations is disrupted for any reason, including natural disasters, information technology system failures, military actions or economic, business, labor, environmental, public health or political issues, Barnes & Noble’s financial condition and operating results could be adversely affected.

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

The Company is subject to general business regulations and laws relating to all aspects of its business, including regulations and laws relating to the Internet, online commerce, digital content and products as well as its other lines of business (including with respect to the agency pricing model for digital content distribution). Existing and future laws and regulations and their application and/or enforcement may impede the growth of the Internet, digital content distribution or other online services and impact digital content pricing, including requiring modifications or elimination of related pricing models including the agency pricing model. These regulations and laws may cover taxation, privacy, data protection, pricing, competition and/or antitrust, content, copyrights, distribution, college distribution, mobile communications, electronic contracts and other communications, consumer protection, the provision of online payment services, unencumbered Internet access to the Company’s services, the design and operation of websites, and the characteristics and quality of products and services. Unfavorable regulatory and legal developments, including among other things with respect to digital content pricing and/or related pricing models, could diminish the demand for the Company’s products and services, increase its cost of doing business, decrease its margins and materially adversely impact its results of operations or financial operations.

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

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

***B&N College may not be able to enter into new contracts and contracts for existing or additional college bookstores may not be profitable.***

An important part of B&N College’s business strategy is to expand sales for its college bookstore operations by being awarded additional contracts to manage bookstores for colleges and

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universities. B&N College’s ability to obtain those additional contracts is subject to a number of factors that it is not able to control. In addition, the anticipated strategic benefits of new and additional college and university bookstores may not be realized at all or may not be realized within the time frames contemplated by management. In particular, contracts for additional managed stores may involve a number of special risks, including adverse short-term effects on operating results, diversion of management’s attention and other resources, standardization of accounting systems, dependence on retaining, hiring and training key personnel, unanticipated problems or legal liabilities, and actions of its competitors and customers. Because the terms of any contract are generally fixed for the initial term of the contract and involve judgments and estimates which may not be accurate, including for reasons outside of its control, B&N College has contracts which are not profitable, and may have such contracts in the future. Even if B&N College has the right to terminate a contract, it may be reluctant to do so even when a contract is unprofitable due, among other factors, to the potential effect on B&N College’s reputation. Any unprofitable contracts may negatively impact the Company’s operating results.

***B&N College may not be able to successfully retain or renew its managed bookstore contracts on profitable terms, which could adversely impact B&N College’s profit margins.***

B&N College will be competing for the retention of existing store contracts and renewal of those contracts as they expire. B&N College’s contracts are typically for five to ten years, although some extend beyond ten years. Many contracts have a 90 to 120 day cancellation right by the college or university, without penalty. B&N College may not be successful in retaining its current contracts, renewing its current contracts, or renewing its current contracts on terms that provide it the opportunity to improve or maintain the profitability of managing the store. If B&N College is unable to retain or renew its contracts on profitable terms, or at all, its profit margins could be adversely impacted.

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| **ITEM 1B.** | **UNRESOLVED STAFF COMMENTS** |

None.

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| **ITEM 2.** | **PROPERTIES** |

All but one of the active Barnes & Noble stores is leased. The leases typically provide for an initial term of 10 or 15 years with one or more renewal options. The terms of the Barnes & Noble store leases for its 704 leased stores open as of April 30, 2011 expire as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| **Lease Terms to Expire During**  **(12 months ending on or about April 30)** |  | **Number of**  **Stores** | |  |
| 2012 |  |  | 129 |  |
| 2013 |  |  | 121 |  |
| 2014 |  |  | 125 |  |
| 2015 |  |  | 85 |  |
| 2016 |  |  | 72 |  |
| 2017 and later |  |  | 172 |  |

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B&N College’s contracts are typically for five to ten years, although some extend beyond ten years. Many contracts have a 90 to 120 day cancellation right by the college or university, without penalty. In many cases, either party may cancel. The contracts for the 636 B&N College stores as of April 30, 2011 expire as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| **Lease Terms to Expire During**  **(12 months ending on or about April 30)** |  | **Number of**  **Stores** | |  |
| 2012 |  |  | 71 |  |
| 2013 |  |  | 33 |  |
| 2014 |  |  | 25 |  |
| 2015 |  |  | 36 |  |
| 2016 |  |  | 50 |  |
| 2017 and later |  |  | 421 |  |

In addition to the bookstores, the Company leases two distribution centers for its B&N Retail operations, one in Monroe Township, New Jersey, under a lease expiring in 2020, and the other in Reno, Nevada, under a lease expiring in 2015. The Company also leases office and warehouse space in Edison, New Jersey for Sterling Publishing under two leases, both expiring in 2015. The Company’s B&N Retail distribution centers total 1,975,000 square feet.

During fiscal 2008, the Company exercised its purchase option under a lease on one of its distribution facilities located in South Brunswick, New Jersey from the New Jersey Economic Development Authority. The Company purchased the distribution facility and equipment for approximately $21.0 million.

The Company’s principal administrative facilities are situated in New York, New York, and are covered by one lease which covers approximately 144,000 square feet of office space and expires in 2013. The Company also leases approximately 74,000 square feet in Basking Ridge, New Jersey for its B&N College administrative offices under a lease which expires in 2014.

The Company leases two additional locations in New York, New York for office space: approximately 90,000 square feet under a lease expiring in 2015, for Barnes & Noble.com administrative offices, and approximately 56,000 square feet under a lease expiring in 2014, for Sterling Publishing administrative offices.

The Company also leases approximately 79,000 square feet of office space in Westbury, New York under a lease expiring in 2017 and approximately 38,000 square feet of office space in Palo Alto, California under leases expiring in 2012 and 2015.

|  |  |
| --- | --- |
| **ITEM 3.** | **LEGAL PROCEEDINGS** |

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

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

***In re Initial Public Offering Securities Litigation***

This class action lawsuit, filed in April 2002 (the Action), named over one thousand individuals and 300 corporations, including Fatbrain.com, LLC (“Fatbrain”), a former subsidiary of Barnes & Noble.com, and its former officers and directors. The amended complaints in the Action all allege that the initial public offering registration statements filed by the defendant issuers with the Securities and Exchange Commission, including the one filed by Fatbrain, were false and misleading because they failed to disclose that the defendant underwriters were receiving excess compensation in the form of profit sharing with certain of its customers, and that some of those customers agreed to buy additional shares of the defendant issuers’ common stock in the aftermarket at increasing prices. The amended complaints also allege that the foregoing constitutes violations of: (i) Section 11 of the Securities Act of 1933, as amended (the “1933 Act”) by the defendant issuers, the directors and officers signing the related registration statements, and the related underwriters; (ii) Rule 10b-5 promulgated under the Securities Exchange Act of 1934 (the “1934 Act”) by the same parties; and; (iii) the control person provisions of the 1933 and 1934 Acts by certain directors and officers of the defendant issuers. A motion to dismiss by the defendant issuers, including Fatbrain, was denied.

After extensive negotiations among representatives of plaintiffs and defendants, the parties entered into a memorandum of understanding (MOU), outlining a proposed settlement resolving the claims in the Action between plaintiffs and the defendant issuers. Subsequently, a Settlement Agreement was executed between the defendants and plaintiffs in the Action, the terms of which are consistent with the MOU. The Settlement Agreement was submitted to the court for approval, and on February 15, 2005, the judge granted preliminary approval of the settlement.

On December 5, 2006, the Federal Appeals Court for the Second Circuit (the Second Circuit) issued a decision reversing the District Court’s class certification decision in six focus cases. In light of that decision, the District Court stayed all proceedings, including consideration of the settlement. In January 2007, plaintiffs filed a Petition for Rehearing  *En Banc*  before the Second Circuit, which was denied in April 2007. On May 30, 2007, plaintiffs moved, before the District Court, to certify a new class. On June 25, 2007, the District Court entered an order terminating the Settlement Agreement. On October 2, 2008, plaintiffs agreed to withdraw the class certification motion. On October 10, 2008, the District Court signed an order granting the request.

A Settlement Agreement in principle, subject to court approval, was negotiated among counsel for all of the issuers, plaintiffs, insurers and underwriters, and executed by the Client. Preliminary approval of the settlement was granted by the court on June 10, 2009, and final court approval of the settlement was granted on October 5, 2009. Pursuant to the settlement, no settlement payment will be made by the Client. Since that time, various notices of appeal have been filed by certain objectors on an interlocutory basis, two of which have been dismissed. The remaining appeal has been remanded to the District Court for further proceedings. Should the remaining appeal be successful and the approval of the settlement overturned, the Client intends to vigorously defend these lawsuits.

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***Minor v. Barnes & Noble Booksellers, Inc. et al.***

On May 1, 2009, a purported class action complaint was filed against B&N Booksellers, Inc. (B&N Booksellers) in the Superior Court for the State of California alleging wage payments by instruments in a form that did not comply with the requirements of the California Labor Code, allegedly resulting in impermissible wage payment reductions and calling for imposition of statutory penalties. The complaint also alleges a violation of the California Labor Code’s Private Attorneys General Act and seeks restitution of such allegedly unpaid wages under California’s unfair competition law, and an injunction compelling compliance with the California Labor Code. The complaint alleges two subclasses of 500 and 200 employees, respectively (there may be overlap among the subclasses), but contains no allegations concerning the number of alleged violations or the amount of recovery sought on behalf of the purported class. On June 3, 2009, B&N Booksellers filed an answer denying all claims. Discovery concerning purported class member payroll checks and related information is ongoing. On August 19, 2010, B&N Booksellers filed a motion to dismiss the case for lack of a class representative when the name plaintiff advised she did not wish to continue to serve in that role. On October 15, 2010, the Court issued an order denying B&N Bookseller’s motion to dismiss. The Court further ruled that Ms. Minor could not serve as a class representative. The Court also granted Plaintiff’s Motion to Compel Further Responses to previously-served discovery seeking contact information for the putative class. B&N Booksellers provided that information on October 15, 2010. The previously scheduled Case Management Conference was continued to January 27, 2011. Plaintiff’s counsel filed an amended complaint on January 26, 2011, adding two new named Plaintiffs, Jacob Allum and Cesar Caminiero. At the Case Management Conference held on January 27, 2011, the Court ordered the parties to complete mediation by May 6, 2011. The parties held a mediation on April 11, 2011. The parties have reached a tentative resolution of this matter and are finalizing the settlement which will be subject to court approval. This settlement is not expected to have a material impact on the Company’s Consolidated Financial Statements.

***In re Barnes & Noble Stockholder Derivative Litigation (Consolidated Cases Formerly Captioned Separately as: Louisiana Municipal Police Employees Retirement System v. Riggio et al.; Southeastern Pennsylvania Transportation Authority v. Riggio et al.; City of Ann Arbor Employees’ Retirement System v. Riggio et al.; Louise Schuman v. Riggio et al.* ; *Virgin Islands Government Employees’ Retirement System v. Riggio et al.; Electrical Workers Pension Fund, Local 103, I.B.E.W. v. Riggio et al.)***

Between August 17, 2009 and August 31, 2009, five putative shareholder derivative complaints were filed in Delaware Chancery Court against the Company’s directors. The complaints generally allege breach of fiduciary duty, waste of corporate assets and unjust enrichment in connection with the Company’s entry into a definitive agreement to purchase Barnes & Noble College Booksellers, which was announced on August 10, 2009 (the Transaction). The complaints generally seek damages in favor of the Company in an unspecified amount; costs, fees and interest; disgorgement; restitution; and equitable relief, including injunctive relief. On September 1, 2009, the Delaware Chancery Court issued an Order of Consolidation consolidating the five lawsuits (the Consolidated Cases) and directing plaintiffs to file a consolidated amended complaint. In a related development, on August 27, 2009, the Company received a demand pursuant to Delaware General Corporation Law, Section 220, on

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behalf of the Electrical Workers Pension Fund, Local 103, I.B.E.W., a shareholder, seeking to inspect certain books and records related to the Transaction. The Company provided this shareholder with certain documents, on a confidential basis, in response to its demand. On September 18, 2009, this shareholder filed a shareholder derivative complaint in Delaware Chancery Court against certain of the Company’s directors alleging breach of fiduciary duty and unjust enrichment and seeking to enjoin the consummation of the Transaction. At that time, this shareholder also filed a motion for expedited proceedings. At a hearing held on September 21, 2009, the court denied plaintiff’s request for expedited proceedings. On October 6, 2009, the plaintiffs in the Consolidated Cases filed a motion seeking to consolidate the later-filed sixth case with the Consolidated Cases. Also on October 6, 2009, the plaintiff in the sixth case filed a separate motion seeking to consolidate its case with the Consolidated Cases and appoint it as co-lead plaintiff and to appoint its counsel as co-lead counsel. On November 3, 2009, a Consolidated Complaint was filed in the Consolidated Cases. The Company and defendants sought an extension of their time to answer or otherwise respond to the complaints while the plaintiffs’ respective consolidation motions were pending. On December 11, 2009, the court entered an order consolidating all actions and appointing co-lead counsel for plaintiffs. Plaintiffs designated the Consolidated Complaint filed on November 3, 2009 to be the operative Complaint. The Company and defendants filed motions to dismiss the Consolidated Complaint on January 12, 2010. On January 29, 2010, plaintiffs informed defendants that they would amend their Complaint rather than respond to defendants’ motions to dismiss. Plaintiffs filed an Amended Consolidated Complaint on March 16, 2010. The Company and defendants filed motions to dismiss the Amended Consolidated Complaint on April 30, 2010. Plaintiffs filed their response to the motion to dismiss on June 2, 2010. Oral argument on the motions to dismiss was held on October 21, 2010. Following those arguments, the Court denied the Company’s motion to dismiss, denied in part and granted in part the motion to dismiss filed by Defendants Leonard Riggio, Stephen Riggio and Lawrence Zilavy, and denied in part and granted in part the motion to dismiss filed by the remaining defendants, dismissing all claims asserted against Directors George Campbell, Jr. and Patricia Higgins. Pursuant to the Court’s January 19, 2011 Scheduling Order, all fact and expert discovery must be completed by October 21, 2011, and trial is scheduled to commence on December 12, 2011. Discovery in this matter is proceeding.

***Stephen Strugala v. Leonard Riggio, et al.***

On December 21, 2010, a complaint was filed in the United States District Court for the Southern District of New York against the Company’s current directors and former directors Lawrence Zilavy and Michael Del Giudice. The complaint is purportedly brought both directly, on behalf of a putative class of shareholders, and derivatively, on behalf of the Company. The complaint generally alleges breaches of fiduciary duties, waste and unjust enrichment in connection with the Company’s acquisition of Barnes & Noble College Booksellers, the adoption of the Shareholder Rights Plan, and other unspecified instances of alleged mismanagement and alleged wrongful conduct. The complaint also generally alleges violations of Section 14(a) of the Securities Exchange Act of 1934 in connection with the issuance of various proxy statements by the Company. The complaint generally seeks declaratory and equitable relief, including injunctive relief, and costs and fees. On January 19, 2011, the Court granted the parties’ Stipulation and Order. On February 18, 2011, the plaintiff filed a Notice of Voluntary Dismissal of Claim, dismissing without prejudice his putative class claim for violations of Section 14(a) of the Securities Exchange Act of 1934. On March 8, 2011, defendants filed a motion to dismiss all claims in the litigation. Briefing on the motion is complete.

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***Microsoft Corp. v. Barnes & Noble, Inc. et al.***

On March 21, 2011, Microsoft Corp. submitted a complaint to the U.S. International Trade Commission (U.S. ITC), encaptioned *Certain Handheld Electronic Computing Devices, Related Software and Components Thereof* , Inv. No. 337-TA-769, requesting that the U.S. ITC institute an investigation pursuant to Section 337 of the Tariff Act of 1930, as amended. The complaint was subsequently amended on April 8, 2011. The complaint alleges that the importation into the United States, sale for importation, and/or sale within the United States after importation of Barnes & Noble, Inc.’s and barnesandnoble.com llc’s NOOK™ and NOOK Color™ products infringe certain claims of U.S. Patent Nos. 5,778,372 (the ’372 patent), 6,339,780 (the ’780 patent), 5,889,522 (the ’522 patent), 6,891,551 (the ’551 patent) and 6,957,233 (the ’233 patent) and requests that the U.S. ITC issue a permanent exclusion order and permanent cease and desist order with respect to these products. On April 1, 2011, the U.S. ITC published a Notice in the Federal Register soliciting comments on any public interest issues raised by the complaint. Barnes & Noble, Inc. and barnesandnoble.com llc submitted comments in an April 7, 2011 letter. On April 19, 2011, the ITC served Barnes & Noble, Inc. and barnesandnoble.com llc with a Notice of Investigation. On April 25, 2011, the U.S. ITC published the Notice of Investigation in the Federal Register. On May 10, 2011, Barnes & Noble, Inc. and barnesandnoble.com llc filed a response to the complaint denying that they have engaged in any action that would constitute unlawful importation into the United States, sale for importation, or sale within the United States after importation. The response also sets forth six affirmative defenses, including a patent misuse defense. The parties filed their discovery statements on May 16, 2011, and a telephonic preliminary conference before the Administrative Law Judge (ALJ) took place on June 2, 2011. The ALJ subsequently set a target date of August 27, 2012 with a final determination filed no later than April 27, 2012. On June 6, 2011, Microsoft moved to strike Barnes & Noble, Inc.’s and barnesandnoble.com llc’s patent misuse defense.

On the same day that it submitted its original complaint to the U.S. ITC, Microsoft also filed a complaint against Barnes & Noble, Inc., barnesandnoble.com llc, and a number of other defendants in the United States District Court for the Western District of Washington. The district court complaint also alleges that Barnes & Noble, Inc. and barnesandnoble.com llc are infringing the ’372, ’780, ’522, ’551, and ’233 patents through the sale in the United States and the importation into the United States of the NOOK™ and NOOK Color™ products. Barnes & Noble, Inc. and barnesandnoble.com llc answered the district court complaint on April 25, 2011. On May 18, 2011, Barnes & Noble, Inc. and barnesandnoble.com llc filed a motion to stay the district court litigation until the ITC’s determination in the ITC investigation becomes final. On June 8, 2011, the district court granted the motion to stay.

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| **ITEM 4.** | **REMOVED AND RESERVED** |

**PART II**

|  |  |
| --- | --- |
| **ITEM 5.** | **MARKET FOR REGISTRANT’S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS** |

**Price Range of Common Stock**

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | Fiscal 2011 | | | | | |  |  | Fiscal 2010 | | | | | |  |  | 13 weeks ended  May 2, 2009 | | | | | |  |
|  |  | High | |  |  | Low | |  |  | High | |  |  | Low | |  |  | High | |  |  | Low | |  |
| First Quarter |  | $ | 23.20 |  |  | $ | 11.89 |  |  | $ | 26.96 |  |  | $ | 19.12 |  |  | $ | 26.74 |  |  | $ | 15.28 |  |
| Second Quarter |  |  | 17.92 |  |  |  | 12.70 |  |  |  | 28.78 |  |  |  | 16.50 |  |  |  |  |  |  |  |  |  |
| Third Quarter |  |  | 17.29 |  |  |  | 12.27 |  |  |  | 25.07 |  |  |  | 16.11 |  |  |  |  |  |  |  |  |  |
| Fourth Quarter |  |  | 19.50 |  |  |  | 8.45 |  |  |  | 24.71 |  |  |  | 17.44 |  |  |  |  |  |  |  |  |  |

**Approximate Number of Holders of Common Equity**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| **Title of Class** |  | **Approximate**  **Number of**  **Record Holders as of**  **May 31, 2011** | |  |
| Common stock, $0.001 par value |  |  | 2,265 |  |

**Dividends**

During fiscal 2011, the Company paid a dividend of $0.25 per share on June 30, 2010 to stockholders of record at the close of business on June 11, 2010, on September 30, 2010 to stockholders of record at the close of business on September 9, 2010, and on December 31, 2010 to stockholders of record at the close of business on December 10, 2010. On February 22, 2011, the Company announced that its Board of Directors suspended its quarterly dividend payment of $0.25 per share. This will provide the Company the financial flexibility to continue investing into its high growth digital strategies.

During fiscal 2010, the Company paid quarterly cash dividends of $0.25 per share on June 30, 2009 to stockholders of record at the close of business on June 9, 2009, on September 30, 2009 to stockholders of record at the close of business on September 9, 2009, on December 31, 2009 to stockholders of record at the close of business on December 10, 2009 and on March 31, 2010 to stockholders of record at the close of business on March 10, 2010.

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During the 13 weeks ended May 2, 2009, the Company paid a dividend of $0.25 per share on March 31, 2009 to stockholders of record at the close of business on March 10, 2009.

The following table provides information with respect to purchases by the Company of shares of its common stock during the fourth quarter of fiscal 2011:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Period |  | Total  Number of  Shares  Purchased (a) | |  |  | Average  Price Paid  per Share | |  |  | Total Number  of Shares  Purchased as  Part of Publicly  Announced  Plans or  Programs | |  |  | Approximate  Dollar Value of  Shares That  May Yet Be  Purchased  Under the Plans  or Programs | |  |
| January 30, 2011 – February 28, 2011 |  |  | 11,575 |  |  | $ | 15.87 |  |  |  | — |  |  | $ | 2,470,561 |  |
| March 1, 2011 – March 30, 2011 |  |  | 4,737 |  |  | $ | 8.89 |  |  |  | — |  |  | $ | 2,470,561 |  |
| March 31, 2011 – April 30, 2011 |  |  | 30,925 |  |  | $ | 9.19 |  |  |  | — |  |  | $ | 2,470,561 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total |  |  | 47,237 |  |  | $ | 10.79 |  |  |  | — |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

|  |  |
| --- | --- |
| (a) | All of the shares on this table above were originally granted to employees as restricted stock pursuant to the Company’s 2004 and 2009 Incentive Plans. The 2004 and 2009 Incentive Plans provides for the withholding of shares to satisfy tax obligations due upon the vesting of restricted stock, and pursuant to the 2004 Incentive Plan, the shares reflected above were 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. |

On May 15, 2007, the Company announced that its Board of Directors authorized a new stock repurchase program for the purchase of up to $400.0 million of the Company’s common stock. The maximum dollar value of common stock that may yet be purchased under the current program is approximately $2.5 million as of April 30, 2011.

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. As of April 30, 2011, the Company has repurchased 33,409,761 shares at a cost of approximately $1.1 billion under its stock repurchase programs. The repurchased shares are held in treasury.

|  |  |
| --- | --- |
| **ITEM 6.** | **SELECTED FINANCIAL DATA** |

The information included in the Company’s Annual Report to Shareholders for the fiscal year ended April 30, 2011 included as Exhibit 13.1 to this Annual Report on Form 10-K (the Annual Report) under the section entitled “Selected Consolidated Financial Data” is incorporated herein by reference.

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| **ITEM 7.** | **MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS** |

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

|  |  |
| --- | --- |
| **ITEM 7A.** | **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK** |

The Company limits its interest rate risks by investing certain of its excess cash balances in short-term, highly-liquid instruments with an original maturity of one year or less. The Company does not expect any material losses from its invested cash balances and the Company believes that its interest rate exposure is modest. As of April 30, 2011, the Company’s cash and cash equivalents totaled approximately $59,429,000.

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 credit agreement described in the Annual Report under the section titled “Notes to Consolidated Financial Statements”) depending upon certain financial tests. Accordingly, the Company may be exposed to interest rate risk on borrowings under its credit facility. The Company had $313,100,000 and $260,400,000 in borrowings under its credit facility at April 30, 2011 and May 1, 2010.

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

|  |  |
| --- | --- |
| **ITEM 8.** | **FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA** |

The information included in the Annual Report under the sections entitled: “Consolidated Statements of Operations,” “Consolidated Balance Sheets,” “Consolidated Statements of Changes in Shareholders’ Equity,” “Consolidated Statements of Cash Flows” and “Notes to Consolidated Financial Statements” are incorporated herein by reference.

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

N/A

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| **ITEM 9A.** | **CONTROLS AND PROCEDURES** |

**(a) Evaluation of Disclosure Controls and Procedures**

The management of the Company established and maintains disclosure controls and procedures that are designed to ensure that material information relating to the Company and its subsidiaries required to be disclosed in the reports that are filed or submitted under the Exchange Act are recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to management, including the Company’s Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. As of the end of the period covered by this report, the Company’s management conducted an evaluation (as required under Rules 13a-15(b) and 15d-15(b) under the Exchange Act), under the supervision and with the participation of the principal executive officer and principal financial officer, of the Company’s “disclosure controls and procedures” (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in the Company’s periodic reports. Based on management’s evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company’s disclosure controls and procedures are effective at the reasonable assurance level.

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

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

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of the Company’s internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon the Company’s evaluation under this framework, management concluded that the Company’s internal control over financial reporting was effective as of April 30, 2011.

BDO USA, LLP, the independent registered certified public accounting firm that audited the Company’s financial statements included in this Annual Report on Form 10-K, has also audited the Company’s internal control over financial reporting as of April 30, 2011 as stated in their report incorporated herein as part of the Company’s Annual Report.

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**(c) Changes in Internal Control over Financial Reporting**

There have been no changes in the Company’s internal control over financial reporting during the most recent quarter ended April 30, 2011 that have materially affected, or are reasonably likely to affect, internal control over financial reporting.

|  |  |
| --- | --- |
| **ITEM 9B.** | **OTHER INFORMATION** |

None.

**PART III**

|  |  |
| --- | --- |
| **ITEM 10.** | **DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE** |

The information with respect to directors, executive officers, the code of ethics and corporate governance of the Company is incorporated herein by reference to the Company’s definitive Proxy Statement relating to the Company’s 2011 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the Company’s fiscal year ended April 30, 2011 (the Proxy Statement).

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

|  |  |
| --- | --- |
| **ITEM 11.** | **EXECUTIVE COMPENSATION** |

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

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

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

**Equity Compensation Plan Information**

The following table sets forth equity compensation plan information as of April 30, 2011:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Plan Category** |  | **Number of**  **securities to be**  **issued upon exercise**  **of outstanding**  **options, warrants**  **and rights** | |  |  | **Weighted-average**  **exercise price of**  **outstanding options,**  **warrants and rights** | |  |  | **Number of securities**  **remaining available**  **for future issuance**  **under  equity**  **compensation plans**  **(excluding securities**  **in column (a))** | |  |
|  |  | (a) | |  |  | (b) | |  |  | (c) | |  |
| Equity compensation plans approved by security holders |  |  | 3,876,000 |  |  | $ | 21.02 |  |  |  | 1,760,000 |  |
| Equity compensation plans not approved by security holders |  |  | — |  |  |  | — |  |  |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total |  |  | 3,876,000 |  |  | $ | 21.02 |  |  |  | 1,760,000 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

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

|  |  |
| --- | --- |
| **ITEM 13.** | **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE** |

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

|  |  |
| --- | --- |
| **ITEM 14.** | **PRINCIPAL ACCOUNTING FEES AND SERVICES** |

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

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**PART IV**

|  |  |
| --- | --- |
| **ITEM 15.** | **EXHIBITS AND FINANCIAL STATEMENT SCHEDULES** |

|  |  |
| --- | --- |
| (a)    1. | Consolidated Financial Statements: |

|  |  |  |
| --- | --- | --- |
|  | (i) | “The Report of Independent Registered Public Accountants” included in the Annual Report is incorporated herein by reference. |

|  |  |  |
| --- | --- | --- |
|  | (ii) | The information included in the Annual Report under the sections entitled: “Consolidated Statements of Operations,” “Consolidated Balance Sheets,” “Consolidated Statements of Changes in Shareholders’ Equity,” “Consolidated Statements of Cash Flows” and “Notes to Consolidated Financial Statements” are incorporated herein by reference. |

|  |  |  |
| --- | --- | --- |
|  | 2. | Schedule: |

Valuation and Qualifying Accounts.

For the 52-week period ended April 30, 2011, the 52-week period ended May 1, 2010, the 13-week period ended May 2, 2009, and the 52-week period ended January 31, 2009 (in thousands):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | **Balance at**  **beginning  of**  **period** | |  |  | **Acquisition of**  **B&N College** | |  |  | **Charge**  **(recovery) to**  **costs and**  **expenses** | |  |  | **Write-offs** | |  |  | **Balance at end**  **of period** | |  |
| Allowance for Doubtful Accounts |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| April 30, 2011 |  | $ | 2,522 |  |  | $ | — |  |  | $ | 2,096 |  |  | $ | (53 | ) |  | $ | 4,565 |  |
| May 1, 2010 |  | $ | 1,738 |  |  | $ | 1,097 |  |  | $ | (181 | ) |  | $ | (132 | ) |  | $ | 2,522 |  |
| May 2, 2009 |  | $ | 1,739 |  |  | $ | — |  |  | $ | 63 |  |  | $ | (64 | ) |  | $ | 1,738 |  |
| January 31, 2009 |  | $ | 2,475 |  |  | $ | — |  |  | $ | (138 | ) |  | $ | (598 | ) |  | $ | 1,739 |  |

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The following are filed as Exhibits to this form:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Exhibit No. |  | Description |
|  |  | |
| 2.1 |  | Stock Purchase Agreement dated as of August 7, 2009 among the Company, Leonard Riggio and Louise Riggio. (1) |
|  |  | |
| 3.1 |  | Amended and Restated Certificate of Incorporation of the Company, as amended. (2) |
|  |  | |
| 3.2 |  | Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Company, dated June 17, 1998 and filed July 17, 1998. (3) |
|  |  | |
| 3.3 |  | Form of Certificate of Designation, dated as of November 17, 2009. (4) |
|  |  | |
| 3.4 |  | Amended and Restated By-laws of the Company. (5) |
|  |  | |
| 3.5 |  | Amendment to Amended and Restated By-laws of the Company. (6) |
|  |  | |
| 4.1 |  | Specimen Common Stock certificate. (2) |
|  |  | |
| 4.2 |  | Rights Agreement, dated as of November 17, 2009, between Barnes & Noble, Inc. and Mellon Investor Services LLC, as Rights Agent. (4) |
|  |  | |
| 4.3 |  | First Amendment dated as of February 17, 2010, to the Rights Agreement, dated as of November 17, 2009, between the Company and Mellon Investor Services LLC, as Rights Agent. (7) |
|  |  | |
| 4.4 |  | Second Amendment dated as of June 23, 2010, to the Rights Agreement, dated as of November 17, 2009, between the Company and Mellon Investor Services LLC, as Rights Agent. (22) |
|  |  | |
| 4.5 |  | Third Amendment dated as of October 29, 2010, to the Rights Agreement, dated as of November 17, 2009, between the Company and Mellon Investor Services LLC, as Rights Agent. (25) |
|  |  | |
| 10.1 |  | Credit Agreement, dated April 29, 2011, among the Company, Bank of America, N.A., as administrative agent, collateral agent and swing line lender, and other lenders (Credit Agreement). (28) |
|  |  | |
| 10.2 |  | Junior Subordinated Seller Note, dated September 30, 2009, issued by the Company to Leonard Riggio and Louise Riggio. (6) |
|  |  | |
| 10.3 |  | The Company’s 2009 Executive Performance Plan. (8) |
|  |  | |
| 10.4 |  | The Company’s 2004 Executive Performance Plan. (9) |
|  |  | |
| 10.5 |  | First Amendment to the Company’s 2004 Executive Performance Plan. (10) |
|  |  | |
| 10.6 |  | The Company’s 2009 Incentive Plan. (8) |

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|  |  |  |
| --- | --- | --- |
|  |  |  |
| Exhibit No. |  | Description |
|  |  | |
| 10.7 |  | The Company’s 2004 Incentive Plan. (9) |
|  |  | |
| 10.8 |  | First Amendment to the Company’s 2009 Incentive Plan. (29) |
|  |  | |
| 10.9 |  | Amendment to the Company’s 2004 Incentive Plan. (11) |
|  |  | |
| 10.10 |  | Second Amendment to the Company’s 2004 Incentive Plan. (10) |
|  |  | |
| 10.11 |  | The Company’s Amended and Restated 1996 Incentive Plan. (12) |
|  |  | |
| 10.12 |  | Amendment to the Company’s Amended and Restated 1996 Incentive Plan. (11) |
|  |  | |
| 10.13 |  | Form of Option Award Agreement of the Company. (13) |
|  |  | |
| 10.14 |  | Form of Restricted Stock Award Agreement of the Company. (13) |
|  |  | |
| 10.15 |  | The Company’s Amended and Restated Deferred Compensation Plan. (10) |
|  |  | |
| 10.16 |  | Employment Agreement between the Company and Leonard Riggio, dated May 12, 2010. (14) |
|  |  | |
| 10.17 |  | Employment Agreement between the Company and Stephen Riggio, dated May 12, 2010. (14) |
|  |  | |
| 10.18 |  | Employment Agreement between the Company and Stephen Riggio, dated as of February 18, 2002. (15) |
|  |  | |
| 10.19 |  | Amendment to Employment Agreement between the Company and Stephen Riggio, dated December 18, 2008. (10) |
|  |  | |
| 10.20 |  | Employment Agreement between the Company and William J. Lynch, Jr., dated March 17, 2010. (16) |
|  |  | |
| 10.21 |  | Employment Agreement between the Company and William J. Lynch, Jr., dated January 6, 2009. (17) |
|  |  | |
| 10.22 |  | Employment Agreement between the Company and Mitchell S. Klipper, dated March 17, 2010. (16) |
|  |  | |
| 10.23 |  | Employment Agreement between the Company and Mitchell S. Klipper, dated as of February 18, 2002. (18) |
|  |  | |
| 10.24 |  | Amendment to Employment Agreement between the Company and Mitchell S. Klipper, dated as of December 18, 2008. (10) |
|  |  | |
| 10.25 |  | Employment Agreement between the Company and Joseph J. Lombardi, dated March 17, 2010. (16) |
|  |  | |
| 10.26 |  | Letter Agreement (including General Release and Waiver) entered into on October 8, 2008, between barnesandnoble.com llc and Marie J. Toulantis. (19) |

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| --- | --- | --- |
|  |  |  |
| Exhibit No. |  | Description |
|  |  | |
| 10.27 |  | Indemnification Agreement between the Company and David G. Golden, dated August 19, 2010. (23) |
|  |  | |
| 10.28 |  | Indemnification Agreement between the Company and David A. Wilson, dated August 19, 2010. (23) |
|  |  | |
| 10.29 |  | Form of Performance Unit Award Agreement pursuant to the Company’s 2009 Incentive Plan. (24) |
|  |  | |
| 10.30 |  | Form of Option Award Agreement pursuant to the Company’s 2009 Incentive Plan. (24) |
|  |  | |
| 10.31 |  | Form of Restricted Stock Award Agreement pursuant to the Company’s 2009 Incentive Plan. (24) |
|  |  | |
| 10.32 |  | Employment Agreement between the Company and Eugene V. DeFelice, dated September 27, 2010. (26) |
|  |  | |
| 10.33 |  | Form of Indemnification Agreement between the Company and Company’s directors and officers, dated January 5, 2011. (27) |
|  |  | |
| 10.34 |  | Restricted Stock Award Agreement pursuant to the Company’s 2009 Incentive Plan. (29) |
|  |  | |
| 13.1 |  | The sections of the Company’s Annual Report entitled: “Selected Consolidated Financial Data”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, “Consolidated Statements of Operations”, “Consolidated Balance Sheets”, “Consolidated Statements of Changes in Shareholders’ Equity”, “Consolidated Statements of Cash Flows”, “Notes to Consolidated Financial Statements” and “The Report of Independent Registered Public Accounting Firm”. (30) |
|  |  | |
| 14.1 |  | Code of Business Conduct and Ethics. (20) |
|  |  | |
| 15.1 |  | Letter from BDO USA, LLP regarding unaudited interim financial information. (21) |
|  |  | |
| 21.1 |  | List of Subsidiaries. (30) |
|  |  | |
| 23.1 |  | Consent of BDO USA, LLP. (30) |
|  |  | |
| 23.2 |  | Report of BDO USA, LLP. (30) |
|  |  | |
| 31.1 |  | Certification by the Chief Executive Officer pursuant to Rule 13a-14(a)/15(d)-14(a), under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (30) |
|  |  | |
| 31.2 |  | Certification by the Chief Financial Officer pursuant to Rule 13a-14(a)/15(d)-14(a), under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (30) |

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|  |  |  |
| Exhibit No. |  | Description |
|  |  | |
| 32.1 |  | Certification of Chief Executive Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (30) |
|  |  | |
| 32.2 |  | Certification of Chief Financial Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (30) |
|  |  | |
| 101.INS |  | XBRL Instance Document (30) |
|  |  | |
| 101.SCH |  | XBRL Taxonomy Extension Schema Document (30) |
|  |  | |
| 101.CAL |  | XBRL Taxonomy Calculation Linkbase Document (30) |
|  |  | |
| 101.DEF |  | XBRL Taxonomy Definition Linkbase Document (30) |
|  |  | |
| 101.LAB |  | XBRL Taxonomy Label Linkbase Document (30) |
|  |  | |
| 101.PRE |  | XBRL Taxonomy Presentation Linkbase Document (30) |

|  |  |  |
| --- | --- | --- |
|  |  |  |
| (1) |  | Previously filed as an exhibit to the Company’s Form 8-K filed with the SEC on August 10, 2009. |
|  |  | |
| (2) |  | Previously filed as an exhibit to the Company’s Registration Statement on Form S-4 (Commission File No. 33-59778) filed with the SEC on March 22, 1993. |
|  |  | |
| (3) |  | Previously filed as an exhibit to the Company’s Form 10-Q for the fiscal quarter ended August 1, 1998. |
|  |  | |
| (4) |  | Previously filed as an exhibit to the Company’s Form 8-K filed with the SEC on November 18, 2009. |
|  |  | |
| (5) |  | Previously filed as an exhibit to the Company’s Form 8-K filed with the SEC on April 14, 2008. |
|  |  | |
| (6) |  | Previously filed as an exhibit to the Company’s Form 8-K filed with the SEC on October 1, 2009. |
|  |  | |
| (7) |  | Previously filed as an exhibit to the Company’s Form 8-K filed with the SEC on February 17, 2010. |
|  |  | |
| (8) |  | Previously filed as an exhibit to the Company’s Definitive Proxy Statement on Schedule 14A filed with the SEC on April 16, 2009. |
|  |  | |
| (9) |  | Previously filed as an exhibit to the Company’s Form 10-Q for the fiscal quarter ended May 1, 2004. |
|  |  | |
| (10) |  | Previously filed as an exhibit to the Company’s Form 8-K filed with the SEC on December 19, 2008. |
|  |  | |
| (11) |  | Previously filed as an exhibit to the Company’s Form 8-K filed with the Securities and Exchange Commission on December 21, 2006. |
|  |  | |
| (12) |  | Previously filed as an exhibit to the Company’s Registration Statement on Form S-8 (Commission File No. 333-90538) filed with the Securities and Exchange Commission on June 14, 2002. |
|  |  | |
| (13) |  | Previously filed as an exhibit to the Company’s Form 10-K for the fiscal year ended January 29, 2005. |

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|  |  |  |
| --- | --- | --- |
|  |  |  |
| Exhibit No. |  | Description |
|  |  | |
| (14) |  | Previously filed as an exhibit to the Company’s Form 8-K filed with the SEC on May 13, 2010. |
|  |  | |
| (15) |  | Previously filed as an exhibit to the Company’s Form 10-K for the fiscal year ended February 1, 2003. |
|  |  | |
| (16) |  | Previously filed as an exhibit to the Company’s Form 8-K filed with the SEC on March 19, 2010. |
|  |  | |
| (17) |  | Previously filed as an exhibit to the Company’s Form 8-K filed with the SEC on January 8, 2009. |
|  |  | |
| (18) |  | Previously filed as an exhibit to the Company’s Form 10-K for the fiscal year ended February 2, 2002. |
|  |  | |
| (19) |  | Previously filed as an exhibit to the Company’s Form 8-K filed with the SEC on October 10, 2008. |
|  |  | |
| (20) |  | Previously filed as an exhibit to the Company’s Form 10-K for the fiscal year ended January 31, 2009. |
|  |  | |
| (21) |  | Previously filed as an exhibit to the Company’s Form 10-Q for the fiscal quarter ended March 11, 2010. |
|  |  | |
| (22) |  | Previously filed as an exhibit to the Company’s Form 8-K filed with the SEC on June 23, 2010. |
|  |  | |
| (23) |  | Previously filed as an exhibit to the Company’s Form 8-K filed with the SEC on August 23, 2010. |
|  |  | |
| (24) |  | Previously filed as an exhibit to the Company’s Form 10-Q for the fiscal quarter ended July 31, 2010. |
|  |  | |
| (25) |  | Previously filed as an exhibit to the Company’s Form 8-K filed with the SEC on October 29, 2010. |
|  |  | |
| (26) |  | Previously filed as an exhibit to the Company’s Form 10-Q for the fiscal quarter ended October 30, 2010. |
|  |  | |
| (27) |  | Previously filed as an exhibit to the Company’s Form 8-K filed with the SEC on January 10, 2011. |
|  |  | |
| (28) |  | Previously filed as an exhibit to the Company’s Form 8-K filed with the SEC on May 2, 2011. |
|  |  | |
| (29) |  | Previously filed as an exhibit to the Company’s Form 8-K filed with the SEC on May 25, 2011. |
|  |  | |
| (30) |  | Filed herewith. |

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

|  |  |  |
| --- | --- | --- |
|  |  |  |
| BARNES & NOBLE, INC. | | |
| (Registrant) | | |
|  |  | |
| By: |  | /s/ William J. Lynch, Jr. |
|  |  | William J. Lynch, Jr. |
|  |  | Chief Executive Officer |
|  |  | June 29, 2011 |

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| **Name** |  | **Title** |  | **Date** |
|  |  | |  | |
| /s/ Leonard Riggio  Leonard Riggio |  | Chairman of the Board |  | June 29, 2011 |
|  |  | |  | |
| /s/ Stephen Riggio  Stephen Riggio |  | Vice Chairman of the Board |  | June 29, 2011 |
|  |  | |  | |
| /s/ William J. Lynch, Jr.  William J. Lynch, Jr. |  | Chief Executive Officer  (principal executive officer) |  | June 29, 2011 |
|  |  | |  | |
| /s/ Joseph J. Lombardi  Joseph J. Lombardi |  | Chief Financial Officer  (principal financial officer) |  | June 29, 2011 |
|  |  | |  | |
| /s/ Allen W. Lindstrom  Allen W. Lindstrom |  | Vice President, Corporate Controller  (principal accounting officer) |  | June 29, 2011 |
|  |  | |  | |
| /s/ George Campbell Jr.  George Campbell Jr. |  | Director |  | June 29, 2011 |
|  |  | |  | |
| /s/ William Dillard II  William Dillard II |  | Director |  | June 29, 2011 |
|  |  | |  | |
| /s/ Patricia L. Higgins  Patricia L. Higgins |  | Director |  | June 29, 2011 |
|  |  | |  | |
| /s/ Irene R. Miller  Irene R. Miller |  | Director |  | June 29, 2011 |
|  |  | |  | |
| /s/ Margaret T. Monaco  Margaret T. Monaco |  | Director |  | June 29, 2011 |

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| --- | --- | --- | --- | --- |
|  |  |  |  |  |
|  |  | |  | |
| /s/ David G. Golden  David G. Golden |  | Director |  | June 29, 2011 |
|  |  | |  | |
| /s/ David A. Wilson  David A. Wilson |  | Director |  | June 29, 2011 |

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**Exhibit 13.1**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**SELECTED CONSOLIDATED FINANCIAL DATA**

The selected consolidated financial data of Barnes & Noble, Inc. and its subsidiaries (collectively, the Company) set forth on the following pages should be read in conjunction with the consolidated financial statements and notes included elsewhere in this report. On September 29, 2009, the Board of Directors of Barnes & Noble, Inc. authorized a change in the Company’s fiscal year end from the Saturday closest to the last day of January to the Saturday closest to the last day of April. The change in fiscal year, which became effective on September 30, 2009 upon the closing of the acquisition of Barnes & Noble College Booksellers, Inc. (B&N College) by Barnes & Noble, Inc. (the Acquisition), gives the Company and B&N College the same fiscal year. The change was intended to better align the Company’s fiscal year with the business cycles of both Barnes & Noble, Inc. and B&N College.

The Statement of Operations Data for the 52 weeks ended April 30, 2011 (fiscal 2011), 52 weeks ended May 1, 2010 (fiscal 2010), 13 weeks ended May 2, 2009 (transition period), and 52 weeks ended January 31, 2009 (fiscal 2008), and the Balance Sheet Data as of April 30, 2011 and May 1, 2010 are derived from, and are qualified by reference to, audited consolidated financial statements which are included elsewhere in this report. The Statement of Operations Data for the 52 weeks ended February 2, 2008 (fiscal 2007) and 53 weeks ended February 3, 2007 (fiscal 2006) and the Balance Sheet Data as of May 2, 2009, January 31, 2009, February 2, 2008 and February 3, 2007 are derived from audited consolidated financial statements not included in this report. The Statement of Operations Data for the 13 weeks ended May 3, 2008 are derived from unaudited consolidated financial statements which are included elsewhere in this report.

See accompanying notes to consolidated financial statements.

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Fiscal Year  (In thousands of dollars, except per share data) |  | Fiscal 2011 | |  |  | Fiscal 2010 | |  |  | 13 weeks  ended  May 2,  2009 | |  |  | 13 weeks  ended  May 3,  2008 | |  |  | Fiscal 2008 | |  |  | Fiscal 2007 | |  |  | Fiscal 2006 | |  |
| **STATEMENT OF OPERATIONS DATA:** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Sales |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Barnes & Noble Retail |  | $ | 4,364,246 |  |  |  | 4,401,343 |  |  |  | 1,012,077 |  |  |  | 1,055,628 |  |  |  | 4,652,666 |  |  |  | 4,806,350 |  |  |  | 4,703,234 |  |
| Barnes & Noble College (a) |  |  | 1,776,223 |  |  |  | 833,648 |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |
| Barnes & Noble.com |  |  | 858,096 |  |  |  | 572,763 |  |  |  | 93,075 |  |  |  | 100,254 |  |  |  | 469,138 |  |  |  | 480,324 |  |  |  | 436,384 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total sales |  |  | 6,998,565 |  |  |  | 5,807,754 |  |  |  | 1,105,152 |  |  |  | 1,155,882 |  |  |  | 5,121,804 |  |  |  | 5,286,674 |  |  |  | 5,139,618 |  |
| Cost of sales and occupancy |  |  | 5,205,712 |  |  |  | 4,131,009 |  |  |  | 773,491 |  |  |  | 807,915 |  |  |  | 3,540,596 |  |  |  | 3,679,845 |  |  |  | 3,534,097 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Gross profit |  |  | 1,792,853 |  |  |  | 1,676,745 |  |  |  | 331,661 |  |  |  | 347,967 |  |  |  | 1,581,208 |  |  |  | 1,606,829 |  |  |  | 1,605,521 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Selling and administrative expenses |  |  | 1,629,384 |  |  |  | 1,392,207 |  |  |  | 286,554 |  |  |  | 303,863 |  |  |  | 1,251,524 |  |  |  | 1,225,791 |  |  |  | 1,178,038 |  |
| Depreciation and amortization |  |  | 228,647 |  |  |  | 207,774 |  |  |  | 45,879 |  |  |  | 41,314 |  |  |  | 173,557 |  |  |  | 168,600 |  |  |  | 166,581 |  |
| Pre-opening expenses |  |  | 81 |  |  |  | 3,518 |  |  |  | 2,472 |  |  |  | 4,537 |  |  |  | 12,796 |  |  |  | 10,387 |  |  |  | 12,897 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Operating profit (loss) |  |  | (65,259 | ) |  |  | 73,246 |  |  |  | (3,244 | ) |  |  | (1,747 | ) |  |  | 143,331 |  |  |  | 202,051 |  |  |  | 248,005 |  |
| Interest income (expense), net and amortization of deferred financing  fees (b) |  |  | (57,350 | ) |  |  | (28,237 | ) |  |  | (199 | ) |  |  | 807 |  |  |  | (2,344 | ) |  |  | 7,483 |  |  |  | 1,680 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Earnings (loss) from continuing operations before taxes |  |  | (122,609 | ) |  |  | 45,009 |  |  |  | (3,443 | ) |  |  | (940 | ) |  |  | 140,987 |  |  |  | 209,534 |  |  |  | 249,685 |  |
| Income taxes |  |  | (48,652 | ) |  |  | 8,365 |  |  |  | (1,374 | ) |  |  | (374 | ) |  |  | 55,591 |  |  |  | 74,623 |  |  |  | 100,499 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Earnings (loss) from continuing operations (net of income tax) |  |  | (73,957 | ) |  |  | 36,644 |  |  |  | (2,069 | ) |  |  | (566 | ) |  |  | 85,396 |  |  |  | 134,911 |  |  |  | 149,186 |  |
| Earnings (loss) from discontinued operations (net of income tax) (c) |  |  | — |  |  |  | — |  |  |  | (654 | ) |  |  | (1,658 | ) |  |  | (9,506 | ) |  |  | 888 |  |  |  | 1,341 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net earnings (loss) |  |  | (73,957 | ) |  |  | 36,644 |  |  |  | (2,723 | ) |  |  | (2,224 | ) |  |  | 75,890 |  |  |  | 135,799 |  |  |  | 150,527 |  |
| Loss attributable to noncontrolling interests (d) |  |  | 37 |  |  |  | 32 |  |  |  | 30 |  |  |  | — |  |  |  | 30 |  |  |  | — |  |  |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net earnings (loss) attributable to Barnes & Noble, Inc. |  | $ | (73,920 | ) |  |  | 36,676 |  |  |  | (2,693 | ) |  |  | (2,224 | ) |  |  | 75,920 |  |  |  | 135,799 |  |  |  | 150,527 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Earnings (loss) attributable to Barnes & Noble, Inc. |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Earnings (loss) from continuing operations |  | $ | (73,957 | ) |  |  | 36,644 |  |  |  | (2,069 | ) |  |  | (566 | ) |  |  | 85,396 |  |  |  | 134,911 |  |  |  | 149,186 |  |
| Less loss attributable to noncontrolling interests |  |  | 37 |  |  |  | 32 |  |  |  | 30 |  |  |  | — |  |  |  | 30 |  |  |  | — |  |  |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Earnings (loss) from continuing operations attributable to Barnes & Noble, Inc. |  | $ | (73,920 | ) |  |  | 36,676 |  |  |  | (2,039 | ) |  |  | (566 | ) |  |  | 85,426 |  |  |  | 134,911 |  |  |  | 149,186 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Basic earnings per common share |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Earnings (loss) from continuing operations attributable to Barnes & Noble, Inc. |  | $ | (1.31 | ) |  |  | 0.64 |  |  |  | (0.04 | ) |  |  | (0.01 | ) |  |  | 1.50 |  |  |  | 2.07 |  |  |  | 2.24 |  |
| Earnings (loss) from discontinued operations attributable to Barnes & Noble, Inc. |  |  | — |  |  |  | — |  |  |  | (0.01 | ) |  |  | (0.03 | ) |  |  | (0.17 | ) |  |  | 0.01 |  |  |  | 0.02 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net earnings (loss) attributable to Barnes & Noble, Inc. |  | $ | (1.31 | ) |  |  | 0.64 |  |  |  | (0.05 | ) |  |  | (0.04 | ) |  |  | 1.33 |  |  |  | 2.08 |  |  |  | 2.26 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Diluted earnings per common share |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Earnings (loss) from continuing operations attributable to Barnes & Noble, Inc. |  | $ | (1.31 | ) |  |  | 0.63 |  |  |  | (0.04 | ) |  |  | (0.01 | ) |  |  | 1.46 |  |  |  | 1.99 |  |  |  | 2.14 |  |
| Earnings (loss) from discontinued operations attributable to Barnes & Noble, Inc. |  |  | — |  |  |  | — |  |  |  | (0.01 | ) |  |  | (0.03 | ) |  |  | (0.17 | ) |  |  | 0.01 |  |  |  | 0.02 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net earnings (loss) attributable to Barnes & Noble, Inc. |  | $ | (1.31 | ) |  |  | 0.63 |  |  |  | (0.05 | ) |  |  | (0.04 | ) |  |  | 1.29 |  |  |  | 2.00 |  |  |  | 2.16 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Dividends paid per share |  | $ | 0.75 |  |  |  | 1.00 |  |  |  | 0.25 |  |  |  | 0.15 |  |  |  | 0.90 |  |  |  | 0.60 |  |  |  | 0.60 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Weighted average common shares outstanding |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Basic |  |  | 56,588 |  |  |  | 55,344 |  |  |  | 54,759 |  |  |  | 57,614 |  |  |  | 55,207 |  |  |  | 63,662 |  |  |  | 65,212 |  |
| Diluted |  |  | 56,588 |  |  |  | 56,153 |  |  |  | 54,759 |  |  |  | 57,614 |  |  |  | 56,529 |  |  |  | 66,221 |  |  |  | 68,388 |  |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  | |  |  |  |  | |  |  |  | |  | | |  | |  |  | |
| **Fiscal Year**  (In thousands of dollars, except per share data) |  | Fiscal 2011 | |  |  | Fiscal 2010 | |  |  | 13 weeks  ended  May  2,  2009 | |  |  | | 13 weeks  ended  May  3,  2008 | |  |  | | Fiscal 2008 | |  |  | | Fiscal 2007 | | |  | |  | | | Fiscal 2006 | | |  | |
| **OTHER OPERATING DATA:** |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  | |  |  |  |  | |  |  |  | |  | | |  | |  |  | |
| Number of stores |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  | |  |  |  |  | |  |  |  | |  | | |  | |  |  | |
| Barnes & Noble stores |  |  | 705 |  |  |  | 720 |  |  |  | 726 |  |  | |  | 717 |  |  | |  | 726 |  |  | |  | 713 |  | |  | | |  | | 695 |  | |
| Barnes & Noble College |  |  | 636 |  |  |  | 637 |  |  |  | — |  |  | |  | — |  |  | |  | — |  |  | |  | — |  | |  | | |  | | — |  | |
| B. Dalton stores |  |  | — |  |  |  | — |  |  |  | 51 |  |  | |  | 83 |  |  | |  | 52 |  |  | |  | 85 |  | |  | | |  | | 98 |  | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  | |  |  |  |  | |  |  |  | |  | | |  | |  |  | |
| Total |  |  | 1,341 |  |  |  | 1,357 |  |  |  | 777 |  |  | |  | 800 |  |  | |  | 778 |  |  | |  | 798 |  | |  | | |  | | 793 |  | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  | |  |  |  |  | |  |  |  | |  | | |  | |  |  | |
| Comparable sales increase (decrease) |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  | |  |  |  |  | |  |  |  | |  | | |  | |  |  | |
| Barnes & Noble Retail (e) |  |  | 0.7 | % |  |  | (4.8 | )% |  |  | (5.7 | )% |  | |  | (1.5 | )% |  | |  | (5.4 | )% |  | |  | 1.8 | % | |  | | |  | | (0.3 | )% | |
| Barnes & Noble College (f) |  |  | (0.8 | )% |  |  | (0.2 | )% |  |  | — |  |  | |  | — |  |  | |  | — |  |  | |  | — |  | |  | | |  | | — |  | |
| Barnes & Noble.com (g) |  |  | 64.7 | % |  |  | 24.0 | % |  |  | (7.2 | )% |  | |  | 7.2 | % |  | |  | (1.3 | )% |  | |  | 13.4 | % | |  | | |  | | (1.1 | )% | |
|  |  | | | |  | | | |  | | | | |  | | | | |  | | | | |  | | | | | | |  | | | | | | | |
| Capital expenditures (h) |  | $ | 110,502 |  |  |  | 127,779 |  |  |  | 22,822 |  |  | |  | 38,278 |  |  | |  | 192,153 |  |  | |  | 193,958 |  | |  | | |  | | 176,040 |  | |
|  |  | | | |  | | | |  | | | | |  | | | | |  | | | | |  | | | | | | |  | | | | | | | |
| **BALANCE SHEET DATA:** |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  | |  |  |  |  | |  |  |  | |  | | |  | |  |  | |
|  |  | | | |  | | | |  | | | | |  | | | | |  | | | | |  | | | | | | |  | | | | | | | |
| Total assets |  | $ | 3,596,466 |  |  |  | 3,705,686 |  |  |  | 2,664,279 |  |  | |  | 2,779,006 |  |  | |  | 2,877,864 |  |  | |  | 3,141,247 |  | |  | | |  | | 3,084,456 |  | |
| Long-term debt |  | $ | 313,100 |  |  |  | 260,400 |  |  |  | — |  |  | |  | 86,700 |  |  | |  | — |  |  | |  | — |  | |  | | |  | | — |  | |
| Long-term subordinated note (i) |  | $ | 150,000 |  |  |  | 150,000 |  |  |  | — |  |  | |  | — |  |  | |  | — |  |  | |  | — |  | |  | | |  | | — |  | |

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| (a) | B&N College results are included since the Acquisition on September 30, 2009. |

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| --- | --- |
| (b) | Amounts for fiscal 2011, fiscal 2010, the transition period, the 13 weeks ended May 3, 2008, fiscal 2008, fiscal 2007 and fiscal 2006 are net of interest income of $320, $452, $211, $1,369, $1,518, $9,169 and $5,292, respectively. |

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| --- | --- |
| (c) | Represents the results of Calendar Club for all periods presented. |

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| --- | --- |
| (d) | Noncontrolling interest represents the 50% outside interest in Begin Smart LLC. During the second quarter of fiscal 2011, the Company purchased the remaining 50% outside interest in Begin Smart LLC. |

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

|  |  |
| --- | --- |
| (f) | Comparable store sales increase (decrease) is calculated on a 52-week basis, including sales from stores that have been open for at least 15 months and all eReader device revenue deferred in accordance with ASC 605-25 *Revenue Recognition, Multiple Element Arrangements* , and does not include sales from closed or relocated stores. Additionally, for textbook rentals, comparable store sales reflects the retail selling price of a new or used textbook when rented, rather than solely the rental fee received and amortized over the rental period. |

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| --- | --- |
| (g) | Comparable sales increase (decrease) is calculated on a 52-week basis and includes sales of physical and digital products made online through the Company’s website and eBookstore, including sales through its eReader devices, and all eReader device revenue deferred in accordance with ASC 605-25 *Revenue Recognition, Multiple Element Arrangements* . Additionally, comparable sales reflects the actual retail selling price for eBooks sold under the agency model, rather than solely the commission received. |

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| --- | --- |
| (h) | Excludes Calendar Club capital expenditures of $308, $1,988, $2,551 and $3,333, for the 13 weeks ended May 3, 2008, fiscal 2008, fiscal 2007 and fiscal 2006, respectively. |

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| (i) | See Note 12 to the Notes to Consolidated Financial Statements. |

**MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

On September 29, 2009, the Board of Directors of Barnes & Noble, Inc. (Barnes & Noble or the Company) authorized a change in the Company’s fiscal year end from the Saturday closest to the last day of January to the Saturday closest to the last day of April. The change in fiscal year, which became effective on September 30, 2009 upon the closing of the acquisition of Barnes & Noble College Booksellers, Inc. (B&N College) by Barnes & Noble (the Acquisition), gives the Company and B&N College the same fiscal year. The change was intended to better align the Company’s fiscal year with the business cycles of both Barnes & Noble and B&N College. As used in this section, “fiscal 2011” represents the 52 weeks ended April 30, 2011, “fiscal 2010” represents the 52 weeks ended May 1, 2010, “transition period” represents the 13 weeks ended May 2, 2009, “fiscal 2008” represents the 52 weeks ended January 31, 2009, and “fiscal 2007” represents the 52 weeks ended February 2, 2008.

**General**

Barnes & Noble, the nation’s largest bookseller,1 is a leading content, commerce and technology company providing customers easy and convenient access to books, magazines, newspapers and other content across its multi-channel distribution platform. As of April 30, 2011, the Company operated 1,341 bookstores in 50 states, including 636 bookstores on college campuses, and one of the Web’s largest eCommerce sites, which includes the development of digital content products and software. Given the dynamic nature of the book industry, the challenges faced by traditional booksellers, and the robust innovation pipeline fueling new opportunities in hardware, software and content creation and delivery, Barnes & Noble is utilizing the strength of its retail footprint to bolster its leadership in the sale of books and increase sales growth across multiple channels.

Of the 1,341 bookstores, 705 operate primarily under the Barnes & Noble Booksellers trade name. B&N College, a wholly-owned subsidiary of Barnes & Noble, operates 636 college bookstores serving over 4.6 million students and faculty members at colleges and universities across the United States. barnesandnoble.com llc (Barnes & Noble.com) encompasses one of the Web’s largest eCommerce sites, Barnes & Noble eBookstore, Barnes & Noble eReader software, and the Company’s devices and other hardware support. Sterling Publishing Co., Inc. (Sterling or Sterling Publishing), bolsters the Company as a leader in general trade book publishing. The Company employed approximately 35,000 full- and part-time employees as of April 30, 2011.

The Company’s principal business is the sale of trade books (generally hardcover and paperback consumer titles), mass market paperbacks (such as mystery, romance, science fiction and other popular fiction), children’s books, eBooks and other digital content, NOOK (references to NOOK™ include the Company’s NOOK 1 st Edition™, NOOK Wi-Fi 1 st Edition™, NOOK Color™ and The All-New NOOK™ eBook Reader devices), 2 and related accessories, bargain books, magazines, gifts, café products and services, educational toys & games, music and movies direct to customers through its bookstores or on Barnes & Noble.com. The Acquisition of B&N College has allowed the Company to expand into sales of textbooks and course-related materials, emblematic apparel and gifts, trade books, school and dorm supplies, and convenience and café items on college and university campuses. In fiscal 2011, B&N

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| --- | --- |
| 1 | Based upon sales reported in trade publications and public filings. |
| 2 | Any reference to NOOK™, NOOK 1st Edition™, NOOK Wi-Fi 1st Edition™, NOOK Color™, and The All-New NOOK™ includes the trademark symbol (™) even if a superscript “TM” is not included. | |

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College began offering a textbook rental option to its customers, and expanded its electronic textbooks and other course materials through a proprietary digital platform (NOOK Study™). B&N College offers its customers a full suite of textbook options – new, used, digital and rental. The Company previously licensed the “Barnes & Noble” trade name from B&N College under certain agreements. The Acquisition gave the Company exclusive ownership of its trade name.

To address dynamic changes in the book selling industry, Barnes & Noble has repositioned its business from a store-based model to a multi-channel model centered in Internet and digital commerce. Barnes & Noble is currently the only enterprise to offer readers the option of store visits, eCommerce, and digital delivery of books to Barnes & Noble-branded devices or other devices of their choosing.

Barnes & Noble’s strategy is to:

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|  | • |  | continue to invest in the digital business to fuel NOOK and seize the market opportunity; |

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| --- | --- | --- | --- |
|  | • |  | use its infrastructure to deliver digital content to customers wirelessly and online; |

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| --- | --- | --- | --- |
|  | • |  | utilize the strong Barnes & Noble brand and retail footprint to attract customers to its multi-channel platform; |

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| --- | --- | --- | --- |
|  | • |  | develop innovative technology; and |

|  |  |  |  |
| --- | --- | --- | --- |
|  | • |  | expand its distribution channels through strategic partnerships with world-class hardware and software companies and retail partners. |

The Company has a multi-channel marketing strategy that deploys various merchandising programs and promotional activities to drive traffic to both its stores and website. At the center of this program is Barnes & Noble.com, which receives over one billion visits annually.

**Segments**

Due to the increased focus on the internet and digital businesses, the Company performed an evaluation on the effect of its impact on the identification of operating segments. The assessment considered 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. As a result of this assessment, the Company has determined that it has three operating segments: B&N Retail, B&N College and B&N.com.

**B&N Retail**

This segment includes 705 bookstores as of April 30, 2011, primarily under the Barnes & Noble Booksellers trade name. These stores generally offer a NOOK Boutique/Counter, a comprehensive trade book title base, a café, a children’s section, an Educational Toys & Games department, a DVDs/BluRay department, a gift department, a music department, a magazine section and a calendar of ongoing events, including author appearances and children’s activities. The B&N Retail segment also includes the Company’s publishing operation, Sterling Publishing.

Barnes & Noble stores range in size from 3,000 to 60,000 square feet depending upon market size, with an overall average store size of 26,000 square feet. In fiscal 2011, the Company reduced the Barnes & Noble store base by 0.3 million square feet, bringing the total square footage to 18.4 million square feet, a 1.7% decrease from fiscal 2010. Each store features an authoritative selection of books, ranging from 20,000 to 200,000 unique titles. The comprehensive title selection is diverse and tailored to each store location to reflect local interests. In addition, Barnes & Noble emphasizes books published by small

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and independent publishers and university presses. Bestsellers (the “top ten” highest selling hardcover fiction and hardcover non-fiction titles) typically represent between 2% and 5% of Barnes & Noble sales. Complementing this extensive in-store selection, all Barnes & Noble stores provide customers with on-site access to the millions of books available to online shoppers while offering an option to have the book sent to the store or shipped directly to the customer through Barnes & Noble.com’s delivery system. All Barnes & Noble stores are equipped with the Company’s proprietary BookMaster in-store operating system, which enhances the Company’s merchandise-replenishment system, resulting in high in-stock positions and productivity at the store level through efficiencies in receiving, cashiering and returns processing. The Company has completed its process of integrating the BookMaster system used in each store with Barnes & Noble.com so that its customers share the same experience across both channels.

*Sterling Publishing*

Sterling Publishing is a leading publisher of non-fiction trade titles. Founded in 1949, Sterling publishes a wide range of non-fiction and illustrated books and kits across a variety of imprints, in categories such as health & wellness, music & popular culture, food & wine, crafts & photography, puzzles & games and history & current affairs, as well as a large and growing presence in children’s books. In addition, there are over 500 titles in the Barnes & Noble Classics ® and its Library of Essential Reading ® series. Sterling combines its distinguished heritage with an open mind to incubating new businesses and an all-consuming, entrepreneurial zest. Sterling’s most recent evolutions include adding two fiction imprints, SilverOak for the adult titles, and Splinter for the children’s titles. These additions expand its 6,000+ title base of e-books and print books, bringing books to life through social events, and creating new ways of storytelling that entertain, enrich and educate.

**B&N College**

B&N College is one of the largest contract operators of bookstores on college and university campuses across the United States. As of April 30, 2011, B&N College operated 636 stores nationwide serving over 4.6 million students and faculty members. The B&N College customer base, which is mainly comprised of students and faculty, can purchase various items from their campus stores, including textbooks and course-related materials, emblematic apparel and gifts, trade books, computer products and eReaders, school and dorm supplies, and convenience and café items. In fiscal 2011, B&N College began offering a textbook rental option to its customers, and expanded its electronic textbooks and other course materials through a proprietary digital platform (NOOK Study™). B&N College offers its customers a full suite of textbook options – new, used, digital and rental.

B&N College operates 603 traditional college bookstores and 33 academic superstores, which are generally larger in size, offer cafés and provide a sense of community that engages the surrounding campus and local communities in college activities and culture. The traditional bookstores range in size from 500 to 48,000 square feet. The academic superstores range in size from 8,000 to 75,000 square feet, includes a café, and carry a large selection of course required textbooks, supplies, emblematic apparel, gifts, and 10,000 to 112,000 titles of trade and reference books.

B&N College generally operates its stores pursuant to multi-year management service agreements under which a school designates B&N College to operate the official school bookstore on campus and B&N College provides the school with regular payments that represent a percentage of store sales and, in some cases, include a minimum fixed guarantee.

B&N College’s business strategy is to maintain long-term relationships with colleges and universities by providing high-quality service to college administrators, faculty and students.

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**B&N.com**

This segment includes the Company’s online business, which includes the Company’s eCommerce site and features an eBookstore and digital newsstand. Additionally, this segment includes the development and support of the Company’s NOOK product offerings.

The eBookstore and digital newsstand allows customers to purchase over two million eBooks, newspapers and magazines. Barnes & Noble’s eBookstore is available on a wide range of digital platforms, including NOOK™, iPad™, iPhone ® , iPod touch ® and select BlackBerry ® and Motorola™ smartphones, as well as most laptops or full-sized desktop computers. Barnes & Noble has implemented innovative features on its digital platform to ensure that customers have a seamless experience across their devices.

The Company has a multi-channel marketing strategy that deploys various merchandising programs and promotional activities to drive traffic to both its stores and website. At the center of this program is Barnes & Noble.com, which receives over one billion visits annually. In this way, Barnes & Noble.com serves as both the Company’s direct-to-home delivery service and as an important broadcast channel and advertising medium for the Barnes & Noble brand. For example, the online store locator at Barnes & Noble.com receives millions of customer visits each year providing store hours, directions, information about author events and other in-store activities. Similarly, in Barnes & Noble stores, NOOK customers can access free Wi-Fi connectivity; enjoy the “Read In Store” feature to browse many complete eBooks for free, and the “More In Store” program, which offers free, exclusive content and special promotions.

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**Results of Operations**

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
|  |  |  | |  |  | 13 weeks ended | | | | | |  |  |  | | | | | | |  | |
| **Fiscal Year** |  | Fiscal 2011 | |  |  | Fiscal 2010 | |  |  | May 2, 2009 | |  |  | May 3, 2008 | |  |  | Fiscal 2008 | |  | |
| **Sales (in thousands)** |  | $ | 6,998,565 |  |  |  | 5,807,754 |  |  |  | 1,105,152 |  |  |  | 1,155,882 |  |  |  | 5,121,804 |  | |
| **Earnings (Loss) From Continuing Operations Attributable to Barnes & Noble, Inc. (in thousands)** |  | $ | (73,920 | ) |  |  | 36,676 |  |  |  | (2,039 | ) |  |  | (566 | ) |  |  | 85,426 |  | |
| **Diluted Earnings (Loss) Per Common Share From Continuing Operations** |  | $ | (1.31 | ) |  |  | 0.63 |  |  |  | (0.04 | ) |  |  | (0.01 | ) |  |  | 1.46 |  | |
| **Comparable Sales Increase (Decrease)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Barnes & Noble stores (a) |  |  | 0.7 | % |  |  | (4.8 | )% |  |  | (5.7 | )% |  |  | (1.5 | )% |  |  | (5.4 | )% | |
| Barnes & Noble College stores (b) |  |  | (0.8 | )% |  |  | (0.2 | )% |  |  | — |  |  |  | — |  |  |  | — |  | |
| Barnes & Noble.com (c) |  |  | 64.7 | % |  |  | 24.0 | % |  |  | (7.2 | )% |  |  | 7.2 | % |  |  | (1.3 | )% | |
| **Stores Opened** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Barnes & Noble stores |  |  | 1 |  |  |  | 8 |  |  |  | 6 |  |  |  | 11 |  |  |  | 35 |  | |
| Barnes & Noble College |  |  | 15 |  |  |  | 11 |  |  |  | — |  |  |  | — |  |  |  | — |  | |
| B. Dalton stores |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Total |  |  | 16 |  |  |  | 19 |  |  |  | 6 |  |  |  | 11 |  |  |  | 35 |  | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| **Stores Closed** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Barnes & Noble stores |  |  | 16 |  |  |  | 18 |  |  |  | 6 |  |  |  | 7 |  |  |  | 22 |  | |
| Barnes & Noble College (d) |  |  | 16 |  |  |  | 6 |  |  |  | — |  |  |  | — |  |  |  | — |  | |
| B. Dalton stores |  |  | — |  |  |  | 47 |  |  |  | 1 |  |  |  | 2 |  |  |  | 33 |  | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Total |  |  | 32 |  |  |  | 71 |  |  |  | 7 |  |  |  | 9 |  |  |  | 55 |  | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| **Number of Stores Open at Year End** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Barnes & Noble stores |  |  | 705 |  |  |  | 720 |  |  |  | 726 |  |  |  | 717 |  |  |  | 726 |  | |
| Barnes & Noble College (d) |  |  | 636 |  |  |  | 637 |  |  |  | — |  |  |  | — |  |  |  | — |  | |
| B. Dalton stores |  |  | — |  |  |  | — |  |  |  | 51 |  |  |  | 83 |  |  |  | 52 |  | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Total |  |  | 1,341 |  |  |  | 1,357 |  |  |  | 777 |  |  |  | 800 |  |  |  | 778 |  | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| **Square Feet of Selling Space at Year End (in millions)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Barnes & Noble stores |  |  | 18.4 |  |  |  | 18.7 |  |  |  | 18.8 |  |  |  | 18.3 |  |  |  | 18.7 |  | |
| B. Dalton stores |  |  | — |  |  |  | — |  |  |  | 0.2 |  |  |  | 0.3 |  |  |  | 0.2 |  | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Total |  |  | 18.4 |  |  |  | 18.7 |  |  |  | 18.9 |  |  |  | 18.6 |  |  |  | 18.9 |  | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |

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

|  |  |
| --- | --- |
| (b) | Comparable store sales increase (decrease) is calculated on a 52-week basis, including sales from stores that have been open for at least 15 months and all eReader device revenue deferred in accordance with ASC 605-25 *Revenue Recognition, Multiple Element Arrangements* , and does not include sales from closed or relocated stores. Additionally, for textbook rentals, comparable store sales reflects the retail selling price of a new or used textbook when rented, rather than solely the rental fee received and amortized over the rental period. |

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|  |  |
| --- | --- |
| (c) | Comparable sales increase (decrease) is calculated on a 52-week basis and includes sales of physical and digital products made online through the Company’s website and eBookstore, including sales through its eReader devices, and all eReader device revenue deferred in accordance with ASC 605-25 *Revenue Recognition, Multiple Element Arrangements* . Additionally, comparable sales reflects the actual retail selling price for eBooks sold under the agency model, rather than solely the commission received. |

|  |  |
| --- | --- |
| (d) | Represents the number of B&N College stores opened and closed since the Acquisition date. |

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | |  |  |  | |  |  | 13 weeks ended | | | | | |  |  |  | |  |
| **Fiscal Year** |  | Fiscal 2011 | |  |  | Fiscal 2010 | |  |  | May 2, 2009 | |  |  | May 3, 2008 | |  |  | Fiscal 2008 | |  |
| Sales |  |  | 100.0 | % |  |  | 100.0 | % |  |  | 100.0 | % |  |  | 100.0 | % |  |  | 100.0 | % |
| Cost of sales and occupancy |  |  | 74.4 |  |  |  | 71.1 |  |  |  | 70.0 |  |  |  | 69.9 |  |  |  | 69.1 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Gross margin |  |  | 25.6 |  |  |  | 28.9 |  |  |  | 30.0 |  |  |  | 30.1 |  |  |  | 30.9 |  |
| Selling and administrative expenses |  |  | 23.3 |  |  |  | 24.0 |  |  |  | 25.9 |  |  |  | 26.3 |  |  |  | 24.4 |  |
| Depreciation and amortization |  |  | 3.3 |  |  |  | 3.6 |  |  |  | 4.2 |  |  |  | 3.6 |  |  |  | 3.4 |  |
| Pre-opening expenses |  |  | 0.0 |  |  |  | 0.1 |  |  |  | 0.2 |  |  |  | 0.4 |  |  |  | 0.2 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Operating margin (loss) |  |  | (0.9 | ) |  |  | 1.3 |  |  |  | (0.3 | ) |  |  | (0.2 | ) |  |  | 2.8 |  |
| Interest income, net and amortization of deferred financing fees |  |  | 0.8 |  |  |  | 0.5 |  |  |  | — |  |  |  | — |  |  |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Earnings (loss) from continuing operations before taxes |  |  | (1.8 | ) |  |  | 0.8 |  |  |  | (0.3 | ) |  |  | (0.1 | ) |  |  | 2.8 |  |
| Income taxes |  |  | (0.7 | ) |  |  | 0.1 |  |  |  | (0.1 | ) |  |  | (0.0 | ) |  |  | 1.1 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Earnings (loss) from continuing operations (net of income tax) |  |  | (1.1 | )% |  |  | 0.6 | % |  |  | (0.2 | )% |  |  | — | % |  |  | 1.7 | % |

***Business Overview***

The Company’s financial performance has been adversely impacted in recent years by a number of factors, including the economic downturn, increased competition and the expanding digital market.

The Company’s core business is the operation of B&N Retail and B&N College stores, from which it derives the majority of its sales and net income. B&N Retail comparable store sales have declined in recent years due to lower consumer traffic as a result of the factors noted above. Even as the economy improves, the Company expects these trends to continue as consumer spending patterns shift toward internet retailers and digital content. The Company faces increasing competition from the expanding market for electronic books, or “eBooks”, eBook readers and digital distribution of content. In addition, one of B&N Retail’s largest competitors in the sale of physical books, Borders Group, Inc. filed Chapter 11 bankruptcy and closed approximately 25% of their stores. The fourth quarter comparable store sales were temporarily negatively impacted by the liquidation. As those stores have closed, the Company is realizing incremental sales in those markets. With the uncertainty of the remaining stores being closed or sold, the Company remains optimistic that this will present opportunities for B&N Retail over the long term.

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Despite these challenges, the Company believes it has attractive opportunities for future development.

The Company has leveraged its unique assets, iconic brands and reach to become a leader in the distribution of digital content. In 2009, the Company entered the eBook market with its acquisition of Fictionwise, a leader in the eBook marketplace, and the popularity of its eBook site continues to grow. Since then, the Company launched its NOOK™ brand of eReading products, which provide a fun, easy-to-use and immersive digital reading experience. With NOOK™, customers gain access to the Company’s expansive NOOK Bookstore™ of more than two million digital titles, and the ability to enjoy content access to a wide array of popular devices. The Company’s eBook market share has grown to over 25%.

In October 2010, Barnes & Noble introduced NOOK Color™, the first full-color touch Reader’s Tablet, complementing its NOOK 1st Edition™ and NOOK Wi-Fi 1 st Edition™ devices, which offer a paper-like reading experience with a color touch screen for navigation. Most recently, the Company has introduced The All-New NOOK™, The Simple Touch Reader™, the easiest-to-use, most intuitive eReader available that is ultra light, features best-in-class battery performance, a 6-inch full touchscreen and the most advanced E Ink Pearl display at a desirable market price point. In addition to NOOK™ devices, the Company makes it easy for customers to enjoy any book, anytime, anywhere with its free line of NOOK™ software specific application, which has won the Webby People’s Voice Award. Customers can use Barnes & Noble’s free eReading software to access and read books from their personal Barnes & Noble digital library on devices including iPad™, iPhone ® , Android™ smartphones and tablets, BlackBerry ® and other smartphones, as well as most laptops or full-sized desktop computers. The Lifetime Library™ helps ensure that Barnes & Noble customers will always be able to access their digital libraries on NOOK™ products and software-enabled devices and BN.com. The Company also offers NOOK Newsstand™, which provides an extensive selection of digital newspapers and magazines, available in both subscription and single copy format, NOOK Kids™, a collection of digital picture and chapter books for children and NOOK Study™, an innovative study platform and software solution for higher education.

As digital and electronic sales become a larger part of its business, the Company believes its footprint of more than 1,300 stores will continue to be a major competitive asset. The Company plans to integrate its traditional retail, trade book and college bookstores businesses with its electronic and internet offerings, using retail stores in attractive geographic markets to promote and sell digital devices and content. Customers can see, feel and experiment with the NOOK™ in the Company’s stores.

Although the stores will be just a part of the offering, they will remain a key driver of sales and cash flow as the Company expands its multi-channel relationships with its customers. The Company does not expect to open retail stores in new geographic markets or expand the total number of retail stores in the near future.

B&N College provides direct access to a large and well-educated demographic group, enabling the Company to build relationships with students throughout their college years and beyond. The Company also expects to be the beneficiary of market consolidation as more and more schools outsource their bookstore management. The Company is in a unique market position to benefit from this trend given its full suite of services: bookstore management, textbook rental and digital delivery.

Although the Company believes cash on hand, cash flows from operating activities, funds

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available from its senior credit facility and short-term vendor financing provide the Company with adequate liquidity and capital resources for seasonal working capital requirements, the Company may raise additional capital to support the growth of its online and digital businesses.

*Strategic alternative process.* On August 3, 2010, the Company’s Board of Directors created a Special Committee to review strategic alternatives, including a possible sale of the Company. On May 19, 2011, the Company announced that the Special Committee received a proposal from Liberty Media to acquire the Company. There can be no assurance that any definitive offer to acquire the Company will be made, or if made what the terms thereof will be, or that this or any other transaction will be approved or consummated. Moreover, there can be no assurance that the Special Committee’s review of strategic alternatives will result in a sale of the Company or in any other transaction.

**52 Weeks Ended April 30, 2011 Compared with 52 Weeks Ended May 1, 2010**

*Sales*

The following table summarizes the Company’s sales for the 52 weeks ended April 30, 2011 and May 1, 2010:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
|  |  | 52 weeks ended | | | | | | | | | | | | | | |  | |
| *Dollars in thousands* |  | April 30,  2011 | |  |  | % Total | |  |  | May 1,  2010 | |  |  | % Total | |  | |
| B&N Retail |  | $ | 4,364,246 |  |  |  | 62.3 | % |  | $ | 4,401,343 |  |  |  | 75.7 | % | |
| B&N College |  |  | 1,776,223 |  |  |  | 25.4 | % |  |  | 833,648 |  |  |  | 14.4 | % | |
| B&N.com |  |  | 858,096 |  |  |  | 12.3 | % |  |  | 572,763 |  |  |  | 9.9 | % | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Total Sales |  | $ | 6,998,565 |  |  |  | 100.0 | % |  | $ | 5,807,754 |  |  |  | 100.0 | % | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |

The Company’s sales increased $1.19 billion, or 20.5%, during fiscal 2011 to $6.99 billion from $5.81 billion during fiscal 2010. The increase or (decrease) by segment is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | • |  | B&N Retail sales for fiscal 2011 decreased $37.1 million, or 0.8%, to $4.36 billion from $4.40 billion during fiscal 2010, and accounted for 62.3% of total Company sales. This decrease was primarily attributable to closed stores that decreased sales by $93.3 million offset by a 0.7% increase in comparable store sales, which increased sales by $29.1 million, and new Barnes & Noble stores that contributed to an increase in sales of $25.0 million. The 0.7% increase in comparable sales was primarily due to the strong sales of digital products and the expansion into areas such as Toys & Games offset by the decline in trade books. B&N Retail also includes third-party sales of Sterling Publishing Co., Inc. |

|  |  |  |  |
| --- | --- | --- | --- |
|  | • |  | B&N College sales increased $942.6 million, or 113.1%, to $1.78 billion during fiscal 2011 from $833.6 million during fiscal 2010. This increase in sales was due to the Acquisition on September 30, 2009. Comparable sales for B&N College decreased 0.8% during fiscal 2011. This decrease in comparable sales was primarily due to lower textbook and trade book sales offset by higher general merchandise sales. |

|  |  |  |  |
| --- | --- | --- | --- |
|  | • |  | B&N.com sales increased $285.3 million, or 49.8%, to $858.1 million during fiscal 2011 from $572.8 million during fiscal 2010. Comparable sales for B&N.com increased 64.7% in fiscal 2011. This increase in sales was primarily due to higher NOOK and related accessories and digital content sales, as well as higher sales of physical products. |

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In fiscal 2011, the Company opened one Barnes & Noble store and closed 16, bringing its total number of Barnes & Noble stores to 705 with 18.4 million square feet. In fiscal 2011, the Company added 15 B&N College stores and closed 16, ending the period with 636 B&N College stores. As of April 30, 2011, the Company operated 1,341 stores in the fifty states and the District of Columbia.

*Cost of Sales and Occupancy*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
|  |  | 52 weeks ended | | | | | | | | | | | | | | |  | |
| *Dollars in thousands* |  | April 30,  2011 | |  |  | % Sales | |  |  | May 1,  2010 | |  |  | % Sales | |  | |
| B&N Retail |  | $ | 3,030,120 |  |  |  | 69.4 | % |  | $ | 2,971,893 |  |  |  | 67.5 | % | |
| B&N College |  |  | 1,392,880 |  |  |  | 78.4 | % |  |  | 656,484 |  |  |  | 78.7 | % | |
| B&N.com |  |  | 782,712 |  |  |  | 91.2 | % |  |  | 502,632 |  |  |  | 87.8 | % | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Total Cost of Sales and Occupancy |  | $ | 5,205,712 |  |  |  | 74.4 | % |  | $ | 4,131,009 |  |  |  | 71.1 | % | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |

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

Cost of sales and occupancy increased $1.07 billion, or 26.0%, to $5.21 billion, in fiscal 2011 from $4.13 billion in fiscal 2010. Cost of sales and occupancy increased as a percentage of sales to 74.4% in fiscal 2011 from 71.1% in fiscal 2010. The increase or (decrease) by segment is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | • |  | B&N Retail cost of sales and occupancy increased as a percentage of sales to 69.4% in fiscal 2011 from 67.5% in fiscal 2010. This increase was primarily attributable to greater NOOK™ device sales, which have lower margins. |

|  |  |  |  |
| --- | --- | --- | --- |
|  | • |  | B&N College cost of sales and occupancy, included since the Acquisition on September 30, 2009, decreased slightly as a percentage of sales to 78.4% in fiscal 2011 from 78.7% in fiscal 2010. This decrease was primarily attributable to higher general merchandise sales that have higher margins. |

|  |  |  |  |
| --- | --- | --- | --- |
|  | • |  | B&N.com cost of sales and occupancy increased as a percentage of sales to 91.2% in fiscal 2011 from 87.8% in fiscal 2010. This increase was primarily attributable to greater NOOK™ device sales online, which have lower margins. |

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*Selling and Administrative Expenses*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
|  |  | 52 weeks ended | | | | | | | | | | | | | | |  | |
| *Dollars in thousands* |  | April 30,  2011 | |  |  | % Sales | |  |  | May 1,  2010 | |  |  | % Sales | |  | |
| B&N Retail |  | $ | 1,085,688 |  |  |  | 24.9 | % |  | $ | 1,089,095 |  |  |  | 24.7 | % | |
| B&N College |  |  | 263,747 |  |  |  | 14.8 | % |  |  | 152,168 |  |  |  | 18.3 | % | |
| B&N.com |  |  | 279,949 |  |  |  | 32.6 | % |  |  | 150,944 |  |  |  | 26.4 | % | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Total Selling and Administrative Expenses |  | $ | 1,629,384 |  |  |  | 23.3 | % |  | $ | 1,392,207 |  |  |  | 24.0 | % | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |

Selling and administrative expenses increased $237.2 million, or 17.0%, to $1.63 billion in fiscal 2011 from $1.39 billion in fiscal 2010. Selling and administrative expenses decreased as a percentage of sales to 23.3% in fiscal 2011 from 24.0% in fiscal 2010. The increase or (decrease) by segment is as follows:

|  |  |  |
| --- | --- | --- |
|  | • | B&N Retail selling and administrative expenses increased slightly as a percentage of sales to 24.9% in fiscal 2011 from 24.7% in fiscal 2010. This increase was primarily attributable to legal costs relating to the shareholder rights plan litigation and a proxy contest. |

|  |  |  |
| --- | --- | --- |
|  | • | B&N College selling and administrative expenses, included since the Acquisition on September 30, 2009, decreased as a percentage of sales to 14.8% in fiscal 2011 from 18.3% in fiscal 2010. This decrease was primarily attributable to the inclusion of the Fall back to school rush period in fiscal 2011, resulting in greater leverage on sales. |

|  |  |  |
| --- | --- | --- |
|  | • | B&N.com selling and administrative expenses increased as a percentage of sales to 32.6% in fiscal 2011 from 26.4% in fiscal 2010. This increase was primarily attributable to increased resources allocated to the Company’s digital strategies, including the marketing program relating to the launch of NOOK Color and the increased cost related to the Company’s customer service center. |

*Depreciation and Amortization*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
|  |  | 52 weeks ended | | | | | | | | | | | | | | |  | |
| *Dollars in thousands* |  | April 30,  2011 | |  |  | % Sales | |  |  | May 1,  2010 | |  |  | % Sales | |  | |
| B&N Retail |  | $ | 157,528 |  |  |  | 3.6 | % |  | $ | 157,663 |  |  |  | 3.6 | % | |
| B&N College |  |  | 43,148 |  |  |  | 2.4 | % |  |  | 24,863 |  |  |  | 3.0 | % | |
| B&N.com |  |  | 27,971 |  |  |  | 3.3 | % |  |  | 25,248 |  |  |  | 4.4 | % | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Total Depreciation and Amortization |  | $ | 228,647 |  |  |  | 3.3 | % |  | $ | 207,774 |  |  |  | 3.6 | % | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |

Depreciation and amortization increased $20.9 million, or 10.0%, to $228.6 million in fiscal 2011 from $207.8 million in fiscal 2010. This increase was primarily attributable to the inclusion of the B&N College depreciation and amortization since the Acquisition on September 30, 2009, which increased $18.3 million to $43.1 million in fiscal 2011 from $24.9 million during fiscal 2010.

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*Pre-opening Expenses*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
|  |  | 52 weeks ended | | | | | | | | | | | | | | |  | |
| *Dollars in thousands* |  | April 30,  2011 | |  |  | % Sales | |  |  | May 1,  2010 | |  |  | % Sales | | |  | |
| B&N Retail |  | $ | (74 | ) |  |  | 0.0 | % |  | $ | 3,461 |  |  |  | 0.1 | % | |
| B&N College |  |  | 155 |  |  |  | 0.0 | % |  |  | 57 |  |  |  | 0.0 | % | |
| B&N.com |  |  | — |  |  |  | 0.0 | % |  |  | — |  |  |  | 0.0 | % | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Total Pre-opening Expenses |  | $ | 81 |  |  |  | 0.0 | % |  | $ | 3,518 |  |  |  | 0.1 | % | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |

Pre-opening expenses decreased $3.4 million, or 97.7%, to $0.08 million in fiscal 2011 from $3.5 million in fiscal 2010. This decrease was primarily the result of the lower volume of B&N Retail store openings.

*Operating Profit (Loss)*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
|  |  | 52 weeks ended | | | | | | | | | | | | | | |  | |
| *Dollars in thousands* |  | April 30,  2011 | |  |  | % Sales | |  |  | May 1,  2010 | |  |  | % Sales | |  | |
| B&N Retail |  | $ | 90,984 |  |  |  | 2.1 | % |  | $ | 179,231 |  |  |  | 4.1 | % | |
| B&N College |  |  | 76,293 |  |  |  | 4.3 | % |  |  | 76 |  |  |  | 0.0 | % | |
| B&N.com |  |  | (232,536 | ) |  |  | (27.1 | %) |  |  | (106,061 | ) |  |  | (18.5 | %) | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Total Operating Profit (Loss) |  | $ | (65,259 | ) |  |  | (0.9 | %) |  | $ | 73,246 |  |  |  | 1.3 | % | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |

The Company’s consolidated operating profit decreased $138.5 million, or 189.1%, to an operating loss of $65.3 million in fiscal 2011 from an operating profit of $73.2 million in fiscal 2010. This decrease was due to the matters discussed above.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | 52 weeks ended | | | | | | | | | |  |
| *Dollars in thousands* |  | April 30,  2011 | |  |  | May 1,  2010 | |  |  | % of Change | |  |
| Interest Expense, Net and Amortization of Deferred Financing Fees |  | $ | 57,350 |  |  | $ | 28,237 |  |  |  | 103.1 | % |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

Net interest expense and amortization of deferred financing fees increased $29.1 million, to $57.4 million in fiscal 2011 from $28.2 million in fiscal 2010. This increase in interest expense was primarily due to interest expense related to debt from the Acquisition of B&N College, investments made in digital and a $6.6 million write-off of deferred financing fees related to the amendment of the Company’s credit facility.

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*Income Taxes*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | 52 weeks ended | | | | | | | | | | | | | |  |
| *Dollars in thousands* |  | April 30,  2011 | |  |  | Effective Rate | |  |  | May 1,  2010 | |  |  | Effective Rate | |  |
| Income Taxes |  | $ | (48,652 | ) |  |  | 39.7 | % |  | $ | 8,365 |  |  |  | 18.6 | % |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

Income tax benefit in fiscal 2011 was $48.7 million compared with income tax expense of $8.4 million in fiscal 2010. The Company’s effective tax rate increased to 39.7% in fiscal 2011 compared with 18.6% in fiscal 2010. The lower effective tax rate in fiscal 2010 was due primarily to the recognition of previously unrecognized tax benefits for years settled with the applicable tax authorities. The tax benefit in fiscal 2011 is a result of operating losses incurred during the fiscal year.

*Net Loss Attributable to Noncontrolling Interests*

Net loss attributable to noncontrolling interests was $0.04 million in fiscal 2011 compared with $0.03 million in fiscal 2010, and relates to the 50% outside interest in Begin Smart LLC (Begin Smart).

During fiscal 2011, the Company purchased the remaining 50% outside interest in Begin Smart LLC for $0.3 million. 100% of Begin Smart results of operations for the period subsequent to the Begin Smart acquisition date are included in the consolidated financial statements.

*Net Earnings (Loss) Attributable to Barnes & Noble, Inc.*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
|  |  | 52 weeks ended | | | | | | | | | | | | | | |  | |
| *Dollars in thousands* |  | April 30,  2011 | |  |  | Diluted EPS | |  |  | May 1,  2010 | |  |  | Diluted EPS | |  | |
| Net Earnings (Loss) Attributable to Barnes & Noble, Inc. |  | $ | (73,920 | ) |  | $ | (1.31 | ) |  | $ | 36,676 |  |  | $ | 0.63 |  | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |

As a result of the factors discussed above, the Company reported a consolidated net loss of $73.9 million (or $1.31 per diluted share) during fiscal 2011, compared with consolidated net earnings of $36.7 million (or $0.63 per diluted share) during fiscal 2010.

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**52 Weeks Ended May 1, 2010 Compared with 52 Weeks Ended January 31, 2009**

*Sales*

The following table summarizes the Company’s sales for the 52 weeks ended May 1, 2010 and January 31, 2009:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
|  |  | 52 weeks ended | | | | | | | | | | | | | | |  | |
| *Dollars in thousands* |  | May 1,  2010 | |  |  | % Total | |  |  | January 31,  2009 | |  |  | % Total | |  | |
| B&N Retail |  | $ | 4,401,343 |  |  |  | 75.7 | % |  | $ | 4,652,666 |  |  |  | 90.8 | % | |
| B&N College |  |  | 833,648 |  |  |  | 14.4 | % |  |  | — |  |  |  | 0.0 | % | |
| B&N.com |  |  | 572,763 |  |  |  | 9.9 | % |  |  | 469,138 |  |  |  | 9.2 | % | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Total Sales |  | $ | 5,807,754 |  |  |  | 100.0 | % |  | $ | 5,121,804 |  |  |  | 100.0 | % | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |

The Company’s sales increased $688.8 million, or 13.4%, during fiscal 2010 to $5.81 billion from $5.12 billion during fiscal 2008. The increase or (decrease) by segment is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | • |  | B&N Retail sales for fiscal 2010 decreased $251.3 million, or 5.4%, to $4.40 billion from $4.65 billion during fiscal 2008, and accounted for 75.7% of total Company sales. The 5.4% decrease in Barnes & Noble store sales was primarily attributable to a 4.8% decrease in comparable store sales, calculated on a 52-week basis comparing fiscal 2010 to the 52 weeks ended May 2, 2009, which decreased sales by $199.3 million, and by closed stores that decreased sales by $113.2 million, offset by new Barnes & Noble stores that contributed to an increase in sales of $113.4 million. The 4.8% decrease in comparable store sales was primarily due to a 5.7% decline in store traffic. B&N Retail includes B. Dalton sales. As of January 31, 2010, all but four B. Dalton stores were closed. The Company has converted the four remaining B. Dalton stores to B&N Bookseller stores. |

|  |  |  |  |
| --- | --- | --- | --- |
|  | • |  | B&N College contributed $833.6 million in sales during fiscal 2010 after the Acquisition on September 30, 2009. Comparable sales for B&N College decreased 0.2% during this time and were primarily attributable to modest declines in textbook and trade book sales affected by general economic conditions, the decrease in educational funding for colleges and universities and increased competition. |

|  |  |  |  |
| --- | --- | --- | --- |
|  | • |  | Barnes & Noble.com sales increased $103.6 million, or 22.1%, to $572.8 million during fiscal 2010 from $469.1 million during the fiscal 2008. This increase to sales was primarily attributable to the launch of NOOK™ and other digital product sales, as well as the promotional launch of “everyday low pricing” (EDLP), which also led to increased traffic to the website. |

In fiscal 2010, the Company opened eight Barnes & Noble stores and closed 18, bringing its total number of Barnes & Noble stores to 720 with 18.7 million square feet. In fiscal 2010 since the date of Acquisition, the Company added 11 B&N College stores and closed six, ending the period with 637 B&N College stores. As of May 1, 2010, the Company operated 1,357 stores in the fifty states and the District of Columbia.

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*Cost of Sales and Occupancy*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
|  |  | 52 weeks ended | | | | | | | | | | | | | | |  | |
| *Dollars in thousands* |  | May 1,  2010 | |  |  | % Sales | |  |  | January 31,  2009 | |  |  | % Sales | |  | |
| B&N Retail |  | $ | 2,971,893 |  |  |  | 67.5 | % |  | $ | 3,174,921 |  |  |  | 68.2 | % | |
| B&N College |  |  | 656,484 |  |  |  | 78.7 | % |  |  | — |  |  |  | 0.0 | % | |
| B&N.com |  |  | 502,632 |  |  |  | 87.8 | % |  |  | 365,675 |  |  |  | 77.9 | % | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Total Cost of Sales and Occupancy |  | $ | 4,131,009 |  |  |  | 71.1 | % |  | $ | 3,540,596 |  |  |  | 69.1 | % | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |

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

Cost of sales and occupancy increased $593.2 million, or 16.8%, to $4.13 billion in fiscal 2010 from $3.54 billion in fiscal 2008. Cost of sales and occupancy increased as a percentage of sales to 71.1% in fiscal 2010 from 69.1% during fiscal 2008. The increase or (decrease) by segment is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | • |  | B&N Retail cost of sales and occupancy decreased as a percentage of sales to 67.5% in fiscal 2010 from 68.2% in fiscal 2008. This decrease was primarily attributable to reductions in returns to suppliers due to tighter inventory purchasing controls and reductions in the Company’s distribution center average cost per unit processed, as well as lower freight costs in general. |

|  |  |  |  |
| --- | --- | --- | --- |
|  | • |  | B&N College cost of sales and occupancy was included since the Acquisition on September 30, 2009. |

|  |  |  |  |
| --- | --- | --- | --- |
|  | • |  | B&N.com cost of sales and occupancy increased as a percentage of sales to 87.8% in fiscal 2010 from 77.9% in fiscal 2008. This increase was primarily attributable to higher online sales due to the promotional launch of EDLP, NOOK™ and eBook sales. |

*Selling and Administrative Expenses*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
|  |  | 52 weeks ended | | | | | | | | | | | | | | |  | |
| *Dollars in thousands* |  | May 1,  2010 | |  |  | % Sales | |  |  | January 31,  2009 | |  |  | % Sales | |  | |
| B&N Retail |  | $ | 1,089,095 |  |  |  | 24.7 | % |  | $ | 1,133,075 |  |  |  | 24.4 | % | |
| B&N College |  |  | 152,168 |  |  |  | 18.3 | % |  |  | — |  |  |  | 0.0 | % | |
| B&N.com |  |  | 150,944 |  |  |  | 26.4 | % |  |  | 118,449 |  |  |  | 25.2 | % | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Total Selling and Administrative Expenses |  | $ | 1,392,207 |  |  |  | 24.0 | % |  | $ | 1,251,524 |  |  |  | 24.4 | % | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |

Selling and administrative expenses increased $140.7 million, or 11.2%, to $1.39 billion in fiscal 2010 from $1.25 billion in fiscal 2008. Selling and administrative expenses decreased as a percentage of sales to 24.0% in fiscal 2010 from 24.4% during fiscal 2008. The increase or (decrease) by segment is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | • |  | B&N Retail selling and administrative expenses increased as a percentage of sales to 24.7% in fiscal 2010 from 24.4% in fiscal 2008. This increase was primarily attributable to $10.4 million of Acquisition-related costs and the deleveraging of fixed expenses with negative comparable store sales, offset by a $6.7 million benefit related to an insurance settlement. |

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|  |  |  |  |
| --- | --- | --- | --- |
|  | • |  | B&N College selling and administrative expenses were included since the Acquisition on September 30, 2009. |

|  |  |  |  |
| --- | --- | --- | --- |
|  | • |  | B&N.com selling and administrative expenses increased as a percentage of sales to 26.4% in fiscal 2010 from 25.2% in fiscal 2008. This increase was primarily attributable to increased resources allocated to the Company’s digital strategies. |

*Depreciation and Amortization*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
|  |  | 52 weeks ended | | | | | | | | | | | | | | |  | |
| *Dollars in thousands* |  | May 1,  2010 | |  |  | % Sales | |  |  | January 31,  2009 | |  |  | % Sales | |  | |
| B&N Retail |  | $ | 157,663 |  |  |  | 3.6 | % |  | $ | 154,304 |  |  |  | 3.3 | % | |
| B&N College |  |  | 24,863 |  |  |  | 3.0 | % |  |  | — |  |  |  | 0.0 | % | |
| B&N.com |  |  | 25,248 |  |  |  | 4.4 | % |  |  | 19,253 |  |  |  | 4.1 | % | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Total Depreciation and Amortization |  | $ | 207,774 |  |  |  | 3.6 | % |  | $ | 173,557 |  |  |  | 3.4 | % | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |

Depreciation and amortization increased $34.2 million, or 19.7%, to $207.8 million in fiscal 2010, from $173.6 million in fiscal 2008. This increase was primarily attributable to the inclusion of B&N College depreciation and amortization of $24.9 million, included since the Acquisition on September 30, 2009.

*Pre-opening Expenses*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
|  |  | 52 weeks ended | | | | | | | | | | | | | | |  | |
| *Dollars in thousands* |  | May 1,  2010 | |  |  | % Sales | |  |  | January 31,  2009 | |  |  | % Sales | |  | |
| B&N Retail |  | $ | 3,461 |  |  |  | 0.1 | % |  | $ | 12,796 |  |  |  | 0.3 | % | |
| B&N College |  |  | 57 |  |  |  | 0.0 | % |  |  | — |  |  |  | 0.0 | % | |
| B&N.com |  |  | — |  |  |  | 0.0 | % |  |  | — |  |  |  | 0.0 | % | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Total Pre-opening Expenses |  | $ | 3,518 |  |  |  | 0.1 | % |  | $ | 12,796 |  |  |  | 0.2 | % | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |

Pre-opening expenses decreased $9.3 million, or 72.5%, in fiscal 2010 to $3.5 million from $12.8 million in fiscal 2008. This decrease was primarily the result of the lower volume of Barnes & Noble new store openings.

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*Operating Profit (Loss)*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
|  |  | 52 weeks ended | | | | | | | | | | | | | | |  | |
| *Dollars in thousands* |  | May 1,  2010 | |  |  | % Sales | |  |  | January 31,  2009 | |  |  | % Sales | |  | |
| B&N Retail |  | $ | 179,231 |  |  |  | 4.1 | % |  | $ | 177,570 |  |  |  | 3.8 | % | |
| B&N College |  |  | 76 |  |  |  | 0.0 | % |  |  | — |  |  |  | 0.0 | % | |
| B&N.com |  |  | (106,061 | ) |  |  | (18.5 | %) |  |  | (34,239 | ) |  |  | (7.3 | %) | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Total Operating Profit |  | $ | 73,246 |  |  |  | 1.3 | % |  | $ | 143,331 |  |  |  | 2.8 | % | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |

The Company’s consolidated operating profit decreased $70.1 million, or 48.9%, to $73.2 million in fiscal 2010 from $143.3 million in fiscal 2008. This decrease in operating profit was primarily due to the matters discussed above.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | 52 weeks ended | | | | | | | | | |  |
| *Dollars in thousands* |  | May 1,  2010 | |  |  | January 31,  2009 | |  |  | % of Change | |  |
| Interest Expense, Net and Amortization of Deferred Financing Fees |  | $ | 28,237 |  |  | $ | 2,344 |  |  |  | 1,104.7 | % |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

Net interest expense and amortization of deferred financing fees increased $25.9 million, or 1,104.7%, to $28.2 million in fiscal 2010 from $2.3 million in fiscal 2008. This increase in interest expense was primarily due to interest expense related to the notes issued in connection with the Acquisition of B&N College.

*Income Taxes*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | 52 weeks ended | | | | | | | | | | | | | |  |
| *Dollars in thousands* |  | May 1,  2010 | |  |  | Effective Rate | |  |  | January 31,  2009 | |  |  | Effective Rate | |  |
| Income Taxes |  | $ | 8,365 |  |  |  | 18.6 | % |  | $ | 55,591 |  |  |  | 39.4 | % |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

Income taxes were $8.4 million in fiscal 2010 compared with $55.6 million in fiscal 2008. The Company’s effective tax rate in fiscal 2010 decreased to 18.6% compared with 39.4% during fiscal 2008. The decrease in the effective tax rate was due primarily to the recognition of previously unrecognized tax benefits for years settled with the applicable tax authorities. This benefit was partially offset by additional accruals for subsequent years’ unrecognized tax benefits.

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*Loss from Discontinued Operations*

On February 25, 2009, the Company sold its interest in Calendar Club to Calendar Club and its chief executive officer for $7.0 million, which was comprised of $1.0 million in cash and $6.0 million in notes. Calendar Club is no longer a subsidiary of the Company and the results of Calendar Club have been classified as discontinued operations in all periods presented. Accordingly, the Company reported a $9.5 million loss from discontinued operations for the 52 weeks ended January 31, 2009. During fiscal 2011, the Company received the $6.0 million note payment from Calendar Club. The note was received prior to its scheduled due date.

*Net Loss Attributable to Noncontrolling Interests*

Net loss attributable to noncontrolling interests was $0.03 million during fiscal 2010 and fiscal 2008, and relates to the 50% outside interest in Begin Smart LLC.

*Net Earnings Attributable to Barnes & Noble, Inc.*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
|  |  | 52 weeks ended | | | | | | | | | | | | | | |  | |
| *Dollars in thousands* |  | May 1,  2010 | |  |  | Diluted EPS | |  |  | January 31,  2009 | |  |  | Diluted EPS | |  | |
| Net Earnings Attributable to Barnes & Noble, Inc. |  | $ | 36,676 |  |  | $ | 0.63 |  |  | $ | 75,920 |  |  | $ | 1.29 |  | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |

As a result of the factors discussed above, the Company reported consolidated net earnings of $36.7 million (or $0.63 per diluted share) during fiscal 2010, compared with consolidated net earnings of $75.9 million (or $1.29 per diluted share) during fiscal 2008.

**13 Weeks Ended May 2, 2009 Compared with 13 Weeks Ended May 3, 2008**

*Sales*

The following table summarizes the Company’s sales for the 13 weeks ended May 2, 2009 and May 3, 2008:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
|  |  | 13 weeks ended | | | | | | | | | | | | | | |  | |
| *Dollars in thousands* |  | May 2,  2009 | |  |  | % Total | |  |  | May 3,  2008 | |  |  | % Total | |  | |
| B&N Retail |  | $ | 1,012,077 |  |  |  | 91.6 | % |  | $ | 1,055,628 |  |  |  | 91.3 | % | |
| B&N.com |  |  | 93,075 |  |  |  | 8.4 | % |  |  | 100,254 |  |  |  | 8.7 | % | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Total Sales |  | $ | 1,105,152 |  |  |  | 100.0 | % |  | $ | 1,155,882 |  |  |  | 100.0 | % | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |

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During the 13 weeks ended May 2, 2009, the Company’s sales decreased $50.7 million, or 4.4%, to $1.11 billion from $1.16 billion during the 13 weeks ended May 3, 2008. This decrease was primarily attributable to the following:

|  |  |  |  |
| --- | --- | --- | --- |
|  | • |  | Barnes & Noble store sales for the 13 weeks ended May 2, 2009 decreased $43.6 million, or 4.1%, to $1.01 billion from $1.06 billion during the 13 weeks ended May 3, 2008, and accounted for 91.6% of total Company sales. The 4.1% decrease in Barnes & Noble store sales was primarily attributable to a 4.9% decrease in transaction volume driven by a decline in traffic stemming from general economic conditions, which resulted in a 5.7% decrease in comparable store sales or $54.6 million, and closed stores that decreased sales by $28.7 million, offset by new Barnes & Noble store sales of $42.2 million. The 5.7% decrease in comparable store sales was also attributable to the decrease in comparable music and audio department sales caused by industry trends toward electronic downloads. |

|  |  |  |  |
| --- | --- | --- | --- |
|  | • |  | Barnes & Noble.com sales decreased $7.2 million, or 7.2%, to $93.1 million during the 13 weeks ended May 2, 2009 from $100.3 million during the 13 weeks ended May 3, 2008. This decrease was primarily due to lower conversion ratio, which measures the ratio of online orders to visits. The decrease was also due to lower average online order values. |

During the 13 weeks ended May 2, 2009, the Company opened six Barnes & Noble stores and closed six, bringing its total number of Barnes & Noble stores to 726 with 18.8 million square feet. The Company closed one B. Dalton store, ending the period with 51 B. Dalton stores and 0.2 million square feet. As of May 2, 2009, the Company operated 777 stores in the fifty states and the District of Columbia.

*Cost of Sales and Occupancy*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
|  |  | 13 weeks ended | | | | | | | | | | | | | | |  | |
| *Dollars in thousands* |  | May 2,  2009 | |  |  | % Sales | |  |  | May 3,  2008 | |  |  | % Sales | |  | |
| B&N Retail |  | $ | 699,916 |  |  |  | 69.2 | % |  | $ | 730,725 |  |  |  | 69.2 | % | |
| B&N.com |  |  | 73,575 |  |  |  | 79.0 | % |  |  | 77,190 |  |  |  | 77.0 | % | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Total Cost of Sales and Occupancy |  | $ | 773,491 |  |  |  | 70.0 | % |  | $ | 807,915 |  |  |  | 69.9 | % | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |

The Company’s cost of sales and occupancy includes costs such as merchandise costs, distribution center costs (including payroll, freight, supplies, depreciation 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 May 2, 2009, cost of sales and occupancy decreased $34.4 million, or 4.3%, to $773.5 million from $807.9 million during the 13 weeks ended May 3, 2008. As a percentage of sales, cost of sales and occupancy increased slightly to 70.0% from 69.9% the same period one year ago. The increase or (decrease) by segment is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | • |  | B&N Retail cost of sales and occupancy remained flat as a percentage of sales at 69.2% during 13 weeks ended May 2, 2009 and the 13 weeks ended May 3, 2008. |

|  |  |  |  |
| --- | --- | --- | --- |
|  | • |  | B&N.com cost of sales and occupancy increased as a percentage of sales to 79.0% during 13 weeks ended May 2, 2009 from 77.0% during the 13 weeks ended May 3, 2008. This increase was primarily due to deleveraging of fixed costs on the decrease in sales. |

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*Selling and Administrative Expenses*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
|  |  | 13 weeks ended | | | | | | | | | | | | | | |  | |
| *Dollars in thousands* |  | May 2,  2009 | |  |  | % Sales | |  |  | May 3,  2008 | |  |  | % Sales | |  | |
| B&N Retail |  | $ | 259,440 |  |  |  | 25.6 | % |  | $ | 270,484 |  |  |  | 25.6 | % | |
| B&N.com |  |  | 27,114 |  |  |  | 29.1 | % |  |  | 33,379 |  |  |  | 33.3 | % | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Total Selling and Administrative Expenses |  | $ | 286,554 |  |  |  | 25.9 | % |  | $ | 303,863 |  |  |  | 26.3 | % | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |

Selling and administrative expenses decreased $17.3 million, or 5.7%, to $286.6 million during the 13 weeks ended May 2, 2009 from $303.9 million during the 13 weeks ended May 3, 2008. During the 13 weeks ended May 2, 2009, selling and administrative expenses decreased as a percentage of sales to 25.9% from 26.3% during the prior year period. The increase or (decrease) by segment is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | • |  | B&N Retail selling and administrative expenses remained flat as a percentage of sales at 25.6% during the 13 weeks ended May 2, 2009 and the 13 weeks ended May 3, 2008. |

|  |  |  |  |
| --- | --- | --- | --- |
|  | • |  | B&N.com selling and administrative expenses decreased as a percentage of sales to 29.1% during 13 weeks ended May 2, 2009 from 33.3% during 13 weeks ended May 3, 2008. This decrease was primarily due to an $8.3 million charge incurred during the 13 weeks ended May 3, 2008 for a settlement with the State of California regarding the collection of sales and use taxes on sales made by Barnes & Noble.com from 1999 to 2005. |

*Depreciation and Amortization*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
|  |  | 13 weeks ended | | | | | | | | | | | | | | |  | |
| *Dollars in thousands* |  | May 2,  2009 | |  |  | % Sales | |  |  | May 3,  2008 | |  |  | % Sales | |  | |
| B&N Retail |  | $ | 41,246 |  |  |  | 4.1 | % |  | $ | 36,504 |  |  |  | 3.5 | % | |
| B&N.com |  |  | 4,633 |  |  |  | 5.0 | % |  |  | 4,810 |  |  |  | 4.8 | % | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Total Depreciation and Amortization |  | $ | 45,879 |  |  |  | 4.2 | % |  | $ | 41,314 |  |  |  | 3.6 | % | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |

During the 13 weeks ended May 2, 2009, depreciation and amortization increased $4.6 million, or 11.0%, to $45.9 million from $41.3 million during the 13 weeks ended May 3, 2008. This increase was primarily due to depreciation on additional capital expenditures for existing store maintenance, technology investments and new store openings.

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*Pre-opening Expenses*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
|  |  | 13 weeks ended | | | | | | | | | | | | | | |  | |
| *Dollars in thousands* |  | May 2,  2009 | |  |  | % Sales | |  |  | May 3,  2008 | |  |  | % Sales | | |  | |
| B&N Retail |  | $ | 2,472 |  |  |  | 0.2 | % |  | $ | 4,537 |  |  |  | 0.4 | % | |
| B&N.com |  |  | — |  |  |  | 0.0 | % |  |  | — |  |  |  | 0.0 | % | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Total Pre-opening Expenses |  | $ | 2,472 |  |  |  | 0.2 | % |  | $ | 4,537 |  |  |  | 0.4 | % | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |

Pre-opening expenses decreased $2.1 million, or 45.5%, to $2.5 million during the 13 weeks ended May 2, 2009 from $4.5 million for the 13 weeks ended May 3, 2008. This decrease was primarily the result of the timing and volume of new store openings.

*Operating Loss*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
|  |  | 13 weeks ended | | | | | | | | | | | | | | |  | |
| *Dollars in thousands* |  | May 2,  2009 | |  |  | % Sales | |  |  | May 3,  2008 | |  |  | % Sales | |  | |
| B&N Retail |  | $ | 9,003 |  |  |  | 0.9 | % |  | $ | 13,378 |  |  |  | 1.3 | % | |
| B&N.com |  |  | (12,247 | ) |  |  | (13.2 | %) |  |  | (15,125 | ) |  |  | (15.1 | %) | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Total Operating Loss |  | $ | (3,244 | ) |  |  | (0.3 | %) |  | $ | (1,747 | ) |  |  | (0.2 | %) | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |

The Company’s consolidated operating loss increased $1.5 million, or 85.7%, to $3.2 million during the 13 weeks ended May 2, 2009 from $1.7 million during the 13 weeks ended May 3, 2008. This increase was primarily due to the negative comparable store sales, as well as the matters discussed above.

*Interest Income (Expense), Net and Amortization of Deferred Financing Fees*

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | 13 weeks ended | | | | | | | | | |  |
| *Dollars in thousands* |  | May 2,  2009 | |  |  | May 3,  2008 | |  |  | % of Change | |  |
| Interest Income (Expense), Net and Amortization of Deferred Financing Fees |  | $ | (199 | ) |  | $ | 807 |  |  |  | (124.7 | %) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

Net interest (expense) income and amortization of deferred financing fees decreased $1.0 million, or 124.7%, to ($0.2) million during the 13 weeks ended May 2, 2009 from $0.8 million during the 13 weeks ended May 3, 2008. The decrease in interest income was primarily due to lower investment rates.

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*Income Taxes*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | 13 weeks ended | | | | | | | | | | | | | |  |
| *Dollars in thousands* |  | May 2,  2009 | |  |  | Effective Rate | |  |  | May 3,  2008 | |  |  | Effective Rate | |  |
| Income Taxes |  | $ | (1,374 | ) |  |  | 39.9 | % |  | $ | (374 | ) |  |  | 39.8 | % |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

Income tax benefit during the 13 weeks ended May 2, 2009 was $1.4 million compared with $0.4 million during the 13 weeks ended May 3, 2008. The Company’s effective tax rate was 39.9% and 39.8% for the 13 weeks ended May 2, 2009 and May 3, 2008, respectively.

*Loss from Discontinued Operations*

On February 25, 2009, the Company sold its interest in Calendar Club to Calendar Club and its chief executive officer for $7.0 million, which was comprised of $1.0 million in cash and $6.0 million in notes. As a result of this transaction and the operating loss to the date of the sale, the Company incurred a non-cash after-tax charge of approximately $0.7 million during the 13 weeks ended May 2, 2009, compared with $1.7 million during the 13 weeks ended May 3, 2008. Calendar Club is no longer a subsidiary of the Company and the results of Calendar Club have been classified as discontinued operations in all periods presented. During fiscal 2011, the Company received the $6.0 million note payment from Calendar Club. The note was received prior to its scheduled due date.

*Net Loss Attributable to Noncontrolling Interests*

Net loss attributable to noncontrolling interests was $0.03 million during the 13 weeks ended May 2, 2009 and relates to the Company’s 50% outside interest in Begin Smart LLC.

*Net Loss Attributable to Barnes & Noble, Inc.*

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | 13 weeks ended | | | | | | | | | | | | | |  |
| *Dollars in thousands* |  | May 2,  2009 | |  |  | Diluted EPS | |  |  | May 3,  2008 | |  |  | Diluted EPS | |  |
| Net Loss Attributable to Barnes & Noble, Inc. |  | $ | (2,693 | ) |  | $ | (0.05 | ) |  | $ | (2,224 | ) |  | $ | (0.04 | ) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

As a result of the factors discussed above, the Company reported a consolidated net loss of $2.7 million (or $0.05 per diluted share) during the 13 weeks ended May 2, 2009, compared with a consolidated net loss of $2.2 million (or $0.04 per diluted share) during the 13 weeks ended May 3, 2008.

**Seasonality**

The B&N Retail and B&N.com businesses, like that of many retailers, is seasonal, with the major portion of sales and operating profit realized during the third fiscal quarter, which includes the holiday selling season. The B&N College business is also seasonal, with the major portion of sales and operating profit realized during the second and third fiscal quarters, when college students generally purchase textbooks for the upcoming semesters.

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**Liquidity and Capital Resources**

For the B&N Retail and B&N.com businesses, working capital requirements are generally at their highest in the Company’s fiscal quarter ending on or about January 31 due to the higher payments to vendors for holiday season merchandise purchases. For the B&N College business, working capital requirements are typically highest in the second and third fiscal quarters due to higher payments to vendors as college students generally purchase textbooks for the upcoming semester. In addition, the Company’s sales and merchandise inventory levels will fluctuate from quarter to quarter as a result of the number and timing of new store openings.

Although the Company believes cash on hand, cash flows from operating activities, funds available from its senior credit facility and short-term vendor financing provide the Company with adequate liquidity and capital resources for seasonal working capital requirements, the Company may raise additional capital to support the growth of online and digital businesses.

*Cash Flow*

Cash flows provided by (used in) operating activities were $199.1 million, $130.8 million, ($146.7) million and $376.2 million during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively. The increase in cash flows provided from operating activities in fiscal 2011 from fiscal 2010 were primarily attributable to a $59.6 million federal tax refund in fiscal 2011.

*Capital Structure*

On September 30, 2009, in connection with the closing of the Acquisition described in Note 4 to the Consolidated Financial Statements contained herein, the Company issued the Sellers (i) a senior subordinated note in the principal amount of $100.0 million, payable in full on December 15, 2010, with interest of 8% per annum payable on the unpaid principal amount, and (ii) a junior subordinated note in the principal amount of $150.0 million, payable in full on the fifth anniversary of the closing of the Acquisition, with interest of 10% per annum payable on the unpaid principal amount. On December 22, 2009, the Company consented to the pledge and assignment of the Senior Seller Note by the Sellers as collateral security. The Senior Seller Note was paid on its scheduled due date, December 15, 2010.

On April 29, 2011, the Company entered into an amended and restated credit agreement (the Amended Credit Agreement) with Bank of America, N.A., as administrative agent, collateral agent and swing line lender, and other lenders, which amends and restates the Credit Agreement entered into on September 30, 2009. Under the Amended Credit Agreement, Lenders are providing up to $1.0 billion in aggregate commitments under a five-year asset-backed revolving credit facility (the Amended Credit Facility), which is secured by eligible inventory with the ability to include eligible real estate and accounts receivable and related assets. Borrowings under the Amended Credit Agreement are limited to a specified percentage of eligible inventories with the ability to include eligible real estate, accounts receivable and accrued interest, at the election of the Company, at Base Rate or LIBO Rate, plus, in each case, an Applicable Margin (each term as defined in the Amended Credit Agreement). In addition, the Company has the option to request an increase in commitments under the Amended Credit Agreement by up to $300.0 million, subject to certain restrictions.

The Amended Credit Agreement requires Availability (as defined in the Amended Credit Agreement) to be greater than the greater of (i) 10% of the Loan Cap (as defined in the Amended Credit Agreement) and (ii) $50.0 million. In addition, the Amended Credit Facility contains covenants that limit, among other things, the Company’s ability to incur indebtedness, create liens, make investments, make

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restricted payments, merge or acquire assets, and contains default provisions that are typical for this type of financing, among other things. Proceeds from the Amended Credit Facility are used for general corporate purposes, including seasonal working capital needs.

As a result of the Amended Credit Agreement, $6.6 million of deferred financing fees related to the 2009 Credit Facility were written off, and included in net interest expenses. The remaining unamortized deferred costs of $16.3 million and new charges of $10.2 million relating to the Company’s Amended Credit Facility were deferred and will be amortized over the five-year term of the Amended Credit Facility.

On September 30, 2009, the Company had entered into a credit agreement (the 2009 Credit Agreement) with Bank of America, N.A., as administrative agent, collateral agent and swing line lender, and other lenders, under which the lenders committed to provide up to $1.0 billion in commitments under a four-year asset-backed revolving credit facility (the 2009 Credit Facility) and which was secured by eligible inventory and accounts receivable and related assets. Borrowings under the 2009 Credit Agreement were limited to a specified percentage of eligible inventories, accounts receivable and accrued interest, at the election of the Company, at Base Rate or LIBO Rate, plus, in each case, an Applicable Margin (each term as defined in the 2009 Credit Agreement). In addition, the Company had the option to request the increase in commitments under the 2009 Credit Agreement by up to $300.0 million subject to certain restrictions.

Proceeds from the 2009 Credit Facility were used for general corporate purposes, including seasonal working capital needs.

The 2009 Credit Facility replaced the Company’s prior $850.0 million credit agreement (Prior Credit Facility) which had a maturity date of July 31, 2011, as well as B&N College’s $400.0 million credit agreement which had a maturity date of November 13, 2011.

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Selected information related to the Company’s Amended Credit Facility, 2009 Credit Facility and Prior Credit Facility (in thousands):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | Fiscal  2011 | | | |  |  | Fiscal  2010 | |  |  | 13 weeks  ended  May 2,  2009 | |  |  | Fiscal  2008 | | |
| Credit facility at period end | | |  | $ | 313,100 |  |  |  | 260,400 |  |  |  | — |  |  | — | | |
| Average balance outstanding during the period | | |  | $ | 338,971 |  |  |  | 107,504 |  |  |  | — |  |  | 63,871 | | |
| Maximum borrowings outstanding during the period | | |  | $ | 622,800 |  |  |  | 512,500 |  |  |  | — |  |  | 199,900 | | |
| Weighted average interest rate during the period (a) | | |  |  | 4.30 | % |  |  | 4.38 | % |  |  | — |  |  | 6.05% | | |
| Interest rate at end of period | | |  |  | 5.13 | % |  |  | 4.13 | % |  |  | — |  |  | — | | |

Fees expensed with respect to the unused portion of the Amended Credit Facility, 2009 Credit Facility and Prior Credit Facility were $5.5 million, $4.2 million, $0.3 million, $0.3 million and $1.0 million, during fiscal 2011, fiscal 2010, the transition period, the 13 weeks ended May 3, 2008 and fiscal 2008, respectively. The increase in commitment fees in fiscal 2010 was related to the Company’s 2009 Credit Agreement entered into on September 30, 2009 in connection with the Acquisition.

The Company has no agreements to maintain compensating balances.

*Capital Investment*

Capital expenditures for continuing operations were $110.5 million, $127.8 million, $22.8 million, $38.3 million and $192.2 million during fiscal 2011, fiscal 2010, the transition period, the 13 weeks ended May 3, 2008 and fiscal 2008, respectively. Capital expenditures planned for fiscal 2012 primarily relate to the Company’s digital initiatives and website as well as maintenance of existing stores and system enhancements for the retail and college stores. The capital expenditures are expected to be in the range of $150.0 million to $200.0 million for fiscal 2012, although commitment to many of such expenditures has not yet been made.

Based on planned operating levels and capital expenditures for fiscal 2012, management believes cash and cash equivalents on hand, cash flows generated from operating activities, short-term vendor financing and borrowing capacity under the Amended Credit Facility will be sufficient to meet the Company’s working capital and debt service requirements, and support the development of its short- and long-term strategies for at least the next 12 months. However, the Company may determine to raise additional capital to support the growth of online and digital businesses.

On May 15, 2007, the Company announced that its Board of Directors authorized a stock repurchase program for the purchase of up to $400.0 million of the Company’s common stock. The maximum dollar value of common stock that may yet be purchased under the current program is approximately $2.5 million as of April 30, 2011.

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. As of April 30, 2011, the Company has repurchased 33,409,761 shares at a cost of approximately $1.1 billion under its stock repurchase programs. The repurchased shares are held in treasury.

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*Contractual Obligations*

The following table sets forth the Company’s contractual obligations as of April 30, 2011 (in millions):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Contractual Obligations |  | Payments Due by Period | | | | | | | | | | | | | | | | | | |  | |
|  |  | Total | |  |  | Less Than  1 Year | |  |  | 1-3 Years | |  |  | 3-5 Years | |  |  | More  Than 5  Years | |  | |
| Long-term debt |  | $ | 313.1 |  |  | $ | — |  |  | $ | — |  |  | $ | 313.1 |  |  | $ | — |  | |
| Capital lease obligations |  |  | 3.1 |  |  |  | 1.1 |  |  |  | 1.5 |  |  |  | 0.5 |  |  |  | — |  | |
| Operating lease obligations (a) |  |  | 1,959.4 |  |  |  | 399.9 |  |  |  | 641.9 |  |  |  | 413.8 |  |  |  | 503.8 |  | |
| Purchase obligations |  |  | 44.0 |  |  |  | 33.7 |  |  |  | 10.1 |  |  |  | 0.2 |  |  |  | — |  | |
| Interest obligations (b) |  |  | 61.7 |  |  |  | 20.2 |  |  |  | 31.4 |  |  |  | 10.1 |  |  |  | — |  | |
| Other long-term liabilities reflected on the Company’s balance sheet under GAAP (c) |  |  | 150.0 |  |  |  | — |  |  |  | — |  |  |  | 150.0 |  |  |  | — |  | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| Total |  | $ | 2,531.3 |  |  | $ | 454.9 |  |  | $ | 684.9 |  |  | $ | 887.7 |  |  | $ | 503.8 |  | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |

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| --- | --- |
| (a) | Excludes obligations under store leases for insurance, taxes and other maintenance costs, which obligations totaled approximately 16% of the minimum rent payments under those leases. |

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| (b) | Represents commitment fees related to the Company’s Amended Credit Facility and 2009 Credit Facility, as well as interest obligations on the Seller Notes issued in connection with the Acquisition. |

|  |  |
| --- | --- |
| (c) | Excludes $16.7 million of unrecognized tax benefits for which the Company cannot make a reasonably reliable estimate of the amount and period of payment. See Note 9 to the Notes to Consolidated Financial Statements. |

See also Note 8 to the Notes to Consolidated Financial Statements for information concerning the Company’s Pension and Postretirement Plans.

*Off-Balance Sheet Arrangements*

As of April 30, 2011, the Company had no off-balance sheet arrangements as defined in Item 303 of Regulation S-K.

*Impact of Inflation*

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

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**Certain Relationships and Related Transactions**

See Note 21 to the Notes to Consolidated Financial Statements.

**Critical Accounting Policies**

The “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section of this report discusses the Company’s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related footnotes. In preparing these financial statements, management has made its best estimates and judgments with respect to certain amounts included in the financial statements, giving due consideration to materiality. The Company does not believe there is a great likelihood that materially different amounts would be reported related to the accounting policies described below. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates.

*Revenue Recognition*

Revenue from sales of the Company’s products is recognized at the time of sale, other than those with multiple elements. The Company accrues for estimated sales returns in the period in which the related revenue is recognized based on historical experience and industry standards. Sales taxes collected from retail customers are excluded from reported revenues. All of the Company’s sales are recognized as revenue on a “net” basis, including sales in connection with any periodic promotions offered to customers. The Company does not treat any promotional offers as expenses.

In accordance with ASC 605-25, *Revenue Recognition, Multiple Element Arrangements* and Accounting Standards Updates (ASU) 2009-13 and 2009-14, for multiple-element arrangements that involve tangible products that contain software that is essential to the tangible product’s functionality, undelivered software elements that relate to the tangible product’s essential software and other separable elements, the Company allocates revenue to all deliverables using the relative selling-price method. Under this method, revenue is allocated at the time of sale to all deliverables based on their relative selling price using a specific hierarchy. The hierarchy is as follows: vendor-specific objective evidence, third-party evidence of selling price, or best estimate of selling price. NOOK™ eBook Reader revenue (which includes revenue from the Company’s NOOK 1 st Edition™, NOOK Wi-Fi 1 st Edition™, NOOK Color™ and The All-New NOOK™ devices) is recognized at the segment point of sale.

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

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

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

*Merchandise Inventories*

Merchandise inventories are stated at the lower of cost or market. Cost is determined primarily by the retail inventory method under both the first-in, first-out (FIFO) basis and the last-in, first-out (LIFO) basis. The Company uses the retail inventory method for 97% of the Company’s merchandise inventories. As of April 30, 2011 and May 1, 2010, 87% of the Company’s inventory on the retail inventory method was valued under the FIFO basis. B&N College’s textbook and trade book inventories are valued using the LIFO method, where the related reserve was not material to the recorded amount of the Company’s inventories or results of operations.

Market is determined based on the estimated net realizable value, which is generally the selling price. Reserves for non-returnable inventory are based on the Company’s history of liquidating non-returnable inventory. The Company does not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions used to calculate the non-returnable inventory reserve. However, if assumptions based on the Company’s history of liquidating non-returnable inventory are incorrect, it may be exposed to losses or gains that could be material. A 10% change in actual non-returnable inventory would have affected net earnings by approximately $2.2 million in fiscal 2011.

The Company also estimates and accrues shortage for the period between the last physical count of inventory and the balance sheet date. Shortage rates are estimated and accrued based on historical rates and can be affected by changes in merchandise mix and changes in actual shortage trends. The Company does not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions used to calculate shortage rates. However, if the Company’s estimates regarding shortage rates are incorrect, it may be exposed to losses or gains that could be material. A 10% change in actual shortage rates would have affected net earnings by approximately $1.5 million in fiscal 2011.

*Research and Development Costs for Software Products*

Software development costs for products to be sold, leased, or otherwise marketed are capitalized in accordance with ASC 985-20. 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

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established, as well as the ongoing assessment of the recoverability of capitalized costs. The Company’s products reach technological feasibility shortly before the products are released and therefore research and development costs are generally expensed as incurred.

*Stock-Based Compensation*

The calculation of stock-based employee compensation expense involves estimates that require management’s judgment. These estimates include the fair value of each of the stock option awards granted, which is estimated on the date of grant using a Black-Scholes option pricing model. There are two significant inputs into the Black-Scholes option pricing model: expected volatility and expected term. The Company estimates expected volatility based on traded option volatility of the Company’s stock over a term equal to the expected term of the option granted. The expected term of stock option awards granted is derived from historical exercise experience under the Company’s stock option plans and represents the period of time that stock option awards granted are expected to be outstanding. The assumptions used in calculating the fair value of stock-based payment awards represent management’s best estimates, but these estimates involve inherent uncertainties and the application of management’s judgment. As a result, if factors change and the Company uses different assumptions, stock-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate, and only recognize expense for those shares expected to vest. If the Company’s actual forfeiture rate is materially different from its estimate, the stock-based compensation expense could be significantly different from what the Company has recorded in the current period. See Note 3 to the Consolidated Financial Statements for a further discussion on stock-based compensation.

The Company does not believe there is a reasonable likelihood there will be a material change in the future estimates or assumptions used to determine stock-based compensation expense. However, if actual results are not consistent with the Company’s estimates or assumptions, the Company may be exposed to changes in stock-based compensation expense that could be material. If actual results are not consistent with the assumptions used, the stock-based compensation expense reported in the Company’s financial statements may not be representative of the actual economic cost of the stock-based compensation. A 10% change in the Company’s stock-based compensation expense for the year ended April 30, 2011 would not have had a material impact on the Company’s results of operations in fiscal 2011.

*Other Long-Lived Assets*

The Company’s other long-lived assets include property and equipment and amortizable intangibles. At April 30, 2011, the Company had $704.7 million of property and equipment, net of accumulated depreciation, and $251.7 million of amortizable intangible assets, net of amortization, accounting for approximately 26.6% of the Company’s total assets. The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with Accounting Standards Codification (ASC) 360-10, *Accounting for the Impairment or Disposal of Long-Lived Assets* (ASC 360-10). The Company evaluates long-lived assets for impairment at the individual Barnes & Noble store level, except for B&N College long-lived assets, which are evaluated for impairment at the university contract combined store level, which is the lowest level at which individual cash flows can be identified. When evaluating long-lived assets for potential impairment, the Company will first compare the carrying amount of the assets to the individual store’s estimated future undiscounted cash flows. If the estimated future cash flows are less than the carrying amount of the assets, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the assets to the individual store’s fair value based on its estimated discounted future cash flows. If required, an impairment loss is recorded for that portion of the

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asset’s carrying value in excess of fair value. Impairment losses included in selling and administrative expenses totaled $2.9 million, $12.1 million, $0 and $11.7 million during fiscal 2011, fiscal 2010, the transition period and fiscal 2008 and are related to individual store locations. The Company does not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to calculate long-lived asset impairment losses. However, if actual results are not consistent with estimates and assumptions used in estimating future cash flows and asset fair values, the Company may be exposed to losses that could be material. A 10% decrease in the Company’s estimated discounted cash flows would not have had a material impact on the Company’s results of operations in fiscal 2011.

*Goodwill and Unamortizable Intangible Assets*

At April 30, 2011, the Company had $524.1 million of goodwill and $314.9 million of unamortizable intangible assets (those with an indefinite useful life), accounting for approximately 23.3% of the Company’s total assets. ASC 350-30, *Goodwill and Other Intangible Assets* , requires that goodwill and other unamortizable intangible assets no longer be amortized, but instead be tested for impairment at least annually or earlier if there are impairment indicators. The Company performs a two-step process for impairment testing of goodwill as required by ASC 350-30. The first step of this test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount. The second step (if necessary) measures the amount of the impairment. The Company completed its annual goodwill impairment test as of the first day of the third quarter. In performing the valuations, the Company used cash flows that reflected management’s forecasts and discount rates that included risk adjustments consistent with the current market conditions. Based on the results of the Company’s step one testing, the fair values of the Barnes & Noble Retail, Barnes & Noble College and B&N.com reporting units exceeded their carrying values; therefore, the second step of the impairment test was not required to be performed and no goodwill impairment was recognized. The Company has noted no subsequent indicators of impairment. The Company tests unamortizable intangible assets by comparing the fair value and the carrying value of such assets. The Company also completed its annual impairment tests for its other unamortizable intangible assets by comparing the estimated fair value to the carrying value of such assets and determined that no impairment was necessary. Changes in market conditions, among other factors, could have a material impact on these estimates. The Company does not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to calculate goodwill and unamortizable intangible asset impairment losses. However, if actual results are not consistent with estimates and assumptions used in estimating future cash flows and asset fair values, the Company may be exposed to losses that could be material. A 10% decrease in the Company’s estimated discounted cash flows would have no impact on the Company’s evaluation of goodwill and unamortizable intangible assets.

*Gift Cards*

The Company sells gift cards which can be used in its stores or on Barnes & Noble.com. 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. Over time, some portion of the gift cards issued is not redeemed. The Company estimates the portion of the gift card liability for which the likelihood of redemption is remote based upon the Company’s historical redemption patterns. The Company records this amount in income on a straight-line basis over a 12-month period beginning in the 13th month after the month the gift card was originally sold. If actual redemption patterns vary from the Company’s estimates, actual gift card breakage may differ from the amounts recorded. The Company recognized gift card breakage of $25.9 million, $21.3 million, $5.4 million, $5.2 million and $21.4

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million during fiscal 2011, fiscal 2010, the transition period, the 13 weeks ended May 3, 2008 and fiscal 2008, respectively. The Company had gift card liabilities of $311 million and $292 million, as of April 30, 2011 and May 1, 2010, respectively, which amounts are included in accrued liabilities. The Company does not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions used to recognize revenue associated with gift cards. However, if estimates regarding the Company’s history of gift card breakage are incorrect, it may be exposed to losses or gains that could be material. A 10% change in the Company’s gift card breakage rate at April 30, 2011 would have affected net earnings by approximately $2.6 million in fiscal 2011.

*Income Taxes*

Judgment is required in determining the provision for income taxes and related accruals, deferred tax assets and liabilities. In the ordinary course of business, tax issues may arise where the ultimate outcome is uncertain. Additionally, the Company’s tax returns are subject to audit by various tax authorities. Consequently, changes in the Company’s estimates for contingent tax liabilities may materially impact the Company’s results of operations or financial position. A 1% variance in the Company’s effective tax rate would not have had a material impact to the Company’s results of operations in fiscal 2011.

*Recent Accounting Pronouncements*

In December 2010, the FASB issued ASU 2010-28, *Intangibles—Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts* (ASU 2010-28). ASU 2010-28 provides amendments to Topic 350 to modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts to clarify that, for those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that impairment may exist. For public entities, the amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. The Company is still evaluating whether adoption of ASU 2010-28 will have an impact on the Company’s Fiscal 2012 Consolidated Financial Statements.

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04), which amends ASC 820, Fair Value Measurement. ASU 2011-04 does not extend the use of fair value accounting, but provides guidance on how it should be applied where its use is already required or permitted by other standards within U.S. GAAP or International Financial Reporting Standards (IFRSs). ASU 2011-04 changes the wording used to describe many requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Additionally, ASU 2011-04 clarifies the FASB’s intent about the application of existing fair value measurements. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011 and is applied prospectively. The Company is still evaluating whether adoption of ASU 2011-04 will have an impact on the Company’s Fiscal 2012 Consolidated Financial Statements.

The FASB is currently working on amendments to existing accounting standards governing a number of areas including, but not limited to, accounting for leases. In August 2010, the FASB issued an exposure draft, “Leases” (the Exposure Draft), which would replace the existing guidance in ASC Topic 840, “Leases.” Under the Exposure Draft, among other changes in practice, a lessee’s rights and obligations under all leases, including existing and new arrangements, would be recognized as assets and liabilities, respectively, on the balance sheet. Subsequent to the end of the related comment period, the

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FASB made several amendments to the exposure draft, including revising the definition of the “lease term” to include the non-cancelable lease term plus only those option periods for which there is significant economic incentive for the lessee to extend or not terminate the lease. The FASB also redefined the initial lease liability to be recorded on the Company’s balance sheet to contemplate only those variable lease payments that are in substance “fixed”. The final standard is expected to be issued in the second half of 2011. Management is currently evaluating this proposed standard however, as the standard-setting process is still ongoing, the Company is unable to determine the impact this proposed change in accounting will have on its consolidated financial statements at this time.

**Disclosure Regarding Forward-Looking Statements**

This report may contain certain forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act)) and information relating to the Company that are based on the beliefs of the management of the Company as well as assumptions made by and information currently available to the management of the Company. When used in this report, the words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “will” and similar expressions, as they relate to the Company or the management of the Company, identify forward-looking statements. Such statements reflect the current views of the Company 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 the Company’s products, low growth or declining sales and net income due to various factors, possible disruptions in the Company’s computer systems, telephone systems or supply chain (including supplier risks resulting from the Company’s reliance on suppliers outside the United States, including suppliers in China), possible risks associated with data privacy, information security and intellectual property, possible work stoppages or increases in labor costs, possible increases in shipping rates or interruptions in shipping service, effects of competition, potential effects of a bankruptcy filing by one of the Company’s largest competitors and actions taken by that competitor during bankruptcy, including store closures or store closures at a rate different than anticipated, sales of inventory at discounted prices and elimination of liabilities, higher-than-anticipated store closing or relocation costs, higher interest rates, the performance of the Company’s online, digital and other initiatives, effects of government regulation on the Company’s business, including its online and digital businesses (including with respect to the agency pricing model for digital content distribution), the performance and successful integration of acquired businesses, the success of the Company’s strategic investments, unanticipated increases in merchandise, component or occupancy costs, unanticipated adverse litigation results or effects, including with respect to intellectual property, product and component shortages, the outcome of the Company’s evaluation of strategic alternatives, including a possible sale of the Company, as announced on August 3, 2010 or the outcome of the proposal from Liberty Media announced on May 19, 2011, and other factors which may be outside of the Company’s control, including those factors discussed in detail in Item 1A, “Risk Factors,” in the Company’s Form 10-K for the fiscal year ended April 30, 2011, and in the Company’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 the Company or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements in this paragraph. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this Annual Report.

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**CONSOLIDATED STATEMENTS OF OPERATIONS**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| (In thousands, except per share data) |  | Fiscal 2011 | |  |  | Fiscal 2010 | |  |  | 13 weeks  ended  May 2, 2009 | |  |  | Fiscal 2008 | |  |
| Sales |  | $ | 6,998,565 |  |  |  | 5,807,754 |  |  |  | 1,105,152 |  |  |  | 5,121,804 |  |
| Cost of sales and occupancy |  |  | 5,205,712 |  |  |  | 4,131,009 |  |  |  | 773,491 |  |  |  | 3,540,596 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Gross profit |  |  | 1,792,853 |  |  |  | 1,676,745 |  |  |  | 331,661 |  |  |  | 1,581,208 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Selling and administrative expenses |  |  | 1,629,384 |  |  |  | 1,392,207 |  |  |  | 286,554 |  |  |  | 1,251,524 |  |
| Depreciation and amortization |  |  | 228,647 |  |  |  | 207,774 |  |  |  | 45,879 |  |  |  | 173,557 |  |
| Pre-opening expenses |  |  | 81 |  |  |  | 3,518 |  |  |  | 2,472 |  |  |  | 12,796 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Operating profit (loss) |  |  | (65,259 | ) |  |  | 73,246 |  |  |  | (3,244 | ) |  |  | 143,331 |  |
| Interest income (expense), net and amortization of deferred financing fees |  |  | (57,350 | ) |  |  | (28,237 | ) |  |  | (199 | ) |  |  | (2,344 | ) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Earnings (loss) from continuing operations before taxes |  |  | (122,609 | ) |  |  | 45,009 |  |  |  | (3,443 | ) |  |  | 140,987 |  |
| Income taxes |  |  | (48,652 | ) |  |  | 8,365 |  |  |  | (1,374 | ) |  |  | 55,591 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Earnings (loss) from continuing operations (net of income tax) |  |  | (73,957 | ) |  |  | 36,644 |  |  |  | (2,069 | ) |  |  | 85,396 |  |
| Earnings (loss) from discontinued operations (net of income tax) |  |  | — |  |  |  | — |  |  |  | (654 | ) |  |  | (9,506 | ) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net earnings (loss) |  |  | (73,957 | ) |  |  | 36,644 |  |  |  | (2,723 | ) |  |  | 75,890 |  |
| Net loss attributable to noncontrolling interests |  |  | 37 |  |  |  | 32 |  |  |  | 30 |  |  |  | 30 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net earnings (loss) attributable to Barnes & Noble, Inc. |  | $ | (73,920 | ) |  |  | 36,676 |  |  |  | (2,693 | ) |  |  | 75,920 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Earnings (loss) attributable to Barnes & Noble, Inc. |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Earnings (loss) from continuing operations |  | $ | (73,957 | ) |  |  | 36,644 |  |  |  | (2,069 | ) |  |  | 85,396 |  |
| Less loss attributable to noncontrolling interests |  |  | 37 |  |  |  | 32 |  |  |  | 30 |  |  |  | 30 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net earnings (loss) from continuing operations attributable to Barnes & Noble, Inc. |  | $ | (73,920 | ) |  |  | 36,676 |  |  |  | (2,039 | ) |  |  | 85,426 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Basic earnings (loss) per common share |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Earnings (loss) from continuing operations attributable to Barnes & Noble, Inc. |  | $ | (1.31 | ) |  |  | 0.64 |  |  |  | (0.04 | ) |  |  | 1.50 |  |
| Earnings (loss) from discontinued operations attributable to Barnes & Noble, Inc. |  |  | — |  |  |  | — |  |  |  | (0.01 | ) |  |  | (0.17 | ) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net earnings (loss) attributable to Barnes & Noble, Inc. |  | $ | (1.31 | ) |  |  | 0.64 |  |  |  | (0.05 | ) |  |  | 1.33 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Diluted earnings (loss) per common share |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Earnings (loss) from continuing operations attributable to Barnes & Noble, Inc. |  | $ | (1.31 | ) |  |  | 0.63 |  |  |  | (0.04 | ) |  |  | 1.46 |  |
| Earnings (loss) from discontinued operations attributable to Barnes & Noble, Inc. |  |  | — |  |  |  | — |  |  |  | (0.01 | ) |  |  | (0.17 | ) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net earnings (loss) attributable to Barnes & Noble, Inc. |  | $ | (1.31 | ) |  |  | 0.63 |  |  |  | (0.05 | ) |  |  | 1.29 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Weighted average common shares outstanding |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Basic |  |  | 56,588 |  |  |  | 55,344 |  |  |  | 54,759 |  |  |  | 55,207 |  |
| Diluted |  |  | 56,588 |  |  |  | 56,153 |  |  |  | 54,759 |  |  |  | 56,529 |  |

See accompanying notes to consolidated financial statements.

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**CONSOLIDATED BALANCE SHEETS**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |
| (In thousands, except per share data) |  | April 30, 2011 | |  |  | May 1, 2010 | |  |
| Assets |  |  |  |  |  |  |  |  |
| Current assets: |  |  |  |  |  |  |  |  |
| Cash and cash equivalents |  | $ | 59,429 |  |  |  | 60,965 |  |
| Receivables, net |  |  | 150,294 |  |  |  | 106,576 |  |
| Merchandise inventories |  |  | 1,375,362 |  |  |  | 1,370,111 |  |
| Prepaid expenses and other current assets |  |  | 161,936 |  |  |  | 181,825 |  |
|  |  |  |  |  |  |  |  |  |
| Total current assets |  | $ | 1,747,021 |  |  |  | 1,719,477 |  |
|  |  |  |  |  |  |  |  |  |
| Property and equipment: |  |  |  |  |  |  |  |  |
| Land and land improvements |  |  | 8,617 |  |  |  | 8,618 |  |
| Buildings and leasehold improvements |  |  | 1,204,108 |  |  |  | 1,212,567 |  |
| Fixtures and equipment |  |  | 1,670,488 |  |  |  | 1,594,048 |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  | 2,883,213 |  |  |  | 2,815,233 |  |
| Less accumulated depreciation and amortization |  |  | 2,178,562 |  |  |  | 2,003,199 |  |
|  |  |  |  |  |  |  |  |  |
| Net property and equipment |  |  | 704,651 |  |  |  | 812,034 |  |
|  |  |  |  |  |  |  |  |  |
| Goodwill |  |  | 524,113 |  |  |  | 528,541 |  |
| Intangible assets, net |  |  | 566,578 |  |  |  | 580,962 |  |
| Other noncurrent assets |  |  | 54,103 |  |  |  | 64,672 |  |
|  |  |  |  |  |  |  |  |  |
| Total assets |  | $ | 3,596,466 |  |  |  | 3,705,686 |  |
|  |  |  |  |  |  |  |  |  |
| Liabilities and Shareholders’ Equity |  |  |  |  |  |  |  |  |
| Current liabilities: |  |  |  |  |  |  |  |  |
| Accounts payable |  | $ | 949,010 |  |  |  | 868,976 |  |
| Accrued liabilities |  |  | 785,667 |  |  |  | 755,432 |  |
| Short-term note payable |  |  | — |  |  |  | 100,000 |  |
|  |  |  |  |  |  |  |  |  |
| Total current liabilities |  |  | 1,734,677 |  |  |  | 1,724,408 |  |
|  |  |  |  |  |  |  |  |  |
| Long-term debt |  |  | 313,100 |  |  |  | 260,400 |  |
| Deferred taxes |  |  | 280,132 |  |  |  | 311,607 |  |
| Other long-term liabilities |  |  | 448,647 |  |  |  | 505,903 |  |
| Shareholders’ equity: |  |  |  |  |  |  |  |  |
| Common stock; $.001 par value; 300,000 shares authorized; 90,465 and 88,993 shares issued, respectively |  |  | 90 |  |  |  | 89 |  |
| Additional paid-in capital |  |  | 1,323,263 |  |  |  | 1,286,215 |  |
| Accumulated other comprehensive loss |  |  | (11,630 | ) |  |  | (13,212 | ) |
| Retained earnings |  |  | 562,379 |  |  |  | 681,082 |  |
| Treasury stock, at cost, 33,410 and 33,285 shares, respectively |  |  | (1,054,192 | ) |  |  | (1,052,356 | ) |
|  |  |  |  |  |  |  |  |  |
| Total Barnes & Noble, Inc. Shareholders’ equity |  |  | 819,910 |  |  |  | 901,818 |  |
|  |  |  |  |  |  |  |  |  |
| Noncontrolling interest |  |  | — |  |  |  | 1,550 |  |
|  |  |  |  |  |  |  |  |  |
| Total shareholders’ equity |  |  | 819,910 |  |  |  | 903,368 |  |
|  |  |  |  |  |  |  |  |  |
| Commitments and contingencies |  |  | — |  |  |  | — |  |
|  |  |  |  |  |  |  |  |  |
| Total liabilities and shareholders’ equity |  | $ | 3,596,466 |  |  |  | 3,705,686 |  |
|  |  |  |  |  |  |  |  |  |

See accompanying notes to consolidated financial statements.

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**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS’ EQUITY**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  | |  | |  |  | |
| (In thousands) |  |  | |  |  | Barnes & Noble, Inc. Shareholders’ Equity | | | | | | | | | | | | | | | | | | |  | |  | |  | | |  | |
|  |  | Noncontrolling  Interest | |  |  | Common  Stock | |  |  | Additional  Paid-In  Capital | |  |  | Accumlated  Other  Comprehensive  Gains (Losses) | |  |  | Retained  Earnings | |  |  | Treasury  Stock at  Cost | |  | |  | | Total | | |  | |
| Balance at February 2, 2008 |  | $ | — |  |  |  | 87 |  |  |  | 1,233,343 |  |  |  | (9,523 | ) |  |  | 696,861 |  |  |  | (846,048 | ) | |  | | $ | | 1,074,720 |  | |
| Comprehensive earnings: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  | |  | |  |  | |
| Net earnings (loss) |  |  | (30 | ) |  |  | — |  |  |  | — |  |  |  | — |  |  |  | 75,920 |  |  |  | — |  | |  | |  | | — |  | |
| Other comprehensive  earnings (loss), net of tax  (See Note 10): |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  | |  | |  |  | |
| Foreign currency translation |  |  | — |  |  |  | — |  |  |  | — |  |  |  | (3,352 | ) |  |  | — |  |  |  | — |  | |  | |  | | — |  | |
| Minimum pension liability |  |  | — |  |  |  | — |  |  |  | — |  |  |  | (1,628 | ) |  |  | — |  |  |  | — |  | |  | |  | | — |  | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  | |  | |  |  | |
| Total comprehensive earnings |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  | |  | |  | | 70,910 |  | |
| Exercise of 488 common stock options |  |  | — |  |  |  | 1 |  |  |  | 9,661 |  |  |  | — |  |  |  | — |  |  |  | — |  | |  | |  | | 9,662 |  | |
| Stock options and restricted stock tax benefits |  |  | — |  |  |  | — |  |  |  | (1,195 | ) |  |  | — |  |  |  | — |  |  |  | — |  | |  | |  | | (1,195 | ) | |
| Stock-based compensation expense |  |  | — |  |  |  | — |  |  |  | 20,549 |  |  |  | — |  |  |  | — |  |  |  | — |  | |  | |  | | 20,549 |  | |
| Begin Smart LLC Acquisition |  |  | 1,642 |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  | |  | |  | | 1,642 |  | |
| Cash dividend paid to stockholders |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | (51,581 | ) |  |  | — |  | |  | |  | | (51,581 | ) | |
| Treasury stock acquired, 6,604 shares |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | (201,481 | ) | |  | |  | | (201,481 | ) | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  | |  | |  |  | |
| Balance at January 31, 2009 |  |  | 1,612 |  |  |  | 88 |  |  |  | 1,262,358 |  |  |  | (14,503 | ) |  |  | 721,200 |  |  |  | (1,047,529 | ) | |  | |  | | 923,226 |  | |
| Comprehensive loss |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  | |  | |  |  | |
| Net loss |  |  | (30 | ) |  |  | — |  |  |  | — |  |  |  | — |  |  |  | (2,693 | ) |  |  | — |  | |  | |  | | — |  | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  | |  | |  |  | |
| Total comprehensive loss |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  | |  | |  | | (2,723 | ) | |
| Exercise of 280 common stock options |  |  | — |  |  |  | — |  |  |  | 5,519 |  |  |  | — |  |  |  | — |  |  |  | — |  | |  | |  | | 5,519 |  | |
| Stock options and restricted stock tax benefits |  |  | — |  |  |  | — |  |  |  | (2,090 | ) |  |  | — |  |  |  | — |  |  |  | — |  | |  | |  | | (2,090 | ) | |
| Stock-based compensation expense |  |  | — |  |  |  | — |  |  |  | 3,900 |  |  |  | — |  |  |  | — |  |  |  | — |  | |  | |  | | 3,900 |  | |
| Sale of Calendar Club (See Note 16) |  |  | — |  |  |  | — |  |  |  | 4,767 |  |  |  | 2,488 |  |  |  | (7,255 | ) |  |  | — |  | |  | |  | | — |  | |
| Cash dividend paid to stockholders |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | (14,210 | ) |  |  | — |  | |  | |  | | (14,210 | ) | |
| Treasury stock acquired, 83 shares |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | (1,799 | ) | |  | |  | | (1,799 | ) | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  | |  | |  |  | |
| Balance at May 2, 2009 |  |  | 1,582 |  |  |  | 88 |  |  |  | 1,274,454 |  |  |  | (12,015 | ) |  |  | 697,042 |  |  |  | (1,049,328 | ) | |  | |  | | 911,823 |  | |

See accompanying notes to consolidated financial statements.

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**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS’ EQUITY (CONTINUED)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  | |  | |  |  | |  |
| (In thousands) |  |  | |  |  | Barnes & Noble, Inc. Shareholders’ Equity | | | | | | | | | | | | | | | | | | |  | |  | |  | | |  | | |  |
|  | Noncontrolling  Interest | |  |  | Common  Stock | |  |  | Additional  Paid-In  Capital | |  |  | Accumlated  Other  Comprehensive  Gains (Losses) | |  |  | Retained  Earnings | |  |  | Treasury  Stock at  Cost | |  | |  | | Total | | |  | | |  |
| Balance at May 2, 2009 |  |  | 1,582 |  |  |  | 88 |  |  |  | 1,274,454 |  |  |  | (12,015 | ) |  |  | 697,042 |  |  |  | (1,049,328 | ) | |  | |  | | 911,823 |  | |  |
| Comprehensive earnings: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  | |  | |  |  | |  |
| Net earnings (loss) |  |  | (32 | ) |  |  | — |  |  |  | — |  |  |  | — |  |  |  | 36,676 |  |  |  | — |  | |  | |  | | — |  | |  |
| Other comprehensive earnings (loss), net of tax (See Note 10): |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  | |  | |  |  | |  |
| Minimum pension liability |  |  | — |  |  |  | — |  |  |  | — |  |  |  | (1,197 | ) |  |  | — |  |  |  | — |  | |  | |  | | — |  | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  | |  | |  |  | |  |
| Total comprehensive earnings |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  | |  | |  | | 35,447 |  | |  |
| Exercise of 313 common stock options |  |  | — |  |  |  | 1 |  |  |  | 4,362 |  |  |  | — |  |  |  | — |  |  |  | — |  | |  | |  | | 4,363 |  | |  |
| Stock options and restricted stock tax benefits |  |  | — |  |  |  | — |  |  |  | (3,557 | ) |  |  | — |  |  |  | — |  |  |  | — |  | |  | |  | | (3,557 | ) | |  |
| Stock-based compensation expense |  |  | — |  |  |  | — |  |  |  | 15,723 |  |  |  | — |  |  |  | — |  |  |  | — |  | |  | |  | | 15,723 |  | |  |
| Sale of Calendar Club (See Note 16) |  |  | — |  |  |  | — |  |  |  | (4,767 | ) |  |  | — |  |  |  | 4,767 |  |  |  | — |  | |  | |  | | — |  | |  |
| Cash dividend paid to stockholders |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | (57,403 | ) |  |  | — |  | |  | |  | | (57,403 | ) | |  |
| Treasury stock acquired, 137 shares |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | (3,028 | ) | |  | |  | | (3,028 | ) | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  | |  | |  |  | |  |
| Balance at May 1, 2010 |  |  | 1,550 |  |  |  | 89 |  |  |  | 1,286,215 |  |  |  | (13,212 | ) |  |  | 681,082 |  |  |  | (1,052,356 | ) | |  | |  | | 903,368 |  | |  |
| Comprehensive loss: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  | |  | |  |  | |  |
| Net loss |  |  | (37 | ) |  |  | — |  |  |  | — |  |  |  | — |  |  |  | (73,920 | ) |  |  | — |  | |  | |  | | — |  | |  |
| Other comprehensive earnings, net of tax (See Note 10): |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  | |  | |  |  | |  |
| Minimum pension liability |  |  | — |  |  |  | — |  |  |  | — |  |  |  | 1,582 |  |  |  | — |  |  |  | — |  | |  | |  | | — |  | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  | |  | |  |  | |  |
| Total comprehensive loss |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  | |  | |  | | (72,375 | ) | |  |
| Purchase of noncontrolling interest |  |  | (1,513 | ) |  |  | — |  |  |  | 1,213 |  |  |  | — |  |  |  | — |  |  |  | — |  | |  | |  | | (300 | ) | |  |
| Exercise of 1,024 common stock options |  |  | — |  |  |  | 1 |  |  |  | 17,232 |  |  |  | — |  |  |  | — |  |  |  | — |  | |  | |  | | 17,233 |  | |  |
| Stock options and restricted stock tax benefits |  |  | — |  |  |  | — |  |  |  | (2,375 | ) |  |  | — |  |  |  | — |  |  |  | — |  | |  | |  | | (2,375 | ) | |  |
| Stock-based compensation expense |  |  | — |  |  |  | — |  |  |  | 20,978 |  |  |  | — |  |  |  | — |  |  |  | — |  | |  | |  | | 20,978 |  | |  |
| Cash dividend paid to stockholders |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | (44,783 | ) |  |  | — |  | |  | |  | | (44,783 | ) | |  |
| Treasury stock acquired, 125 shares |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | (1,836 | ) | |  | |  | | (1,836 | ) | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  | |  | |  |  | |  |
| Balance at April 30, 2011 |  | $ | — |  |  |  | 90 |  |  |  | 1,323,263 |  |  |  | (11,630 | ) |  |  | 562,379 |  |  |  | (1,054,192 | ) | |  | | $ | | 819,910 |  | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  | |  | |  |  | |  |

See accompanying notes to consolidated financial statements.

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**CONSOLIDATED STATEMENTS OF CASH FLOWS**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Fiscal Year  (In thousands) |  | Fiscal 2011 | |  |  | Fiscal 2010 | |  |  | 13 weeks  ended  May, 2  2009 | |  |  | Fiscal 2008 | |  |
| Cash flows from operating activities: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net earnings (loss) |  | $ | (73,957 | ) |  |  | 36,644 |  |  |  | (2,723 | ) |  |  | 75,890 |  |
| Net earnings (loss) from discontinued operations |  |  | — |  |  |  | — |  |  |  | (654 | ) |  |  | (9,506 | ) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net earnings (loss) from continuing operations |  |  | (73,957 | ) |  |  | 36,644 |  |  |  | (2,069 | ) |  |  | 85,396 |  |
| Adjustments to reconcile net earnings (loss) from continuing operations to net cash flows provided by (used in) operating activities: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Depreciation and amortization (including amortization of deferred financing fees) |  |  | 244,734 |  |  |  | 214,464 |  |  |  | 46,426 |  |  |  | 174,104 |  |
| Increase (decrease) in other long-term liabilities |  |  | (57,256 | ) |  |  | (35,222 | ) |  |  | (6,441 | ) |  |  | 7,590 |  |
| Changes in operating assets and liabilities, net |  |  | 59,209 |  |  |  | (58,091 | ) |  |  | (189,811 | ) |  |  | 72,700 |  |
| Stock-based compensation expense |  |  | 20,978 |  |  |  | 15,723 |  |  |  | 3,900 |  |  |  | 20,549 |  |
| Deferred taxes |  |  | 1,614 |  |  |  | (57,170 | ) |  |  | 1,306 |  |  |  | (430 | ) |
| Property and equipment impairment charge |  |  | 2,857 |  |  |  | 12,102 |  |  |  | — |  |  |  | 11,715 |  |
| (Gain) loss on disposal of property and equipment |  |  | 893 |  |  |  | 2,388 |  |  |  | (29 | ) |  |  | 4,625 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net cash flows provided by (used in) operating activities |  |  | 199,072 |  |  |  | 130,838 |  |  |  | (146,718 | ) |  |  | 376,249 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cash flows from investing activities: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Purchases of property and equipment |  |  | (110,502 | ) |  |  | (127,779 | ) |  |  | (22,822 | ) |  |  | (192,153 | ) |
| Net (increase) decrease in other noncurrent assets |  |  | (1,466 | ) |  |  | (3,568 | ) |  |  | 87 |  |  |  | (723 | ) |
| Acquisition of Fictionwise |  |  | — |  |  |  | — |  |  |  | (15,729 | ) |  |  | — |  |
| Purchase of non-controlling interest |  |  | (300 | ) |  |  | — |  |  |  | — |  |  |  | — |  |
| Acquisition of Barnes & Noble College Booksellers, Inc (net of cash acquired) |  |  | — |  |  |  | (185,928 | ) |  |  | — |  |  |  | — |  |
| Acquisition of Tikatok Inc. (net of cash acquired) |  |  | — |  |  |  | (2,261 | ) |  |  | — |  |  |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net cash flows used in investing activities |  |  | (112,268 | ) |  |  | (319,536 | ) |  |  | (38,464 | ) |  |  | (192,876 | ) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cash flows from financing activities: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Payment of short term note payable |  |  | (100,000 | ) |  |  | — |  |  |  | — |  |  |  | — |  |
| Payment received for Calendar Club note receivable |  |  | 6,000 |  |  |  | — |  |  |  | — |  |  |  | — |  |
| Net increase in credit facility |  |  | 52,700 |  |  |  | 260,400 |  |  |  | — |  |  |  | — |  |
| Financing fees paid related to the Amended Credit Facility and 2009 Credit Facility |  |  | (10,180 | ) |  |  | (37,069 | ) |  |  | — |  |  |  | — |  |
| Fictionwise earn-out payments |  |  | (7,508 | ) |  |  | (2,612 | ) |  |  | — |  |  |  | — |  |
| Cash dividends paid to shareholders |  |  | (44,783 | ) |  |  | (57,403 | ) |  |  | (14,210 | ) |  |  | (51,581 | ) |
| Proceeds from exercise of common stock options |  |  | 17,233 |  |  |  | 4,363 |  |  |  | 5,519 |  |  |  | 9,662 |  |
| Purchase of treasury stock |  |  | (1,836 | ) |  |  | (3,028 | ) |  |  | (1,799 | ) |  |  | (201,481 | ) |
| Excess (reversal) tax benefit from stock-based compensation |  |  | 34 |  |  |  | (1,582 | ) |  |  | 312 |  |  |  | 869 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net cash flows provided by (used in) financing activities |  |  | (88,340 | ) |  |  | 163,069 |  |  |  | (10,178 | ) |  |  | (242,531 | ) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cash flows from discontinued operations |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Operating cash flows |  |  | — |  |  |  | — |  |  |  | (654 | ) |  |  | 7,242 |  |
| Investing cash flows |  |  | — |  |  |  | — |  |  |  | 1,000 |  |  |  | (738 | ) |
| Financing cash flows |  |  | — |  |  |  | — |  |  |  | — |  |  |  | (818 | ) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net cash flows from discontinued operations |  |  | — |  |  |  | — |  |  |  | 346 |  |  |  | 5,686 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Decrease in cash and cash equivalents |  |  | (1,536 | ) |  |  | (25,629 | ) |  |  | (195,014 | ) |  |  | (53,472 | ) |
| Cash and cash equivalents at beginning of year |  |  | 60,965 |  |  |  | 86,594 |  |  |  | 281,608 |  |  |  | 335,080 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cash and cash equivalents at end of year |  | $ | 59,429 |  |  |  | 60,965 |  |  |  | 86,594 |  |  |  | 281,608 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Changes in operating assets and liabilities, net: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Receivables, net |  | $ | (43,718 | ) |  |  | 119,358 |  |  |  | 10,150 |  |  |  | 13,881 |  |
| Merchandise inventories |  |  | (5,251 | ) |  |  | 228,822 |  |  |  | (30,285 | ) |  |  | 154,699 |  |
| Prepaid expenses and other current assets |  |  | 19,889 |  |  |  | (56,675 | ) |  |  | (462 | ) |  |  | (1,985 | ) |
| Accounts payable and accrued liabilities |  |  | 88,289 |  |  |  | (349,596 | ) |  |  | (169,214 | ) |  |  | (93,895 | ) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Changes in operating assets and liabilities, net |  | $ | 59,209 |  |  |  | (58,091 | ) |  |  | (189,811 | ) |  |  | 72,700 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

See accompanying notes to consolidated financial statements

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**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Fiscal Year  (In thousands) |  | Fiscal 2011 | |  |  | Fiscal 2010 | |  |  | 13 weeks  ended  May, 2  2009 | |  |  | Fiscal 2008 | |  |
| Supplemental cash flow information: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cash paid (received) during the period for: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest paid |  |  | 45,604 |  |  |  | 12,305 |  |  |  | 73 |  |  |  | 1,812 |  |
| Income taxes (net of refunds) |  |  | (41,681 | ) |  |  | 31,461 |  |  |  | 37,735 |  |  |  | 50,383 |  |
| Supplemental disclosure of subsidiaries acquired: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Assets acquired (net of cash acquired) |  |  | 1,513 |  |  |  | 1,416,134 |  |  |  | 18,501 |  |  |  | — |  |
| Liabilities assumed |  |  | 1,213 |  |  |  | 1,227,945 |  |  |  | 2,772 |  |  |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cash paid |  |  | 300 |  |  |  | 188,189 |  |  |  | 15,729 |  |  |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Noncash activities: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Note receivable on sale of Calendar Club |  |  | — |  |  |  | — |  |  |  | 6,000 |  |  |  | — |  |
| Notes payable on Acquisition of B&N College |  |  | — |  |  |  | 250,000 |  |  |  | — |  |  |  | — |  |

See accompanying notes to consolidated financial statements.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

(Thousands of dollars, except per share data)

For the 52 weeks ended April 30, 2011 (fiscal 2011), May 1, 2010 (fiscal 2010), the 13 weeks ended May 2, 2009 (transition period) and the 52 weeks ended January 31, 2009 (fiscal 2008).

|  |  |  |
| --- | --- | --- |
|  | **1.** | **Summary of Significant Accounting Policies** |

*Business*

Barnes & Noble, the nation’s largest bookseller,3is a leading content, commerce and technology company providing customers easy and convenient access to books, magazines, newspapers and other content across its multi-channel distribution platform. As of April 30, 2011, the Company operated 1,341 bookstores in 50 states, including 636 bookstores on college campuses, and one of the Web’s largest eCommerce sites, which includes the development of digital content products and software. Given the dynamic nature of the book industry, the challenges faced by traditional booksellers, and the robust innovation pipeline fueling new opportunities in hardware, software and content creation and delivery, Barnes & Noble is utilizing the strength of its retail footprint to bolster its leadership in the sale of books and increase sales growth across multiple channels.

Of the 1,341 bookstores, 705 operate primarily under the Barnes & Noble Booksellers trade name. B&N College, a wholly-owned subsidiary of Barnes & Noble, operates 636 college bookstores at colleges and universities across the United States. barnesandnoble.com llc (Barnes & Noble.com) encompasses one of the Web’s largest eCommerce sites, Barnes & Noble eBookstore, Barnes & Noble eReader software, and the Company’s devices and other hardware support. Sterling Publishing Co., Inc. (Sterling or Sterling Publishing), bolsters the Company as a leader in general trade book publishing.

The Company’s principal business is the sale of trade books (generally hardcover and paperback consumer titles), mass market paperbacks (such as mystery, romance, science fiction and other popular fiction), children’s books, eBooks and other digital content, NOOK (references to NOOK™ include the Company’s NOOK 1 st Edition™, NOOK Wi-Fi 1 st Edition™, NOOK Color™ and The All-New NOOK™ eBook Reader devices), 4 and related accessories, bargain books, magazines, gifts, café products and services, educational toys & games, music and movies direct to customers through its bookstores or on Barnes & Noble.com. The Acquisition of B&N College (see Note 12) has allowed the Company to expand into sales of textbooks and course-related materials, emblematic apparel and gifts, trade books, school and dorm supplies, and convenience and café items on college and university campuses. In fiscal 2011, B&N College began offering a textbook rental option to its customers, and expanded its electronic textbooks and other course materials through a proprietary digital platform (NOOK Study™). B&N College offers its customers a full suite of textbook options – new, used, digital and rental.

Due to the increased focus on the internet and digital businesses, the Company performed an evaluation on the effect of its impact on the identification of operating segments. The assessment considered 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. As a result of this assessment, the Company has determined that it has three operating segments: B&N Retail, B&N College and B&N.com.

|  |  |
| --- | --- |
| 3 | Based upon sales reported in trade publications and public filings. |
| 4 | Any reference to NOOK™, NOOK 1st Edition™, NOOK Wi-Fi 1st Edition™, NOOK Color™, and The All-New NOOK™ includes the trademark symbol (™) even if a superscript “TM” is not included. | |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

*Consolidation*

The consolidated financial statements include the accounts of Barnes & Noble, Inc. and its wholly and majority-owned subsidiaries. Investments in affiliates in which ownership interests range from 20% to 50%, are accounted for under the equity method. All significant intercompany accounts and transactions have been eliminated in consolidation.

*Use of Estimates*

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

*Cash and Cash Equivalents*

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

*Merchandise Inventories*

Merchandise inventories are stated at the lower of cost or market. Cost is determined primarily by the retail inventory method under both the first-in, first-out (FIFO) basis and the last-in, first-out (LIFO) basis. The Company uses the retail inventory method for 97% of the Company’s merchandise inventories. As of both April 30, 2011 and May 1, 2010, 87% of the Company’s inventory on the retail inventory method was valued under the FIFO basis. B&N College’s textbook and trade book inventories are valued using the LIFO method, where the related reserve was not material to the recorded amount of the Company’s inventories or results of operations.

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

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

*Property and Equipment*

Property and equipment are carried at cost, less accumulated depreciation and amortization. For financial reporting purposes, depreciation is computed using the straight-line method over estimated useful lives. For tax purposes, different methods are used. Maintenance and repairs are expensed as incurred, while major maintenance and remodeling costs are capitalized. Leasehold improvements are capitalized and amortized over the shorter of their estimated useful lives or the terms of the respective leases. Capitalized lease acquisition costs are being amortized over the lease terms of the underlying leases. Costs incurred in purchasing management information systems are capitalized and included in property and equipment. These costs are amortized over their estimated useful lives from the date the systems become operational.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

*Other Long-Lived Assets*

The Company’s other long-lived assets include property and equipment and amortizable intangibles. At April 30, 2011, the Company had $704,651 of property and equipment, net of accumulated depreciation, and $251,667 of amortizable intangible assets, net of amortization, accounting for approximately 26.6% of the Company’s total assets. The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with Accounting Standards Codification (ASC) 360-10, *Accounting for the Impairment or Disposal of Long-Lived Assets* (ASC 360-10). The Company evaluates long-lived assets for impairment at the individual Barnes & Noble store level, except for B&N College long-lived assets, which are evaluated for impairment at the school contract combined store level, which is the lowest level at which individual cash flows can be identified. When evaluating long-lived assets for potential impairment, the Company will first compare the carrying amount of the assets to the individual store’s estimated future undiscounted cash flows. If the estimated future cash flows are less than the carrying amount of the assets, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the assets to the individual store’s fair value based on its estimated discounted future cash flows. If required, an impairment loss is recorded for that portion of the asset’s carrying value in excess of fair value. Impairment losses included in selling and administrative expenses totaled $2,857, $12,102, $0, and $11,715 during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively, and are related to individual store locations.

*Goodwill and Unamortizable Intangible Assets*

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

At April 30, 2011, the Company had $524,113 of goodwill and $314,911 of unamortizable intangible assets (those with an indefinite useful life), accounting for approximately 23.3% of the Company’s total assets. ASC 350-30, *Goodwill and Other Intangible Assets* , requires that goodwill and other unamortizable intangible assets no longer be amortized, but instead be tested for impairment at least annually or earlier if there are impairment indicators. The Company performs a two-step process for impairment testing of goodwill as required by ASC 350-30. The first step of this test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount. The second step (if necessary) measures the amount of the impairment. The Company completed its annual goodwill impairment test as of the first day of the third quarter. In performing the valuations, the Company used cash flows that reflected management’s forecasts and discount rates that included risk adjustments consistent with the current market conditions. Based on the results of the Company’s step one testing, the fair values of the Barnes & Noble Retail, Barnes & Noble College and B&N.com reporting units exceeded their carrying values; therefore, the second step of the impairment test was not required to be performed and no goodwill impairment was recognized. The Company has noted no subsequent indicators of impairment. The Company tests unamortizable intangible assets by comparing the fair value and the carrying value of such assets. The Company also completed its annual impairment tests for its other unamortizable intangible assets by comparing the estimated fair value to the carrying value of such assets and determined that no impairment was necessary. Changes in market conditions, among other factors, could have a material impact on these estimates.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

*Deferred Charges*

Costs incurred to obtain long-term financing are amortized over the terms of the respective debt agreements using the straight-line method, which approximates the interest method. Unamortized costs included in other noncurrent assets as of April 30, 2011 and May 1, 2010 were $26,525 and $32,428, respectively. Amortization expense included in interest and amortization of deferred financing fees was $16,087, $5,925, $137 and $547 during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively.

*Revenue Recognition*

Revenue from sales of the Company’s products is recognized at the time of sale, other than those with multiple elements. The Company accrues for estimated sales returns in the period in which the related revenue is recognized based on historical experience and industry standards. Sales taxes collected from retail customers are excluded from reported revenues. All of the Company’s sales are recognized as revenue on a “net” basis, including sales in connection with any periodic promotions offered to customers. The Company does not treat any promotional offers as expenses.

In accordance with ASC 605-25, *Revenue Recognition, Multiple Element Arrangements* and Accounting Standards Updates (ASU) 2009-13 and 2009-14, for multiple-element arrangements that involve tangible products that contain software that is essential to the tangible product’s functionality, undelivered software elements that relate to the tangible product’s essential software and other separable elements, the Company allocates revenue to all deliverables using the relative selling-price method. Under this method, revenue is allocated at the time of sale to all deliverables based on their relative selling price using a specific hierarchy. The hierarchy is as follows: vendor-specific objective evidence, third-party evidence of selling price, or best estimate of selling price. NOOK™ eBook Reader revenue (which includes revenue from the Company’s NOOK 1 st Edition™, NOOK Wi-Fi 1 st Edition™, NOOK Color™ and The All-New NOOK™ devices) is recognized at the segment point of sale.

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

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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

*Research and Development Costs for Software Products.*

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

*Advertising Costs*

The costs of advertising are expensed as incurred during the year pursuant to ASC 720-35, *Advertising Costs*. Advertising costs charged to selling and administrative expenses were $70,013, $34,369, $5,478 and $28,772 during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively.

The Company receives payments and credits from vendors pursuant to co-operative advertising and other programs, including payments for product placement in stores, catalogs and online. In accordance with ASC 605-50-25-10, *Customer’s Accounting for Certain Consideration Received from a Vendor* , the Company classifies certain co-op advertising received as a reduction in costs of sales and occupancy. The gross advertising expenses noted above were completely offset by allowances received from vendors and the excess allowances received were recorded as a reduction of cost of goods sold or inventory, as appropriate.

*Closed Store Expenses*

When the Company closes or relocates a store, the Company charges unrecoverable costs to expense. Such costs include the net book value of abandoned fixtures and leasehold improvements and, when a store is closed prior to the expiration of the lease, a provision for future lease obligations, net of expected sublease recoveries. Costs associated with store closings of $3,899, $4,503, $3,236 and $11,875 during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively, are included in selling and administrative expenses in the accompanying consolidated statements of operations.

*Net Earnings (Loss) Per Common Share*

Basic earnings per share represent net earnings (loss) attributable to common shareholders divided by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflect, in periods in which they have a dilutive effect, the impact of common shares issuable upon exercise of the Company’s outstanding stock options. The Company’s unvested restricted shares and common shares issuable under the Company’s deferred compensation plan are deemed participating securities and are excluded from the dilutive impact of common equivalent shares outstanding under the two-class method since these shares are entitled to participate in dividends declared on common shares. Under the two-class method, earnings (loss) attributable to unvested restricted shares and common shares issuable under the Company’s deferred compensation plan are excluded from net earnings (loss) attributable to common shareholders for purposes of calculating basic and diluted earnings (loss) per common share. See Note 7 for further information regarding the calculation of basic and diluted earnings (loss) per common share.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

*Income Taxes*

The provision for income taxes includes federal, state and local income taxes currently payable and those deferred because of temporary differences between the financial statement and tax bases of assets and liabilities. The deferred tax assets and liabilities are measured using the enacted tax rates and laws that are expected to be in effect when the differences reverse. The Company regularly reviews its deferred tax assets for recoverability and establishes a valuation allowance, if determined to be necessary.

*Stock-Based Compensation*

The calculation of stock-based employee compensation expense involves estimates that require management’s judgment. These estimates include the fair value of each of the stock option awards granted, which is estimated on the date of grant using a Black-Scholes option pricing model. There are two significant inputs into the Black-Scholes option pricing model: expected volatility and expected term. The Company estimates expected volatility based on traded option volatility of the Company’s stock over a term equal to the expected term of the option granted. The expected term of stock option awards granted is derived from historical exercise experience under the Company’s stock option plans and represents the period of time that stock option awards granted are expected to be outstanding. The assumptions used in calculating the fair value of stock-based payment awards represent management’s best estimates, but these estimates involve inherent uncertainties and the application of management’s judgment. As a result, if factors change and the Company uses different assumptions, stock-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate, and only recognize expense for those shares expected to vest. If the Company’s actual forfeiture rate is materially different from its estimate, the stock-based compensation expense could be significantly different from what the Company has recorded in the current period. See Note 3 to the Consolidated Financial Statements for a further discussion on stock-based compensation.

*Gift Cards*

The Company sells gift cards which can be used in its stores or on Barnes & Noble.com. 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. Over time, some portion of the gift cards issued is not redeemed. The Company estimates the portion of the gift card liability for which the likelihood of redemption is remote based upon the Company’s historical redemption patterns. The Company records this amount in income on a straight-line basis over a 12-month period beginning in the 13th month after the month the gift card was originally sold. If actual redemption patterns vary from the Company’s estimates, actual gift card breakage may differ from the amounts recorded. The Company recognized gift card breakage of $25,904, $21,328, $5,432 and $21,369 during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively. The Company had gift card liabilities of $311,092 and $292,127 as of April 30, 2011 and May 1, 2010, respectively, which amounts are included in accrued liabilities.

*Reclassifications*

Certain prior-period amounts have been reclassified for comparative purposes to conform with the fiscal 2011 presentation.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

*Reporting Period*

On September 30, 2009, the Board of Directors of Barnes & Noble authorized a change in the Company’s fiscal year end from the Saturday closest to the last day of January to the Saturday closest to the last day of April. The Company’s fiscal year is comprised of 52 or 53 weeks, ending on the Saturday closest to the last day of April. The reporting periods ended April 30, 2011, May 1, 2010, May 2, 2009, and January 31, 2009 contained 52 weeks, 52 weeks, 13 weeks and 52 weeks, respectively.

*Recent Accounting Pronouncements*

In December 2010, the FASB issued ASU 2010-28, *Intangibles—Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts* (ASU 2010-28). ASU 2010-28 provides amendments to Topic 350 to modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts to clarify that, for those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that impairment may exist. For public entities, the amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. The Company is still evaluating whether adoption of ASU 2010-28 will have an impact on the Company’s Fiscal 2012 Consolidated Financial Statements.

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04), which amends ASC 820, Fair Value Measurement. ASU 2011-04 does not extend the use of fair value accounting, but provides guidance on how it should be applied where its use is already required or permitted by other standards within U.S. GAAP or International Financial Reporting Standards (IFRSs). ASU 2011-04 changes the wording used to describe many requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Additionally, ASU 2011-04 clarifies the FASB’s intent about the application of existing fair value measurements. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011 and is applied prospectively. The Company is still evaluating whether adoption of ASU 2011-04 will have an impact on the Company’s Fiscal 2012 Consolidated Financial Statements.

The FASB is currently working on amendments to existing accounting standards governing a number of areas including, but not limited to, accounting for leases. In August 2010, the FASB issued an exposure draft, “Leases” (the Exposure Draft), which would replace the existing guidance in ASC topic 840, “Leases.” Under the Exposure Draft, among other changes in practice, a lessee’s rights and obligations under all leases, including existing and new arrangements, would be recognized as assets and liabilities, respectively, on the balance sheet. Subsequent to the end of the related comment period, the FASB made several amendments to the exposure draft, including revising the definition of the “lease term” to include the non-cancelable lease term plus only those option periods for which there is significant economic incentive for the lessee to extend or not terminate the lease. The FASB also redefined the initial lease liability to be recorded on the Company’s balance sheet to contemplate only those variable lease payments that are in substance “fixed”. The final standard is expected to be issued in the second half of 2011. Management is currently evaluating this proposed standard however, as the standard-setting process is still ongoing, the Company is unable to determine the impact this proposed change in accounting will have on its consolidated financial statements at this time.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

|  |  |  |
| --- | --- | --- |
|  | **2.** | **Credit Facility** |

On April 29, 2011, the Company entered into an amended and restated credit agreement (the Amended Credit Agreement) with Bank of America, N.A., as administrative agent, collateral agent and swing line lender, and other lenders, which amends and restates the Credit Agreement entered into on September 30, 2009. Under the Amended Credit Agreement, Lenders are providing up to $1,000,000 in aggregate commitments under a five-year asset-backed revolving credit facility (the Amended Credit Facility), which is secured by eligible inventory with the ability to include eligible real estate and accounts receivable and related assets. Borrowings under the Amended Credit Agreement are limited to a specified percentage of eligible inventories and accounts receivable and accrued interest, at the election of the Company, at Base Rate or LIBO Rate, plus, in each case, an Applicable Margin (each term as defined in the Amended Credit Agreement). In addition, the Company has the option to request an increase in commitments under the Amended Credit Agreement by up to $300,000, subject to certain restrictions.

The Amended Credit Agreement requires Availability (as defined in the Amended Credit Agreement) to be greater than the greater of (i) 10% of the Loan Cap (as defined in the Amended Credit Agreement) and (ii) $50,000. In addition, the Amended Credit Facilities contains covenants that limit, among other things, the Company’s ability to incur indebtedness, create liens, make investments, make restricted payments, merge or acquire assets, and contains default provisions that are typical for this type of financing, among other things. Proceeds from the Amended Credit Facility are used for general corporate purposes, including seasonal working capital needs.

As a result of the Amended Credit Agreement, $6,580 of deferred financing fees related to the 2009 Credit Facility were written off, and included in net interest expenses. The remaining unamortized deferred costs of $16,341 and new charges of $10,180 relating to the Company’s Amended Credit Facility were deferred and will be amortized over the five-year term of the Amended Credit Facility.

On September 30, 2009, the Company had entered into a credit agreement (the 2009 Credit Agreement) with Bank of America, N.A., as administrative agent, collateral agent and swing line lender, and other lenders, under which the lenders committed to provide up to $1,000,000 in commitments under a four-year asset-backed revolving credit facility (the 2009 Credit Facility), which was secured by eligible inventory and accounts receivable and related assets. Borrowings under the 2009 Credit Agreement were limited to a specified percentage of eligible inventories and accounts receivable and accrued interest, at the election of the Company, at Base Rate or LIBO Rate, plus, in each case, an Applicable Margin (each term as defined in the 2009 Credit Agreement). In addition, the Company had the option to request the increase in commitments under the 2009 Credit Agreement by up to $300,000, subject to certain restrictions. Proceeds from the 2009 Credit Facility were used for general corporate purposes, including seasonal working capital needs

The 2009 Credit Facility replaced the Company’s prior $850,000 credit agreement (Prior Credit Facility) which had a maturity date of July 31, 2011, as well as B&N College’s $400,000 credit agreement which had a maturity date of November 13, 2011.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

Selected information related to the Company’s Amended Credit Facility, 2009 Credit Facility and Prior Credit Facility:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | Fiscal  2011 | |  |  | Fiscal  2010 | |  |  | 13 weeks  ended  May 2,  2009 | |  |  | Fiscal  2008 | |  |
| Credit facility at period end |  | $ | 313,100 |  |  |  | 260,400 |  |  |  | — |  |  |  | — |  |
| Average balance outstanding during the period |  | $ | 338,971 |  |  |  | 107,504 |  |  |  | — |  |  |  | 63,871 |  |
| Maximum borrowings outstanding during the period |  | $ | 622,800 |  |  |  | 512,500 |  |  |  | — |  |  |  | 199,900 |  |
| Weighted average interest rate during the period |  |  | 4.30 | % |  |  | 4.38 | % |  |  | — |  |  |  | 6.05 | % |
| Interest rate at end of period |  |  | 5.13 | % |  |  | 4.13 | % |  |  | — |  |  |  | — |  |

Fees expensed with respect to the unused portion of the Amended Credit Facility, 2009 Credit Facility and Prior Credit Facility were $5,466, $4,198, $274 and $956 during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively. The increase in commitment fees in fiscal 2010 was related to the 2009 Company’s Credit Agreement entered into on September 30, 2009 in connection with the Acquisition.

The Company has no agreements to maintain compensating balances.

|  |  |  |
| --- | --- | --- |
|  | **3.** | **Stock-Based Compensation** |

The Company maintains three share-based incentive plans: the 1996 Incentive Plan, the 2004 Incentive Plan and the 2009 Incentive Plan. Prior to June 2, 2009, the Company issued restricted stock and stock options under the 1996 and 2004 Incentive Plans. On June 2, 2009, the Company’s shareholders approved the 2009 Incentive Plan. The maximum number of shares issuable under the 2009 Incentive Plan is 950,000, plus shares that remain available under the Company’s shareholder-approved 2004 Incentive Plan. At April 30, 2011, there were approximately 1,760,447 shares of common stock available for future grants under the 2009 Incentive Plan.

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

The Company uses the Black-Scholes option-pricing model to value the Company’s stock options for each stock option award. Using this option-pricing model, the fair value of each stock option award is estimated on the date of grant. The fair value of the Company’s stock option awards, which are generally subject to pro-rata vesting annually over four years, is expensed on a straight-line basis over the vesting period of the stock options. The expected volatility assumption is based on traded options volatility of the Company’s stock over a term equal to the expected term of the option granted. The expected term of

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

stock option awards granted is derived from historical exercise experience under the Company’s stock option plans and represents the period of time that stock option awards granted are expected to be outstanding. The expected term assumption incorporates the contractual term of an option grant, which is ten years, as well as the vesting period of an award, which is generally pro-rata vesting annually over four years. The risk-free interest rate is based on the implied yield on a U.S. Treasury constant maturity with a remaining term equal to the expected term of the option granted.

The Company recognizes stock-based compensation costs, net of estimated forfeitures, for only those shares expected to vest on a straight-line basis over the requisite service period of the award. The Company estimated the forfeiture rates for fiscal 2011, fiscal 2010, the transition period and fiscal 2008 based on its historical experience.

The weighted average assumptions relating to the valuation of the Company’s stock options for fiscal years 2010 and 2008 are shown below. No stock options were granted during fiscal 2011 or the transition period. During fiscal 2008, the Company modified certain stock options related to the death and retirement of two members of the Board of Directors and severance of a former executive officer. These modifications resulted in a lower than normal expected life of the stock option grants made in fiscal 2008.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |
| Fiscal Year |  | 2010 | |  |  | 2008 | |  |
| Weighted average fair value of grants |  | $ | 5.72 |  |  | $ | 7.52 |  |
| Volatility |  |  | 41.30 | % |  |  | 65.36 | % |
| Risk-free interest rate |  |  | 2.59 | % |  |  | 1.43 | % |
| Expected life |  |  | 5 years |  |  |  | .94 years |  |
| Expected dividend yield |  |  | 4.53 | % |  |  | 3.54 | % |

*Stock-Based Compensation Activity*

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | Number of  Shares (in  thousands) | |  |  | Weighted  Average  Exercise  Price | |  |  | Weighted  Average  Remaining  Contractual  Term | |  |  | Aggregate  Intrinsic  Value (in  thousands) | |  |
| Balance, February 2, 2008 |  |  | 6,582 |  |  | $ | 20.19 |  |  |  | 4.98 years |  |  | $ | 91,597 |  |
| Granted |  |  | 289 |  |  |  | 23.19 |  |  |  |  |  |  |  |  |  |
| Exercised |  |  | (488 | ) |  |  | 19.79 |  |  |  |  |  |  |  |  |  |
| Forfeited |  |  | (416 | ) |  |  | 23.88 |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance, January 31, 2009 |  |  | 5,967 |  |  |  | 20.11 |  |  |  | 4.03 years |  |  | $ | 3,557 |  |
| Granted |  |  | — |  |  |  | — |  |  |  |  |  |  |  |  |  |
| Exercised |  |  | (280 | ) |  |  | 19.73 |  |  |  |  |  |  |  |  |  |
| Forfeited |  |  | (126 | ) |  |  | 19.27 |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance, May 2, 2009 |  |  | 5,561 |  |  |  | 20.14 |  |  |  | 3.83 years |  |  | $ | 33,633 |  |
| Granted |  |  | 500 |  |  |  | 22.07 |  |  |  |  |  |  |  |  |  |
| Exercised |  |  | (313 | ) |  |  | 13.96 |  |  |  |  |  |  |  |  |  |
| Forfeited |  |  | (250 | ) |  |  | 30.69 |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance, May 1, 2010 |  |  | 5,498 |  |  |  | 20.19 |  |  |  | 3.49 years |  |  | $ | 13,782 |  |
| Granted |  |  | — |  |  |  | — |  |  |  |  |  |  |  |  |  |
| Exercised |  |  | (1,024 | ) |  |  | 16.83 |  |  |  |  |  |  |  |  |  |
| Forfeited |  |  | (598 | ) |  |  | 20.57 |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance, April 30, 2011 |  |  | 3,876 |  |  | $ | 21.02 |  |  |  | 3.40 years |  |  |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Vested and expected to vest in the future at April 30, 2011 |  |  | 3,876 |  |  | $ | 21.02 |  |  |  | 3.40 years |  |  |  | — |  |
| Exercisable at April 30, 2011 |  |  | 3,542 |  |  | $ | 20.92 |  |  |  | 2.88 years |  |  |  | — |  |
| Available for grant at April 30, 2011 |  |  | 1,760 |  |  |  |  |  |  |  |  |  |  |  |  |  |

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company’s closing stock price on the last trading day of the related fiscal year and the exercise price, multiplied by the related in-the-money options) that would have been received by the option holders had they exercised their options at the end of the fiscal year. This amount changes based on the market value of the Company’s common stock. Total intrinsic value of options exercised for fiscal 2011, fiscal 2010, the transition period and fiscal 2008 (based on the difference between the Company’s stock price on the exercise date and the respective exercise price, multiplied by the number of options exercised) was $124, $2,321, $1,094 and $3,997, respectively.

As of April 30, 2011, there was $1,827 of total unrecognized compensation expense related to unvested stock options granted under the Company’s share-based compensation plans. That expense is expected to be recognized over a weighted average period of 1.9 years.

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

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |
|  |  | Number of  Shares (in  thousands) | |  |  | Weighted  Average Grant  Date Fair Value | |  |
| Balance, February 2, 2008 |  |  | 1,026 |  |  | $ | 40.74 |  |
| Granted |  |  | 991 |  |  |  | 28.27 |  |
| Vested |  |  | (431 | ) |  |  | 39.27 |  |
| Forfeited |  |  | (135 | ) |  |  | 31.13 |  |
|  |  |  |  |  |  |  |  |  |
| Balance, January 31, 2009 |  |  | 1,451 |  |  |  | 33.55 |  |
| Granted |  |  | 133 |  |  |  | 17.56 |  |
| Vested |  |  | (299 | ) |  |  | 37.21 |  |
| Forfeited |  |  | (50 | ) |  |  | 35.28 |  |
|  |  |  |  |  |  |  |  |  |
| Balance, May 2, 2009 |  |  | 1,235 |  |  |  | 30.86 |  |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |
| Granted |  |  | 1,647 |  |  |  | 21.93 |  |
| Vested |  |  | (429 | ) |  |  | 33.18 |  |
| Forfeited |  |  | (123 | ) |  |  | 30.41 |  |
|  |  |  |  |  |  |  |  |  |
| Balance, May 1, 2010 |  |  | 2,330 |  |  |  | 24.15 |  |
| Granted |  |  | 684 |  |  |  | 16.65 |  |
| Vested |  |  | (435 | ) |  |  | 27.99 |  |
| Forfeited |  |  | (154 | ) |  |  | 24.76 |  |
|  |  |  |  |  |  |  |  |  |
| Balance, April 30, 2011 |  |  | 2,425 |  |  |  | 21.31 |  |
|  |  |  |  |  |  |  |  |  |

Total fair value of shares of restricted stock that vested during fiscal 2011, fiscal 2010, the transition period and fiscal 2008 was $6,163, $9,408, $6,435 and $12,108, respectively. As of April 30, 2011, there was $37,889 of unrecognized stock-based compensation expense related to nonvested restricted stock awards. That cost is expected to be recognized over a weighted average period of 2.3 years.

For fiscal 2011, fiscal 2010, the transition period and fiscal 2008, stock-based compensation expense of $20,978, $15,723, $3,900 and $20,549, respectively, is included in selling and administrative expenses.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

|  |  |  |
| --- | --- | --- |
|  | **4.** | **Receivables, Net** |

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

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |
|  |  | April 30,  2011 | |  |  | May 1,  2010 | |  |
| Trade accounts |  | $ | 81,577 |  |  |  | 46,723 |  |
| Credit/debit card receivables |  |  | 42,982 |  |  |  | 40,079 |  |
| Advertising |  |  | 5,877 |  |  |  | 5,254 |  |
| Receivables from landlords for leasehold improvements |  |  | 867 |  |  |  | 3,206 |  |
| Other receivables |  |  | 18,991 |  |  |  | 11,314 |  |
|  |  |  |  |  |  |  |  |  |
| Total receivables, net |  | $ | 150,294 |  |  |  | 106,576 |  |
|  |  |  |  |  |  |  |  |  |

|  |  |  |
| --- | --- | --- |
|  | **5.** | **Other Long-Term Liabilities** |

Other long-term liabilities consist primarily of deferred rent and obligations under the Junior Seller Note (see Notes 12 and 21). 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 accrued pension liabilities, store closing expenses and long-term deferred revenues. The Company had the following long-term liabilities at April 30, 2011 and May 1, 2010:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |
|  |  | April 30,  2011 | |  |  | May 1,  2010 | |  |
| Deferred Rent |  | $ | 271,451 |  |  |  | 324,528 |  |
| Junior Seller Note (see Note 12 and Note 21) |  |  | 150,000 |  |  |  | 150,000 |  |
| Other |  |  | 27,196 |  |  |  | 31,375 |  |
|  |  |  |  |  |  |  |  |  |
| Total long-term liabilities |  | $ | 448,647 |  |  |  | 505,903 |  |
|  |  |  |  |  |  |  |  |  |

|  |  |  |
| --- | --- | --- |
|  | **6.** | **Fair Values of Financial Instruments** |

In accordance with ASC 820, *Fair Value Measurements and Disclosures*, the fair value of an asset is considered to be the price at which the asset could be sold in an orderly transaction between unrelated knowledgeable and willing parties. A liability’s fair value is defined as the amount that would be paid to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor. Assets and liabilities recorded at fair value are measured using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Level 1 – |  | Observable inputs that reflect quoted prices in active markets |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

|  |  |  |
| --- | --- | --- |
|  |  |  |
| 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 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | | | | |
|  |  |  | |  |  | Fair Value Measurement Using | | | | | | | | | |  |  |  | |  | | | | | |  |
| Description |  | As of  April 30,  2011 | |  |  | Quoted  Prices in  Active  Markets  for  Identical  Assets  (Level 1) | |  |  | Significant  Other  Observable  Inputs  (Level 2) | |  |  | Significant  Unobservable  Inputs  (Level 3) | |  |  | Total  Gains  (Losses) | |  | | |  | | | |
|  |  |  |  |  |  |  |  |  |
| Contingent consideration (See Note 14) |  | $ | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | (243 | ) |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | |  |  | Fair Value Measurement Using | | | | | | | | | |  |  |  | |  |
| Description |  | As of  May 1,  2010 | |  |  | Quoted  Prices in  Active  Markets  for  Identical  Assets  (Level 1) | |  |  | Significant  Other  Observable  Inputs  (Level 2) | |  |  | Significant  Unobservable  Inputs  (Level 3) | |  |  | Total  Gains  (Losses) | |  |
| Contingent consideration (See Note 14) |  | $ | 7,265 |  |  |  | — |  |  |  | — |  |  |  | 7,265 |  |  |  | (1,712 | ) |

The following table presents the changes in Level 3 contingent consideration liability for the 52 weeks ended April 30, 2011:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
|  |  | Acquisition  of  Fictionwise | |  |
| Beginning balance, May 1, 2010 |  | $ | 7,265 |  |
| Payments |  |  | (7,508 | ) |
| Losses |  |  | 243 |  |
|  |  |  |  |  |
| Balance, April 30, 2011 |  | $ | — |  |
|  |  |  |  |  |

Fair Value of Financial Instruments

The Company’s financial instruments, other than those presented in the disclosures above, include cash, receivables, other investments and accounts payable. The fair values of cash, receivables, and accounts payable approximated carrying values because of the short-term nature of these instruments. The Company believes that its Amended Credit Facility approximates fair value since interest rates are adjusted to reflect current rates. The Company believes that the terms and conditions of the remaining Seller Notes is consistent with comparable market debt issues.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

|  |  |
| --- | --- |
| **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,* the Company’s unvested restricted shares and shares issuable under the Company’s deferred compensation plan are considered participating securities. During periods of net income, the calculation of earnings per share for common stock are reclassified to exclude the income attributable to the unvested restricted shares and shares issuable under the Company’s deferred compensation plan from the numerator and exclude the dilutive impact of those shares from the denominator. During periods of net loss, no effect is given to the participating securities because they do not share in the losses of the Company. Due to the net loss during fiscal 2011 and the transition period, participating securities in the amounts of 3,228 and 2,118, respectively, were excluded in the calculation of earnings per share using the two-class method for the transition period because the effect would be antidilutive.

The following is a reconciliation of the Company’s basic and diluted earnings per share calculation:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | Fiscal  2011 | |  |  | Fiscal  2010 | |  |  | 13 weeks  ended  May 2,  2009 | |  |  | Fiscal  2008 | |  |
| **Numerator for basic earnings per share:** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Income (loss) from continuing operations attributable to Barnes & Noble, Inc. |  | $ | (73,920 | ) |  | $ | 36,676 |  |  |  | (2,039 | ) |  |  | 85,426 |  |
| Less allocation of earnings and dividends to participating securities |  |  | — |  |  |  | (1,279 | ) |  |  | — |  |  |  | (2,891 | ) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income (loss) from continuing operations available to common shareholders |  |  | (73,920 | ) |  |  | 35,397 |  |  |  | (2,039 | ) |  |  | 82,535 |  |
| Add loss from discontinued operations, net of allocation of earnings and dividends to participating securities |  |  | — |  |  |  | — |  |  |  | — |  |  |  | (9,111 | ) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income (loss) available to common shareholders |  | $ | (73,920 | ) |  | $ | 35,397 |  |  |  | (2,039 | ) |  |  | 73,424 |  |
|  |  | | | |  | | | |  | | | |  | | | |
| **Numerator for diluted earnings per share:** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income (loss) from continuing operations available to common shareholders |  | $ | (73,920 | ) |  | $ | 35,397 |  |  |  | (2,039 | ) |  |  | 82,535 |  |
| Effect of dilutive options |  |  | — |  |  |  | (10 | ) |  |  | — |  |  |  | 27 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income (loss) from continuing operations available to common shareholders |  |  | (73,920 | ) |  |  | 35,387 |  |  |  | (2,039 | ) |  |  | 82,562 |  |
| Add loss from discontinued operations |  |  | — |  |  |  | — |  |  |  | (654 | ) |  |  | (9,506 | ) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income (loss) available to common shareholders |  | $ | (73,920 | ) |  | $ | 35,387 |  |  |  | (2,693 | ) |  |  | 73,056 |  |
|  |  | | | |  | | | |  | | | |  | | | |
| **Denominator for basic and diluted earnings per share:** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Basic weighted average common shares |  |  | 56,588 |  |  |  | 55,344 |  |  |  | 54,759 |  |  |  | 55,207 |  |
| Average dilutive options |  |  | — |  |  |  | 809 |  |  |  | — |  |  |  | 1,322 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Diluted weighted average common shares |  |  | 56,588 |  |  |  | 56,153 |  |  |  | 54,759 |  |  |  | 56,529 |  |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Basic earnings per common share** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Income (loss) from continuing operations attributable to Barnes & Noble, Inc. |  | $ | (1.31 | ) |  |  | 0.64 |  |  |  | (0.04 | ) |  |  | 1.50 |  |
| Income (loss) from discontinued operations attributable to Barnes & Noble, Inc. |  |  | — |  |  |  | — |  |  |  | (0.01 | ) |  |  | (0.17 | ) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income (loss) attributable to Barnes & Noble, Inc. |  | $ | (1.31 | ) |  |  | 0.64 |  |  |  | (0.05 | ) |  |  | 1.33 |  |
| **Diluted earnings per common share** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Income (loss) from continuing operations attributable to Barnes & Noble, Inc. |  | $ | (1.31 | ) |  |  | 0.63 |  |  |  | (0.04 | ) |  |  | 1.46 |  |
| Income (loss) from discontinued operations attributable to Barnes & Noble, Inc. |  |  | — |  |  |  | — |  |  |  | (0.01 | ) |  |  | (0.17 | ) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income (loss) attributable to Barnes & Noble, Inc. |  | $ | (1.31 | ) |  |  | 0.63 |  |  |  | (0.05 | ) |  |  | 1.29 |  |

|  |  |  |
| --- | --- | --- |
|  | **8.** | **Employees’ Retirement and Defined Contribution Plans** |

As of December 31, 1999, substantially all employees of the Company were covered under a noncontributory defined benefit pension plan (the Pension Plan). As of January 1, 2000, the Pension Plan was amended so that employees no longer earn benefits for subsequent service. Effective December 31, 2004, the Barnes & Noble.com Employees’ Retirement Plan (the B&N.com Retirement Plan) was merged with the Pension Plan. Substantially all employees of Barnes & Noble.com were covered under the B&N.com Retirement Plan. As of July 1, 2000, the B&N.com Retirement Plan was amended so that employees no longer earn benefits for subsequent service. Subsequent service continues to be the basis for vesting of benefits not yet vested at December 31, 1999 and June 30, 2000 for the Pension Plan and the B&N.com Retirement Plan, respectively, and the Pension Plan will continue to hold assets and pay benefits. The actuarial assumptions used to calculate pension costs are reviewed annually. Pension expense was $2,558, $1,951, $752 and $1,301 for fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively.

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 $14,212, $12,954, $3,062 and $11,645 during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively. In addition, the Company provides certain health care and life insurance benefits (the Postretirement Plan) to retired employees, limited to those receiving benefits or retired as of April 1, 1993. Total Company contributions charged to employee benefit expenses for the Postretirement Plan were $150, ($111), $38 and $210 during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

|  |  |  |
| --- | --- | --- |
|  | **9.** | **Income Taxes** |

The Company files a consolidated federal return with all subsidiaries owned 80% or more. Federal and state income tax provisions (benefits) for fiscal 2011, fiscal 2010, the transition period and fiscal 2008 are as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | Fiscal  2011 | |  |  | Fiscal  2010 | |  |  | 13 weeks  ended  May 2,  2009 | |  |  | Fiscal  2008 | |  |
| Current: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Federal |  | $ | (47,825 | ) |  |  | 51,343 |  |  |  | (2,199 | ) |  |  | 44,038 |  |
| State |  |  | (2,441 | ) |  |  | 14,192 |  |  |  | (481 | ) |  |  | 11,983 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total current |  |  | (50,266 | ) |  |  | 65,535 |  |  |  | (2,680 | ) |  |  | 56,021 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Deferred: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Federal |  |  | 8,057 |  |  |  | (45,903 | ) |  |  | 1,016 |  |  |  | 2,540 |  |
| State |  |  | (6,443 | ) |  |  | (11,267 | ) |  |  | 290 |  |  |  | (2,970 | ) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total deferred |  |  | 1,614 |  |  |  | (57,170 | ) |  |  | 1,306 |  |  |  | (430 | ) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total |  | $ | (48,652 | ) |  |  | 8,365 |  |  |  | (1,374 | ) |  |  | 55,591 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | Fiscal  2011 | |  |  | Fiscal  2010 | |  |  | 13 weeks  ended  May 2,  2009 | |  |  | Fiscal  2008 | |  |
| Federal statutory income tax rate |  |  | 35.0 | % |  |  | 35.0 | % |  |  | 35.0 | % |  |  | 35.0 | % |
| State income taxes, net of federal income tax benefit |  |  | 4.8 |  |  |  | 3.8 |  |  |  | 3.6 |  |  |  | 4.3 |  |
| Additions to unrecognized tax benefits |  |  | (2.5 | ) |  |  | 11.2 |  |  |  | 0.5 |  |  |  | 3.9 |  |
| Reductions to unrecognized tax benefits |  |  | 1.3 |  |  |  | (31.8 | ) |  |  | — |  |  |  | (0.4 | ) |
| Other, net |  |  | 1.1 |  |  |  | 0.4 |  |  |  | 0.8 |  |  |  | (3.4 | ) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Effective income tax rate |  |  | 39.7 | % |  |  | 18.6 | % |  |  | 39.9 | % |  |  | 39.4 | % |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

The tax effects of temporary differences that give rise to significant components of the Company’s deferred tax assets and liabilities as of April 30, 2011 and May 1, 2010 are as follows:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |
|  |  | April 30,  2011 | |  |  | May 1,  2010 | |  |
| Deferred tax liabilities: |  |  |  |  |  |  |  |  |
| Investment in Barnes & Noble.com |  | $ | (95,051 | ) |  |  | (95,051 | ) |
| Depreciation |  |  | (57,156 | ) |  |  | (75,385 | ) |
| Goodwill and intangible asset amortization |  |  | (236,845 | ) |  |  | (239,434 | ) |
| Prepaid expenses |  |  | (7,125 | ) |  |  | (6,944 | ) |
| Other |  |  | (4,861 | ) |  |  | (7,201 | ) |
|  |  |  |  |  |  |  |  |  |
| Total deferred tax liabilities |  |  | (401,038 | ) |  |  | (424,015 | ) |
|  |  |  |  |  |  |  |  |  |
| Deferred tax assets: |  |  |  |  |  |  |  |  |
| Loss and credit carryovers |  |  | 57,751 |  |  |  | 41,348 |  |
| Lease transactions |  |  | 32,986 |  |  |  | 40,353 |  |
| Estimated accruals |  |  | 52,868 |  |  |  | 81,898 |  |
| Stock-based compensation |  |  | 11,508 |  |  |  | 11,482 |  |
| Insurance liability |  |  | 11,396 |  |  |  | 10,896 |  |
| Pension |  |  | 10,254 |  |  |  | 10,998 |  |
| Inventory |  |  | 18,996 |  |  |  | 22,642 |  |
| Investments in equity securities |  |  | 1,282 |  |  |  | 1,282 |  |
|  |  |  |  |  |  |  |  |  |
| Total deferred tax assets |  |  | 197,041 |  |  |  | 220,899 |  |
|  |  |  |  |  |  |  |  |  |
| Net deferred tax liabilities |  | $ | (203,997 | ) |  |  | (203,116 | ) |
|  |  |  |  |  |  |  |  |  |
| Balance Sheet caption reported in: |  |  |  |  |  |  |  |  |
| Prepaid expenses and other current assets |  | $ | 76,135 |  |  |  | 108,491 |  |
| Deferred tax liabilities |  |  | (280,132 | ) |  |  | (311,607 | ) |
|  |  |  |  |  |  |  |  |  |
| Net deferred tax liabilities |  | $ | (203,997 | ) |  |  | (203,116 | ) |
|  |  |  |  |  |  |  |  |  |

At April 30, 2011, the Company had federal and state net operating loss carryforwards (NOLs) of approximately $86,000 that expire beginning in 2018 through 2022, the utilization of which is limited to approximately $6,700 on an annual basis. Additionally, the Company had approximately $6,000 of federal NOLs and $149,000 of state NOLs that have no annual limitation and expire in 2030. These NOLs account for $44,232 of the $57,751 of loss and credit carryover deferred tax assets at April 30, 2011, with the remainder relating primarily to other state NOLs and federal credits.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

As of April 30, 2011, the Company had $16,715 of unrecognized tax benefits, all of which, if recognized, would affect the Company’s effective tax rate. A reconciliation of the beginning and ending amount of unrecognized tax benefits for fiscal 2011, fiscal 2010, the transition period and fiscal 2008 is as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| Balance at January 31, 2009 |  | $ | 23,833 |  |
| Additions for tax positions of the current period |  |  | 339 |  |
| Additions for tax positions of prior periods |  |  | 369 |  |
|  |  |  |  |  |
| Balance at May 2, 2009 |  | $ | 24,541 |  |
|  |  |  |  |  |
| Additions for tax positions of the current period |  |  | 2,457 |  |
| Additions for tax positions of prior periods |  |  | 2,563 |  |
| Other reductions for tax positions of prior periods |  |  | (14,293 | ) |
|  |  |  |  |  |
| Balance at May 1, 2010 |  | $ | 15,268 |  |
|  |  |  |  |  |
| Additions for tax positions of the current period |  |  | 1,809 |  |
| Additions for tax positions of prior periods |  |  | 1,199 |  |
| Reductions due to settlements |  |  | (508 | ) |
| Other reductions for tax positions of prior periods |  |  | (1,053 | ) |
|  |  |  |  |  |
| Balance at April 30, 2011 |  | $ | 16,715 |  |
|  |  |  |  |  |

The Company’s continuing practice is to recognize interest and penalties related to income tax matters in income tax expense. As of May 1, 2010 and April 30, 2011, the Company had accrued $3,119 and $3,236, respectively, for net interest and penalties, which is included in the $15,268 and $16,715 of unrecognized tax benefits noted above. The change in the amount accrued for net interest and penalties includes $825 in additions for net interest and penalties recognized in income tax expense in the Company’s fiscal 2011 statement of operations.

The Company is subject to U.S. federal income tax as well as income tax in jurisdictions of each state having an income tax. The tax years that remain subject to examination are primarily from fiscal 2007 and forward. Some earlier years remain open for a small minority of states.

|  |  |  |
| --- | --- | --- |
|  | **10.** | **Other Comprehensive Earnings (Loss), Net of Tax** |

Comprehensive earnings (loss) are net earnings (loss), plus certain other items that are recorded directly to shareholders’ equity, as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | Fiscal  2011 | |  |  | Fiscal  2010 | |  |  | 13 weeks  ended  May 2,  2009 | |  |  | Fiscal  2008 | |  |
| Net earnings (loss) attributable to Barnes & Noble, Inc. |  | $ | (73,920 | ) |  |  | 36,676 |  |  |  | (2,693 | ) |  |  | 75,920 |  |
| Other comprehensive earnings (loss), net of tax: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Foreign currency translation adjustments |  |  | — |  |  |  | — |  |  |  | — |  |  |  | (3,352 | ) |
| (Increase)/decrease in minimum pension liability (net of deferred tax benefit (expense) of ($1,055), $798, $0 and $1,048, respectively) |  |  | 1,582 |  |  |  | (1,197 | ) |  |  | — |  |  |  | (1,628 | ) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total comprehensive earnings (loss) |  |  | (72,338 | ) |  |  | 35,479 |  |  |  | (2,693 | ) |  |  | 70,940 |  |
| Comprehensive loss attributable to noncontrolling interests |  |  | 37 |  |  |  | 32 |  |  |  | 30 |  |  |  | 30 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total comprehensive earnings (loss) attributable to Barnes & Noble, Inc. |  | $ | (72,375 | ) |  |  | 35,447 |  |  |  | (2,723 | ) |  |  | 70,910 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

The components of Accumulated Other Comprehensive Loss are as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | Sale of  Calendar Club | |  |  | Foreign Currency  Translation | |  |  | Minimum  Pension and  Postretirement  Liability | |  |  | Accumulated  Other  Comprehensive  Loss | |  |
| Balance at February 2, 2008 |  | $ | — |  |  |  | 736 |  |  |  | (10,259 | ) |  | $ | (9,523 | ) |
| Net actuarial loss, net of tax |  |  | — |  |  |  | — |  |  |  | (2,504 | ) |  |  | (2,504 | ) |
| Amortization of net actuarial gain, net of tax |  |  | — |  |  |  | — |  |  |  | 876 |  |  |  | 876 |  |
| Foreign currency translation adjustments |  |  | — |  |  |  | (3,352 | ) |  |  | — |  |  |  | (3,352 | ) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance at January 31, 2009 |  |  | — |  |  |  | (2,616 | ) |  |  | (11,887 | ) |  |  | (14,503 | ) |
| Sale of Calendar Club (See Note 16) |  |  | 2,488 |  |  |  | — |  |  |  | — |  |  |  | 2,488 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance at May 2, 2009 |  |  | 2,488 |  |  |  | (2,616 | ) |  |  | (11,887 | ) |  |  | (12,015 | ) |
| Net actuarial loss, net of tax |  |  | — |  |  |  | — |  |  |  | (2,395 | ) |  |  | (2,395 | ) |
| Amortization of net actuarial gain, net of tax |  |  | — |  |  |  | — |  |  |  | 1,249 |  |  |  | 1,249 |  |
| Prior service credit |  |  | — |  |  |  | — |  |  |  | (51 | ) |  |  | (51 | ) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance at May 1, 2010 |  |  | 2,488 |  |  |  | (2,616 | ) |  |  | (13,084 | ) |  |  | (13,212 | ) |
| Net actuarial loss, net of tax |  |  | — |  |  |  | — |  |  |  | 249 |  |  |  | 249 |  |
| Amortization of net actuarial gain, net of tax |  |  | — |  |  |  | — |  |  |  | 1,287 |  |  |  | 1,287 |  |
| Prior service credit |  |  | — |  |  |  | — |  |  |  | 46 |  |  |  | 46 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance at April 30, 2011 |  | $ | 2,488 |  |  |  | (2,616 | ) |  |  | (11,502 | ) |  | $ | (11,630 | ) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

|  |  |  |
| --- | --- | --- |
|  | **11.** | **Changes in Intangible Assets and Goodwill** |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | |  |  | As of April 30, 2011 | | | | | | | | | |  |
| Amortizable intangible assets |  | Useful  Life | |  |  | Gross Carrying  Amount | |  |  | Accumulated  Amortization | |  |  | Total | |  |
| Customer relationships |  |  | 5-25 |  |  | $ | 257,410 |  |  | $ | (17,962 | ) |  | $ | 239,448 |  |
| Author contracts |  |  | 10 |  |  |  | 18,461 |  |  |  | (15,204 | ) |  |  | 3,257 |  |
| Technology |  |  | 5-10 |  |  |  | 5,850 |  |  |  | (1,624 | ) |  |  | 4,226 |  |
| Distribution contracts |  |  | 10 |  |  |  | 8,325 |  |  |  | (4,304 | ) |  |  | 4,021 |  |
| Other |  |  | 3-10 |  |  |  | 4,639 |  |  |  | (3,924 | ) |  |  | 715 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  | $ | 294,685 |  |  |  | (43,018 | ) |  | $ | 251,667 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | | | |  | | | |  | | | |  | | | |
| Unamortizable intangible assets |  |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Trade name |  |  |  |  |  |  |  |  |  |  |  |  |  | $ | 293,400 |  |
| Copyrights |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 175 |  |
| Publishing contracts |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 21,336 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  | $ | 314,911 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

All amortizable intangible assets are being amortized over their useful life on a straight-line basis, except for the customer relationships related to the Fictionwise acquisition that are being amortized on an accelerated basis.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| Aggregate Amortization Expense: |  |  | |  |
| For the 52 weeks ended April 30, 2011 |  | $ | 14,512 |  |
| For the 52 weeks ended May 1, 2010 |  | $ | 11,350 |  |
| For the 13 weeks ended May 2, 2009 |  | $ | 752 |  |
| For the 52 weeks ended January 31, 2009 |  | $ | 4,563 |  |
|  |  | | | |
| Estimated Amortization Expense: |  |  | |  |
| (12 months ending on or about April 30) |  |  |  |  |
| 2012 |  | $ | 14,146 |  |
| 2013 |  | $ | 13,815 |  |
| 2014 |  | $ | 13,078 |  |
| 2015 |  | $ | 11,293 |  |
| 2016 |  | $ | 11,241 |  |

The changes in the carrying amount of goodwill by segment for fiscal 2011 are as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | B&N Retail  Segment | |  |  | B&N College  Segment | |  |  | B&N.com  Segment | |  |  | Total  Company | |  |
| Balance as of May 1, 2010 |  | $ | 254,471 |  |  |  | 274,070 |  |  |  | — |  |  | $ | 528,541 |  |
| Benefit of excess tax amortization (a) |  |  | — |  |  |  | — |  |  |  | (4,428 | ) |  |  | (4,428 | ) |
| Re-allocation of Goodwill (b) |  |  | (29,135 | ) |  |  | — |  |  |  | 29,135 |  |  |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance as of April 30, 2011 |  | $ | 225,336 |  |  |  | 274,070 |  |  |  | 24,707 |  |  | $ | 524,113 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

|  |  |
| --- | --- |
| (b) | Due to the increased focus on the internet and digital businesses, the Company performed an evaluation on the effect of its impact on the identification of operating segments. The assessment considered 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. As a result of this assessment, the Company has determined that it has three operating segments: B&N Retail, B&N College and B&N.com. As a result of this evaluation, $29.1 million of goodwill was re-allocated between B&N Retail and B&N.com segments. |

|  |  |  |
| --- | --- | --- |
|  | **12.** | **Acquisition of B&N College** |

On September 30, 2009, the Company completed the acquisition of B&N College from Leonard Riggio and Louise Riggio (Sellers) pursuant a Stock Purchase Agreement dated as of August 7, 2009 among the Company and the Sellers. Mr. Riggio is the Chairman of the Company’s Board of Directors and a significant stockholder. As part of the transaction, the Company acquired the Barnes & Noble trade name that had been owned by B&N College and licensed to the Company.

On September 30, 2009, in connection with the closing of the Acquisition described above, the Company issued the Sellers (i) a senior subordinated note in the principal amount of $100,000, payable in full on December 15, 2010, with interest of 8% per annum payable on the unpaid principal amount (the Senior Seller Note) and (ii) a junior subordinated note in the principal amount of $150,000, payable in full on the fifth anniversary of the closing of the Acquisition, with interest of 10% per annum payable on the unpaid principal amount (the Junior Seller Note; and together with the Senior Seller Note, the Seller Notes). On December 22, 2009, the Company consented to the pledge and assignment of the Senior Seller Note by the Sellers as collateral security. The Senior Seller Note was paid on its scheduled due date, December 15, 2010.

The purchase price paid to the Sellers was $596,000, consisting of $346,000 in cash and $250,000 in Seller Notes. However, the cash paid to the Sellers was reduced by $82,352 in cash bonuses paid by B&N College to 192 members of its management team and employees, not including Leonard Riggio. The Company financed the Acquisition through $250,000 of seller financing, $150,000 from the 2009 Credit Facility and the remainder from both the Company’s and B&N College’s cash on hand.

The Acquisition was accounted for as a business purchase pursuant to Accounting Standards Codification (ASC) 805, *Business Combinations* (ASC 805). Acquisition-related expenses totaled $10,400 and have been recorded as selling and administrative expenses in the Company’s consolidated statement of operations in fiscal 2010. As required by ASC 805-20, the Company allocated the purchase price to assets and liabilities based on their estimated fair value at the Acquisition date. The following table represents the allocation of the purchase price to the acquired net assets and resulting adjustment to goodwill:

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| Cash Paid |  | $ | 263,648 |  |
| Seller Notes |  |  | 250,000 |  |
|  |  |  |  |  |
| Fair value of total consideration |  | $ | 513,648 |  |
|  |  |  |  |  |
| Allocation of purchase price: |  |  |  |  |
| Current assets |  | $ | 609,786 |  |
| Non-current assets |  |  | 114,683 |  |
| Trade name |  |  | 245,000 |  |
| Customer relationships |  |  | 255,000 |  |
| Goodwill |  |  | 274,070 |  |
|  |  |  |  |  |
| Total assets acquired |  | $ | 1,498,539 |  |
| Deferred taxes |  |  | 234,631 |  |
| Liabilities assumed |  |  | 750,260 |  |
|  |  |  |  |  |
|  |  | $ | 513,648 |  |
|  |  |  |  |  |

Acquired intangible assets consisted primarily of the trade name and customer relationships.

*Trade Name*

The Company previously licensed the “Barnes & Noble” trade name from B&N College under certain agreements. The Acquisition gave the Company exclusive ownership of its trade name. The estimated fair value ascribed to the trade name of $245,000 represents solely the estimated incremental value acquired as part of the Acquisition, which is not representative of the value of the “Barnes & Noble” trade name taken as a whole. The trade name has been classified as an indefinite life intangible asset.

*Customer Relationships*

The estimated fair value of customer relationships of B&N College is $255,000. Customers are comprised of existing college and university contractual relationships at the date of the Acquisition.

*Amortization of Fair Value Ascribed to Customer Relationships*

Historical customer attrition rates imply a life of 50 years; however, the useful life was shortened to 25 years since the majority of the value of discounted cash flows are captured in this period. The $255,000 is being amortized evenly over the 25-year period. The Company recorded $10,200 and $5,950 in amortization related to these intangibles during the 52 weeks ended April 30, 2011 and May 1, 2010, respectively.

The Company also recorded a short-term deferred tax liability of $26,810 and a long-term deferred tax liability of $207,821 related to the difference between the book basis and the tax basis of the net assets acquired. In addition, the Company stepped up the value of other assets and liabilities, resulting in goodwill of $272,879, which is not deductible for income tax purposes.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

The following audited condensed financial information of B&N College since the date of the Acquisition on September 30, 2009 was included in the Company’s consolidated results of operations for fiscal 2010:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
|  |  | 52 weeks ended  May 1, 2010 | |  |
| Sales |  | $ | 833,648 |  |
| Net loss |  | $ | 3,344 |  |

The following unaudited pro forma condensed financial information assumes that the Acquisition was accounted for using the acquisition method of accounting for business combinations in accordance with ASC 805 and represents a pro forma presentation based upon available information of the combining companies giving effect to the Acquisition as if it had occurred on May 4, 2008, the first date of B&N College’s prior fiscal year from the Acquisition date, with adjustments for amortization expense of intangible assets, depreciation expense for the fair value of property and equipment above its book value, termination or changes in certain compensation arrangements, termination of textbook royalties, non-operating expenses not acquired in the Acquisition, interest expense and income tax expense:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |
|  |  | 52 weeks ended  May 1, 2010 | |  |  | 13 weeks ended  May 2, 2009 | |  |
| Sales |  | $ | 6,782,403 |  |  | $ | 1,301,840 |  |
| Net income (loss) from continuing operations attributable to Barnes & Noble, Inc. |  | $ | 53,514 |  |  | $ | (27,730 | ) |
| Income (loss) from continuing operations attributable to Barnes & Noble, Inc. per common share |  |  |  |  |  |  |  |  |
| Basic |  | $ | 0.93 |  |  | $ | (0.52 | ) |
| Diluted |  | $ | 0.92 |  |  | $ | (0.52 | ) |

The unaudited pro forma condensed financial information is based on the assumptions and adjustments which give effect to events that are: (i) directly attributable to the Acquisition; (ii) expected to have a continuing impact and (iii) factually supportable. The unaudited pro forma condensed financial information is presented for informational purposes only and is not necessarily indicative of the operating results that would have been achieved had the Acquisition been consummated as of the dates indicated or of the results that may be obtained in the future.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

|  |  |  |
| --- | --- | --- |
|  | **13.** | **Tikatok Acquisition** |

On September 24, 2009, the Company acquired the assets of Tikatok Inc. (Tikatok) for $2,305 in cash. Tikatok is an online platform where parents and their children and others can write, illustrate, and publish stories into hardcover and paperback books. On its website, Tikatok makes available, among other things, its patent-pending StorySparks™ system, which helps to walk children through the process of creating and writing stories and expands the Company’s reach to additional parents, educators and librarians. In addition to the closing purchase price, the Company has made and may make bonus and/or earn out payments if certain performance targets are met over the four years following the acquisition.

The Tikatok acquisition was accounted for as a business purchase pursuant to ASC 805. In accordance with ASC 805-20, the purchase price has been allocated to assets based on their estimated fair value at the acquisition date. The following table represents the allocation of the purchase price to the acquired net assets and resulting adjustment to goodwill:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| Cash Paid |  | $ | 2,305 |  |
|  |  |  |  |  |
| Allocation of purchase price: |  |  |  |  |
| Current assets |  | $ | 46 |  |
| Trade name |  |  | 70 |  |
| Technology |  |  | 240 |  |
| Non-current assets |  |  | 2 |  |
| Goodwill |  |  | 1,947 |  |
|  |  |  |  |  |
| Total assets acquired |  | $ | 2,305 |  |
| Liabilities assumed |  |  | — |  |
|  |  |  |  |  |
|  |  | $ | 2,305 |  |
|  |  |  |  |  |

Acquired intangible assets consisted of the trade name and technology. The trade name is being amortized on a straight-line basis over three years. Acquired technology is being amortized on a straight-line basis over five years. The goodwill recognized is expected to be deductible for income tax purposes.

The results of operations for the period subsequent to the Tikatok acquisition are included in the consolidated financial statements. The pro forma effect assuming the acquisition of Tikatok at the beginning of the transition period is not material.

|  |  |  |
| --- | --- | --- |
|  | **14.** | **Acquisition of Fictionwise** |

On March 4, 2009, the Company acquired Fictionwise, Inc. (Fictionwise), a leader in the eBook marketplace, for $15,729 in cash. In addition to the closing purchase price, the Company has made earn-out payments upon the achievement of certain performance and technology related targets. The acquisition provided a core component to the Company’s overall digital strategy, enabling the launch of one of the world’s largest eBookstores on July 20, 2009. The eBookstore on Barnes & Noble.com enables customers to buy eBooks and read them on a wide range of platforms, including NOOK™, the Company’s eBook reader, iPhone ® and iPod touch ® , BlackBerry ® , as well as most laptops or full-sized desktop computers.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

The Fictionwise acquisition was accounted for as a business purchase pursuant to ASC 805, *Business Combinations.* In accordance with ASC 805-20, the purchase price has been allocated to assets and liabilities based on their estimated fair value at the acquisition date. The fair value of the contingent consideration at the Fictionwise acquisition date is included in the purchase price shown below. Changes to the fair value of the contingent consideration were recorded in selling and administrative expenses. The following table represents the allocation of the purchase price to the acquired net assets and resulting adjustment to goodwill:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| Cash Paid |  | $ | 15,729 |  |
| Fair value of contingent consideration |  |  | 8,165 |  |
|  |  |  |  |  |
| Fair value of total consideration |  | $ | 23,894 |  |
|  |  |  |  |  |
| Allocation of purchase price: |  |  |  |  |
| Cash |  | $ | 255 |  |
| Trade Name |  |  | 340 |  |
| Customer Relationships |  |  | 2,410 |  |
| Technology |  |  | 5,610 |  |
| Goodwill |  |  | 18,051 |  |
|  |  |  |  |  |
| Total assets acquired |  | $ | 26,666 |  |
| Liabilities assumed |  |  | (2,772 | ) |
|  |  |  |  |  |
|  |  | $ | 23,894 |  |
|  |  |  |  |  |

The fair value of the contingent consideration arrangement of $8,165 was determined by estimating the expected (probability–weighted) earn-out payments discounted to present value. The actual final earn-out payments for Fictionwise were $7,508 and $ 2,612 for fiscal 2011 and fiscal 2010, respectively.

Due to the purchase price allocation not being finalized at the time of the Fictionwise acquisition, the excess purchase price over net assets acquired of $15,941 had been allocated to goodwill. Final purchase accounting adjustments to goodwill of $2,110 were recorded during fiscal 2010. The goodwill recognized is deductible for income tax purposes.

Acquired intangible assets consisted of the trade name, technology and customer relationships. The trade name is being amortized on a straight-line basis over three years. Acquired technology is being amortized on a straight-line basis over a range of five to ten years. Customer relationships are being amortized using an accelerated method over their five-year useful life. The Company recorded $1,445 and $2,176 in amortization related to these intangibles during fiscal 2011 and fiscal 2010, respectively.

The Fictionwise results of operations for the period subsequent to the Fictionwise acquisition date are included in the consolidated financial statements. The pro forma effect assuming the acquisition of Fictionwise at the beginning of the transition period is not material.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

|  |  |  |
| --- | --- | --- |
|  | **15.** | **Transition Period** |

On September 30, 2009, the Company’s fiscal year end changed from the Saturday closest to the last day of January to the Saturday closest to the last day of April. Accordingly, the Company is presenting audited financial statements for the 13 week transition period ended May 2, 2009. The following table provides certain unaudited comparative financial information for the 13 weeks ended May 3, 2008.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |
|  |  | 13 weeks ended | | | | | |  |
|  |  | May 2, 2009 | |  |  | May 3, 2008  (unaudited) | |  |
| Sales |  | $ | 1,105,152 |  |  |  | 1,155,882 |  |
| Cost of sales and occupancy |  |  | 773,491 |  |  |  | 807,915 |  |
|  |  |  |  |  |  |  |  |  |
| Gross profit |  |  | 331,661 |  |  |  | 347,967 |  |
|  |  |  |  |  |  |  |  |  |
| Selling and administrative expenses |  |  | 286,554 |  |  |  | 303,863 |  |
| Depreciation and amortization |  |  | 45,879 |  |  |  | 41,314 |  |
| Pre-opening expenses |  |  | 2,472 |  |  |  | 4,537 |  |
|  |  |  |  |  |  |  |  |  |
| Operating loss |  |  | (3,244 | ) |  |  | (1,747 | ) |
| Interest (expense) income, net and amortization of deferred financing fees |  |  | (199 | ) |  |  | 807 |  |
|  |  |  |  |  |  |  |  |  |
| Loss from continuing operations before taxes |  |  | (3,443 | ) |  |  | (940 | ) |
| Income taxes |  |  | (1,374 | ) |  |  | (374 | ) |
|  |  |  |  |  |  |  |  |  |
| Loss from continuing operations (net of income tax) |  |  | (2,069 | ) |  |  | (566 | ) |
| Loss from discontinued operations (net of income tax) |  |  | (654 | ) |  |  | (1,658 | ) |
|  |  |  |  |  |  |  |  |  |
| Net loss |  |  | (2,723 | ) |  |  | (2,224 | ) |
|  |  |  |  |  |  |  |  |  |
| Net loss attributable to noncontrolling interests |  |  | 30 |  |  |  | — |  |
|  |  |  |  |  |  |  |  |  |
| Net loss attributable to Barnes & Noble, Inc. |  | $ | (2,693 | ) |  |  | (2,224 | ) |
|  |  |  |  |  |  |  |  |  |
| Loss attributable to Barnes & Noble, Inc. |  |  |  |  |  |  |  |  |
| Loss from continuing operations |  | $ | (2,069 | ) |  |  | (566 | ) |
| Less loss attributable to noncontrolling interests |  |  | 30 |  |  |  | — |  |
|  |  |  |  |  |  |  |  |  |
| Net loss from continuing operations attributable to Barnes & Noble, Inc. |  | $ | (2,039 | ) |  |  | (566 | ) |
|  |  |  |  |  |  |  |  |  |
| Basic earnings per common share |  |  |  |  |  |  |  |  |
| Loss from continuing operations attributable to Barnes & Noble, Inc. |  | $ | (0.04 | ) |  |  | (0.01 | ) |
| Loss from discontinued operations attributable to Barnes & Noble, Inc. |  |  | (0.01 | ) |  |  | (0.03 | ) |
|  |  |  |  |  |  |  |  |  |
| Net loss attributable to Barnes & Noble, Inc. |  | $ | (0.05 | ) |  |  | (0.04 | ) |
|  |  |  |  |  |  |  |  |  |
| Diluted earnings per common share |  |  |  |  |  |  |  |  |
| Loss from continuing operations attributable to Barnes & Noble, Inc. |  | $ | (0.04 | ) |  |  | (0.01 | ) |
| Loss from discontinued operations attributable to Barnes & Noble, Inc. |  |  | (0.01 | ) |  |  | (0.03 | ) |
|  |  |  |  |  |  |  |  |  |
| Net loss attributable to Barnes & Noble, Inc. |  | $ | (0.05 | ) |  |  | (0.04 | ) |
|  |  |  |  |  |  |  |  |  |
| Weighted average common shares outstanding |  |  |  |  |  |  |  |  |
| Basic |  |  | 54,759 |  |  |  | 57,614 |  |
| Diluted |  |  | 54,759 |  |  |  | 57,614 |  |
| Dividends declared per common share |  | $ | 0.25 |  |  |  | 0.15 |  |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

|  |  |  |
| --- | --- | --- |
|  | **16.** | **Discontinued Operations** |

During the fourth quarter of fiscal 2008, the Company committed to a plan to dispose of its approximate 74% interest in Calendar Club. The Company subsequently sold its interest in Calendar Club in February 2009 to Calendar Club and its chief executive officer for $7,000, which was comprised of $1,000 in cash and $6,000 in notes. Calendar Club qualified for held for sale accounting treatment in fiscal 2008 and was written down to its fair value. The Company recorded a charge of $18,655 ($9,675 after tax) related to the write down in fiscal 2008. The results of Calendar Club have been classified as discontinued operations in all periods presented. During fiscal 2011, the Company received the $6,000 note payment from Calendar Club. The note was received prior to its scheduled due date.

The operations of Calendar Club have been segregated from continuing operations and are reflected as discontinued operations in each period’s consolidated statement of operations as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | 13 weeks  ended May 2,  2009 | |  |  | Fiscal  2008 | |  |  | Fiscal  2007 | |  |
| Sales |  | $ | 347 |  |  |  | 113,539 |  |  |  | 124,154 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Earnings (loss) from discontinued operations, net of tax |  | $ | (654 | ) |  |  | (9,506 | ) |  |  | 888 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Diluted earnings (loss) per common share from discontinued operations, net of tax |  | $ | (0.01 | ) |  |  | (0.17 | ) |  |  | 0.01 |  |

|  |  |  |
| --- | --- | --- |
|  | **17.** | **Shareholders’ Equity** |

On November 17, 2009, the Board of Directors of the Company declared a dividend, payable to stockholders of record on November 27, 2009 of one right (a Right) per each share of outstanding Common Stock of the Company, par value $0.001 per share (Common Stock), to purchase 1/1000th of a share of Series I Preferred Stock, par value $0.001 per share, of the Company (the Preferred Stock), at a price of $100.00 per share (such amount, as may be adjusted from time to time as provided in the Rights Agreement described below, the Purchase Price). In connection therewith, on November 17, 2009, the Company entered into a Rights Agreement, dated November 17, 2009 (as amended February 17, 2010, June 23, 2010 and October 29, 2010, and as may be further amended from time to time, the Rights Agreement) with Mellon Investor Services LLC, as Rights Agent. The Rights will be exercisable upon the earlier of (i) such date the Company learns that a person or group, without Board approval, acquires or obtains the right to acquire beneficial ownership of 20% or more of the Company’s outstanding common stock or a person or group that already beneficially owns 20% or more of the Company’s outstanding common stock at the time the Rights Agreement was entered into, without Board approval, acquires any additional shares (other than pursuant to the Company’s compensation or benefit plans) (any person or group specified in this sentence, an Acquiring Person) and (ii) such date a person or group announces an intention to commence or following the commencement of (as designated by the Board) a tender or exchange offer which could result in the beneficial ownership of 20% or more of the Company’s outstanding common stock. The Rights will expire on November 17, 2012, unless earlier redeemed or canceled by the Company. If a person or group becomes an Acquiring Person, each Rights holder (other than the Acquiring Person) will be entitled to receive, upon exercise of the Right and payment of the Purchase Price, that number of 1/1000ths of a share of Preferred Stock equal to the number of shares of Common Stock which at the time of the applicable triggering transaction would have a market value of twice the Purchase Price. In the event the Company is acquired in a merger or other business combination by an Acquiring Person, or 50% or more of the Company’s assets are sold to an Acquiring Person, each Right will entitle its holder (other

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

than an Acquiring Person) to purchase common shares in the surviving entity at 50% of the market price. In connection with the 2010 Annual Meeting of Stockholders, held on September 28, 2010, Yucaipa American Alliance Fund II, L.P. and Yucaipa American Alliance (Parallel) Fund II, L.P. submitted a non-binding proposal requesting the Board of Directors amend the Rights Agreement to increase the beneficial ownership threshold in the Rights Agreement from 20% to 30%. A majority of the votes cast by stockholders at the 2010 Annual Meeting of Stockholders were against this non-binding proposal. On October 28, 2010 the Board of Directors of the Company gave notice of a Special Meeting of Stockholders on November 17, 2010 to seek stockholder ratification of the Rights Agreement. At the November 17, 2010 Special Meeting, the holders of a majority of the outstanding Common Stock entitled to vote at that Special Meeting voted to ratify the Board’s adoption of the Rights Agreement. See Note 20 for a description of certain legal proceedings with respect to the Rights Agreement.

On May 15, 2007, the Company’s Board of Directors authorized a stock repurchase program for the purchase of up to $400,000 of the Company’s common stock. The maximum dollar value of common stock that may yet be purchased under the current program is approximately $2,471 as of April 30, 2011. 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. As of April 30, 2011, the Company has repurchased 33,409,761 shares at a cost of approximately $1,054,192 under its stock repurchase programs. The repurchased shares are held in treasury.

|  |  |  |
| --- | --- | --- |
|  | **18.** | **Commitments and Contingencies** |

The Company leases retail stores, warehouse facilities, office space and equipment. Substantially all of the B&N Retail stores are leased under noncancelable agreements which expire at various dates through 2036 with various renewal options for additional periods. The agreements, which have been classified as operating leases, generally provide for both minimum and percentage rentals and require the Company to pay insurance, taxes and other maintenance costs. Percentage rentals are based on sales performance in excess of specified minimums at various stores.

B&N College’s contracts are typically for five to ten years, although some extend beyond ten years. Many contracts have a 90 to 120 day cancellation right by B&N College, or by the college or university, without penalty.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

Rental expense under operating leases is as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | Fiscal 2011 | |  |  | Fiscal 2010 | |  |  | 13 weeks  ended  May 2,  2009 | |  |  | Fiscal 2008 | |  |
| Minimum rentals |  | $ | 394,199 |  |  | $ | 363,373 |  |  | $ | 75,161 |  |  | $ | 310,967 |  |
| Percentage rentals |  |  | 102,735 |  |  |  | 40,324 |  |  |  | 842 |  |  |  | 4,380 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | $ | 496,934 |  |  | $ | 403,697 |  |  |  | 76,003 |  |  |  | 315,347 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

Future minimum annual rentals, excluding percentage rentals, required under B&N Retail leases that had initial, noncancelable lease terms greater than one year, and under B&N College leases as of April 30, 2011 are:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| Fiscal Year |  | (a) | |  |
| 2012 |  | $ | 400,959 |  |
| 2013 |  |  | 347,468 |  |
| 2014 |  |  | 295,977 |  |
| 2015 |  |  | 229,514 |  |
| 2016 |  |  | 184,849 |  |
| After 2016 |  |  | 503,813 |  |
|  |  |  |  |  |
|  |  | $ | 1,962,580 |  |
|  |  |  |  |  |

|  |  |
| --- | --- |
| (a) | Includes B&N College capital lease obligations of $1,067, $791, $766, $511, $0 and $0, for fiscal 2012, 2013, 2014, 2015, 2016 and after 2016, respectively. |

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

On June 26, 2008, the Company exercised its purchase option under a lease on one of its distribution facilities located in South Brunswick, New Jersey from the New Jersey Economic Development Authority. Under the terms of the lease expiring in June 2011, the Company purchased the distribution facility and equipment for approximately $21,000.

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|  | **19.** | **Segment Reporting** |

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. As a result of this assessment, the Company has determined that it has three operating segments: B&N Retail, B&N College and B&N.com.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

B&N Retail

This segment includes 705 bookstores as of April 30, 2011, primarily under the Barnes & Noble Booksellers trade name. The 705 Barnes & Noble stores generally offer a NOOK™ (references to NOOK™ include the Company’s NOOK 1 st Edition™ , NOOK™ Wi-Fi 1 st Edition™, NOOK Color™ and The All-New NOOK™ eBook Reader devices) Boutique/Counter, a comprehensive trade book title base, a café, a children’s section, a Toys & Games department, a DVDs/BluRay department, a music department, a magazine section and a calendar of ongoing events, including author appearances and children’s activities. The B&N Retail segment also includes the Company’s publishing operation, Sterling Publishing.

B&N College

This group includes 636 stores as of April 30, 2011, that are primarily school-owned stores operated under contracts by B&N College. The 636 B&N College stores generally sell textbooks and course-related materials, emblematic apparel and gifts, trade books, computer products and eReaders, school and dorm supplies, and convenience and café items.

B&N.com

This segment includes the Company’s online business, which includes the Company’s eCommerce site and features an eBookstore and digital newsstand. Additionally, this segment includes the development and support of the Company’s NOOK™ product offering. These products enable customers to buy and read eBooks on the widest range of platforms, including NOOK™ eBook Readers, devices from partner companies, and hundreds of the most popular mobile and computing devices using free NOOK™ software.

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

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *Sales* |  | 52 weeks  ended  April 30,  2011 | |  |  | 52 weeks  ended May 1,  2010 | |  |  | 13 weeks  ended May 2,  2009 | |  |  | 52 weeks  ended  January 31,  2009 | |  |
| B&N Retail |  | $ | 4,364,246 |  |  | $ | 4,401,343 |  |  | $ | 1,012,077 |  |  | $ | 4,652,666 |  |
| B&N College (a) |  |  | 1,776,223 |  |  |  | 833,648 |  |  |  | — |  |  |  | — |  |
| B&N.com |  |  | 858,096 |  |  |  | 572,763 |  |  |  | 93,075 |  |  |  | 469,138 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total |  | $ | 6,998,565 |  |  | $ | 5,807,754 |  |  | $ | 1,105,152 |  |  | $ | 5,121,804 |  |
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|  |  | | | |  | | | |  | | | |  | | | |
| *Depreciation and*  *Amortization* |  | 52 weeks  ended  April 30,  2011 | |  |  | 52 weeks  ended May 1,  2010 | |  |  | 13 weeks  ended May 2,  2009 | |  |  | 52 weeks  ended  January 31,  2009 | |  |
| B&N Retail |  | $ | 157,528 |  |  | $ | 157,663 |  |  | $ | 41,246 |  |  | $ | 154,304 |  |
| B&N College (a) |  |  | 43,148 |  |  |  | 24,863 |  |  |  | — |  |  |  | — |  |
| B&N.com |  |  | 27,971 |  |  |  | 25,248 |  |  |  | 4,633 |  |  |  | 19,253 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total |  | $ | 228,647 |  |  | $ | 207,774 |  |  | $ | 45,879 |  |  | $ | 173,557 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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|  |  | | | |  | | | |  | | | |  | | | |
| *Operating Profit/(Loss)* |  | 52 weeks  ended  April 30,  2011 | |  |  | 52 weeks  ended May 1,  2010 | |  |  | 13 weeks  ended May 2,  2009 | |  |  | 52 weeks  ended  January 31,  2009 | |  |
| B&N Retail |  | $ | 90,984 |  |  | $ | 179,231 |  |  | $ | 9,003 |  |  | $ | 177,570 |  |
| B&N College (a) |  |  | 76,293 |  |  |  | 76 |  |  |  | — |  |  |  | — |  |
| B&N.com |  |  | (232,536 | ) |  |  | (106,061 | ) |  |  | (12,247 | ) |  |  | (34,239 | ) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total |  | $ | (65,259 | ) |  | $ | 73,246 |  |  | $ | (3,244 | ) |  | $ | 143,331 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | | | |  | | | |  | | | |  | | | |
| *Capital Expenditures* |  | 52 weeks  ended  April 30,  2011 | |  |  | 52 weeks  ended May 1,  2010 | |  |  | 13 weeks  ended May 2,  2009 | |  |  | 52 weeks  ended  January 31,  2009 | |  |
| B&N Retail |  | $ | 51,924 |  |  | $ | 83,723 |  |  | $ | 17,855 |  |  | $ | 178,210 |  |
| B&N College (a) |  |  | 35,004 |  |  |  | 13,716 |  |  |  | — |  |  |  | — |  |
| B&N.com |  |  | 23,574 |  |  |  | 30,340 |  |  |  | 4,967 |  |  |  | 13,943 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total |  | $ | 110,502 |  |  | $ | 127,779 |  |  | $ | 22,822 |  |  | $ | 192,153 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | | | |  | | | |  | | | |  | | | |
| *Total Assets* |  | As of  April 30,  2011 | |  |  | As of  May 1,  2010 | |  |  | As of  May 2,  2009 | |  |  | As of  January 31,  2009 | |  |
| B&N Retail |  | $ | 2,331,631 |  |  | $ | 2,467,352 |  |  | $ | 2,320,082 |  |  | $ | 2,516,060 |  |
| B&N College (a) |  |  | 979,457 |  |  |  | 943,989 |  |  |  | — |  |  |  | — |  |
| B&N.com |  |  | 285,378 |  |  |  | 294,345 |  |  |  | 344,197 |  |  |  | 361,804 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total |  | $ | 3,596,466 |  |  | $ | 3,705,686 |  |  | $ | 2,664,279 |  |  | $ | 2,877,864 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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| --- | --- |
| (a) | Includes only the financial information of B&N College since the date of the Acquisition on September 30, 2009. |

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | 52 weeks  ended April  30, 2011 | |  |  | 52 weeks  ended May 1,  2010 | |  |  | 13 weeks  ended May  2,  2009 | |  |  | 52 weeks  ended January  31, 2009 | |  |
| Reportable segments operating profit |  | $ | (65,259 | ) |  | $ | 73,246 |  |  | $ | (3,244 | ) |  | $ | 143,331 |  |
| Interest income (expense), net |  |  | (57,350 | ) |  |  | (28,237 | ) |  |  | (199 | ) |  |  | (2,344 | ) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Consolidated income (loss) from continuing operations before taxes |  | $ | (122,609 | ) |  | $ | 45,009 |  |  | $ | (3,443 | ) |  | $ | 140,987 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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|  | **20.** | **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 following is a discussion of the material legal matters involving the Company.

***In re Initial Public Offering Securities Litigation***

This class action lawsuit, filed in April 2002 (the Action), named over one thousand individuals and 300 corporations, including Fatbrain.com, LLC (“Fatbrain”), a former subsidiary of Barnes & Noble.com, and its former officers and directors. The amended complaints in the Action all allege that the initial public offering registration statements filed by the defendant issuers with the Securities and Exchange Commission, including the one filed by Fatbrain, were false and misleading because they failed to disclose that the defendant underwriters were receiving excess compensation in the form of profit sharing with certain of its customers, and that some of those customers agreed to buy additional shares of the defendant issuers’ common stock in the aftermarket at increasing prices. The amended complaints also allege that the foregoing constitutes violations of: (i) Section 11 of the Securities Act of 1933, as amended (the “1933 Act”) by the defendant issuers, the directors and officers signing the related registration statements, and the related underwriters; (ii) Rule 10b-5 promulgated under the Securities Exchange Act of 1934 (the “1934 Act”) by the same parties; and (iii) the control person provisions of the 1933 and 1934 Acts by certain directors and officers of the defendant issuers. A motion to dismiss by the defendant issuers, including Fatbrain, was denied.

After extensive negotiations among representatives of plaintiffs and defendants, the parties entered into a memorandum of understanding (MOU), outlining a proposed settlement resolving the claims in the Action between plaintiffs and the defendant issuers. Subsequently, a Settlement Agreement was executed between the defendants and plaintiffs in the Action, the terms of which are consistent with the MOU. The Settlement Agreement was submitted to the court for approval, and on February 15, 2005, the judge granted preliminary approval of the settlement.

On December 5, 2006, the Federal Appeals Court for the Second Circuit (the Second Circuit) issued a decision reversing the District Court’s class certification decision in six focus cases. In light of that decision, the District Court stayed all proceedings, including consideration of the settlement. In January 2007, plaintiffs filed a Petition for Rehearing  *En Banc*  before the Second Circuit, which was denied in April 2007. On May 30, 2007, plaintiffs moved, before the District Court, to certify a new class. On June 25, 2007, the District Court entered an order terminating the Settlement Agreement. On October 2, 2008, plaintiffs agreed to withdraw the class certification motion. On October 10, 2008, the District Court signed an order granting the request.

A Settlement Agreement in principle, subject to court approval, was negotiated among counsel for all of the issuers, plaintiffs, insurers and underwriters, and executed by the Client. Preliminary approval of the settlement was granted by the court on June 10, 2009, and final court approval of the settlement was granted on October 5, 2009. Pursuant to the settlement, no settlement payment will be made by the Client. Since that time, various notices of appeal have been filed by certain objectors on an interlocutory basis, two of which have been dismissed. The remaining appeal has been remanded to the District Court for further proceedings. Should the remaining appeal be successful and the approval of the settlement overturned, the Client intends to vigorously defend these lawsuits.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

***Minor v. Barnes & Noble Booksellers, Inc. et al.***

On May 1, 2009, a purported class action complaint was filed against B&N Booksellers, Inc. (B&N Booksellers) in the Superior Court for the State of California alleging wage payments by instruments in a form that did not comply with the requirements of the California Labor Code, allegedly resulting in impermissible wage payment reductions and calling for imposition of statutory penalties. The complaint also alleges a violation of the California Labor Code’s Private Attorneys General Act and seeks restitution of such allegedly unpaid wages under California’s unfair competition law, and an injunction compelling compliance with the California Labor Code. The complaint alleges two subclasses of 500 and 200 employees, respectively (there may be overlap among the subclasses), but contains no allegations concerning the number of alleged violations or the amount of recovery sought on behalf of the purported class. On June 3, 2009, B&N Booksellers filed an answer denying all claims. Discovery concerning purported class member payroll checks and related information is ongoing. On August 19, 2010, B&N Booksellers filed a motion to dismiss the case for lack of a class representative when the name plaintiff advised she did not wish to continue to serve in that role. On October 15, 2010, the Court issued an order denying B&N Bookseller’s motion to dismiss. The Court further ruled that Ms. Minor could not serve as a class representative. The Court also granted Plaintiff’s Motion to Compel Further Responses to previously-served discovery seeking contact information for the putative class. B&N Booksellers provided that information on October 15, 2010. The previously scheduled Case Management Conference was continued to January 27, 2011. Plaintiff’s counsel filed an amended complaint on January 26, 2011, adding two new named Plaintiffs, Jacob Allum and Cesar Caminiero. At the Case Management Conference held on January 27, 2011, the Court ordered the parties to complete mediation by May 6, 2011. The parties held a mediation on April 11, 2011. The parties have reached a tentative resolution of this matter and are finalizing the settlement which will be subject to court approval. This settlement is not expected to have a material impact on the Company’s Consolidated Financial Statements.

***In re Barnes & Noble Stockholder Derivative Litigation (Consolidated Cases Formerly Captioned Separately as: Louisiana Municipal Police Employees Retirement System v. Riggio et al.; Southeastern Pennsylvania Transportation Authority v. Riggio et al.; City of Ann Arbor Employees’ Retirement System v. Riggio et al.; Louise Schuman v. Riggio et al.; Virgin Islands Government Employees’ Retirement System v. Riggio et al.; Electrical Workers Pension Fund, Local 103, I.B.E.W. v. Riggio et al.)***

Between August 17, 2009 and August 31, 2009, five putative shareholder derivative complaints were filed in Delaware Chancery Court against the Company’s directors. The complaints generally allege breach of fiduciary duty, waste of corporate assets and unjust enrichment in connection with the Company’s entry into a definitive agreement to purchase Barnes & Noble College Booksellers, which was announced on August 10, 2009 (the Transaction). The complaints generally seek damages in favor of the Company in an unspecified amount; costs, fees and interest; disgorgement; restitution; and equitable relief, including injunctive relief. On September 1, 2009, the Delaware Chancery Court issued an Order of Consolidation consolidating the five lawsuits (the Consolidated Cases) and directing plaintiffs to file a consolidated amended complaint. In a related development, on August 27, 2009, the Company received a demand pursuant to Delaware General Corporation Law, Section 220, on behalf of the Electrical Workers Pension Fund, Local 103, I.B.E.W., a shareholder, seeking to inspect certain books and records related to the Transaction. The Company provided this shareholder with certain documents, on a confidential basis,

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

in response to its demand. On September 18, 2009, this shareholder filed a shareholder derivative complaint in Delaware Chancery Court against certain of the Company’s directors alleging breach of fiduciary duty and unjust enrichment and seeking to enjoin the consummation of the Transaction. At that time, this shareholder also filed a motion for expedited proceedings. At a hearing held on September 21, 2009, the court denied plaintiff’s request for expedited proceedings. On October 6, 2009, the plaintiffs in the Consolidated Cases filed a motion seeking to consolidate the later-filed sixth case with the Consolidated Cases. Also on October 6, 2009, the plaintiff in the sixth case filed a separate motion seeking to consolidate its case with the Consolidated Cases and appoint it as co-lead plaintiff and to appoint its counsel as co-lead counsel. On November 3, 2009, a Consolidated Complaint was filed in the Consolidated Cases. The Company and defendants sought an extension of their time to answer or otherwise respond to the complaints while the plaintiffs’ respective consolidation motions were pending. On December 11, 2009, the court entered an order consolidating all actions and appointing co-lead counsel for plaintiffs. Plaintiffs designated the Consolidated Complaint filed on November 3, 2009 to be the operative Complaint. The Company and defendants filed motions to dismiss the Consolidated Complaint on January 12, 2010. On January 29, 2010, plaintiffs informed defendants that they would amend their Complaint rather than respond to defendants’ motions to dismiss. Plaintiffs filed an Amended Consolidated Complaint on March 16, 2010. The Company and defendants filed motions to dismiss the Amended Consolidated Complaint on April 30, 2010. Plaintiffs filed their response to the motion to dismiss on June 2, 2010. Oral argument on the motions to dismiss was held on October 21, 2010. Following those arguments, the Court denied the Company’s motion to dismiss, denied in part and granted in part the motion to dismiss filed by Defendants Leonard Riggio, Stephen Riggio and Lawrence Zilavy, and denied in part and granted in part the motion to dismiss filed by the remaining defendants, dismissing all claims asserted against Directors George Campbell, Jr. and Patricia Higgins. Pursuant to the Court’s January 19, 2011 Scheduling Order, all fact and expert discovery must be completed by October 21, 2011, and trial is scheduled to commence on December 12, 2011. Discovery in this matter is proceeding.

***Stephen Strugala v. Leonard Riggio, et al.***

On December 21, 2010, a complaint was filed in the United States District Court for the Southern District of New York against the Company’s current directors and former directors Lawrence Zilavy and Michael Del Giudice. The complaint is purportedly brought both directly, on behalf of a putative class of shareholders, and derivatively, on behalf of the Company. The complaint generally alleges breaches of fiduciary duties, waste and unjust enrichment in connection with the Company’s acquisition of Barnes & Noble College Booksellers, the adoption of the Shareholder Rights Plan, and other unspecified instances of alleged mismanagement and alleged wrongful conduct. The complaint also generally alleges violations of Section 14(a) of the Securities Exchange Act of 1934 in connection with the issuance of various proxy statements by the Company. The complaint generally seeks declaratory and equitable relief, including injunctive relief, and costs and fees. On January 19, 2011, the Court granted the parties’ Stipulation and Order. On February 18, 2011, the plaintiff filed a Notice of Voluntary Dismissal of Claim, dismissing without prejudice his putative class claim for violations of Section 14(a) of the Securities Exchange Act of 1934. On March 8, 2011, defendants filed a motion to dismiss all claims in the litigation. Briefing on the motion is complete.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

***Microsoft Corp. v. Barnes & Noble, Inc. et al.***

On March 21, 2011, Microsoft Corp. submitted a complaint to the U.S. International Trade Commission (U.S. ITC), encaptioned *Certain Handheld Electronic Computing Devices, Related Software and Components Thereof* , Inv. No. 337-TA-769, requesting that the U.S. ITC institute an investigation pursuant to Section 337 of the Tariff Act of 1930, as amended. The complaint was subsequently amended on April 8, 2011. The complaint alleges that the importation into the United States, sale for importation, and/or sale within the United States after importation of Barnes & Noble, Inc.’s and Barnes & Noble.com’s NOOK™ and NOOK Color™ products infringe certain claims of U.S. Patent Nos. 5,778,372 (the ‘372 patent), 6,339,780 (the ‘780 patent), 5,889,522 (the ‘522 patent), 6,891,551 (the ‘551 patent) and 6,957,233 (the ‘233 patent) and requests that the U.S. ITC issue a permanent exclusion order and permanent cease and desist order with respect to these products. On April 1, 2011, the U.S. ITC published a Notice in the Federal Register soliciting comments on any public interest issues raised by the complaint. Barnes & Noble, Inc. and Barnes & Noble.com submitted comments in an April 7, 2011 letter. On April 19, 2011, the ITC served Barnes & Noble, Inc. and Barnes & Noble.com with a Notice of Investigation. On April 25, 2011, the U.S. ITC published the Notice of Investigation in the Federal Register. On May 10, 2011, Barnes & Noble, Inc. and Barnes & Noble.com filed a response to the complaint denying that they have engaged in any action that would constitute unlawful importation into the United States, sale for importation, or sale within the United States after importation. The response also sets forth six affirmative defenses, including a patent misuse defense. The parties filed their discovery statements on May 16, 2011, and a telephonic preliminary conference before the Administrative Law Judge (ALJ) took place on June 2, 2011. The ALJ subsequently set a target date of August 27, 2012 with a final determination filed no later than April 27, 2012. On June 6, 2011, Microsoft moved to strike Barnes & Noble, Inc.’s and Barnes & Noble.com’s patent misuse defense.

On the same day that it submitted its original complaint to the U.S. ITC, Microsoft also filed a complaint against Barnes & Noble, Inc., Barnes & Noble.com, and a number of other defendants in the United States District Court for the Western District of Washington. The district court complaint also alleges that Barnes & Noble, Inc. and Barnes & Noble.com are infringing the ‘372, ‘780, ‘522, ‘551, and ‘233 patents through the sale in the United States and the importation into the United States of the NOOK™ and NOOK Color™ products. Barnes & Noble, Inc. and Barnes & Noble.com answered the district court complaint on April 25, 2011. On May 18, 2011, Barnes & Noble, Inc. and Barnes & Noble.com filed a motion to stay the district court litigation until the ITC’s determinaton in the ITC investigation becomes final. On June 8, 2011, the district court granted the motion to stay.

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| --- | --- | --- |
|  | **21.** | **Certain Relationships and Related Transactions** |

The Company believes that the transactions and agreements discussed below (including renewals of any existing agreements) between the Company and related third parties are at least as favorable to the Company as could have been obtained from unrelated parties at the time they were entered into. The Audit Committee of the Board of Directors utilizes procedures in evaluating the terms and provisions of proposed related party transactions or agreements in accordance with the fiduciary duties of directors under Delaware law. The Company’s related party transaction procedures contemplate Audit Committee review and approval of all new agreements, transactions or courses of dealing with related parties, including any modifications, waivers or amendments to existing related party transactions. The Company tests to ensure that the terms of related party transactions are at least as favorable to the Company as could have been obtained from unrelated parties at the time of the transaction. The Audit Committee

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

considers, at a minimum, the nature of the relationship between the Company and the related party, the history of the transaction (in the case of modifications, waivers or amendments), the terms of the proposed transaction, the Company’s rationale for entering the transaction and the terms of comparable transactions with unrelated third parties. In addition, management and internal audit annually analyzes all existing related party agreements and transactions and reviews them with the Audit Committee.

The Company completed the Acquisition of B&N College from Leonard Riggio and Louise Riggio (Sellers) on September 30, 2009 (see Note 12). Mr. Riggio is the Chairman of the Company’s Board of Directors and a significant stockholder. The Company is a party to a Stock Purchase Agreement dated as of August 7, 2009 among the Company and the Sellers. As part of the Acquisition, the Company acquired the Barnes & Noble trade name that had been owned by B&N College and licensed to the Company (described below). The purchase price paid to the Sellers was $596,000, consisting of $346,000 in cash and $250,000 in Seller Notes (described below). However, the cash paid to the Sellers was reduced by approximately $82,352 in cash bonuses paid by B&N College to 192 members of its management team and employees (Bonus Recipients), not including Leonard Riggio. Pursuant to the terms of the Purchase Agreement, prior to the closing of the Acquisition, B&N College distributed to the Sellers certain assets that are not related to B&N College’s core business, including common stock in the Company. In connection with such distribution, 667,058 shares of the common stock in the Company previously held by B&N College were transferred to certain of the Bonus Recipients. The Company financed the Acquisition through $250,000 of Seller Notes, $150,000 from the 2009 Credit Facility and the remainder from both the Company’s and B&N College’s cash on hand.

In connection with the closing of the Acquisition, the Company issued the Sellers (i) a senior subordinated note in the principal amount of $100,000, payable in full on December 15, 2010, with interest of 8% per annum payable on the unpaid principal amount (the Senior Seller Note), and (ii) a junior subordinated note in the principal amount of $150,000 (the Junior Seller Note), payable in full on the fifth anniversary of the closing of the Acquisition, with interest of 10% per annum payable on the unpaid principal amount. The Senior Seller Note was paid on its scheduled due date, December 15, 2010. The Senior Seller Note was unsecured and subordinated to the obligations under the 2009 Credit Facility and certain other senior obligations. The Company had the right to prepay the Senior Seller Note at any time without premium or penalty to the extent not prohibited by senior debt documents, provided that the Company did not have the right to prepay the Junior Seller Note until the Senior Seller Note had been repaid in full. On December 22, 2009, the Company consented to the pledge and assignment of the Senior Seller Note by the Sellers as collateral security. The Junior Seller Note was and is unsecured and subordinated to the obligations under the 2009 Credit Facility and the Amended Credit Facility, as applicable, as well as certain other senior obligations. The Company may prepay the Junior Seller Note at any time without premium or penalty to the extent not prohibited by the Amended Credit Facility and senior debt documents.

Also in connection with the Acquisition, and as set forth in the Purchase Agreement, B&N College made a tax distribution payment of $54,997 to the Sellers related to taxes imposed on the Sellers’ pro rata share of B&N College S corporation taxable earnings from January 1, 2009 through the date of Acquisition.

The Company pays COBRA benefits for certain former employees and family members that were on the B&N College health benefit plan (prior to the Acquisition). Leonard Riggio has reimbursed the Company $140 to cover such costs, based upon standard COBRA rates, for the period subsequent to Acquisition through fiscal 2010.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

In connection with the Acquisition, B&N College and the Company amended and restated B&N College’s existing long-term supply agreement (Supply Agreement) with MBS Textbook Exchange, Inc. (MBS), which is majority owned by Leonard Riggio, Stephen Riggio (the Company’s Vice Chairman and former Chief Executive Officer) and other members of the Riggio family. MBS is a new and used textbook wholesaler, which also sells textbooks online and provides bookstore systems and distant learning distribution services. Pursuant to the Supply Agreement, which has a term of ten years, and subject to availability and competitive terms and conditions, B&N College will continue to purchase new and used printed textbooks for a given academic term from MBS prior to buying them from other suppliers, other than in connection with student buy-back programs. MBS pays B&N College commissions based on the volume of textbooks sold to MBS each year and with respect to the textbook requirements of certain distance learning programs that MBS fulfills on B&N College’s behalf. MBS paid B&N College $13,031 and $7,014 related to these commissions in fiscal 2011 and fiscal 2010 from the date of Acquisition, respectively. In addition, the Supply Agreement contains restrictive covenants that limit the ability of B&N College and the Company to become a used textbook wholesaler and that place certain limitations on MBS’s business activities. B&N College and Barnes & Noble.com also entered into an agreement with MBS in 2011 pursuant to which MBS agrees to purchase at the end of a given semester certain agreed upon textbooks which B&N College and Barnes & Noble.com shall have rented to students during such semester. Total sales to MBS under this program were $506 for fiscal 2011. In addition, B&N College entered into an agreement with MBS in 2011 pursuant to which MBS purchases books from B&N College, which have no resale value for a flat rate per box. Total sales to MBS under this program were $427 for fiscal 2011.

The Company purchases new and used textbooks at market prices directly from MBS. Total purchases were $102,573, $24,186, $1,799 and $8,250 for fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively. Prior to fiscal 2010, MBS distributed certain proprietary products on behalf of the Company. Net sales received by the Company after deducting MBS fees were $9 and $340 for the transition period and fiscal 2008, respectively, and fees paid to MBS were $2 and $50 during the transition period and fiscal 2008, respectively. MBS sells used books through the Barnes & Noble.com dealer network. Barnes & Noble.com earned a commission of $5,474, $3,115, $915 and $1,410 on the MBS used book sales in fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively. In addition, Barnes & Noble.com hosts pages on its website through which Barnes & Noble.com customers are able to sell used books directly to MBS. Barnes & Noble.com is paid a fixed commission on the price paid by MBS to the customer. Total commissions paid to Barnes & Noble.com were $184, $172, $29 and $130 for fiscal 2011, fiscal 2010, the transition period, and fiscal 2008, respectively.

In fiscal 2010, the Company’s wholly owned subsidiary Barnes & Noble Bookquest LLC (Bookquest) entered into an agreement with TXTB.com LLC (TXTB), a subsidiary of MBS, pursuant to which the Bookquest marketplace database of third party sellers on the Barnes & Noble.com website was made available on the TXTB website. Bookquest receives a fee from third party sellers for sales of Bookquest marketplace items and, upon receipt of such fee, Bookquest remits a separate fee to TXTB for any marketplace items sold on the TXTB website. Total commissions paid to TXTB were $775 and $0 during fiscal 2011 and fiscal 2010, respectively. Outstanding amounts payable to TXTB were $8 and $33 for fiscal 2011 and fiscal 2010, respectively.

In fiscal 2011, Barnes & Noble.com entered into an agreement with TXTB pursuant to which Barnes & Noble.com became the exclusive provider of trade books to TXTB customers through www.textbooks.com. TXTB receives a commission from Barnes & Noble.com on each purchase by a TXTB customer. Outstanding amounts payable to TXTB were $4 for fiscal 2011.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

Prior to the Acquisition, the Company licensed the “Barnes & Noble” name under a royalty-free license agreement dated February 11, 1987, as amended, from B&N College (the General License Agreement). Barnes & Noble.com licensed the “Barnes & Noble” name under a royalty-free license agreement, dated October 31, 1998, as amended, between Barnes & Noble.com and B&N College (the License Agreement). Pursuant to the License Agreement, Barnes & Noble.com had been granted an exclusive license to use the “Barnes & Noble” name and trademark in perpetuity for the purpose of selling books over the Internet (excluding sales of college textbooks). Under a separate agreement dated as of January 31, 2001 (the Textbook License Agreement), between Barnes & Noble.com, B&N College and Textbooks.com, Barnes & Noble.com was granted the right to sell college textbooks over the Internet using the “Barnes & Noble” name. Pursuant to the Textbook License Agreement, Barnes & Noble.com paid Textbooks.com a royalty on revenues (net of product returns, applicable sales tax and excluding shipping and handling) realized by Barnes & Noble.com from the sale of books designated as textbooks. Royalty expense was $3,431, $973 and $5,814 during fiscal 2010 prior to Acquisition, the transition period and fiscal 2008, respectively, under the terms of the Textbook License Agreement. During fiscal 2010, subsequent to the closing of the Acquisition, Textbooks.com paid $146 to B&N College for funds that were received by Textbooks.com and were earned by B&N College. In connection with the closing of the Acquisition, the Company terminated the Textbook License Agreement and as a result no longer pays a royalty with respect to online textbook sales.

In fiscal 2010, the Company entered into an Aircraft Time Sharing Agreement with LR Enterprises Management LLC (LR Enterprises), which is owned by Leonard Riggio and Louise Riggio, pursuant to which LR Enterprises granted the Company the right to use a jet aircraft owned by it on a time-sharing basis in accordance with, and subject to the reimbursement of certain operating costs and expenses as provided in, the Federal Aviation Regulations (FAR). Such operating costs were $932 and $429 during fiscal 2011 and fiscal 2010, respectively. LR Enterprises is solely responsible for the physical and technical operation of the aircraft, aircraft maintenance and the cost of maintaining aircraft liability insurance, other than insurance obtained for the specific flight as requested by the Company, as provided in the FAR. Prior to the Acquisition, the Company used a jet aircraft owned by B&N College and paid for the costs and expenses of operating the aircraft based upon the Company’s usage. Such costs which included fuel, insurance and other costs were $113, $420 and $1,823 during fiscal 2010 prior to Acquisition, the transition period and fiscal 2008, respectively, and were included in the accompanying consolidated statements of operations.

The Company has leases for two locations for its corporate offices with related parties: the first location is leased from an entity in which Leonard Riggio has a majority interest and expires in 2013; the second location is leased from an entity in which Leonard Riggio has a minority interest and expires in 2016. The space was rented at an aggregate annual rent including real estate taxes of approximately $4,868, $4,889, $1,198 and $4,681 during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively.

The Company leases one of its B&N College stores from a partnership owned by Leonard and Stephen Riggio, pursuant to a lease expiring in 2014. Rent of $862 and $512 was paid during fiscal 2011 and fiscal 2010 from the date of the Acquisition, respectively.

The Company leases an office/warehouse from a partnership in which Leonard Riggio has a 50% interest, pursuant to a lease expiring in 2023. The space was rented at an annual rent of $763, $759, $186 and $810 during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively. Net of subtenant income, the Company paid $246, $241, $57 and $307 during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

Prior to the Acquisition, the Company leased retail space in a building in which B&N College subleased space from the Company, pursuant to a sublease expiring in 2020. Pursuant to such sublease, the Company charged B&N College $347, $206 and $773 for such subleased space and other operating costs incurred on its behalf during fiscal year 2010 prior to the Acquisition, the transition period and fiscal 2008, respectively. The amount paid by B&N College to the Company exceeded the cost per square foot paid by the Company to its unaffiliated third-party landlord.

Prior to the Acquisition, the Company reimbursed B&N College certain operating costs B&N College incurred on the Company’s behalf. These charges were $71, $34 and $235 during fiscal 2010 prior to the Acquisition, the transition period and fiscal 2008, respectively. Prior to the Acquisition, B&N College purchased inventory, at cost plus an incremental fee, of $25,187, $2,742 and $49,172 from the Company during fiscal 2010 prior to the Acquisition, the transition period and fiscal 2008, respectively. Also prior to the Acquisition, B&N College reimbursed the Company $2,700, $926 and $3,506 for fiscal year 2010 prior to the Acquisition, the transition period and fiscal 2008, respectively, for capital expenditures, business insurance and other operating costs incurred on its behalf.

GameStop Corp. (GameStop), a company in which Leonard Riggio is a member of the Board of Directors and a minority shareholder, operates departments within some of the Company’s bookstores. GameStop pays a license fee to the Company in an amount equal to 7% of the gross sales of such departments, which totaled $989, $1,061, $250 and $1,250, during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively. GameStop sells new and used video games and consoles on the Barnes & Noble.com website. Barnes & Noble.com receives a commission on sales made by GameStop. For fiscal 2011, fiscal 2010, the transition period, and fiscal 2008, the commission earned by Barnes & Noble.com was $356, $334, $76, and $531, respectively. Until June 2005, GameStop participated in the Company’s worker’s compensation, property and general liability insurance programs. The costs incurred by the Company under these programs were allocated to GameStop based upon GameStop’s total payroll expense, property and equipment, and insurance claim history. GameStop reimbursed the Company for these services $51, $128, $62 and $162 during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively. Although GameStop secured its own insurance coverage, costs are continuing to be incurred by the Company on insurance claims which were made under its programs prior to June 2005 and any such costs applicable to insurance claims against GameStop will be charged to GameStop at the time incurred.

The Company is provided with national freight distribution, including trucking services by Argix Direct Inc. (Argix), a company in which a brother of Leonard and Stephen Riggio owns a 20% interest, pursuant to a transportation agreement expiring in 2012. The Company paid Argix $15,890, $16,536, $3,820 and $16,981 for such services during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively. At the time of the agreement, the cost of freight delivered to the stores by Argix was comparable to the prices charged by publishers and the Company’s other third party freight distributors. However, due to higher contracted fuel surcharge and transportation costs, Argix’s rates are now higher than the Company’s other third party freight distributors. As a result, the Company amended its existing agreement with Argix effective January 1, 2009. The amendment provides the Company with a $3,000 annual credit to its freight and transportation costs for the remaining life of the existing agreement. Argix provides B&N College with transportation services under a separate agreement expiring in 2011. The Company believes that the transportation costs that B&N College paid to Argix are comparable to the transportation costs charged by third party distributors. B&N College paid Argix $1,477 and $658 for such services during fiscal 2011 and fiscal 2010 from the date of Acquisition, respectively. Argix also leases office and warehouse space from the Company in Jamesburg, New Jersey, pursuant to a lease expiring in 2011. The Company charged Argix $2,719, $2,646, $736 and $2,835, for such leased space and other operating costs incurred on its behalf during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

The Company used Source Interlink Companies, Inc. (Source Interlink) as its primary supplier of music and DVD/video, as well as magazines and newspapers. Leonard Riggio is an investor in an investment company that formerly owned a minority interest in Source Interlink. In addition, Ronald W. Burkle, who owns a minority interest in the Company, also owned a minority interest in Source Interlink through his ownership interests in AEC Associates, LLC. Pursuant to the confirmation order of the United States Bankruptcy Court of the District of Delaware, as of June 19, 2009 (the Discharge Date) the equity interests held by the then owners of Source Interlink were discharged, cancelled, released and extinguished. The Company paid Source Interlink $33,979, $91,115 and $395,294 for merchandise purchased at market prices during fiscal 2010 prior to the Discharge Date, the transition period and fiscal 2008, respectively. In addition, Source Interlink purchases certain data related to magazine sales of the Company. Source Interlink paid the Company $20, $38 and $150 during fiscal 2010 prior to the Discharge Date, the transition period and fiscal 2008, respectively.

The Company uses Digital on Demand as its provider of music and video database equipment and services. Leonard Riggio owns a minority interest in Digital on Demand through the same investment company through which he owned a minority interest in Source Interlink. The Company paid Digital on Demand $1,932, $2,593, $1,960 and $4,893 for music and video database equipment and services during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively. This agreement was terminated on May 31, 2011.

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|  | **22.** | **Dividends** |

During fiscal 2011, the Company paid a dividend of $0.25 per share on June 30, 2010 to stockholders of record at the close of business on June 11, 2010, on September 30, 2010 to stockholders of record at the close of business on September 9, 2010, and on December 31, 2010 to stockholders of record at the close of business on December 10, 2010. On February 22, 2011, the Company announced that its Board of Directors was suspending its quarterly dividend payment of $0.25 per share. This will provide the Company the financial flexibility to continue investing into its high growth digital strategies.

During fiscal 2010, the Company paid quarterly cash dividends of $0.25 per share on June 30, 2009 to stockholders of record at the close of business on June 9, 2009, on September 30, 2009 to stockholders of record at the close of business on September 9, 2009, on December 31, 2009 to stockholders of record at the close of business on December 10, 2009 and on March 31, 2010 to stockholders of record at the close of business on March 10, 2010.

During the transition period, the Company paid a dividend of $0.25 per share on March 31, 2009 to stockholders of record at the close of business on March 10, 2009.

During fiscal 2008, the Company paid a quarterly cash dividend of $0.15 per share on March 31, 2008 to stockholders of record at the close of business on March 10, 2008. On March 20, 2008, the Company announced that its Board of Directors had authorized an increase to its quarterly cash dividend from $0.15 to $0.25 per share, commencing with the dividend to be paid in June 2008. The Company paid quarterly cash dividends of $0.25 per share on June 30, 2008 to stockholders of record at the close of business on June 9, 2008, on September 30, 2008 to stockholders of record at the close of business on September 9, 2008, and on December 31, 2008 to stockholders of record at the close of business on December 10, 2008.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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|  | **23.** | **Selected Quarterly Financial Information (Unaudited)** |

A summary of quarterly financial information for fiscal 2011 and fiscal 2010 is as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  | |  |  |  |
| Fiscal 2011 Quarter Ended  On or About |  | July  2010 | |  |  | October  2010 | |  |  | January  2011 | |  |  | | April  2011 | |  | |  | Total  Fiscal  Year 2011 | |  |
| Sales |  | $ | 1,396,570 |  |  |  | 1,905,577 |  |  |  | 2,325,199 |  |  | |  | 1,371,220 |  |  | |  | 6,998,565 |  |
| Gross profit |  | $ | 351,700 |  |  |  | 450,120 |  |  |  | 613,672 |  |  | |  | 377,362 |  |  | |  | 1,792,853 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  | |  |  |  |
| Net earnings (loss) attributable to Barnes & Noble, Inc. |  | $ | (62,518 | ) |  |  | (12,568 | ) |  |  | 60,583 |  |  | |  | (59,416 | ) |  | |  | (73,920 | ) |
| Basic earnings (loss) per common share: |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  | |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  | |  |  |  |
| Net earnings (loss) attributable to Barnes & Noble, Inc. |  | $ | (1.12 | ) |  |  | (0.22 | ) |  |  | 1.01 |  |  | |  | (1.04 | ) |  | |  | (1.31 | ) |
| Diluted earnings (loss) per common share: |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  | |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  | |  |  |  |
| Net earnings (loss) attributable to Barnes & Noble, Inc. |  | $ | (1.12 | ) |  |  | (0.22 | ) |  |  | 1.00 |  |  | |  | (1.04 | ) |  | |  | (1.31 | ) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  | |  |  |  |
|  |  | | | |  | | | |  | | | | |  | | | | |  | | | | |
| Fiscal 2010 Quarter Ended  On or About |  | July  2009 | |  |  | October  2009 | |  |  | January  2010 | |  |  | | April  2010(a) | |  | |  | Total  Fiscal  Year 2010 | |  |
| Sales |  | $ | 1,155,681 |  |  |  | 1,160,569 |  |  |  | 2,173,243 |  |  | |  | 1,318,261 |  |  | |  | 5,807,754 |  |
| Gross profit |  | $ | 355,855 |  |  |  | 342,189 |  |  |  | 615,671 |  |  | |  | 363,030 |  |  | |  | 1,676,745 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  | |  |  |  |
| Net earnings (loss) attributable to Barnes & Noble, Inc. |  | $ | 12,267 |  |  |  | (23,957 | ) |  |  | 80,403 |  |  | |  | (32,038 | ) |  | |  | 36,676 |  |
| Basic earnings (loss) per common share: |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  | |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  | |  |  |  |
| Net earnings (loss) attributable to Barnes & Noble, Inc. |  | $ | 0.22 |  |  |  | (0.43 | ) |  |  | 1.40 |  |  | |  | (0.58 | ) |  | |  | 0.64 |  |
| Diluted earnings (loss) per common share: |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  | |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  | |  |  |  |
| Net earnings (loss) attributable to Barnes & Noble, Inc. |  | $ | 0.21 |  |  |  | (0.43 | ) |  |  | 1.38 |  |  | |  | (0.58 | ) |  | |  | 0.63 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  | |  |  |  |

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| --- | --- |
| (a) | Included in the 13 weeks ended May 1, 2010 was a physical inventory benefit of $10.6 million, as results were more favorable than previously estimated and accrued, and a tax benefit of $13.7 million due to the recognition of previously unrecognized tax benefits for years settled with the applicable tax authorities. |

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Stockholders

Barnes & Noble, Inc.

New York, New York

We have audited the accompanying consolidated balance sheets of Barnes & Noble, Inc., as of April 30, 2011 and May 1, 2010 and the related consolidated statements of operations, changes in shareholders’ equity and cash flows for each of the two fiscal years ended April 30, 2011 and May 1, 2010, the transition period ended May 2, 2009 and the fiscal year ended January 31, 2009. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Barnes & Noble, Inc. as of April 30, 2011 and May 1, 2010 and the results of its operations and its cash flows for each of the two fiscal years ended April 30, 2011, May 1, 2010, the transition period ended May 2, 2009 and the fiscal year ended January 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Barnes & Noble, Inc.’s internal control over financial reporting as of April 30, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated June 29, 2011 expressed an unqualified opinion thereon.

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| /s/ BDO USA, LLP |
| BDO USA, LLP |
|  |
| New York, New York |
| June 29, 2011 |

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Stockholders

Barnes & Noble, Inc.

New York, New York

We have audited Barnes & Noble, Inc.’s internal control over financial reporting as of April 30, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Barnes & Noble, Inc.’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express an opinion on the company’s internal control over financial reporting based on our audit.

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

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

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

In our opinion, Barnes & Noble, Inc. maintained, in all material respects, effective internal control over financial reporting as of April 30, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Barnes & Noble, Inc. as of April 30, 2011 and May 1, 2010 and the related consolidated statements of operations, changes in shareholders’ equity, and cash flows for each of the two fiscal years ended April 30, 2011 and May 1, 2010, the transition period ended May 2, 2009 and the fiscal year ended January 31, 2009 and our report dated June 29, 2011 expressed an unqualified opinion thereon.

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| /s/ BDO USA, LLP |
| BDO USA, LLP |
|  |
| New York, New York |
| June 29, 2011 |

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MANAGEMENT’S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

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

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

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Barnes & Noble, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of the Company’s internal control over financial reporting based on the framework in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on the Company’s evaluation, management concluded that the Company’s internal control over financial reporting was effective as of April 30, 2011. The Company’s internal control over financial reporting as of April 30, 2011 has been independently audited by BDO USA, LLP, an independent registered public accounting firm, and their attestation is included herein.

OTHER INFORMATION

The Company has included the Section 302 certifications of the Chief Executive Officer and the Chief Financial Officer of the Company as Exhibits 31.1 and 31.2 to its Annual Report on Form 10-K for fiscal 2011 filed with the Securities and Exchange Commission, and the Company has submitted to the New York Stock Exchange a certificate of the Chief Executive Officer of the Company certifying that he is not aware of any violation by the Company of New York Stock Exchange corporate governance listing standards.

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**Exhibit 21.1**

Subsidiaries of Barnes & Noble, Inc.

|  |  |
| --- | --- |
| 1. | B. Dalton Bookseller, LLC, a Delaware limited liability company. |

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| 2. | Barnes & Noble BookQuest LLC, a Delaware limited liability company. |

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| --- | --- |
| 3. | Barnes & Noble Booksellers, Inc., a Delaware corporation. |

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| --- | --- |
| 4. | Barnes & Noble College Booksellers, LLC, a Delaware limited liability company. |

|  |  |
| --- | --- |
| 5. | Barnes & Noble International LLC, a Delaware limited liability company. |

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| --- | --- |
| 6. | Barnes & Noble Marketing Services Corp., a Florida corporation. |

|  |  |
| --- | --- |
| 7. | Barnes & Noble Marketing Services LLC, a Virginia limited liability company. |

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| 8. | Barnes & Noble Purchasing, Inc., a New York corporation. |

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| --- | --- |
| 9. | Barnes & Noble Services, Inc., a New York corporation. |

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| --- | --- |
| 10. | barnesandnoble.com llc, a Delaware limited liability company. |

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| --- | --- |
| 11. | Sterling Publishing Co., Inc., a New York corporation. |

**Exhibit 23.1**

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Barnes & Noble, Inc.

New York, New York

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-23855, No. 333-69731, No. 33-84826 and No. 33-89258) and Form S-8 (No. 333-27033, No. 33-89260, No. 333-90538, No. 333-116382, No. 333-59111 and No. 333-160560) of Barnes & Noble, Inc. of our reports dated June 29, 2011, relating to the consolidated financial statements and the effectiveness of Barnes & Noble, Inc.’s internal control over financial reporting, which appear in the Annual Report to Shareholders, which is incorporated by reference in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated June 29, 2011 relating to the financial statement schedule, which appears in this Form 10-K.

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|  |
| /s/ BDO USA, LLP |
| New York, New York |
| June 29, 2011 |

**Exhibit 23.2**

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Barnes & Noble, Inc.

The audits referred to in our report dated June 29, 2011 relating to the consolidated financial statements of Barnes & Noble, Inc., which is incorporated in Item 8 of this Form 10-K by reference to the annual report to stockholders for the year ended April 30, 2011 also included the audit of the financial statement schedule listed in the accompanying index. This financial statement schedule is the responsibility of the Company’s management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

|  |
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|  |
| /s/ BDO USA, LLP |
| New York, New York |
| June 29, 2011 |

**Exhibit 31.1**

**CERTIFICATION BY THE**

**CHIEF EXECUTIVE OFFICER PURSUANT TO**

**17 CFR 240.13a-14(a)/15d-14(a),**

**AS ADOPTED PURSUANT TO**

**SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, William J. Lynch, Jr., certify that:

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

|  |  |  |
| --- | --- | --- |
|  | 2. | Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; |

|  |  |  |
| --- | --- | --- |
|  | 3. | Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report; |

|  |  |  |
| --- | --- | --- |
|  | 4. | The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have: |

|  |  |  |
| --- | --- | --- |
|  | a. | designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; |

|  |  |  |
| --- | --- | --- |
|  | b. | designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; |

|  |  |  |
| --- | --- | --- |
|  | c. | evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and |

|  |  |  |
| --- | --- | --- |
|  | d. | disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and |

|  |  |  |
| --- | --- | --- |
|  | 5. | The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions): |

|  |  |  |
| --- | --- | --- |
|  | a. | all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and |

|  |  |  |
| --- | --- | --- |
|  | b. | any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting. |

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Date: June 29, 2011 | | |
|  |  | |
| By: |  | /s/ William J. Lynch, Jr. |
|  |  | *William J. Lynch, Jr.* |
|  |  | *Chief Executive Officer*  *Barnes & Noble, Inc.* |

**Exhibit 31.2**

**CERTIFICATION BY THE**

**CHIEF FINANCIAL OFFICER PURSUANT TO**

**17 CFR 240.13a-14(a)/15d-14(a),**

**AS ADOPTED PURSUANT TO**

**SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Joseph J. Lombardi, certify that:

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

|  |  |  |
| --- | --- | --- |
|  | 2. | Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; |

|  |  |  |
| --- | --- | --- |
|  | 3. | Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report; |

|  |  |  |
| --- | --- | --- |
|  | 4. | The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have: |

|  |  |  |
| --- | --- | --- |
|  | a. | designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; |

|  |  |  |
| --- | --- | --- |
|  | b. | designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; |

|  |  |  |
| --- | --- | --- |
|  | c. | evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and |

|  |  |  |
| --- | --- | --- |
|  | d. | disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and |

|  |  |  |
| --- | --- | --- |
|  | 5. | The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions): |

|  |  |  |
| --- | --- | --- |
|  | a. | all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and |

|  |  |  |
| --- | --- | --- |
|  | b. | any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting. |

|  |  |  |
| --- | --- | --- |
|  |  |  |
| Date: June 29, 2011 | | |
|  |  | |
| By: |  | /s/ Joseph J. Lombardi |
|  |  | *Joseph J. Lombardi* |
|  |  | *Chief Financial Officer*  *Barnes & Noble, Inc.* |

**Exhibit 32.1**

CERTIFICATION PURSUANT TO

RULE 13a-14(b) UNDER THE SECURITIES EXCHANGE ACT OF 1934

AND 18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Barnes & Noble, Inc. (the “Company”) on Form 10-K for the period ended April 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, William J. Lynch, Jr., Chief Executive Officer of the Company, certify, to the best of my knowledge, pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

|  |
| --- |
|  |
| /s/ William J. Lynch, Jr. |
| William J. Lynch, Jr. |
| Chief Executive Officer |
| Barnes & Noble, Inc. |
| June 29, 2011 |

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

**Exhibit 32.2**

CERTIFICATION PURSUANT TO

RULE 13a-14(b) UNDER THE SECURITIES EXCHANGE ACT OF 1934

AND 18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Barnes & Noble, Inc. (the “Company”) on Form 10-K for the period ended April 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Joseph J. Lombardi, Chief Financial Officer of the Company, certify, to the best of my knowledge, pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

|  |
| --- |
|  |
| /s/ Joseph J. Lombardi |
| Joseph J. Lombardi |
| Chief Financial Officer |
| Barnes & Noble, Inc. |
| June 29, 2011 |

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

**Document and Entity Information**

|  |  |  |  |
| --- | --- | --- | --- |
| Document and Entity Information  (USD $) | 12 Months Ended  04/30/2011 | 05/31/2011 | 10/30/2010 |
| Document Type | 10-K |  |  |
| Amendment Flag | false |  |  |
| Document Period End Date | 2011-04-30 |  |  |
| Document Fiscal Year Focus | 2,011 |  |  |
| Document Fiscal Period Focus | FY |  |  |
| Entity Registrant Name | BARNES NOBLE INC |  |  |
| Entity Central Index Key | 0000890491 |  |  |
| Current Fiscal Year End Date | --04-30 |  |  |
| Entity Filer Category | Large Accelerated Filer |  |  |
| Trading Symbol | bks |  |  |
| Entity Well-known Seasoned Issuer | Yes |  |  |
| Entity Current Reporting Status | Yes |  |  |
| Entity Voluntary Filers | No |  |  |
| Entity Common Stock, Shares Outstanding |  | 60,175,793 |  |
| Entity Public Float |  |  | $ 627,615,951 |

**Consolidated Statements of Operations**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Consolidated Statements of Operations  (USD $) (in Thousands) except Per Share Data | 3 Months Ended  05/02/2009 | 12 Months Ended  04/30/2011 | 12 Months Ended  05/01/2010 | 12 Months Ended  01/31/2009 |
| Sales | $ 1,105,152 | $ 6,998,565 | $ 5,807,754 | $ 5,121,804 |
| Cost of sales and occupancy | 773,491 | 5,205,712 | 4,131,009 | 3,540,596 |
| Gross profit | 331,661 | 1,792,853 | 1,676,745 | 1,581,208 |
| Selling and administrative expenses | 286,554 | 1,629,384 | 1,392,207 | 1,251,524 |
| Depreciation and amortization | 45,879 | 228,647 | 207,774 | 173,557 |
| Pre-opening expenses | 2,472 | 81 | 3,518 | 12,796 |
| Operating profit (loss) | (3,244) | (65,259) | 73,246 | 143,331 |
| Interest income (expense), net and amortization of deferred financing fees | (199) | (57,350) | (28,237) | (2,344) |
| Earnings (loss) from continuing operations before taxes | (3,443) | (122,609) | 45,009 | 140,987 |
| Income taxes | (1,374) | (48,652) | 8,365 | 55,591 |
| Earnings (loss) from continuing operations (net of income tax) | (2,069) | (73,957) | 36,644 | 85,396 |
| Earnings (loss) from discontinued operations (net of income tax) | (654) |  |  | (9,506) |
| Net earnings (loss) | (2,723) | (73,957) | 36,644 | 75,890 |
| Net loss attributable to noncontrolling interests | 30 | 37 | 32 | 30 |
| Net earnings (loss) attributable to Barnes Noble, Inc. | (2,693) | (73,920) | 36,676 | 75,920 |
| **Earnings (loss) attributable to Barnes Noble, Inc.** |  | | | | |
| Earnings (loss) from continuing operations | (2,069) | (73,957) | 36,644 | 85,396 |
| Less loss attributable to noncontrolling interests | 30 | 37 | 32 | 30 |
| Net earnings (loss) from continuing operations attributable to Barnes Noble, Inc. | $ (2,039) | $ (73,920) | $ 36,676 | $ 85,426 |
| **Basic earnings per common share** |  | | | | |
| Earnings (loss) from continuing operations attributable to Barnes Noble, Inc. | $ (0.04) | $ (1.31) | $ 0.64 | $ 1.50 |
| Earnings (loss) from discontinued operations attributable to Barnes Noble, Inc. | $ (0.01) |  |  | $ (0.17) |
| Net earnings (loss) attributable to Barnes Noble, Inc | $ (0.05) | $ (1.31) | $ 0.64 | $ 1.33 |
| **Diluted earnings per common share** |  | | | | |
| Earnings (loss) from continuing operations attributable to Barnes Noble, Inc. | $ (0.04) | $ (1.31) | $ 0.63 | $ 1.46 |
| Earnings (loss) from discontinued operations attributable to Barnes Noble, Inc. | $ (0.01) |  |  | $ (0.17) |
| Net earnings (loss) attributable to Barnes Noble, Inc. | $ (0.05) | $ (1.31) | $ 0.63 | $ 1.29 |
| **Weighted average common shares outstanding** |  | | | | |
| Basic | 54,759 | 56,588 | 55,344 | 55,207 |
| Diluted | 54,759 | 56,588 | 56,153 | 56,529 |

**Consolidated Balance Sheets**

|  |  |  |
| --- | --- | --- |
| Consolidated Balance Sheets  (USD $) (in Thousands) | 04/30/2011 | 05/01/2010 |
| **Assets** |  | | |
| Cash and cash equivalents | $ 59,429 | $ 60,965 |
| Receivables, net | 150,294 | 106,576 |
| Merchandise inventories | 1,375,362 | 1,370,111 |
| Prepaid expenses and other current assets | 161,936 | 181,825 |
| Total current assets | 1,747,021 | 1,719,477 |
| **Property and equipment:** |  | | |
| Land and land improvements | 8,617 | 8,618 |
| Buildings and leasehold improvements | 1,204,108 | 1,212,567 |
| Fixtures and equipment | 1,670,488 | 1,594,048 |
| Property, plant and equipment, gross | 2,883,213 | 2,815,233 |
| Less accumulated depreciation and amortization | 2,178,562 | 2,003,199 |
| Net property and equipment | 704,651 | 812,034 |
| Goodwill | 524,113 | 528,541 |
| Intangible assets, net | 566,578 | 580,962 |
| Other noncurrent assets | 54,103 | 64,672 |
| Total assets | 3,596,466 | 3,705,686 |
| **Liabilities and Shareholders' Equity** |  | | |
| Accounts payable | 949,010 | 868,976 |
| Accrued liabilities | 785,667 | 755,432 |
| Short-term note payable |  | 100,000 |
| Total current liabilities | 1,734,677 | 1,724,408 |
| Long-term debt | 313,100 | 260,400 |
| Deferred taxes | 280,132 | 311,607 |
| Other long-term liabilities | 448,647 | 505,903 |
| **Shareholders' equity:** |  | | |
| Common stock; $.001 par value; 300,000 shares authorized; 90,465 and 88,993 shares issued, respectively | 90 | 89 |
| Additional paid-in capital | 1,323,263 | 1,286,215 |
| Accumulated other comprehensive loss | (11,630) | (13,212) |
| Retained earnings | 562,379 | 681,082 |
| Treasury stock, at cost, 33,410 and 33,285 shares, respectively | (1,054,192) | (1,052,356) |
| Total Barnes Noble, Inc. Shareholders' equity | 819,910 | 901,818 |
| Noncontrolling interest |  | 1,550 |
| Total shareholders' equity | 819,910 | 903,368 |
| Commitments and contingencies |  |  |
| Total liabilities and shareholders' equity | $ 3,596,466 | $ 3,705,686 |

**Consolidated Balance Sheets (Parenthetical)**

|  |  |  |
| --- | --- | --- |
| Consolidated Balance Sheets  (Parenthetical) (USD $) | 04/30/2011 | 05/01/2010 |
| Common stock, par value | $ 0.001 | $ 0.001 |
| Common stock, shares authorized | 300,000 | 300,000 |
| Common stock, shares issued | 90,465 | 88,993 |
| Treasury stock, shares | 33,410 | 33,285 |

**Consolidated Statements of Changes in Shareholders' Equity**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Consolidated Statements of Changes in Shareholders' Equity  (USD $) (in Thousands) | Accumulated Other Comprehensive Gains  (Losses) [Member] | Additional Paid-In Capital [Member] | Common Stock [Member] | Noncontrolling Interest [Member] | Retained Earnings [Member] | Treasury Stock at Cost [Member] | Total |
| Balance at 2008-02-02 | $ (9,523) | $ 1,233,343 | $ 87 |  | $ 696,861 | $ (846,048) | $ 1,074,720 |
| **Comprehensive earnings (loss):** |  | | | | | | | |
| Net earnings (loss) |  |  |  | (30) | 75,920 |  | 75,890 |
| **Other comprehensive earnings (loss), net of tax (See Note 10):** |  | | | | | | | |
| Foreign currency translation | (3,352) |  |  |  |  |  |  |
| Minimum pension liability | (1,628) |  |  |  |  |  |  |
| Total comprehensive earnings (loss) |  |  |  |  |  |  | 70,910 |
| Exercise of common stock options |  | 9,661 | 1 |  |  |  | 9,662 |
| Stock options and restricted stock tax benefits |  | (1,195) |  |  |  |  | (1,195) |
| Stock-based compensation expense |  | 20,549 |  |  |  |  | 20,549 |
| Begin Smart LLC Acquisition |  |  |  | 1,642 |  |  | 1,642 |
| Cash dividend paid to stockholders |  |  |  |  | (51,581) |  | (51,581) |
| Treasury stock acquired |  |  |  |  |  | (201,481) | (201,481) |
| Balance at 2009-01-31 | (14,503) | 1,262,358 | 88 | 1,612 | 721,200 | (1,047,529) | 923,226 |
| Balance at 2009-05-02 | (12,015) | 1,274,454 | 88 | 1,582 | 697,042 | (1,049,328) | 911,823 |
| **Comprehensive earnings (loss):** |  | | | | | | | |
| Net earnings (loss) |  |  |  | (32) | 36,676 |  | 36,644 |
| **Other comprehensive earnings (loss), net of tax (See Note 10):** |  | | | | | | | |
| Minimum pension liability | (1,197) |  |  |  |  |  |  |
| Total comprehensive earnings (loss) |  |  |  |  |  |  | 35,447 |
| Exercise of common stock options |  | 4,362 | 1 |  |  |  | 4,363 |
| Stock options and restricted stock tax benefits |  | (3,557) |  |  |  |  | (3,557) |
| Stock-based compensation expense |  | 15,723 |  |  |  |  | 15,723 |
| Sale of Calendar Club (See Note 16) |  | (4,767) |  |  | 4,767 |  |  |
| Cash dividend paid to stockholders |  |  |  |  | (57,403) |  | (57,403) |
| Treasury stock acquired |  |  |  |  |  | (3,028) | (3,028) |
| Balance at 2010-05-01 | (13,212) | 1,286,215 | 89 | 1,550 | 681,082 | (1,052,356) | 903,368 |
| Balance at 2010-05-01 | (13,212) | 1,286,215 | 89 | 1,550 | 681,082 | (1,052,356) | 903,368 |
| **Comprehensive earnings (loss):** |  | | | | | | | |
| Net earnings (loss) |  |  |  | (37) | (73,920) |  | (73,957) |
| **Other comprehensive earnings (loss), net of tax (See Note 10):** |  | | | | | | | |
| Minimum pension liability | 1,582 |  |  |  |  |  |  |
| Total comprehensive earnings (loss) |  |  |  |  |  |  | (72,375) |
| Purchase of noncontrolling interest |  | 1,213 |  | (1,513) |  |  | (300) |
| Exercise of common stock options |  | 17,232 | 1 |  |  |  | 17,233 |
| Stock options and restricted stock tax benefits |  | (2,375) |  |  |  |  | (2,375) |
| Stock-based compensation expense |  | 20,978 |  |  |  |  | 20,978 |
| Cash dividend paid to stockholders |  |  |  |  | (44,783) |  | (44,783) |
| Treasury stock acquired |  |  |  |  |  | (1,836) | (1,836) |
| Balance at 2011-04-30 | (11,630) | 1,323,263 | 90 |  | 562,379 | (1,054,192) | 819,910 |
| Balance at 2009-01-31 | (14,503) | 1,262,358 | 88 | 1,612 | 721,200 | (1,047,529) | 923,226 |
| **Comprehensive earnings (loss):** |  | | | | | | | |
| Net earnings (loss) |  |  |  | (30) | (2,693) |  | (2,723) |
| Total comprehensive earnings (loss) |  |  |  |  |  |  | (2,723) |
| Exercise of common stock options |  | 5,519 |  |  |  |  | 5,519 |
| Stock options and restricted stock tax benefits |  | (2,090) |  |  |  |  | (2,090) |
| Stock-based compensation expense |  | 3,900 |  |  |  |  | 3,900 |
| Sale of Calendar Club (See Note 16) | 2,488 | 4,767 |  |  | (7,255) |  |  |
| Cash dividend paid to stockholders |  |  |  |  | (14,210) |  | (14,210) |
| Treasury stock acquired |  |  |  |  |  | (1,799) | (1,799) |
| Balance at 2009-05-02 | $ (12,015) | $ 1,274,454 | $ 88 | $ 1,582 | $ 697,042 | $ (1,049,328) | $ 911,823 |

**Consolidated Statements of Changes in Shareholders' Equity (Parenthetical)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Consolidated Statements of Changes in Shareholders' Equity  (Parenthetical) (USD $) | 3 Months Ended  05/02/2009 | 12 Months Ended  04/30/2011 | 12 Months Ended  05/01/2010 | 12 Months Ended  01/31/2009 |
| Stock options exercised, shares | 280 | 1,024 | 313 | 488 |
| Treasury stock acquired, shares | 83 | 125 | 137 | 6,604 |

**Consolidated Statements of Cash Flows**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Consolidated Statements of Cash Flows  (USD $) (in Thousands) | 3 Months Ended  05/02/2009 | 12 Months Ended  04/30/2011 | 12 Months Ended  05/01/2010 | 12 Months Ended  01/31/2009 |
| **Cash flows from operating activities:** |  | | | | |
| Net earnings (loss) | $ (2,723) | $ (73,957) | $ 36,644 | $ 75,890 |
| Net earnings (loss) from discontinued operations | (654) |  |  | (9,506) |
| Net earnings (loss) from continuing operations | (2,069) | (73,957) | 36,644 | 85,396 |
| **Adjustments to reconcile net earnings (loss) from continuing operations to net cash flows provided by (used in) operating activities:** |  | | | | |
| Depreciation and amortization (including amortization of deferred financing fees) | 46,426 | 244,734 | 214,464 | 174,104 |
| Increase (decrease) in other long-term liabilities | (6,441) | (57,256) | (35,222) | 7,590 |
| Changes in operating assets and liabilities, net | (189,811) | 59,209 | (58,091) | 72,700 |
| Stock-based compensation expense | 3,900 | 20,978 | 15,723 | 20,549 |
| Deferred taxes | 1,306 | 1,614 | (57,170) | (430) |
| Property and equipment impairment charge |  | 2,857 | 12,102 | 11,715 |
| (Gain) loss on disposal of property and equipment | (29) | 893 | 2,388 | 4,625 |
| Net cash flows provided by (used in) operating activities | (146,718) | 199,072 | 130,838 | 376,249 |
| **Cash flows from investing activities:** |  | | | | |
| Purchases of property and equipment | (22,822) | (110,502) | (127,779) | (192,153) |
| Net (increase) decrease in other noncurrent assets | 87 | (1,466) | (3,568) | (723) |
| Acquisition of Fictionwise | (15,729) |  |  |  |
| Purchase of non-controlling interest |  | 300 |  |  |
| Acquisition of Barnes Noble College Booksellers, Inc (net of cash acquired) |  |  | (185,928) |  |
| Acquisition of Tikatok Inc. (net of cash acquired) |  |  | (2,261) |  |
| Net cash flows used in investing activities | (38,464) | (112,268) | (319,536) | (192,876) |
| **Cash flows from financing activities:** |  | | | | |
| Payment of short term note payable |  | (100,000) |  |  |
| Payment received for Calendar Club note receivable |  | 6,000 |  |  |
| Net increase in credit facility |  | 52,700 | 260,400 |  |
| Financing fees paid related to the Amended Credit Facility and 2009 Credit Facility |  | (10,180) | (37,069) |  |
| Fictionwise earn-out payments |  | (7,508) | (2,612) |  |
| Cash dividends paid to shareholders | (14,210) | (44,783) | (57,403) | (51,581) |
| Proceeds from exercise of common stock options | 5,519 | 17,233 | 4,363 | 9,662 |
| Purchase of treasury stock | (1,799) | (1,836) | (3,028) | (201,481) |
| Excess (reversal) tax benefit from stock-based compensation | 312 | 34 | (1,582) | 869 |
| Net cash flows provided by (used in) financing activities | (10,178) | (88,340) | 163,069 | (242,531) |
| **Cash flows from discontinued operations** |  | | | | |
| Operating cash flows | (654) |  |  | 7,242 |
| Investing cash flows | 1,000 |  |  | (738) |
| Financing cash flows |  |  |  | (818) |
| Net cash flows from discontinued operations | 346 |  |  | 5,686 |
| Decrease in cash and cash equivalents | (195,014) | (1,536) | (25,629) | (53,472) |
| Cash and cash equivalents at beginning of year | 281,608 | 60,965 | 86,594 | 335,080 |
| Cash and cash equivalents at end of year | 86,594 | 59,429 | 60,965 | 281,608 |
| **Changes in operating assets and liabilities, net:** |  | | | | |
| Receivables, net | 10,150 | (43,718) | 119,358 | 13,881 |
| Merchandise inventories | (30,285) | (5,251) | 228,822 | 154,699 |
| Prepaid expenses and other current assets | (462) | 19,889 | (56,675) | (1,985) |
| Accounts payable and accrued liabilities | (169,214) | 88,289 | (349,596) | (93,895) |
| Changes in operating assets and liabilities, net | (189,811) | 59,209 | (58,091) | 72,700 |
| **Supplemental cash flow information:** |  | | | | |
| Interest paid | 73 | 45,604 | 12,305 | 1,812 |
| Income taxes (net of refunds) | 37,735 | (41,681) | 31,461 | 50,383 |
| **Supplemental disclosure of subsidiaries acquired:** |  | | | | |
| Assets acquired (net of cash acquired) | 18,501 | 1,513 | 1,416,134 |  |
| Liabilities assumed | 2,772 | 1,213 | 1,227,945 |  |
| Cash paid | 15,729 | 300 | 188,189 |  |
| **Noncash activities:** |  | | | | |
| Note receivable on sale of Calendar Club | 6,000 |  |  |  |
| Notes payable on acquisition of BNCollege |  |  | $ 250,000 |  |

**Summary of Significant Accounting Policies**

|  |  |
| --- | --- |
| Summary of Significant Accounting Policies  (USD $) | 12 Months Ended  04/30/2011 |
| Summary of Significant Accounting Policies | |  |  |  | | --- | --- | --- | |  | **1.** | **Summary of Significant Accounting Policies** |   *Business*  Barnes & Noble, the nation's largest bookseller,3is a leading content, commerce and technology company providing customers easy and convenient access to books, magazines, newspapers and other content across its multi-channel distribution platform. As of April 30, 2011, the Company operated 1,341 bookstores in 50 states, including 636 bookstores on college campuses, and one of the Web's largest eCommerce sites, which includes the development of digital content products and software. Given the dynamic nature of the book industry, the challenges faced by traditional booksellers, and the robust innovation pipeline fueling new opportunities in hardware, software and content creation and delivery, Barnes & Noble is utilizing the strength of its retail footprint to bolster its leadership in the sale of books and increase sales growth across multiple channels.  Of the 1,341 bookstores, 705 operate primarily under the Barnes & Noble Booksellers trade name. B&N College, a wholly-owned subsidiary of Barnes & Noble, operates 636 college bookstores at colleges and universities across the United States. barnesandnoble.com llc (Barnes & Noble.com) encompasses one of the Web's largest eCommerce sites, Barnes & Noble eBookstore, Barnes & Noble eReader software, and the Company's devices and other hardware support. Sterling Publishing Co., Inc. (Sterling or Sterling Publishing), bolsters the Company as a leader in general trade book publishing.  The Company's principal business is the sale of trade books (generally hardcover and paperback consumer titles), mass market paperbacks (such as mystery, romance, science fiction and other popular fiction), children's books, eBooks and other digital content, NOOK (references to NOOK™ include the Company's NOOK 1 st Edition™, NOOK Wi-Fi 1 st Edition™, NOOK Color™ and The All-New NOOK™ eBook Reader devices), 4 and related accessories, bargain books, magazines, gifts, café products and services, educational toys & games, music and movies direct to customers through its bookstores or on Barnes & Noble.com. The Acquisition of B&N College (see Note 12) has allowed the Company to expand into sales of textbooks and course-related materials, emblematic apparel and gifts, trade books, school and dorm supplies, and convenience and café items on college and university campuses. In fiscal 2011, B&N College began offering a textbook rental option to its customers, and expanded its electronic textbooks and other course materials through a proprietary digital platform (NOOK Study™). B&N College offers its customers a full suite of textbook options - new, used, digital and rental.  Due to the increased focus on the internet and digital businesses, the Company performed an evaluation on the effect of its impact on the identification of operating segments. The assessment considered 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. As a result of this assessment, the Company has determined that it has three operating segments: B&N Retail, B&N College and B&N.com.   |  |  | | --- | --- | | 3 | Based upon sales reported in trade publications and public filings. | | 4 | Any reference to NOOK™, NOOK 1st Edition™, NOOK Wi-Fi 1st Edition™, NOOK Color™, and The All-New NOOK™ includes the trademark symbol (™) even if a superscript "TM" is not included. | |   *Consolidation*  The consolidated financial statements include the accounts of Barnes & Noble, Inc. and its wholly and majority-owned subsidiaries. Investments in affiliates in which ownership interests range from 20% to 50%, are accounted for under the equity method. All significant intercompany accounts and transactions have been eliminated in consolidation.  *Use of Estimates*  In preparing financial statements in conformity with generally accepted accounting principles, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.  *Cash and Cash Equivalents*  The Company considers all short-term, highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.  *Merchandise Inventories*  Merchandise inventories are stated at the lower of cost or market. Cost is determined primarily by the retail inventory method under both the first-in, first-out (FIFO) basis and the last-in, first-out (LIFO) basis. The Company uses the retail inventory method for 97% of the Company's merchandise inventories. As of both April 30, 2011 and May 1, 2010, 87% of the Company's inventory on the retail inventory method was valued under the FIFO basis. B&N College's textbook and trade book inventories are valued using the LIFO method, where the related reserve was not material to the recorded amount of the Company's inventories or results of operations.  Market is determined based on the estimated net realizable value, which is generally the selling price. Reserves for non-returnable inventory are based on the Company's history of liquidating non-returnable inventory.  The Company also estimates and accrues shortage for the period between the last physical count of inventory and the balance sheet date. Shortage rates are estimated and accrued based on historical rates and can be affected by changes in merchandise mix and changes in actual shortage trends.  *Property and Equipment*  Property and equipment are carried at cost, less accumulated depreciation and amortization. For financial reporting purposes, depreciation is computed using the straight-line method over estimated useful lives. For tax purposes, different methods are used. Maintenance and repairs are expensed as incurred, while major maintenance and remodeling costs are capitalized. Leasehold improvements are capitalized and amortized over the shorter of their estimated useful lives or the terms of the respective leases. Capitalized lease acquisition costs are being amortized over the lease terms of the underlying leases. Costs incurred in purchasing management information systems are capitalized and included in property and equipment. These costs are amortized over their estimated useful lives from the date the systems become operational.  *Other Long-Lived Assets*  The Company's other long-lived assets include property and equipment and amortizable intangibles. At April 30, 2011, the Company had $704,651 of property and equipment, net of accumulated depreciation, and $251,667 of amortizable intangible assets, net of amortization, accounting for approximately 26.6% of the Company's total assets. The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with Accounting Standards Codification (ASC) 360-10, *Accounting for the Impairment or Disposal of Long-Lived Assets* (ASC 360-10). The Company evaluates long-lived assets for impairment at the individual Barnes & Noble store level, except for B&N College long-lived assets, which are evaluated for impairment at the school contract combined store level, which is the lowest level at which individual cash flows can be identified. When evaluating long-lived assets for potential impairment, the Company will first compare the carrying amount of the assets to the individual store's estimated future undiscounted cash flows. If the estimated future cash flows are less than the carrying amount of the assets, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the assets to the individual store's fair value based on its estimated discounted future cash flows. If required, an impairment loss is recorded for that portion of the asset's carrying value in excess of fair value. Impairment losses included in selling and administrative expenses totaled $2,857, $12,102, $0, and $11,715 during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively, and are related to individual store locations.  *Goodwill and Unamortizable Intangible Assets*  The costs in excess of net assets of businesses acquired are carried as goodwill in the accompanying consolidated balance sheets.  At April 30, 2011, the Company had $524,113 of goodwill and $314,911 of unamortizable intangible assets (those with an indefinite useful life), accounting for approximately 23.3% of the Company's total assets. ASC 350-30, *Goodwill and Other Intangible Assets* , requires that goodwill and other unamortizable intangible assets no longer be amortized, but instead be tested for impairment at least annually or earlier if there are impairment indicators. The Company performs a two-step process for impairment testing of goodwill as required by ASC 350-30. The first step of this test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount. The second step (if necessary) measures the amount of the impairment. The Company completed its annual goodwill impairment test as of the first day of the third quarter. In performing the valuations, the Company used cash flows that reflected management's forecasts and discount rates that included risk adjustments consistent with the current market conditions. Based on the results of the Company's step one testing, the fair values of the Barnes & Noble Retail, Barnes & Noble College and B&N.com reporting units exceeded their carrying values; therefore, the second step of the impairment test was not required to be performed and no goodwill impairment was recognized. The Company has noted no subsequent indicators of impairment. The Company tests unamortizable intangible assets by comparing the fair value and the carrying value of such assets. The Company also completed its annual impairment tests for its other unamortizable intangible assets by comparing the estimated fair value to the carrying value of such assets and determined that no impairment was necessary. Changes in market conditions, among other factors, could have a material impact on these estimates.  *Deferred Charges*  Costs incurred to obtain long-term financing are amortized over the terms of the respective debt agreements using the straight-line method, which approximates the interest method. Unamortized costs included in other noncurrent assets as of April 30, 2011 and May 1, 2010 were $26,525 and $32,428, respectively. Amortization expense included in interest and amortization of deferred financing fees was $16,087, $5,925, $137 and $547 during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively.  *Revenue Recognition*  Revenue from sales of the Company's products is recognized at the time of sale, other than those with multiple elements. The Company accrues for estimated sales returns in the period in which the related revenue is recognized based on historical experience and industry standards. Sales taxes collected from retail customers are excluded from reported revenues. All of the Company's sales are recognized as revenue on a "net" basis, including sales in connection with any periodic promotions offered to customers. The Company does not treat any promotional offers as expenses.  In accordance with ASC 605-25, *Revenue Recognition, Multiple Element Arrangements* and Accounting Standards Updates (ASU) 2009-13 and 2009-14, for multiple-element arrangements that involve tangible products that contain software that is essential to the tangible product's functionality, undelivered software elements that relate to the tangible product's essential software and other separable elements, the Company allocates revenue to all deliverables using the relative selling-price method. Under this method, revenue is allocated at the time of sale to all deliverables based on their relative selling price using a specific hierarchy. The hierarchy is as follows: vendor-specific objective evidence, third-party evidence of selling price, or best estimate of selling price. NOOK™ eBook Reader revenue (which includes revenue from the Company's NOOK 1 st Edition™, NOOK Wi-Fi 1 st Edition™, NOOK Color™ and The All-New NOOK™ devices) is recognized at the segment point of sale.  The Company includes post-service customer support (PCS) in the form of software updates and potential increased functionality on a when-and-if-available basis, as well as wireless access and wireless connectivity with the purchase of NOOK™ from the Company. Using the relative selling price described above, the Company allocates revenue based on the best estimate of selling price for the deliverables as no vendor-specific objective evidence or third-party evidence exists for any of the elements. Revenue allocated to NOOK™ and the software essential to its functionality is recognized at the time of sale, provided all other conditions for revenue recognition are met. Revenue allocated to the PCS and the wireless access is deferred and recognized on a straight-line basis over the 2-year estimated life of NOOK™.  The Company also pays certain vendors who distribute NOOK™ a commission on the content sales sold through that device. The Company accounts for these transactions as a reduction in the sales price of the NOOK™ based on historical trends of content sales and a liability is established for the estimated commission expected to be paid over the life of the product. The Company recognizes revenue of the content at the point of sale of the content. The Company records revenue from sales of digital content, sales of third-party extended warranties, service contracts and other products, for which the Company is not obligated to perform, and for which the Company does not meet the criteria for gross revenue recognition under ASC 605-45-45, *Reporting Revenue Gross as a Principal versus Net as an Agent* , on a net basis. All other revenue is recognized on a gross basis.  The Barnes & Noble Member Program offers members greater discounts and other benefits for products and services, as well as exclusive offers and promotions via e-mail or direct mail for an annual fee of $25.00, which is non-refundable after the first 30 days. Revenue is recognized over the twelve-month period based upon historical spending patterns for Barnes & Noble Members.  *Research and Development Costs for Software Products.*  The Company follows the guidance in ASC 985-20 regarding software development costs to be sold, leased, or otherwise marketed. Capitalization of software development costs begins upon the establishment of technological feasibility and is discontinued when the product is available for sale. A certain amount of judgment and estimation is required to assess when technological feasibility is established, as well as the ongoing assessment of the recoverability of capitalized costs. The Company's products reach technological feasibility shortly before the products are released and therefore research and development costs are generally expensed as incurred.  *Advertising Costs*  The costs of advertising are expensed as incurred during the year pursuant to ASC 720-35, *Advertising Costs* . Advertising costs charged to selling and administrative expenses were $70,013, $34,369, $5,478 and $28,772 during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively.  The Company receives payments and credits from vendors pursuant to co-operative advertising and other programs, including payments for product placement in stores, catalogs and online. In accordance with ASC 605-50-25-10, *Customer's Accounting for Certain Consideration Received from a Vendor* , the Company classifies certain co-op advertising received as a reduction in costs of sales and occupancy. The gross advertising expenses noted above were completely offset by allowances received from vendors and the excess allowances received were recorded as a reduction of cost of goods sold or inventory, as appropriate.  *Closed Store Expenses*  When the Company closes or relocates a store, the Company charges unrecoverable costs to expense. Such costs include the net book value of abandoned fixtures and leasehold improvements and, when a store is closed prior to the expiration of the lease, a provision for future lease obligations, net of expected sublease recoveries. Costs associated with store closings of $3,899, $4,503, $3,236 and $11,875 during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively, are included in selling and administrative expenses in the accompanying consolidated statements of operations.  *Net Earnings (Loss) Per Common Share*  Basic earnings per share represent net earnings (loss) attributable to common shareholders divided by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflect, in periods in which they have a dilutive effect, the impact of common shares issuable upon exercise of the Company's outstanding stock options. The Company's unvested restricted shares and common shares issuable under the Company's deferred compensation plan are deemed participating securities and are excluded from the dilutive impact of common equivalent shares outstanding under the two-class method since these shares are entitled to participate in dividends declared on common shares. Under the two-class method, earnings (loss) attributable to unvested restricted shares and common shares issuable under the Company's deferred compensation plan are excluded from net earnings (loss) attributable to common shareholders for purposes of calculating basic and diluted earnings (loss) per common share. See Note 7 for further information regarding the calculation of basic and diluted earnings (loss) per common share.  *Income Taxes*  The provision for income taxes includes federal, state and local income taxes currently payable and those deferred because of temporary differences between the financial statement and tax bases of assets and liabilities. The deferred tax assets and liabilities are measured using the enacted tax rates and laws that are expected to be in effect when the differences reverse. The Company regularly reviews its deferred tax assets for recoverability and establishes a valuation allowance, if determined to be necessary.  *Stock-Based Compensation*  The calculation of stock-based employee compensation expense involves estimates that require management's judgment. These estimates include the fair value of each of the stock option awards granted, which is estimated on the date of grant using a Black-Scholes option pricing model. There are two significant inputs into the Black-Scholes option pricing model: expected volatility and expected term. The Company estimates expected volatility based on traded option volatility of the Company's stock over a term equal to the expected term of the option granted. The expected term of stock option awards granted is derived from historical exercise experience under the Company's stock option plans and represents the period of time that stock option awards granted are expected to be outstanding. The assumptions used in calculating the fair value of stock-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management's judgment. As a result, if factors change and the Company uses different assumptions, stock-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate, and only recognize expense for those shares expected to vest. If the Company's actual forfeiture rate is materially different from its estimate, the stock-based compensation expense could be significantly different from what the Company has recorded in the current period. See Note 3 to the Consolidated Financial Statements for a further discussion on stock-based compensation.  *Gift Cards*  The Company sells gift cards which can be used in its stores or on Barnes & Noble.com. 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. Over time, some portion of the gift cards issued is not redeemed. The Company estimates the portion of the gift card liability for which the likelihood of redemption is remote based upon the Company's historical redemption patterns. The Company records this amount in income on a straight-line basis over a 12-month period beginning in the 13th month after the month the gift card was originally sold. If actual redemption patterns vary from the Company's estimates, actual gift card breakage may differ from the amounts recorded. The Company recognized gift card breakage of $25,904, $21,328, $5,432 and $21,369 during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively. The Company had gift card liabilities of $311,092 and $292,127 as of April 30, 2011 and May 1, 2010, respectively, which amounts are included in accrued liabilities.  *Reclassifications*  Certain prior-period amounts have been reclassified for comparative purposes to conform with the fiscal 2011 presentation.  *Reporting Period*  On September 30, 2009, the Board of Directors of Barnes & Noble authorized a change in the Company's fiscal year end from the Saturday closest to the last day of January to the Saturday closest to the last day of April. The Company's fiscal year is comprised of 52 or 53 weeks, ending on the Saturday closest to the last day of April. The reporting periods ended April 30, 2011, May 1, 2010, May 2, 2009, and January 31, 2009 contained 52 weeks, 52 weeks, 13 weeks and 52 weeks, respectively.  *Recent Accounting Pronouncements*  In December 2010, the FASB issued ASU 2010-28, *Intangibles—Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts* (ASU 2010-28). ASU 2010-28 provides amendments to Topic 350 to modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts to clarify that, for those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that impairment may exist. For public entities, the amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. The Company is still evaluating whether adoption of ASU 2010-28 will have an impact on the Company's Fiscal 2012 Consolidated Financial Statements.  In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04), which amends ASC 820, Fair Value Measurement. ASU 2011-04 does not extend the use of fair value accounting, but provides guidance on how it should be applied where its use is already required or permitted by other standards within U.S. GAAP or International Financial Reporting Standards (IFRSs). ASU 2011-04 changes the wording used to describe many requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Additionally, ASU 2011-04 clarifies the FASB's intent about the application of existing fair value measurements. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011 and is applied prospectively. The Company is still evaluating whether adoption of ASU 2011-04 will have an impact on the Company's Fiscal 2012 Consolidated Financial Statements.  The FASB is currently working on amendments to existing accounting standards governing a number of areas including, but not limited to, accounting for leases. In August 2010, the FASB issued an exposure draft, "Leases" (the Exposure Draft), which would replace the existing guidance in ASC topic 840, "Leases." Under the Exposure Draft, among other changes in practice, a lessee's rights and obligations under all leases, including existing and new arrangements, would be recognized as assets and liabilities, respectively, on the balance sheet. Subsequent to the end of the related comment period, the FASB made several amendments to the exposure draft, including revising the definition of the "lease term" to include the non-cancelable lease term plus only those option periods for which there is significant economic incentive for the lessee to extend or not terminate the lease. The FASB also redefined the initial lease liability to be recorded on the Company's balance sheet to contemplate only those variable lease payments that are in substance "fixed". The final standard is expected to be issued in the second half of 2011. Management is currently evaluating this proposed standard however, as the standard-setting process is still ongoing, the Company is unable to determine the impact this proposed change in accounting will have on its consolidated financial statements at this time. |

**Credit Facility**

|  |  |
| --- | --- |
| Credit Facility  (USD $) | 12 Months Ended  04/30/2011 |
| Credit Facility | |  |  |  | | --- | --- | --- | |  | **2.** | **Credit Facility** |   On April 29, 2011, the Company entered into an amended and restated credit agreement (the Amended Credit Agreement) with Bank of America, N.A., as administrative agent, collateral agent and swing line lender, and other lenders, which amends and restates the Credit Agreement entered into on September 30, 2009. Under the Amended Credit Agreement, Lenders are providing up to $1,000,000 in aggregate commitments under a five-year asset-backed revolving credit facility (the Amended Credit Facility), which is secured by eligible inventory with the ability to include eligible real estate and accounts receivable and related assets. Borrowings under the Amended Credit Agreement are limited to a specified percentage of eligible inventories and accounts receivable and accrued interest, at the election of the Company, at Base Rate or LIBO Rate, plus, in each case, an Applicable Margin (each term as defined in the Amended Credit Agreement). In addition, the Company has the option to request an increase in commitments under the Amended Credit Agreement by up to $300,000, subject to certain restrictions.  The Amended Credit Agreement requires Availability (as defined in the Amended Credit Agreement) to be greater than the greater of (i) 10% of the Loan Cap (as defined in the Amended Credit Agreement) and (ii) $50,000. In addition, the Amended Credit Facilities contains covenants that limit, among other things, the Company's ability to incur indebtedness, create liens, make investments, make restricted payments, merge or acquire assets, and contains default provisions that are typical for this type of financing, among other things. Proceeds from the Amended Credit Facility are used for general corporate purposes, including seasonal working capital needs.  As a result of the Amended Credit Agreement, $6,580 of deferred financing fees related to the 2009 Credit Facility were written off, and included in net interest expenses. The remaining unamortized deferred costs of $16,341 and new charges of $10,180 relating to the Company's Amended Credit Facility were deferred and will be amortized over the five-year term of the Amended Credit Facility.  On September 30, 2009, the Company had entered into a credit agreement (the 2009 Credit Agreement) with Bank of America, N.A., as administrative agent, collateral agent and swing line lender, and other lenders, under which the lenders committed to provide up to $1,000,000 in commitments under a four-year asset-backed revolving credit facility (the 2009 Credit Facility), which was secured by eligible inventory and accounts receivable and related assets. Borrowings under the 2009 Credit Agreement were limited to a specified percentage of eligible inventories and accounts receivable and accrued interest, at the election of the Company, at Base Rate or LIBO Rate, plus, in each case, an Applicable Margin (each term as defined in the 2009 Credit Agreement). In addition, the Company had the option to request the increase in commitments under the 2009 Credit Agreement by up to $300,000, subject to certain restrictions. Proceeds from the 2009 Credit Facility were used for general corporate purposes, including seasonal working capital needs  The 2009 Credit Facility replaced the Company's prior $850,000 credit agreement (Prior Credit Facility) which had a maturity date of July 31, 2011, as well as B&N College's $400,000 credit agreement which had a maturity date of November 13, 2011.  Selected information related to the Company's Amended Credit Facility, 2009 Credit Facility and Prior Credit Facility:   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |   Fiscal   |  |  |  |  | | --- | --- | --- | --- | | 2011 | |  |  |   Fiscal   |  |  |  |  | | --- | --- | --- | --- | | 2010 | |  |  |   13 weeks  ended  May 2,   |  |  |  |  |  | | --- | --- | --- | --- | --- | | 2009 | | |  |  |   Fiscal   |  |  |  | | --- | --- | --- | | 2008 | |  | | Credit facility at period end |  | $ | 313,100 |  |  |  | 260,400 |  |  |  | — |  |  |  | — |  | | Average balance outstanding during the period |  | $ | 338,971 |  |  |  | 107,504 |  |  |  | — |  |  |  | 63,871 |  | | Maximum borrowings outstanding during the period |  | $ | 622,800 |  |  |  | 512,500 |  |  |  | — |  |  |  | 199,900 |  | | Weighted average interest rate during the period |  |  | 4.30 | % |  |  | 4.38 | % |  |  | — |  |  |  | 6.05 | % | | Interest rate at end of period |  |  | 5.13 | % |  |  | 4.13 | % |  |  | — |  |  |  | — |  |   Fees expensed with respect to the unused portion of the Amended Credit Facility, 2009 Credit Facility and Prior Credit Facility were $5,466, $4,198, $274 and $956 during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively. The increase in commitment fees in fiscal 2010 was related to the 2009 Company's Credit Agreement entered into on September 30, 2009 in connection with the Acquisition.  The Company has no agreements to maintain compensating balances. |

**Stock-Based Compensation**

|  |  |
| --- | --- |
| Stock-Based Compensation  (USD $) | 12 Months Ended  04/30/2011 |
| Stock-Based Compensation | |  |  |  | | --- | --- | --- | |  | **3.** | **Stock-Based Compensation** |   The Company maintains three share-based incentive plans: the 1996 Incentive Plan, the 2004 Incentive Plan and the 2009 Incentive Plan. Prior to June 2, 2009, the Company issued restricted stock and stock options under the 1996 and 2004 Incentive Plans. On June 2, 2009, the Company's shareholders approved the 2009 Incentive Plan. The maximum number of shares issuable under the 2009 Incentive Plan is 950,000, plus shares that remain available under the Company's shareholder-approved 2004 Incentive Plan. At April 30, 2011, there were approximately 1,760,447 shares of common stock available for future grants under the 2009 Incentive Plan.  A restricted stock award is an award of common stock that is subject to certain restrictions during a specified period. Restricted stock awards are independent of option grants and are generally subject to forfeiture if employment terminates prior to the release of the restrictions. The grantee cannot transfer the shares before the restricted shares vest. Shares of unvested restricted stock have the same voting rights as common stock, are entitled to receive dividends and other distributions thereon and are considered to be currently issued and outstanding. The Company's restricted stock awards vest over a period of one to five years. The Company expenses the cost of the restricted stock awards, which is determined to be the fair market value of the shares at the date of grant, straight-line over the period during which the restrictions lapse. For these purposes, the fair market value of the restricted stock is determined based on the closing price of the Company's common stock on the grant date.  The Company uses the Black-Scholes option-pricing model to value the Company's stock options for each stock option award. Using this option-pricing model, the fair value of each stock option award is estimated on the date of grant. The fair value of the Company's stock option awards, which are generally subject to pro-rata vesting annually over four years, is expensed on a straight-line basis over the vesting period of the stock options. The expected volatility assumption is based on traded options volatility of the Company's stock over a term equal to the expected term of the option granted. The expected term of stock option awards granted is derived from historical exercise experience under the Company's stock option plans and represents the period of time that stock option awards granted are expected to be outstanding. The expected term assumption incorporates the contractual term of an option grant, which is ten years, as well as the vesting period of an award, which is generally pro-rata vesting annually over four years. The risk-free interest rate is based on the implied yield on a U.S. Treasury constant maturity with a remaining term equal to the expected term of the option granted.  The Company recognizes stock-based compensation costs, net of estimated forfeitures, for only those shares expected to vest on a straight-line basis over the requisite service period of the award. The Company estimated the forfeiture rates for fiscal 2011, fiscal 2010, the transition period and fiscal 2008 based on its historical experience.  The weighted average assumptions relating to the valuation of the Company's stock options for fiscal years 2010 and 2008 are shown below. No stock options were granted during fiscal 2011 or the transition period. During fiscal 2008, the Company modified certain stock options related to the death and retirement of two members of the Board of Directors and severance of a former executive officer. These modifications resulted in a lower than normal expected life of the stock option grants made in fiscal 2008.   |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  |  |  |  |  |  |  |  |  | | Fiscal Year |  | 2010 | |  |  | 2008 | |  | | Weighted average fair value of grants |  | $ | 5.72 |  |  | $ | 7.52 |  | | Volatility |  |  | 41.30 | % |  |  | 65.36 | % | | Risk-free interest rate |  |  | 2.59 | % |  |  | 1.43 | % | | Expected life |  |  | 5 years |  |  |  | .94 years |  | | Expected dividend yield |  |  | 4.53 | % |  |  | 3.54 | % |   *Stock-Based Compensation Activity*  The following table presents a summary of the Company's stock option activity:   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |   Number of  Shares (in   |  |  |  |  | | --- | --- | --- | --- | | thousands) | |  |  |   Weighted  Average  Exercise   |  |  |  |  | | --- | --- | --- | --- | | Price | |  |  |   Weighted  Average  Remaining  Contractual   |  |  |  |  | | --- | --- | --- | --- | | Term | |  |  |   Aggregate  Intrinsic  Value (in   |  |  |  |  | | --- | --- | --- | --- | | thousands) | | |  | | Balance, February 2, 2008 |  |  | 6,582 |  |  | $ | 20.19 |  |  |  | 4.98 years |  |  | $ | 91,597 |  | | Granted |  |  | 289 |  |  |  | 23.19 |  |  |  |  |  |  |  |  |  | | Exercised |  |  | (488 | ) |  |  | 19.79 |  |  |  |  |  |  |  |  |  | | Forfeited |  |  | (416 | ) |  |  | 23.88 |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Balance, January 31, 2009 |  |  | 5,967 |  |  |  | 20.11 |  |  |  | 4.03 years |  |  | $ | 3,557 |  | | Granted |  |  | — |  |  |  | — |  |  |  |  |  |  |  |  |  | | Exercised |  |  | (280 | ) |  |  | 19.73 |  |  |  |  |  |  |  |  |  | | Forfeited |  |  | (126 | ) |  |  | 19.27 |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Balance, May 2, 2009 |  |  | 5,561 |  |  |  | 20.14 |  |  |  | 3.83 years |  |  | $ | 33,633 |  | | Granted |  |  | 500 |  |  |  | 22.07 |  |  |  |  |  |  |  |  |  | | Exercised |  |  | (313 | ) |  |  | 13.96 |  |  |  |  |  |  |  |  |  | | Forfeited |  |  | (250 | ) |  |  | 30.69 |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Balance, May 1, 2010 |  |  | 5,498 |  |  |  | 20.19 |  |  |  | 3.49 years |  |  | $ | 13,782 |  | | Granted |  |  | — |  |  |  | — |  |  |  |  |  |  |  |  |  | | Exercised |  |  | (1,024 | ) |  |  | 16.83 |  |  |  |  |  |  |  |  |  | | Forfeited |  |  | (598 | ) |  |  | 20.57 |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Balance, April 30, 2011 |  |  | 3,876 |  |  | $ | 21.02 |  |  |  | 3.40 years |  |  |  | — |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Vested and expected to vest in the future at April 30, 2011 |  |  | 3,876 |  |  | $ | 21.02 |  |  |  | 3.40 years |  |  |  | — |  | | Exercisable at April 30, 2011 |  |  | 3,542 |  |  | $ | 20.92 |  |  |  | 2.88 years |  |  |  | — |  | | Available for grant at April 30, 2011 |  |  | 1,760 |  |  |  |  |  |  |  |  |  |  |  |  |  |   The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of the related fiscal year and the exercise price, multiplied by the related in-the-money options) that would have been received by the option holders had they exercised their options at the end of the fiscal year. This amount changes based on the market value of the Company's common stock. Total intrinsic value of options exercised for fiscal 2011, fiscal 2010, the transition period and fiscal 2008 (based on the difference between the Company's stock price on the exercise date and the respective exercise price, multiplied by the number of options exercised) was $124, $2,321, $1,094 and $3,997, respectively.  As of April 30, 2011, there was $1,827 of total unrecognized compensation expense related to unvested stock options granted under the Company's share-based compensation plans. That expense is expected to be recognized over a weighted average period of 1.9 years.  The following table presents a summary of the Company's restricted stock activity:   |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  |  |  |  |  |  |  |  |  | |  |  |   Number of  Shares (in   |  |  |  |  | | --- | --- | --- | --- | | thousands) | |  |  |   Weighted  Average Grant   |  |  |  | | --- | --- | --- | | Date Fair Value | |  | | Balance, February 2, 2008 |  |  | 1,026 |  |  | $ | 40.74 |  | | Granted |  |  | 991 |  |  |  | 28.27 |  | | Vested |  |  | (431 | ) |  |  | 39.27 |  | | Forfeited |  |  | (135 | ) |  |  | 31.13 |  | |  |  |  |  |  |  |  |  |  | | Balance, January 31, 2009 |  |  | 1,451 |  |  |  | 33.55 |  | | Granted |  |  | 133 |  |  |  | 17.56 |  | | Vested |  |  | (299 | ) |  |  | 37.21 |  | | Forfeited |  |  | (50 | ) |  |  | 35.28 |  | |  |  |  |  |  |  |  |  |  | | Balance, May 2, 2009 |  |  | 1,235 |  |  |  | 30.86 |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  |  |  |  |  |  |  |  |  | | Granted |  |  | 1,647 |  |  |  | 21.93 |  | | Vested |  |  | (429 | ) |  |  | 33.18 |  | | Forfeited |  |  | (123 | ) |  |  | 30.41 |  | |  |  |  |  |  |  |  |  |  | | Balance, May 1, 2010 |  |  | 2,330 |  |  |  | 24.15 |  | | Granted |  |  | 684 |  |  |  | 16.65 |  | | Vested |  |  | (435 | ) |  |  | 27.99 |  | | Forfeited |  |  | (154 | ) |  |  | 24.76 |  | |  |  |  |  |  |  |  |  |  | | Balance, April 30, 2011 |  |  | 2,425 |  |  |  | 21.31 |  | |  |  |  |  |  |  |  |  |  |   Total fair value of shares of restricted stock that vested during fiscal 2011, fiscal 2010, the transition period and fiscal 2008 was $6,163, $9,408, $6,435 and $12,108, respectively. As of April 30, 2011, there was $37,889 of unrecognized stock-based compensation expense related to nonvested restricted stock awards. That cost is expected to be recognized over a weighted average period of 2.3 years.  For fiscal 2011, fiscal 2010, the transition period and fiscal 2008, stock-based compensation expense of $20,978, $15,723, $3,900 and $20,549, respectively, is included in selling and administrative expenses. |

**Receivables, Net**

|  |  |
| --- | --- |
| Receivables, Net  (USD $) | 12 Months Ended  04/30/2011 |
| Receivables, Net | |  |  |  | | --- | --- | --- | |  | **4.** | **Receivables, Net** |   Receivables represent customer, private and public institutional and government billings, credit/debit card, advertising, landlord and other receivables due within one year as follows:   |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  |  |  |  |  |  |  |  |  | |  |  |   April 30,   |  |  |  |  | | --- | --- | --- | --- | | 2011 | |  |  |   May 1,   |  |  |  |  | | --- | --- | --- | --- | | 2010 | | |  | | Trade accounts |  | $ | 81,577 |  |  |  | 46,723 |  | | Credit/debit card receivables |  |  | 42,982 |  |  |  | 40,079 |  | | Advertising |  |  | 5,877 |  |  |  | 5,254 |  | | Receivables from landlords for leasehold improvements |  |  | 867 |  |  |  | 3,206 |  | | Other receivables |  |  | 18,991 |  |  |  | 11,314 |  | |  |  |  |  |  |  |  |  |  | | Total receivables, net |  | $ | 150,294 |  |  |  | 106,576 |  | |  |  |  |  |  |  |  |  |  | |

**Other Long-Term Liabilities**

|  |  |
| --- | --- |
| Other Long-Term Liabilities  (USD $) | 12 Months Ended  04/30/2011 |
| Other Long-Term Liabilities | |  |  |  | | --- | --- | --- | |  | **5.** | **Other Long-Term Liabilities** |   Other long-term liabilities consist primarily of deferred rent and obligations under the Junior Seller Note (see Notes 12 and 21). 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 accrued pension liabilities, store closing expenses and long-term deferred revenues. The Company had the following long-term liabilities at April 30, 2011 and May 1, 2010:   |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  |  |  |  |  |  |  |  |  | |  |  |   April 30,   |  |  |  |  | | --- | --- | --- | --- | | 2011 | |  |  |   May 1,   |  |  |  |  | | --- | --- | --- | --- | | 2010 | | |  | | Deferred Rent |  | $ | 271,451 |  |  |  | 324,528 |  | | Junior Seller Note (see Note 12 and Note 21) |  |  | 150,000 |  |  |  | 150,000 |  | | Other |  |  | 27,196 |  |  |  | 31,375 |  | |  |  |  |  |  |  |  |  |  | | Total long-term liabilities |  | $ | 448,647 |  |  |  | 505,903 |  | |  |  |  |  |  |  |  |  |  | |

**Fair Values of Financial Instruments**

|  |  |
| --- | --- |
| Fair Values of Financial Instruments  (USD $) | 12 Months Ended  04/30/2011 |
| Fair Values of Financial Instruments | |  |  |  | | --- | --- | --- | |  | **6.** | **Fair Values of Financial Instruments** |   In accordance with ASC 820, *Fair Value Measurements and Disclosures*, the fair value of an asset is considered to be the price at which the asset could be sold in an orderly transaction between unrelated knowledgeable and willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor. Assets and liabilities recorded at fair value are measured using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:   |  |  |  | | --- | --- | --- | |  |  |  | | Level 1 - |  | Observable inputs that reflect quoted prices in active markets |  |  |  |  | | --- | --- | --- | |  |  |  | | Level 2 - |  | Inputs other than quoted prices in active markets that are either directly or indirectly observable | |  |  | | | Level 3 - |  | Unobservable inputs in which little or no market data exists, therefore requiring the Company to develop its own assumptions |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | |  |  |  |  | | | | |  |  |  | |  |  | Fair Value Measurement Using | | | | | | | | | | | |  |  |  | |  | | | |  | | Description |  |   As of  April 30,   |  |  |  |  | | --- | --- | --- | --- | | 2011 | |  |  |   Quoted  Prices in  Active  Markets  for  Identical  Assets   |  |  |  |  | | --- | --- | --- | --- | | (Level 1) | |  |  |   Significant  Other  Observable  Inputs   |  |  |  |  | | --- | --- | --- | --- | | (Level 2) | |  |  |   Significant  Unobservable  Inputs   |  |  |  |  | | --- | --- | --- | --- | | (Level 3) | |  |  |   Total  Gains   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | (Losses) | |  |  | | | | |  |  |  |  | |  |  |  | |  |  |  | |  |  |  | |  |  |  |  |  | | Contingent consideration (See Note 14) |  | $ | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | (243 | ) |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  | |  |  | Fair Value Measurement Using | | | | | | | | | | |  |  |  | |  | | Description |  |   As of  May 1,   |  |  |  |  | | --- | --- | --- | --- | | 2010 | |  |  |   Quoted  Prices in  Active  Markets  for  Identical  Assets   |  |  |  |  | | --- | --- | --- | --- | | (Level 1) | |  |  |   Significant  Other  Observable  Inputs   |  |  |  |  | | --- | --- | --- | --- | | (Level 2) | |  |  |   Significant  Unobservable  Inputs   |  |  |  |  | | --- | --- | --- | --- | | (Level 3) | |  |  |   Total  Gains   |  |  |  | | --- | --- | --- | | (Losses) | |  | | Contingent consideration (See Note 14) |  | $ | 7,265 |  |  |  | — |  |  |  | — |  |  |  | 7,265 |  |  |  | (1,712 | ) |   The following table presents the changes in Level 3 contingent consideration liability for the 52 weeks ended April 30, 2011:   |  |  |  |  |  | | --- | --- | --- | --- | --- | |  |  |  |  |  | |  |  |   Acquisition  of   |  |  |  | | --- | --- | --- | | Fictionwise | |  | | Beginning balance, May 1, 2010 |  | $ | 7,265 |  | | Payments |  |  | (7,508 | ) | | Losses |  |  | 243 |  | |  |  |  |  |  | | Balance, April 30, 2011 |  | $ | — |  | |  |  |  |  |  |   Fair Value of Financial Instruments  The Company's financial instruments, other than those presented in the disclosures above, include cash, receivables, other investments and accounts payable. The fair values of cash, receivables, and accounts payable approximated carrying values because of the short-term nature of these instruments. The Company believes that its Amended Credit Facility approximates fair value since interest rates are adjusted to reflect current rates. The Company believes that the terms and conditions of the remaining Seller Notes is consistent with comparable market debt issues. |

**Net Earnings (Loss) Per Share**

|  |  |
| --- | --- |
| Net Earnings  (Loss) Per Share (USD $) | 12 Months Ended  04/30/2011 |
| Net Earnings (Loss) Per Share | |  |  | | --- | --- | | **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,* the Company's unvested restricted shares and shares issuable under the Company's deferred compensation plan are considered participating securities. During periods of net income, the calculation of earnings per share for common stock are reclassified to exclude the income attributable to the unvested restricted shares and shares issuable under the Company's deferred compensation plan from the numerator and exclude the dilutive impact of those shares from the denominator. During periods of net loss, no effect is given to the participating securities because they do not share in the losses of the Company. Due to the net loss during fiscal 2011 and the transition period, participating securities in the amounts of 3,228 and 2,118, respectively, were excluded in the calculation of earnings per share using the two-class method for the transition period because the effect would be antidilutive.  The following is a reconciliation of the Company's basic and diluted earnings per share calculation:   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  |  |  |  | |  | |  |  | |  | | |  | | |  |  |  | | | | |  |  | |  | | |  | | |  | | |  |  |   Fiscal   |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | 2011 | | |  | |  |   Fiscal   |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | | 2010 | | | | |  | | |  |   13 weeks  ended  May 2,   |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | | 2009 | | | | | |  |  | |   Fiscal   |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | 2008 | | | | | |  | | | **Numerator for basic earnings per share:** |  |  |  | |  | |  |  | |  | | |  | | |  |  |  | | | | |  |  | |  | | |  | | |  | | | Income (loss) from continuing operations attributable to Barnes & Noble, Inc. |  | $ | (73,920 | | ) | |  | $ | | 36,676 | | |  | | |  |  | (2,039 | | | | | ) |  | |  | | | 85,426 | | |  | | | Less allocation of earnings and dividends to participating securities |  |  | — | |  | |  |  | | (1,279 | | | ) | | |  |  | — | | | | |  |  | |  | | | (2,891 | | | ) | | |  |  |  |  | |  | |  |  | |  | | |  | | |  |  |  | | | | |  |  | |  | | |  | | |  | | | Net income (loss) from continuing operations available to common shareholders |  |  | (73,920 | | ) | |  |  | | 35,397 | | |  | | |  |  | (2,039 | | | | | ) |  | |  | | | 82,535 | | |  | | | Add loss from discontinued operations, net of allocation of earnings and dividends to participating securities |  |  | — | |  | |  |  | | — | | |  | | |  |  | — | | | | |  |  | |  | | | (9,111 | | | ) | | |  |  |  |  | |  | |  |  | |  | | |  | | |  |  |  | | | | |  |  | |  | | |  | | |  | | | Net income (loss) available to common shareholders |  | $ | (73,920 | | ) | |  | $ | | 35,397 | | |  | | |  |  | (2,039 | | | | | ) |  | |  | | | 73,424 | | |  | | |  |  | | | | | |  | | | | | | | | |  | | | | | | | | |  | | | | | | | | | | | **Numerator for diluted earnings per share:** |  |  |  | |  | |  |  | |  | | |  | | |  |  |  | | | | |  |  | |  | | |  | | |  | | | Net income (loss) from continuing operations available to common shareholders |  | $ | (73,920 | | ) | |  | $ | | 35,397 | | |  | | |  |  | (2,039 | | | | | ) |  | |  | | | 82,535 | | |  | | | Effect of dilutive options |  |  | — | |  | |  |  | | (10 | | | ) | | |  |  | — | | | | |  |  | |  | | | 27 | | |  | | |  |  |  |  | |  | |  |  | |  | | |  | | |  |  |  | | | | |  |  | |  | | |  | | |  | | | Net income (loss) from continuing operations available to common shareholders |  |  | (73,920 | | ) | |  |  | | 35,387 | | |  | | |  |  | (2,039 | | | | | ) |  | |  | | | 82,562 | | |  | | | Add loss from discontinued operations |  |  | — | |  | |  |  | | — | | |  | | |  |  | (654 | | | | | ) |  | |  | | | (9,506 | | | ) | | |  |  |  |  | |  | |  |  | |  | | |  | | |  |  |  | | | | |  |  | |  | | |  | | |  | | | Net income (loss) available to common shareholders |  | $ | (73,920 | | ) | |  | $ | | 35,387 | | |  | | |  |  | (2,693 | | | | | ) |  | |  | | | 73,056 | | |  | | |  |  | | | | | |  | | | | | | | | |  | | | | | | | | |  | | | | | | | | | | | **Denominator for basic and diluted earnings per share:** |  |  |  | |  | |  |  | |  | | |  | | |  |  |  | | | | |  |  | |  | | |  | | |  | | | Basic weighted average common shares |  |  | 56,588 | |  | |  |  | | 55,344 | | |  | | |  |  | 54,759 | | | | |  |  | |  | | | 55,207 | | |  | | | Average dilutive options |  |  | — | |  | |  |  | | 809 | | |  | | |  |  | — | | | | |  |  | |  | | | 1,322 | | |  | | |  |  |  |  | |  | |  |  | |  | | |  | | |  |  |  | | | | |  |  | |  | | |  | | |  | | | Diluted weighted average common shares |  |  | 56,588 | |  | |  |  | | 56,153 | | |  | | |  |  | 54,759 | | | | |  |  | |  | | | 56,529 | | |  | | |  | | | |  | |  | | |  | |  |  | |  |  | | | |  |  |  |  | | | | |  |  | |  |  | |  | | | **Basic earnings per common share** | | | |  | |  | | |  | |  |  | |  |  | | | |  |  |  |  | | | | |  |  | |  |  | |  | | | Income (loss) from continuing operations attributable to Barnes & Noble, Inc. | | | |  | | $ | | | (1.31 | | ) |  | |  | 0.64 | | | |  |  |  | (0.04 | | | | | ) |  | |  | 1.50 | |  | | | Income (loss) from discontinued operations attributable to Barnes & Noble, Inc. | | | |  | |  | | | — | |  |  | |  | — | | | |  |  |  | (0.01 | | | | | ) |  | |  | (0.17 | | ) | | |  | | | |  | |  | | |  | |  |  | |  |  | | | |  |  |  |  | | | | |  |  | |  |  | |  | | | Net income (loss) attributable to Barnes & Noble, Inc. | | | |  | | $ | | | (1.31 | | ) |  | |  | 0.64 | | | |  |  |  | (0.05 | | | | | ) |  | |  | 1.33 | |  | | | **Diluted earnings per common share** | | | |  | |  | | |  | |  |  | |  |  | | | |  |  |  |  | | | | |  |  | |  |  | |  | | | Income (loss) from continuing operations attributable to Barnes & Noble, Inc. | | | |  | | $ | | | (1.31 | | ) |  | |  | 0.63 | | | |  |  |  | (0.04 | | | | | ) |  | |  | 1.46 | |  | | | Income (loss) from discontinued operations attributable to Barnes & Noble, Inc. | | | |  | |  | | | — | |  |  | |  | — | | | |  |  |  | (0.01 | | | | | ) |  | |  | (0.17 | | ) | | |  | | | |  | |  | | |  | |  |  | |  |  | | | |  |  |  |  | | | | |  |  | |  |  | |  | | | Net income (loss) attributable to Barnes & Noble, Inc. | | | |  | | $ | | | (1.31 | | ) |  | |  | 0.63 | | | |  |  |  | (0.05 | | | | | ) |  | |  | 1.29 | |  | | |

**Employees' Retirement and Defined Contribution Plans**

|  |  |
| --- | --- |
| Employees' Retirement and Defined Contribution Plans  (USD $) | 12 Months Ended  04/30/2011 |
| Employees' Retirement and Defined Contribution Plans | |  |  |  | | --- | --- | --- | |  | **8.** | **Employees' Retirement and Defined Contribution Plans** |   As of December 31, 1999, substantially all employees of the Company were covered under a noncontributory defined benefit pension plan (the Pension Plan). As of January 1, 2000, the Pension Plan was amended so that employees no longer earn benefits for subsequent service. Effective December 31, 2004, the Barnes & Noble.com Employees' Retirement Plan (the B&N.com Retirement Plan) was merged with the Pension Plan. Substantially all employees of Barnes & Noble.com were covered under the B&N.com Retirement Plan. As of July 1, 2000, the B&N.com Retirement Plan was amended so that employees no longer earn benefits for subsequent service. Subsequent service continues to be the basis for vesting of benefits not yet vested at December 31, 1999 and June 30, 2000 for the Pension Plan and the B&N.com Retirement Plan, respectively, and the Pension Plan will continue to hold assets and pay benefits. The actuarial assumptions used to calculate pension costs are reviewed annually. Pension expense was $2,558, $1,951, $752 and $1,301 for fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively.  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 $14,212, $12,954, $3,062 and $11,645 during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively. In addition, the Company provides certain health care and life insurance benefits (the Postretirement Plan) to retired employees, limited to those receiving benefits or retired as of April 1, 1993. Total Company contributions charged to employee benefit expenses for the Postretirement Plan were $150, ($111), $38 and $210 during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively. |

**Income Taxes**

|  |  |
| --- | --- |
| Income Taxes  (USD $) | 12 Months Ended  04/30/2011 |
| Income Taxes | |  |  |  | | --- | --- | --- | |  | **9.** | **Income Taxes** |   The Company files a consolidated federal return with all subsidiaries owned 80% or more. Federal and state income tax provisions (benefits) for fiscal 2011, fiscal 2010, the transition period and fiscal 2008 are as follows:   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |   Fiscal   |  |  |  |  | | --- | --- | --- | --- | | 2011 | |  |  |   Fiscal   |  |  |  |  | | --- | --- | --- | --- | | 2010 | |  |  |   13 weeks  ended  May 2,   |  |  |  |  | | --- | --- | --- | --- | | 2009 | |  |  |   Fiscal   |  |  |  | | --- | --- | --- | | 2008 | |  | | Current: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Federal |  | $ | (47,825 | ) |  |  | 51,343 |  |  |  | (2,199 | ) |  |  | 44,038 |  | | State |  |  | (2,441 | ) |  |  | 14,192 |  |  |  | (481 | ) |  |  | 11,983 |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Total current |  |  | (50,266 | ) |  |  | 65,535 |  |  |  | (2,680 | ) |  |  | 56,021 |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Deferred: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Federal |  |  | 8,057 |  |  |  | (45,903 | ) |  |  | 1,016 |  |  |  | 2,540 |  | | State |  |  | (6,443 | ) |  |  | (11,267 | ) |  |  | 290 |  |  |  | (2,970 | ) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Total deferred |  |  | 1,614 |  |  |  | (57,170 | ) |  |  | 1,306 |  |  |  | (430 | ) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Total |  | $ | (48,652 | ) |  |  | 8,365 |  |  |  | (1,374 | ) |  |  | 55,591 |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |   Reconciliation between the effective income tax rate and the federal statutory income tax rate is as follows:   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |   Fiscal   |  |  |  |  | | --- | --- | --- | --- | | 2011 | |  |  |   Fiscal   |  |  |  |  | | --- | --- | --- | --- | | 2010 | |  |  |   13 weeks  ended  May 2,   |  |  |  |  | | --- | --- | --- | --- | | 2009 | |  |  |   Fiscal   |  |  |  | | --- | --- | --- | | 2008 | |  | | Federal statutory income tax rate |  |  | 35.0 | % |  |  | 35.0 | % |  |  | 35.0 | % |  |  | 35.0 | % | | State income taxes, net of federal income tax benefit |  |  | 4.8 |  |  |  | 3.8 |  |  |  | 3.6 |  |  |  | 4.3 |  | | Additions to unrecognized tax benefits |  |  | (2.5 | ) |  |  | 11.2 |  |  |  | 0.5 |  |  |  | 3.9 |  | | Reductions to unrecognized tax benefits |  |  | 1.3 |  |  |  | (31.8 | ) |  |  | — |  |  |  | (0.4 | ) | | Other, net |  |  | 1.1 |  |  |  | 0.4 |  |  |  | 0.8 |  |  |  | (3.4 | ) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Effective income tax rate |  |  | 39.7 | % |  |  | 18.6 | % |  |  | 39.9 | % |  |  | 39.4 | % | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |   The tax effects of temporary differences that give rise to significant components of the Company's deferred tax assets and liabilities as of April 30, 2011 and May 1, 2010 are as follows:   |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  |  |  |  |  |  |  |  |  | |  |  |   April 30,   |  |  |  |  | | --- | --- | --- | --- | | 2011 | |  |  |   May 1,   |  |  |  | | --- | --- | --- | | 2010 | |  | | Deferred tax liabilities: |  |  |  |  |  |  |  |  | | Investment in Barnes & Noble.com |  | $ | (95,051 | ) |  |  | (95,051 | ) | | Depreciation |  |  | (57,156 | ) |  |  | (75,385 | ) | | Goodwill and intangible asset amortization |  |  | (236,845 | ) |  |  | (239,434 | ) | | Prepaid expenses |  |  | (7,125 | ) |  |  | (6,944 | ) | | Other |  |  | (4,861 | ) |  |  | (7,201 | ) | |  |  |  |  |  |  |  |  |  | | Total deferred tax liabilities |  |  | (401,038 | ) |  |  | (424,015 | ) | |  |  |  |  |  |  |  |  |  | | Deferred tax assets: |  |  |  |  |  |  |  |  | | Loss and credit carryovers |  |  | 57,751 |  |  |  | 41,348 |  | | Lease transactions |  |  | 32,986 |  |  |  | 40,353 |  | | Estimated accruals |  |  | 52,868 |  |  |  | 81,898 |  | | Stock-based compensation |  |  | 11,508 |  |  |  | 11,482 |  | | Insurance liability |  |  | 11,396 |  |  |  | 10,896 |  | | Pension |  |  | 10,254 |  |  |  | 10,998 |  | | Inventory |  |  | 18,996 |  |  |  | 22,642 |  | | Investments in equity securities |  |  | 1,282 |  |  |  | 1,282 |  | |  |  |  |  |  |  |  |  |  | | Total deferred tax assets |  |  | 197,041 |  |  |  | 220,899 |  | |  |  |  |  |  |  |  |  |  | | Net deferred tax liabilities |  | $ | (203,997 | ) |  |  | (203,116 | ) | |  |  |  |  |  |  |  |  |  | | Balance Sheet caption reported in: |  |  |  |  |  |  |  |  | | Prepaid expenses and other current assets |  | $ | 76,135 |  |  |  | 108,491 |  | | Deferred tax liabilities |  |  | (280,132 | ) |  |  | (311,607 | ) | |  |  |  |  |  |  |  |  |  | | Net deferred tax liabilities |  | $ | (203,997 | ) |  |  | (203,116 | ) | |  |  |  |  |  |  |  |  |  |   At April 30, 2011, the Company had federal and state net operating loss carryforwards (NOLs) of approximately $86,000 that expire beginning in 2018 through 2022, the utilization of which is limited to approximately $6,700 on an annual basis. Additionally, the Company had approximately $6,000 of federal NOLs and $149,000 of state NOLs that have no annual limitation and expire in 2030. These NOLs account for $44,232 of the $57,751 of loss and credit carryover deferred tax assets at April 30, 2011, with the remainder relating primarily to other state NOLs and federal credits.  As of April 30, 2011, the Company had $16,715 of unrecognized tax benefits, all of which, if recognized, would affect the Company's effective tax rate. A reconciliation of the beginning and ending amount of unrecognized tax benefits for fiscal 2011, fiscal 2010, the transition period and fiscal 2008 is as follows:   |  |  |  |  |  | | --- | --- | --- | --- | --- | |  |  |  |  |  | | Balance at January 31, 2009 |  | $ | 23,833 |  | | Additions for tax positions of the current period |  |  | 339 |  | | Additions for tax positions of prior periods |  |  | 369 |  | |  |  |  |  |  | | Balance at May 2, 2009 |  | $ | 24,541 |  | |  |  |  |  |  | | Additions for tax positions of the current period |  |  | 2,457 |  | | Additions for tax positions of prior periods |  |  | 2,563 |  | | Other reductions for tax positions of prior periods |  |  | (14,293 | ) | |  |  |  |  |  | | Balance at May 1, 2010 |  | $ | 15,268 |  | |  |  |  |  |  | | Additions for tax positions of the current period |  |  | 1,809 |  | | Additions for tax positions of prior periods |  |  | 1,199 |  | | Reductions due to settlements |  |  | (508 | ) | | Other reductions for tax positions of prior periods |  |  | (1,053 | ) | |  |  |  |  |  | | Balance at April 30, 2011 |  | $ | 16,715 |  | |  |  |  |  |  |   The Company's continuing practice is to recognize interest and penalties related to income tax matters in income tax expense. As of May 1, 2010 and April 30, 2011, the Company had accrued $3,119 and $3,236, respectively, for net interest and penalties, which is included in the $15,268 and $16,715 of unrecognized tax benefits noted above. The change in the amount accrued for net interest and penalties includes $825 in additions for net interest and penalties recognized in income tax expense in the Company's fiscal 2011 statement of operations.  The Company is subject to U.S. federal income tax as well as income tax in jurisdictions of each state having an income tax. The tax years that remain subject to examination are primarily from fiscal 2007 and forward. Some earlier years remain open for a small minority of states. |

**Other Comprehensive Earnings (Loss), Net of Tax**

|  |  |
| --- | --- |
| Other Comprehensive Earnings  (Loss), Net of Tax (USD $) | 12 Months Ended  04/30/2011 |
| Other Comprehensive Earnings (Loss), Net of Tax | |  |  |  | | --- | --- | --- | |  | **10.** | **Other Comprehensive Earnings (Loss), Net of Tax** |   Comprehensive earnings (loss) are net earnings (loss), plus certain other items that are recorded directly to shareholders' equity, as follows:   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |   Fiscal   |  |  |  |  | | --- | --- | --- | --- | | 2011 | |  |  |   Fiscal   |  |  |  |  | | --- | --- | --- | --- | | 2010 | |  |  |   13 weeks  ended  May 2,   |  |  |  |  | | --- | --- | --- | --- | | 2009 | |  |  |   Fiscal   |  |  |  | | --- | --- | --- | | 2008 | |  | | Net earnings (loss) attributable to Barnes & Noble, Inc. |  | $ | (73,920 | ) |  |  | 36,676 |  |  |  | (2,693 | ) |  |  | 75,920 |  | | Other comprehensive earnings (loss), net of tax: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Foreign currency translation adjustments |  |  | — |  |  |  | — |  |  |  | — |  |  |  | (3,352 | ) | | (Increase)/decrease in minimum pension liability (net of deferred tax benefit (expense) of ($1,055), $798, $0 and $1,048, respectively) |  |  | 1,582 |  |  |  | (1,197 | ) |  |  | — |  |  |  | (1,628 | ) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Total comprehensive earnings (loss) |  |  | (72,338 | ) |  |  | 35,479 |  |  |  | (2,693 | ) |  |  | 70,940 |  | | Comprehensive loss attributable to noncontrolling interests |  |  | 37 |  |  |  | 32 |  |  |  | 30 |  |  |  | 30 |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Total comprehensive earnings (loss) attributable to Barnes & Noble, Inc. |  | $ | (72,375 | ) |  |  | 35,447 |  |  |  | (2,723 | ) |  |  | 70,910 |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |   The components of Accumulated Other Comprehensive Loss are as follows:   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |   Sale of   |  |  |  |  | | --- | --- | --- | --- | | Calendar Club | |  |  |   Foreign Currency   |  |  |  |  | | --- | --- | --- | --- | | Translation | |  |  |   Minimum  Pension and  Postretirement   |  |  |  |  | | --- | --- | --- | --- | | Liability | |  |  |   Accumulated  Other  Comprehensive   |  |  |  | | --- | --- | --- | | Loss | |  | | Balance at February 2, 2008 |  | $ | — |  |  |  | 736 |  |  |  | (10,259 | ) |  | $ | (9,523 | ) | | Net actuarial loss, net of tax |  |  | — |  |  |  | — |  |  |  | (2,504 | ) |  |  | (2,504 | ) | | Amortization of net actuarial gain, net of tax |  |  | — |  |  |  | — |  |  |  | 876 |  |  |  | 876 |  | | Foreign currency translation adjustments |  |  | — |  |  |  | (3,352 | ) |  |  | — |  |  |  | (3,352 | ) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Balance at January 31, 2009 |  |  | — |  |  |  | (2,616 | ) |  |  | (11,887 | ) |  |  | (14,503 | ) | | Sale of Calendar Club (See Note 16) |  |  | 2,488 |  |  |  | — |  |  |  | — |  |  |  | 2,488 |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Balance at May 2, 2009 |  |  | 2,488 |  |  |  | (2,616 | ) |  |  | (11,887 | ) |  |  | (12,015 | ) | | Net actuarial loss, net of tax |  |  | — |  |  |  | — |  |  |  | (2,395 | ) |  |  | (2,395 | ) | | Amortization of net actuarial gain, net of tax |  |  | — |  |  |  | — |  |  |  | 1,249 |  |  |  | 1,249 |  | | Prior service credit |  |  | — |  |  |  | — |  |  |  | (51 | ) |  |  | (51 | ) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Balance at May 1, 2010 |  |  | 2,488 |  |  |  | (2,616 | ) |  |  | (13,084 | ) |  |  | (13,212 | ) | | Net actuarial loss, net of tax |  |  | — |  |  |  | — |  |  |  | 249 |  |  |  | 249 |  | | Amortization of net actuarial gain, net of tax |  |  | — |  |  |  | — |  |  |  | 1,287 |  |  |  | 1,287 |  | | Prior service credit |  |  | — |  |  |  | — |  |  |  | 46 |  |  |  | 46 |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Balance at April 30, 2011 |  | $ | 2,488 |  |  |  | (2,616 | ) |  |  | (11,502 | ) |  | $ | (11,630 | ) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | |  | |

**Changes in Intangible Assets and Goodwill**

|  |  |
| --- | --- |
| Changes in Intangible Assets and Goodwill  (USD $) | 12 Months Ended  04/30/2011 |
| Changes in Intangible Assets and Goodwill | |  |  |  | | --- | --- | --- | |  | **11.** | **Changes in Intangible Assets and Goodwill** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  | |  |  | As of April 30, 2011 | | | | | | | | | | | |  | | Amortizable intangible assets |  |   Useful   |  |  |  |  | | --- | --- | --- | --- | | Life | |  |  |   Gross Carrying   |  |  |  |  | | --- | --- | --- | --- | | Amount | |  |  |   Accumulated   |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | | Amortization | |  |  | Total | | | |  | | Customer relationships |  |  | 5-25 |  |  | $ | 257,410 |  |  | $ | (17,962 | ) |  | $ | 239,448 |  | | Author contracts |  |  | 10 |  |  |  | 18,461 |  |  |  | (15,204 | ) |  |  | 3,257 |  | | Technology |  |  | 5-10 |  |  |  | 5,850 |  |  |  | (1,624 | ) |  |  | 4,226 |  | | Distribution contracts |  |  | 10 |  |  |  | 8,325 |  |  |  | (4,304 | ) |  |  | 4,021 |  | | Other |  |  | 3-10 |  |  |  | 4,639 |  |  |  | (3,924 | ) |  |  | 715 |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  | $ | 294,685 |  |  |  | (43,018 | ) |  | $ | 251,667 |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  | | | |  | | | |  | | | |  | | | | | | Unamortizable intangible assets |  |  | |  |  |  | |  |  |  | |  |  |  | | | |  | | Trade name |  |  |  |  |  |  |  |  |  |  |  |  |  | $ | 293,400 |  | | Copyrights |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 175 |  | | Publishing contracts |  |  |  |  |  |  |  |  |  |  |  |  |  |  | 21,336 |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  | $ | 314,911 |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |   All amortizable intangible assets are being amortized over their useful life on a straight-line basis, except for the customer relationships related to the Fictionwise acquisition that are being amortized on an accelerated basis.   |  |  |  |  |  | | --- | --- | --- | --- | --- | |  |  |  |  |  | | Aggregate Amortization Expense: |  |  | |  | | For the 52 weeks ended April 30, 2011 |  | $ | 14,512 |  | | For the 52 weeks ended May 1, 2010 |  | $ | 11,350 |  | | For the 13 weeks ended May 2, 2009 |  | $ | 752 |  | | For the 52 weeks ended January 31, 2009 |  | $ | 4,563 |  | |  |  | | | | | Estimated Amortization Expense: |  |  | |  | | (12 months ending on or about April 30) |  |  |  |  | | 2012 |  | $ | 14,146 |  | | 2013 |  | $ | 13,815 |  | | 2014 |  | $ | 13,078 |  | | 2015 |  | $ | 11,293 |  | | 2016 |  | $ | 11,241 |  |   The changes in the carrying amount of goodwill by segment for fiscal 2011 are as follows:   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |   B&N Retail   |  |  |  |  | | --- | --- | --- | --- | | Segment | |  |  |   B&N College   |  |  |  |  | | --- | --- | --- | --- | | Segment | |  |  |   B&N.com   |  |  |  |  | | --- | --- | --- | --- | | Segment | |  |  |   Total   |  |  |  | | --- | --- | --- | | Company | |  | | Balance as of May 1, 2010 |  | $ | 254,471 |  |  |  | 274,070 |  |  |  | — |  |  | $ | 528,541 |  | | Benefit of excess tax amortization (a) |  |  | — |  |  |  | — |  |  |  | (4,428 | ) |  |  | (4,428 | ) | | Re-allocation of Goodwill (b) |  |  | (29,135 | ) |  |  | — |  |  |  | 29,135 |  |  |  | — |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Balance as of April 30, 2011 |  | $ | 225,336 |  |  |  | 274,070 |  |  |  | 24,707 |  |  | $ | 524,113 |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | | (a) | The tax basis of goodwill arising from an acquisition during the 52 weeks ended January 29, 2005 exceeded the related basis for financial reporting purposes by approximately $96,576. In accordance with ASC 740-10-30, *Accounting for Income Taxes,* the Company is recognizing the tax benefits of amortizing such excess as a reduction of goodwill as it is realized on the Company's income tax return. |  |  |  | | --- | --- | | (b) | Due to the increased focus on the internet and digital businesses, the Company performed an evaluation on the effect of its impact on the identification of operating segments. The assessment considered 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. As a result of this assessment, the Company has determined that it has three operating segments: B&N Retail, B&N College and B&N.com. As a result of this evaluation, $29.1 million of goodwill was re-allocated between B&N Retail and B&N.com segments. | |

**Acquisition of BNCollege**

|  |  |
| --- | --- |
| Acquisition of BNCollege  (USD $) | 12 Months Ended  04/30/2011 |
| Acquisition of BNCollege | |  |  |  | | --- | --- | --- | |  | **12.** | **Acquisition of B&N College** |   On September 30, 2009, the Company completed the acquisition of B&N College from Leonard Riggio and Louise Riggio (Sellers) pursuant a Stock Purchase Agreement dated as of August 7, 2009 among the Company and the Sellers. Mr. Riggio is the Chairman of the Company's Board of Directors and a significant stockholder. As part of the transaction, the Company acquired the Barnes & Noble trade name that had been owned by B&N College and licensed to the Company.  On September 30, 2009, in connection with the closing of the Acquisition described above, the Company issued the Sellers (i) a senior subordinated note in the principal amount of $100,000, payable in full on December 15, 2010, with interest of 8% per annum payable on the unpaid principal amount (the Senior Seller Note) and (ii) a junior subordinated note in the principal amount of $150,000, payable in full on the fifth anniversary of the closing of the Acquisition, with interest of 10% per annum payable on the unpaid principal amount (the Junior Seller Note; and together with the Senior Seller Note, the Seller Notes). On December 22, 2009, the Company consented to the pledge and assignment of the Senior Seller Note by the Sellers as collateral security. The Senior Seller Note was paid on its scheduled due date, December 15, 2010.  The purchase price paid to the Sellers was $596,000, consisting of $346,000 in cash and $250,000 in Seller Notes. However, the cash paid to the Sellers was reduced by $82,352 in cash bonuses paid by B&N College to 192 members of its management team and employees, not including Leonard Riggio. The Company financed the Acquisition through $250,000 of seller financing, $150,000 from the 2009 Credit Facility and the remainder from both the Company's and B&N College's cash on hand.  The Acquisition was accounted for as a business purchase pursuant to Accounting Standards Codification (ASC) 805, *Business Combinations* (ASC 805). Acquisition-related expenses totaled $10,400 and have been recorded as selling and administrative expenses in the Company's consolidated statement of operations in fiscal 2010. As required by ASC 805-20, the Company allocated the purchase price to assets and liabilities based on their estimated fair value at the Acquisition date. The following table represents the allocation of the purchase price to the acquired net assets and resulting adjustment to goodwill:   |  |  |  |  |  | | --- | --- | --- | --- | --- | |  |  |  |  |  | | Cash Paid |  | $ | 263,648 |  | | Seller Notes |  |  | 250,000 |  | |  |  |  |  |  | | Fair value of total consideration |  | $ | 513,648 |  | |  |  |  |  |  | | Allocation of purchase price: |  |  |  |  | | Current assets |  | $ | 609,786 |  | | Non-current assets |  |  | 114,683 |  | | Trade name |  |  | 245,000 |  | | Customer relationships |  |  | 255,000 |  | | Goodwill |  |  | 274,070 |  | |  |  |  |  |  | | Total assets acquired |  | $ | 1,498,539 |  | | Deferred taxes |  |  | 234,631 |  | | Liabilities assumed |  |  | 750,260 |  | |  |  |  |  |  | |  |  | $ | 513,648 |  | |  |  |  |  |  |   Acquired intangible assets consisted primarily of the trade name and customer relationships.  *Trade Name*  The Company previously licensed the "Barnes & Noble" trade name from B&N College under certain agreements. The Acquisition gave the Company exclusive ownership of its trade name. The estimated fair value ascribed to the trade name of $245,000 represents solely the estimated incremental value acquired as part of the Acquisition, which is not representative of the value of the "Barnes & Noble" trade name taken as a whole. The trade name has been classified as an indefinite life intangible asset.  *Customer Relationships*  The estimated fair value of customer relationships of B&N College is $255,000. Customers are comprised of existing college and university contractual relationships at the date of the Acquisition.  *Amortization of Fair Value Ascribed to Customer Relationships*  Historical customer attrition rates imply a life of 50 years; however, the useful life was shortened to 25 years since the majority of the value of discounted cash flows are captured in this period. The $255,000 is being amortized evenly over the 25-year period. The Company recorded $10,200 and $5,950 in amortization related to these intangibles during the 52 weeks ended April 30, 2011 and May 1, 2010, respectively.  The Company also recorded a short-term deferred tax liability of $26,810 and a long-term deferred tax liability of $207,821 related to the difference between the book basis and the tax basis of the net assets acquired. In addition, the Company stepped up the value of other assets and liabilities, resulting in goodwill of $272,879, which is not deductible for income tax purposes.  The following audited condensed financial information of B&N College since the date of the Acquisition on September 30, 2009 was included in the Company's consolidated results of operations for fiscal 2010:   |  |  |  |  |  | | --- | --- | --- | --- | --- | |  |  |  |  |  | |  |  |   52 weeks ended   |  |  |  | | --- | --- | --- | | May 1, 2010 | |  | | Sales |  | $ | 833,648 |  | | Net loss |  | $ | 3,344 |  |   The following unaudited pro forma condensed financial information assumes that the Acquisition was accounted for using the acquisition method of accounting for business combinations in accordance with ASC 805 and represents a pro forma presentation based upon available information of the combining companies giving effect to the Acquisition as if it had occurred on May 4, 2008, the first date of B&N College's prior fiscal year from the Acquisition date, with adjustments for amortization expense of intangible assets, depreciation expense for the fair value of property and equipment above its book value, termination or changes in certain compensation arrangements, termination of textbook royalties, non-operating expenses not acquired in the Acquisition, interest expense and income tax expense:   |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  |  |  |  |  |  |  |  |  | |  |  |   52 weeks ended   |  |  |  |  | | --- | --- | --- | --- | | May 1, 2010 | |  |  |   13 weeks ended   |  |  |  | | --- | --- | --- | | May 2, 2009 | |  | | Sales |  | $ | 6,782,403 |  |  | $ | 1,301,840 |  | | Net income (loss) from continuing operations attributable to Barnes & Noble, Inc. |  | $ | 53,514 |  |  | $ | (27,730 | ) | | Income (loss) from continuing operations attributable to Barnes & Noble, Inc. per common share |  |  |  |  |  |  |  |  | | Basic |  | $ | 0.93 |  |  | $ | (0.52 | ) | | Diluted |  | $ | 0.92 |  |  | $ | (0.52 | ) |   The unaudited pro forma condensed financial information is based on the assumptions and adjustments which give effect to events that are: (i) directly attributable to the Acquisition; (ii) expected to have a continuing impact and (iii) factually supportable. The unaudited pro forma condensed financial information is presented for informational purposes only and is not necessarily indicative of the operating results that would have been achieved had the Acquisition been consummated as of the dates indicated or of the results that may be obtained in the future. |

**Tikatok Acquisition**

|  |  |
| --- | --- |
| Tikatok Acquisition  (USD $) | 12 Months Ended  04/30/2011 |
| Tikatok Acquisition | |  |  |  | | --- | --- | --- | |  | **13.** | **Tikatok Acquisition** |   On September 24, 2009, the Company acquired the assets of Tikatok Inc. (Tikatok) for $2,305 in cash. Tikatok is an online platform where parents and their children and others can write, illustrate, and publish stories into hardcover and paperback books. On its website, Tikatok makes available, among other things, its patent-pending StorySparks™ system, which helps to walk children through the process of creating and writing stories and expands the Company's reach to additional parents, educators and librarians. In addition to the closing purchase price, the Company has made and may make bonus and/or earn out payments if certain performance targets are met over the four years following the acquisition.  The Tikatok acquisition was accounted for as a business purchase pursuant to ASC 805. In accordance with ASC 805-20, the purchase price has been allocated to assets based on their estimated fair value at the acquisition date. The following table represents the allocation of the purchase price to the acquired net assets and resulting adjustment to goodwill:   |  |  |  |  |  | | --- | --- | --- | --- | --- | |  |  |  |  |  | | Cash Paid |  | $ | 2,305 |  | |  |  |  |  |  | | Allocation of purchase price: |  |  |  |  | | Current assets |  | $ | 46 |  | | Trade name |  |  | 70 |  | | Technology |  |  | 240 |  | | Non-current assets |  |  | 2 |  | | Goodwill |  |  | 1,947 |  | |  |  |  |  |  | | Total assets acquired |  | $ | 2,305 |  | | Liabilities assumed |  |  | — |  | |  |  |  |  |  | |  |  | $ | 2,305 |  | |  |  |  |  |  |   Acquired intangible assets consisted of the trade name and technology. The trade name is being amortized on a straight-line basis over three years. Acquired technology is being amortized on a straight-line basis over five years. The goodwill recognized is expected to be deductible for income tax purposes.  The results of operations for the period subsequent to the Tikatok acquisition are included in the consolidated financial statements. The pro forma effect assuming the acquisition of Tikatok at the beginning of the transition period is not material. |

**Acquisition of Fictionwise**

|  |  |
| --- | --- |
| Acquisition of Fictionwise  (USD $) | 12 Months Ended  04/30/2011 |
| Acquisition of Fictionwise | |  |  |  | | --- | --- | --- | |  | **14.** | **Acquisition of Fictionwise** |   On March 4, 2009, the Company acquired Fictionwise, Inc. (Fictionwise), a leader in the eBook marketplace, for $15,729 in cash. In addition to the closing purchase price, the Company has made earn-out payments upon the achievement of certain performance and technology related targets. The acquisition provided a core component to the Company's overall digital strategy, enabling the launch of one of the world's largest eBookstores on July 20, 2009. The eBookstore on Barnes & Noble.com enables customers to buy eBooks and read them on a wide range of platforms, including NOOK™, the Company's eBook reader, iPhone ® and iPod touch ® , BlackBerry ® , as well as most laptops or full-sized desktop computers.  The Fictionwise acquisition was accounted for as a business purchase pursuant to ASC 805, *Business Combinations.* In accordance with ASC 805-20, the purchase price has been allocated to assets and liabilities based on their estimated fair value at the acquisition date. The fair value of the contingent consideration at the Fictionwise acquisition date is included in the purchase price shown below. Changes to the fair value of the contingent consideration were recorded in selling and administrative expenses. The following table represents the allocation of the purchase price to the acquired net assets and resulting adjustment to goodwill:   |  |  |  |  |  | | --- | --- | --- | --- | --- | |  |  |  |  |  | | Cash Paid |  | $ | 15,729 |  | | Fair value of contingent consideration |  |  | 8,165 |  | |  |  |  |  |  | | Fair value of total consideration |  | $ | 23,894 |  | |  |  |  |  |  | | Allocation of purchase price: |  |  |  |  | | Cash |  | $ | 255 |  | | Trade Name |  |  | 340 |  | | Customer Relationships |  |  | 2,410 |  | | Technology |  |  | 5,610 |  | | Goodwill |  |  | 18,051 |  | |  |  |  |  |  | | Total assets acquired |  | $ | 26,666 |  | | Liabilities assumed |  |  | (2,772 | ) | |  |  |  |  |  | |  |  | $ | 23,894 |  | |  |  |  |  |  |   The fair value of the contingent consideration arrangement of $8,165 was determined by estimating the expected (probability-weighted) earn-out payments discounted to present value. The actual final earn-out payments for Fictionwise were $7,508 and $ 2,612 for fiscal 2011 and fiscal 2010, respectively.  Due to the purchase price allocation not being finalized at the time of the Fictionwise acquisition, the excess purchase price over net assets acquired of $15,941 had been allocated to goodwill. Final purchase accounting adjustments to goodwill of $2,110 were recorded during fiscal 2010. The goodwill recognized is deductible for income tax purposes.  Acquired intangible assets consisted of the trade name, technology and customer relationships. The trade name is being amortized on a straight-line basis over three years. Acquired technology is being amortized on a straight-line basis over a range of five to ten years. Customer relationships are being amortized using an accelerated method over their five-year useful life. The Company recorded $1,445 and $2,176 in amortization related to these intangibles during fiscal 2011 and fiscal 2010, respectively.  The Fictionwise results of operations for the period subsequent to the Fictionwise acquisition date are included in the consolidated financial statements. The pro forma effect assuming the acquisition of Fictionwise at the beginning of the transition period is not material. |

**Transition Period**

|  |  |
| --- | --- |
| Transition Period  (USD $) | 12 Months Ended  04/30/2011 |
| Transition Period | |  |  |  | | --- | --- | --- | |  | **15.** | **Transition Period** |   On September 30, 2009, the Company's fiscal year end changed from the Saturday closest to the last day of January to the Saturday closest to the last day of April. Accordingly, the Company is presenting audited financial statements for the 13 week transition period ended May 2, 2009. The following table provides certain unaudited comparative financial information for the 13 weeks ended May 3, 2008.   |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  |  |  |  |  |  |  |  |  | |  |  | 13 weeks ended | | | | | |  | |  |  | May 2, 2009 | |  |  |   May 3, 2008   |  |  |  | | --- | --- | --- | | (unaudited) | |  | | Sales |  | $ | 1,105,152 |  |  |  | 1,155,882 |  | | Cost of sales and occupancy |  |  | 773,491 |  |  |  | 807,915 |  | |  |  |  |  |  |  |  |  |  | | Gross profit |  |  | 331,661 |  |  |  | 347,967 |  | |  |  |  |  |  |  |  |  |  | | Selling and administrative expenses |  |  | 286,554 |  |  |  | 303,863 |  | | Depreciation and amortization |  |  | 45,879 |  |  |  | 41,314 |  | | Pre-opening expenses |  |  | 2,472 |  |  |  | 4,537 |  | |  |  |  |  |  |  |  |  |  | | Operating loss |  |  | (3,244 | ) |  |  | (1,747 | ) | | Interest (expense) income, net and amortization of deferred financing fees |  |  | (199 | ) |  |  | 807 |  | |  |  |  |  |  |  |  |  |  | | Loss from continuing operations before taxes |  |  | (3,443 | ) |  |  | (940 | ) | | Income taxes |  |  | (1,374 | ) |  |  | (374 | ) | |  |  |  |  |  |  |  |  |  | | Loss from continuing operations (net of income tax) |  |  | (2,069 | ) |  |  | (566 | ) | | Loss from discontinued operations (net of income tax) |  |  | (654 | ) |  |  | (1,658 | ) | |  |  |  |  |  |  |  |  |  | | Net loss |  |  | (2,723 | ) |  |  | (2,224 | ) | |  |  |  |  |  |  |  |  |  | | Net loss attributable to noncontrolling interests |  |  | 30 |  |  |  | — |  | |  |  |  |  |  |  |  |  |  | | Net loss attributable to Barnes & Noble, Inc. |  | $ | (2,693 | ) |  |  | (2,224 | ) | |  |  |  |  |  |  |  |  |  | | Loss attributable to Barnes & Noble, Inc. |  |  |  |  |  |  |  |  | | Loss from continuing operations |  | $ | (2,069 | ) |  |  | (566 | ) | | Less loss attributable to noncontrolling interests |  |  | 30 |  |  |  | — |  | |  |  |  |  |  |  |  |  |  | | Net loss from continuing operations attributable to Barnes & Noble, Inc. |  | $ | (2,039 | ) |  |  | (566 | ) | |  |  |  |  |  |  |  |  |  | | Basic earnings per common share |  |  |  |  |  |  |  |  | | Loss from continuing operations attributable to Barnes & Noble, Inc. |  | $ | (0.04 | ) |  |  | (0.01 | ) | | Loss from discontinued operations attributable to Barnes & Noble, Inc. |  |  | (0.01 | ) |  |  | (0.03 | ) | |  |  |  |  |  |  |  |  |  | | Net loss attributable to Barnes & Noble, Inc. |  | $ | (0.05 | ) |  |  | (0.04 | ) | |  |  |  |  |  |  |  |  |  | | Diluted earnings per common share |  |  |  |  |  |  |  |  | | Loss from continuing operations attributable to Barnes & Noble, Inc. |  | $ | (0.04 | ) |  |  | (0.01 | ) | | Loss from discontinued operations attributable to Barnes & Noble, Inc. |  |  | (0.01 | ) |  |  | (0.03 | ) | |  |  |  |  |  |  |  |  |  | | Net loss attributable to Barnes & Noble, Inc. |  | $ | (0.05 | ) |  |  | (0.04 | ) | |  |  |  |  |  |  |  |  |  | | Weighted average common shares outstanding |  |  |  |  |  |  |  |  | | Basic |  |  | 54,759 |  |  |  | 57,614 |  | | Diluted |  |  | 54,759 |  |  |  | 57,614 |  | | Dividends declared per common share |  | $ | 0.25 |  |  |  | 0.15 |  |  |  | | --- | |  | |

**Discontinued Operations**

|  |  |
| --- | --- |
| Discontinued Operations  (USD $) | 12 Months Ended  04/30/2011 |
| Discontinued Operations | |  |  |  | | --- | --- | --- | |  | **16.** | **Discontinued Operations** |   During the fourth quarter of fiscal 2008, the Company committed to a plan to dispose of its approximate 74% interest in Calendar Club. The Company subsequently sold its interest in Calendar Club in February 2009 to Calendar Club and its chief executive officer for $7,000, which was comprised of $1,000 in cash and $6,000 in notes. Calendar Club qualified for held for sale accounting treatment in fiscal 2008 and was written down to its fair value. The Company recorded a charge of $18,655 ($9,675 after tax) related to the write down in fiscal 2008. The results of Calendar Club have been classified as discontinued operations in all periods presented. During fiscal 2011, the Company received the $6,000 note payment from Calendar Club. The note was received prior to its scheduled due date.  The operations of Calendar Club have been segregated from continuing operations and are reflected as discontinued operations in each period's consolidated statement of operations as follows:   |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |   13 weeks  ended May 2,   |  |  |  |  | | --- | --- | --- | --- | | 2009 | |  |  |   Fiscal   |  |  |  |  | | --- | --- | --- | --- | | 2008 | |  |  |   Fiscal   |  |  |  |  | | --- | --- | --- | --- | | 2007 | | |  | | Sales |  | $ | 347 |  |  |  | 113,539 |  |  |  | 124,154 |  | |  |  |  |  |  |  |  |  |  |  |  |  |  | | Earnings (loss) from discontinued operations, net of tax |  | $ | (654 | ) |  |  | (9,506 | ) |  |  | 888 |  | |  |  |  |  |  |  |  |  |  |  |  |  |  | | Diluted earnings (loss) per common share from discontinued operations, net of tax |  | $ | (0.01 | ) |  |  | (0.17 | ) |  |  | 0.01 |  | |

**Shareholders' Equity**

|  |  |
| --- | --- |
| Shareholders' Equity  (USD $) | 12 Months Ended  04/30/2011 |
| Shareholders' Equity | |  |  |  | | --- | --- | --- | |  | **17.** | **Shareholders' Equity** |   On November 17, 2009, the Board of Directors of the Company declared a dividend, payable to stockholders of record on November 27, 2009 of one right (a Right) per each share of outstanding Common Stock of the Company, par value $0.001 per share (Common Stock), to purchase 1/1000th of a share of Series I Preferred Stock, par value $0.001 per share, of the Company (the Preferred Stock), at a price of $100.00 per share (such amount, as may be adjusted from time to time as provided in the Rights Agreement described below, the Purchase Price). In connection therewith, on November 17, 2009, the Company entered into a Rights Agreement, dated November 17, 2009 (as amended February 17, 2010, June 23, 2010 and October 29, 2010, and as may be further amended from time to time, the Rights Agreement) with Mellon Investor Services LLC, as Rights Agent. The Rights will be exercisable upon the earlier of (i) such date the Company learns that a person or group, without Board approval, acquires or obtains the right to acquire beneficial ownership of 20% or more of the Company's outstanding common stock or a person or group that already beneficially owns 20% or more of the Company's outstanding common stock at the time the Rights Agreement was entered into, without Board approval, acquires any additional shares (other than pursuant to the Company's compensation or benefit plans) (any person or group specified in this sentence, an Acquiring Person) and (ii) such date a person or group announces an intention to commence or following the commencement of (as designated by the Board) a tender or exchange offer which could result in the beneficial ownership of 20% or more of the Company's outstanding common stock. The Rights will expire on November 17, 2012, unless earlier redeemed or canceled by the Company. If a person or group becomes an Acquiring Person, each Rights holder (other than the Acquiring Person) will be entitled to receive, upon exercise of the Right and payment of the Purchase Price, that number of 1/1000ths of a share of Preferred Stock equal to the number of shares of Common Stock which at the time of the applicable triggering transaction would have a market value of twice the Purchase Price. In the event the Company is acquired in a merger or other business combination by an Acquiring Person, or 50% or more of the Company's assets are sold to an Acquiring Person, each Right will entitle its holder (other than an Acquiring Person) to purchase common shares in the surviving entity at 50% of the market price. In connection with the 2010 Annual Meeting of Stockholders, held on September 28, 2010, Yucaipa American Alliance Fund II, L.P. and Yucaipa American Alliance (Parallel) Fund II, L.P. submitted a non-binding proposal requesting the Board of Directors amend the Rights Agreement to increase the beneficial ownership threshold in the Rights Agreement from 20% to 30%. A majority of the votes cast by stockholders at the 2010 Annual Meeting of Stockholders were against this non-binding proposal. On October 28, 2010 the Board of Directors of the Company gave notice of a Special Meeting of Stockholders on November 17, 2010 to seek stockholder ratification of the Rights Agreement. At the November 17, 2010 Special Meeting, the holders of a majority of the outstanding Common Stock entitled to vote at that Special Meeting voted to ratify the Board's adoption of the Rights Agreement. See Note 20 for a description of certain legal proceedings with respect to the Rights Agreement.  On May 15, 2007, the Company's Board of Directors authorized a stock repurchase program for the purchase of up to $400,000 of the Company's common stock. The maximum dollar value of common stock that may yet be purchased under the current program is approximately $2,471 as of April 30, 2011. 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. As of April 30, 2011, the Company has repurchased 33,409,761 shares at a cost of approximately $1,054,192 under its stock repurchase programs. The repurchased shares are held in treasury. |

**Commitments and Contingencies**

|  |  |
| --- | --- |
| Commitments and Contingencies  (USD $) | 12 Months Ended  04/30/2011 |
| Commitments and Contingencies | |  |  | | --- | --- | | **18.** | **Commitments and Contingencies** |   The Company leases retail stores, warehouse facilities, office space and equipment. Substantially all of the B&N Retail stores are leased under noncancelable agreements which expire at various dates through 2036 with various renewal options for additional periods. The agreements, which have been classified as operating leases, generally provide for both minimum and percentage rentals and require the Company to pay insurance, taxes and other maintenance costs. Percentage rentals are based on sales performance in excess of specified minimums at various stores.  B&N College's contracts are typically for five to ten years, although some extend beyond ten years. Many contracts have a 90 to 120 day cancellation right by B&N College, or by the college or university, without penalty.  Rental expense under operating leases is as follows:   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  | Fiscal 2011 | |  |  | Fiscal 2010 | |  |  |   13 weeks  ended  May 2,   |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | 2009 | |  |  | Fiscal 2008 | | |  | | Minimum rentals |  | $ | 394,199 |  |  | $ | 363,373 |  |  | $ | 75,161 |  |  | $ | 310,967 |  | | Percentage rentals |  |  | 102,735 |  |  |  | 40,324 |  |  |  | 842 |  |  |  | 4,380 |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  | $ | 496,934 |  |  | $ | 403,697 |  |  |  | 76,003 |  |  |  | 315,347 |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |   Future minimum annual rentals, excluding percentage rentals, required under B&N Retail leases that had initial, noncancelable lease terms greater than one year, and under B&N College leases as of April 30, 2011 are:   |  |  |  |  |  | | --- | --- | --- | --- | --- | |  |  |  |  |  | | Fiscal Year |  | (a) | |  | | 2012 |  | $ | 400,959 |  | | 2013 |  |  | 347,468 |  | | 2014 |  |  | 295,977 |  | | 2015 |  |  | 229,514 |  | | 2016 |  |  | 184,849 |  | | After 2016 |  |  | 503,813 |  | |  |  |  |  |  | |  |  | $ | 1,962,580 |  | |  |  |  |  |  |  |  |  | | --- | --- | | (a) | Includes B&N College capital lease obligations of $1,067, $791, $766, $511, $0 and $0, for fiscal 2012, 2013, 2014, 2015, 2016 and after 2016, respectively. |   The Company provides for minimum rent expense over the lease terms (including the build-out period) on a straight-line basis. The excess of such rent expense over actual lease payments (net of tenant allowances) is reflected primarily in other long-term liabilities in the accompanying balance sheets.  On June 26, 2008, the Company exercised its purchase option under a lease on one of its distribution facilities located in South Brunswick, New Jersey from the New Jersey Economic Development Authority. Under the terms of the lease expiring in June 2011, the Company purchased the distribution facility and equipment for approximately $21,000. |

**Segment Reporting**

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| --- | --- |
| Segment Reporting  (USD $) | 12 Months Ended  04/30/2011 |
| Segment Reporting | |  |  |  | | --- | --- | --- | |  | **19.** | **Segment Reporting** |   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. As a result of this assessment, the Company has determined that it has three operating segments: B&N Retail, B&N College and B&N.com.  B&N Retail  This segment includes 705 bookstores as of April 30, 2011, primarily under the Barnes & Noble Booksellers trade name. The 705 Barnes & Noble stores generally offer a NOOK™ (references to NOOK™ include the Company's NOOK 1 st Edition™ , NOOK™ Wi-Fi 1 st Edition™, NOOK Color™ and The All-New NOOK™ eBook Reader devices) Boutique/Counter, a comprehensive trade book title base, a café, a children's section, a Toys & Games department, a DVDs/BluRay department, a music department, a magazine section and a calendar of ongoing events, including author appearances and children's activities. The B&N Retail segment also includes the Company's publishing operation, Sterling Publishing.  B&N College  This group includes 636 stores as of April 30, 2011, that are primarily school-owned stores operated under contracts by B&N College. The 636 B&N College stores generally sell textbooks and course-related materials, emblematic apparel and gifts, trade books, computer products and eReaders, school and dorm supplies, and convenience and café items.  B&N.com  This segment includes the Company's online business, which includes the Company's eCommerce site and features an eBookstore and digital newsstand. Additionally, this segment includes the development and support of the Company's NOOK™ product offering. These products enable customers to buy and read eBooks on the widest range of platforms, including NOOK™ eBook Readers, devices from partner companies, and hundreds of the most popular mobile and computing devices using free NOOK™ software.  Summarized financial information concerning the Company's reportable segments is presented below:   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  | | *Sales* |  |   52 weeks  ended  April 30,   |  |  |  |  | | --- | --- | --- | --- | | 2011 | |  |  |   52 weeks  ended May 1,   |  |  |  |  |  | | --- | --- | --- | --- | --- | | 2010 | | |  |  |   13 weeks  ended May 2,   |  |  |  |  |  | | --- | --- | --- | --- | --- | | 2009 | | |  |  |   52 weeks  ended  January 31,   |  |  |  |  | | --- | --- | --- | --- | | 2009 | | |  | | B&N Retail |  | $ | 4,364,246 |  |  | $ | 4,401,343 |  |  | $ | 1,012,077 |  |  | | $ | 4,652,666 |  | | B&N College (a) |  |  | 1,776,223 |  |  |  | 833,648 |  |  |  | — |  |  | |  | — |  | | B&N.com |  |  | 858,096 |  |  |  | 572,763 |  |  |  | 93,075 |  |  | |  | 469,138 |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  | | Total |  | $ | 6,998,565 |  |  | $ | 5,807,754 |  |  | $ | 1,105,152 |  |  | | $ | 5,121,804 |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  | |  |  | | | |  | | | |  | | | | |  | | | | |   *Depreciation and*   |  |  |  |  |  | | --- | --- | --- | --- | --- | | *Amortization* | | |  | |   52 weeks  ended  April 30,   |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | 2011 | | | | |  |  | |   52 weeks  ended May 1,   |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | 2010 | | | | | |  |  |   13 weeks  ended May 2,   |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | 2009 | | | | | | |  |  | |   52 weeks  ended  January 31,   |  |  |  |  |  | | --- | --- | --- | --- | --- | | 2009 | | | |  | | B&N Retail | | |  | | $ | 157,528 | | | |  |  | | | $ | 157,663 | | | |  |  | | $ | | 41,246 | | | |  |  | | | $ | | 154,304 | |  | | B&N College (a) | | |  | |  | 43,148 | | | |  |  | | |  | 24,863 | | | |  |  | |  | | — | | | |  |  | | |  | | — | |  | | B&N.com | | |  | |  | 27,971 | | | |  |  | | |  | 25,248 | | | |  |  | |  | | 4,633 | | | |  |  | | |  | | 19,253 | |  | |  | | |  | |  |  | | | |  |  | | |  |  | | | |  |  | |  | |  | | | |  |  | | |  | |  | |  | | Total | | |  | | $ | 228,647 | | | |  |  | | | $ | 207,774 | | | |  |  | | $ | | 45,879 | | | |  |  | | | $ | | 173,557 | |  | |  | | |  | |  |  | | | |  |  | | |  |  | | | |  |  | |  | |  | | | |  |  | | |  | |  | |  | |  |  |  | |  | | |  |  |  | | |  | | |  |  |  | | | | |  | |  |  | | | | |  | |  | |  | |  |  | | | | | | |  | | | | | | | |  | | | | | | | | | |  | | | | | | | | | | | *Operating Profit/(Loss)* |  |   52 weeks  ended  April 30,   |  |  |  |  | | --- | --- | --- | --- | | 2011 | |  |  |   52 weeks  ended May 1,   |  |  |  |  | | --- | --- | --- | --- | | 2010 | |  |  |   13 weeks  ended May 2,   |  |  |  |  |  | | --- | --- | --- | --- | --- | | 2009 | |  |  | |   52 weeks  ended  January 31,   |  |  |  |  | | --- | --- | --- | --- | | 2009 | |  | | | B&N Retail |  | $ | 90,984 |  |  | $ | 179,231 |  |  | $ | 9,003 |  |  | | $ | 177,570 |  | | B&N College (a) |  |  | 76,293 |  |  |  | 76 |  |  |  | — |  |  | |  | — |  | | B&N.com |  |  | (232,536 | ) |  |  | (106,061 | ) |  |  | (12,247 | ) |  | |  | (34,239 | ) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  | | Total |  | $ | (65,259 | ) |  | $ | 73,246 |  |  | $ | (3,244 | ) |  | | $ | 143,331 |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  | |  |  | | | |  | | | |  | | | | |  | | | | | | *Capital Expenditures* |  |   52 weeks  ended  April 30,   |  |  |  |  | | --- | --- | --- | --- | | 2011 | |  |  |   52 weeks  ended May 1,   |  |  |  |  | | --- | --- | --- | --- | | 2010 | |  |  |   13 weeks  ended May 2,   |  |  |  |  |  | | --- | --- | --- | --- | --- | | 2009 | |  |  | |   52 weeks  ended  January 31,   |  |  |  |  | | --- | --- | --- | --- | | 2009 | |  | | | B&N Retail |  | $ | 51,924 |  |  | $ | 83,723 |  |  | $ | 17,855 |  |  | | $ | 178,210 |  | | B&N College (a) |  |  | 35,004 |  |  |  | 13,716 |  |  |  | — |  |  | |  | — |  | | B&N.com |  |  | 23,574 |  |  |  | 30,340 |  |  |  | 4,967 |  |  | |  | 13,943 |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  | | Total |  | $ | 110,502 |  |  | $ | 127,779 |  |  | $ | 22,822 |  |  | | $ | 192,153 |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  | |  |  | | | |  | | | |  | | | | |  | | | | | | *Total Assets* |  |   As of  April 30,   |  |  |  |  | | --- | --- | --- | --- | | 2011 | |  |  |   As of  May 1,   |  |  |  |  | | --- | --- | --- | --- | | 2010 | |  |  |   As of  May 2,   |  |  |  |  | | --- | --- | --- | --- | | 2009 | |  |  |   As of  January 31,   |  |  |  |  | | --- | --- | --- | --- | | 2009 | |  | | | B&N Retail |  | $ | 2,331,631 |  |  | $ | 2,467,352 |  |  | $ | 2,320,082 |  |  | $ | 2,516,060 |  | | B&N College (a) |  |  | 979,457 |  |  |  | 943,989 |  |  |  | — |  |  |  | — |  | | B&N.com |  |  | 285,378 |  |  |  | 294,345 |  |  |  | 344,197 |  |  |  | 361,804 |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Total |  | $ | 3,596,466 |  |  | $ | 3,705,686 |  |  | $ | 2,664,279 |  |  | $ | 2,877,864 |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | | (a) | Includes only the financial information of B&N College since the date of the Acquisition on September 30, 2009. |   A reconciliation of operating profit from reportable segments to income (loss) from continuing operations before taxes in the consolidated financial statements is as follows:   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |   52 weeks  ended April   |  |  |  |  | | --- | --- | --- | --- | | 30, 2011 | |  |  |   52 weeks  ended May 1,   |  |  |  |  | | --- | --- | --- | --- | | 2010 | |  |  |   13 weeks  ended May 2,   |  |  |  |  | | --- | --- | --- | --- | | 2009 | |  |  |   52 weeks  ended January   |  |  |  | | --- | --- | --- | | 31, 2009 | |  | | Reportable segments operating profit |  | $ | (65,259 | ) |  | $ | 73,246 |  |  | $ | (3,244 | ) |  | $ | 143,331 |  | | Interest income (expense), net |  |  | (57,350 | ) |  |  | (28,237 | ) |  |  | (199 | ) |  |  | (2,344 | ) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | Consolidated income (loss) from continuing operations before taxes |  | $ | (122,609 | ) |  | $ | 45,009 |  |  | $ | (3,443 | ) |  | $ | 140,987 |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |

**Legal Proceedings**

|  |  |
| --- | --- |
| Legal Proceedings  (USD $) | 12 Months Ended  04/30/2011 |
| Legal Proceedings | |  |  |  | | --- | --- | --- | |  | **20.** | **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 following is a discussion of the material legal matters involving the Company.  ***In re Initial Public Offering Securities Litigation***  This class action lawsuit, filed in April 2002 (the Action), named over one thousand individuals and 300 corporations, including Fatbrain.com, LLC ("Fatbrain"), a former subsidiary of Barnes & Noble.com, and its former officers and directors. The amended complaints in the Action all allege that the initial public offering registration statements filed by the defendant issuers with the Securities and Exchange Commission, including the one filed by Fatbrain, were false and misleading because they failed to disclose that the defendant underwriters were receiving excess compensation in the form of profit sharing with certain of its customers, and that some of those customers agreed to buy additional shares of the defendant issuers' common stock in the aftermarket at increasing prices. The amended complaints also allege that the foregoing constitutes violations of: (i) Section 11 of the Securities Act of 1933, as amended (the "1933 Act") by the defendant issuers, the directors and officers signing the related registration statements, and the related underwriters; (ii) Rule 10b-5 promulgated under the Securities Exchange Act of 1934 (the "1934 Act") by the same parties; and (iii) the control person provisions of the 1933 and 1934 Acts by certain directors and officers of the defendant issuers. A motion to dismiss by the defendant issuers, including Fatbrain, was denied.  After extensive negotiations among representatives of plaintiffs and defendants, the parties entered into a memorandum of understanding (MOU), outlining a proposed settlement resolving the claims in the Action between plaintiffs and the defendant issuers. Subsequently, a Settlement Agreement was executed between the defendants and plaintiffs in the Action, the terms of which are consistent with the MOU. The Settlement Agreement was submitted to the court for approval, and on February 15, 2005, the judge granted preliminary approval of the settlement.  On December 5, 2006, the Federal Appeals Court for the Second Circuit (the Second Circuit) issued a decision reversing the District Court's class certification decision in six focus cases. In light of that decision, the District Court stayed all proceedings, including consideration of the settlement. In January 2007, plaintiffs filed a Petition for Rehearing *En Banc* before the Second Circuit, which was denied in April 2007. On May 30, 2007, plaintiffs moved, before the District Court, to certify a new class. On June 25, 2007, the District Court entered an order terminating the Settlement Agreement. On October 2, 2008, plaintiffs agreed to withdraw the class certification motion. On October 10, 2008, the District Court signed an order granting the request.  A Settlement Agreement in principle, subject to court approval, was negotiated among counsel for all of the issuers, plaintiffs, insurers and underwriters, and executed by the Client. Preliminary approval of the settlement was granted by the court on June 10, 2009, and final court approval of the settlement was granted on October 5, 2009. Pursuant to the settlement, no settlement payment will be made by the Client. Since that time, various notices of appeal have been filed by certain objectors on an interlocutory basis, two of which have been dismissed. The remaining appeal has been remanded to the District Court for further proceedings. Should the remaining appeal be successful and the approval of the settlement overturned, the Client intends to vigorously defend these lawsuits.  ***Minor v. Barnes & Noble Booksellers, Inc. et al.***  On May 1, 2009, a purported class action complaint was filed against B&N Booksellers, Inc. (B&N Booksellers) in the Superior Court for the State of California alleging wage payments by instruments in a form that did not comply with the requirements of the California Labor Code, allegedly resulting in impermissible wage payment reductions and calling for imposition of statutory penalties. The complaint also alleges a violation of the California Labor Code's Private Attorneys General Act and seeks restitution of such allegedly unpaid wages under California's unfair competition law, and an injunction compelling compliance with the California Labor Code. The complaint alleges two subclasses of 500 and 200 employees, respectively (there may be overlap among the subclasses), but contains no allegations concerning the number of alleged violations or the amount of recovery sought on behalf of the purported class. On June 3, 2009, B&N Booksellers filed an answer denying all claims. Discovery concerning purported class member payroll checks and related information is ongoing. On August 19, 2010, B&N Booksellers filed a motion to dismiss the case for lack of a class representative when the name plaintiff advised she did not wish to continue to serve in that role. On October 15, 2010, the Court issued an order denying B&N Bookseller's motion to dismiss. The Court further ruled that Ms. Minor could not serve as a class representative. The Court also granted Plaintiff's Motion to Compel Further Responses to previously-served discovery seeking contact information for the putative class. B&N Booksellers provided that information on October 15, 2010. The previously scheduled Case Management Conference was continued to January 27, 2011. Plaintiff's counsel filed an amended complaint on January 26, 2011, adding two new named Plaintiffs, Jacob Allum and Cesar Caminiero. At the Case Management Conference held on January 27, 2011, the Court ordered the parties to complete mediation by May 6, 2011. The parties held a mediation on April 11, 2011. The parties have reached a tentative resolution of this matter and are finalizing the settlement which will be subject to court approval. This settlement is not expected to have a material impact on the Company's Consolidated Financial Statements.  ***In re Barnes & Noble Stockholder Derivative Litigation (Consolidated Cases Formerly Captioned Separately as: Louisiana Municipal Police Employees Retirement System v. Riggio et al.; Southeastern Pennsylvania Transportation Authority v. Riggio et al.; City of Ann Arbor Employees' Retirement System v. Riggio et al.; Louise Schuman v. Riggio et al.; Virgin Islands Government Employees' Retirement System v. Riggio et al.; Electrical Workers Pension Fund, Local 103, I.B.E.W. v. Riggio et al.)***  Between August 17, 2009 and August 31, 2009, five putative shareholder derivative complaints were filed in Delaware Chancery Court against the Company's directors. The complaints generally allege breach of fiduciary duty, waste of corporate assets and unjust enrichment in connection with the Company's entry into a definitive agreement to purchase Barnes & Noble College Booksellers, which was announced on August 10, 2009 (the Transaction). The complaints generally seek damages in favor of the Company in an unspecified amount; costs, fees and interest; disgorgement; restitution; and equitable relief, including injunctive relief. On September 1, 2009, the Delaware Chancery Court issued an Order of Consolidation consolidating the five lawsuits (the Consolidated Cases) and directing plaintiffs to file a consolidated amended complaint. In a related development, on August 27, 2009, the Company received a demand pursuant to Delaware General Corporation Law, Section 220, on behalf of the Electrical Workers Pension Fund, Local 103, I.B.E.W., a shareholder, seeking to inspect certain books and records related to the Transaction. The Company provided this shareholder with certain documents, on a confidential basis, in response to its demand. On September 18, 2009, this shareholder filed a shareholder derivative complaint in Delaware Chancery Court against certain of the Company's directors alleging breach of fiduciary duty and unjust enrichment and seeking to enjoin the consummation of the Transaction. At that time, this shareholder also filed a motion for expedited proceedings. At a hearing held on September 21, 2009, the court denied plaintiff's request for expedited proceedings. On October 6, 2009, the plaintiffs in the Consolidated Cases filed a motion seeking to consolidate the later-filed sixth case with the Consolidated Cases. Also on October 6, 2009, the plaintiff in the sixth case filed a separate motion seeking to consolidate its case with the Consolidated Cases and appoint it as co-lead plaintiff and to appoint its counsel as co-lead counsel. On November 3, 2009, a Consolidated Complaint was filed in the Consolidated Cases. The Company and defendants sought an extension of their time to answer or otherwise respond to the complaints while the plaintiffs' respective consolidation motions were pending. On December 11, 2009, the court entered an order consolidating all actions and appointing co-lead counsel for plaintiffs. Plaintiffs designated the Consolidated Complaint filed on November 3, 2009 to be the operative Complaint. The Company and defendants filed motions to dismiss the Consolidated Complaint on January 12, 2010. On January 29, 2010, plaintiffs informed defendants that they would amend their Complaint rather than respond to defendants' motions to dismiss. Plaintiffs filed an Amended Consolidated Complaint on March 16, 2010. The Company and defendants filed motions to dismiss the Amended Consolidated Complaint on April 30, 2010. Plaintiffs filed their response to the motion to dismiss on June 2, 2010. Oral argument on the motions to dismiss was held on October 21, 2010. Following those arguments, the Court denied the Company's motion to dismiss, denied in part and granted in part the motion to dismiss filed by Defendants Leonard Riggio, Stephen Riggio and Lawrence Zilavy, and denied in part and granted in part the motion to dismiss filed by the remaining defendants, dismissing all claims asserted against Directors George Campbell, Jr. and Patricia Higgins. Pursuant to the Court's January 19, 2011 Scheduling Order, all fact and expert discovery must be completed by October 21, 2011, and trial is scheduled to commence on December 12, 2011. Discovery in this matter is proceeding.  ***Stephen Strugala v. Leonard Riggio, et al.***  On December 21, 2010, a complaint was filed in the United States District Court for the Southern District of New York against the Company's current directors and former directors Lawrence Zilavy and Michael Del Giudice. The complaint is purportedly brought both directly, on behalf of a putative class of shareholders, and derivatively, on behalf of the Company. The complaint generally alleges breaches of fiduciary duties, waste and unjust enrichment in connection with the Company's acquisition of Barnes & Noble College Booksellers, the adoption of the Shareholder Rights Plan, and other unspecified instances of alleged mismanagement and alleged wrongful conduct. The complaint also generally alleges violations of Section 14(a) of the Securities Exchange Act of 1934 in connection with the issuance of various proxy statements by the Company. The complaint generally seeks declaratory and equitable relief, including injunctive relief, and costs and fees. On January 19, 2011, the Court granted the parties' Stipulation and Order. On February 18, 2011, the plaintiff filed a Notice of Voluntary Dismissal of Claim, dismissing without prejudice his putative class claim for violations of Section 14(a) of the Securities Exchange Act of 1934. On March 8, 2011, defendants filed a motion to dismiss all claims in the litigation. Briefing on the motion is complete.  ***Microsoft Corp. v. Barnes & Noble, Inc. et al.***  On March 21, 2011, Microsoft Corp. submitted a complaint to the U.S. International Trade Commission (U.S. ITC), encaptioned *Certain Handheld Electronic Computing Devices, Related Software and Components Thereof* , Inv. No. 337-TA-769, requesting that the U.S. ITC institute an investigation pursuant to Section 337 of the Tariff Act of 1930, as amended. The complaint was subsequently amended on April 8, 2011. The complaint alleges that the importation into the United States, sale for importation, and/or sale within the United States after importation of Barnes & Noble, Inc.'s and Barnes & Noble.com's NOOK™ and NOOK Color™ products infringe certain claims of U.S. Patent Nos. 5,778,372 (the '372 patent), 6,339,780 (the '780 patent), 5,889,522 (the '522 patent), 6,891,551 (the '551 patent) and 6,957,233 (the '233 patent) and requests that the U.S. ITC issue a permanent exclusion order and permanent cease and desist order with respect to these products. On April 1, 2011, the U.S. ITC published a Notice in the Federal Register soliciting comments on any public interest issues raised by the complaint. Barnes & Noble, Inc. and Barnes & Noble.com submitted comments in an April 7, 2011 letter. On April 19, 2011, the ITC served Barnes & Noble, Inc. and Barnes & Noble.com with a Notice of Investigation. On April 25, 2011, the U.S. ITC published the Notice of Investigation in the Federal Register. On May 10, 2011, Barnes & Noble, Inc. and Barnes & Noble.com filed a response to the complaint denying that they have engaged in any action that would constitute unlawful importation into the United States, sale for importation, or sale within the United States after importation. The response also sets forth six affirmative defenses, including a patent misuse defense. The parties filed their discovery statements on May 16, 2011, and a telephonic preliminary conference before the Administrative Law Judge (ALJ) took place on June 2, 2011. The ALJ subsequently set a target date of August 27, 2012 with a final determination filed no later than April 27, 2012. On June 6, 2011, Microsoft moved to strike Barnes & Noble, Inc.'s and Barnes & Noble.com's patent misuse defense.  On the same day that it submitted its original complaint to the U.S. ITC, Microsoft also filed a complaint against Barnes & Noble, Inc., Barnes & Noble.com, and a number of other defendants in the United States District Court for the Western District of Washington. The district court complaint also alleges that Barnes & Noble, Inc. and Barnes & Noble.com are infringing the '372, '780, '522, '551, and '233 patents through the sale in the United States and the importation into the United States of the NOOK™ and NOOK Color™ products. Barnes & Noble, Inc. and Barnes & Noble.com answered the district court complaint on April 25, 2011. On May 18, 2011, Barnes & Noble, Inc. and Barnes & Noble.com filed a motion to stay the district court litigation until the ITC's determinaton in the ITC investigation becomes final. On June 8, 2011, the district court granted the motion to stay. |

**Certain Relationships and Related Transactions**

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| --- | --- |
| Certain Relationships and Related Transactions  (USD $) | 12 Months Ended  04/30/2011 |
| Certain Relationships and Related Transactions | |  |  |  | | --- | --- | --- | |  | **21.** | **Certain Relationships and Related Transactions** |   The Company believes that the transactions and agreements discussed below (including renewals of any existing agreements) between the Company and related third parties are at least as favorable to the Company as could have been obtained from unrelated parties at the time they were entered into. The Audit Committee of the Board of Directors utilizes procedures in evaluating the terms and provisions of proposed related party transactions or agreements in accordance with the fiduciary duties of directors under Delaware law. The Company's related party transaction procedures contemplate Audit Committee review and approval of all new agreements, transactions or courses of dealing with related parties, including any modifications, waivers or amendments to existing related party transactions. The Company tests to ensure that the terms of related party transactions are at least as favorable to the Company as could have been obtained from unrelated parties at the time of the transaction. The Audit Committee considers, at a minimum, the nature of the relationship between the Company and the related party, the history of the transaction (in the case of modifications, waivers or amendments), the terms of the proposed transaction, the Company's rationale for entering the transaction and the terms of comparable transactions with unrelated third parties. In addition, management and internal audit annually analyzes all existing related party agreements and transactions and reviews them with the Audit Committee.  The Company completed the Acquisition of B&N College from Leonard Riggio and Louise Riggio (Sellers) on September 30, 2009 (see Note 12). Mr. Riggio is the Chairman of the Company's Board of Directors and a significant stockholder. The Company is a party to a Stock Purchase Agreement dated as of August 7, 2009 among the Company and the Sellers. As part of the Acquisition, the Company acquired the Barnes & Noble trade name that had been owned by B&N College and licensed to the Company (described below). The purchase price paid to the Sellers was $596,000, consisting of $346,000 in cash and $250,000 in Seller Notes (described below). However, the cash paid to the Sellers was reduced by approximately $82,352 in cash bonuses paid by B&N College to 192 members of its management team and employees (Bonus Recipients), not including Leonard Riggio. Pursuant to the terms of the Purchase Agreement, prior to the closing of the Acquisition, B&N College distributed to the Sellers certain assets that are not related to B&N College's core business, including common stock in the Company. In connection with such distribution, 667,058 shares of the common stock in the Company previously held by B&N College were transferred to certain of the Bonus Recipients. The Company financed the Acquisition through $250,000 of Seller Notes, $150,000 from the 2009 Credit Facility and the remainder from both the Company's and B&N College's cash on hand.  In connection with the closing of the Acquisition, the Company issued the Sellers (i) a senior subordinated note in the principal amount of $100,000, payable in full on December 15, 2010, with interest of 8% per annum payable on the unpaid principal amount (the Senior Seller Note), and (ii) a junior subordinated note in the principal amount of $150,000 (the Junior Seller Note), payable in full on the fifth anniversary of the closing of the Acquisition, with interest of 10% per annum payable on the unpaid principal amount. The Senior Seller Note was paid on its scheduled due date, December 15, 2010. The Senior Seller Note was unsecured and subordinated to the obligations under the 2009 Credit Facility and certain other senior obligations. The Company had the right to prepay the Senior Seller Note at any time without premium or penalty to the extent not prohibited by senior debt documents, provided that the Company did not have the right to prepay the Junior Seller Note until the Senior Seller Note had been repaid in full. On December 22, 2009, the Company consented to the pledge and assignment of the Senior Seller Note by the Sellers as collateral security. The Junior Seller Note was and is unsecured and subordinated to the obligations under the 2009 Credit Facility and the Amended Credit Facility, as applicable, as well as certain other senior obligations. The Company may prepay the Junior Seller Note at any time without premium or penalty to the extent not prohibited by the Amended Credit Facility and senior debt documents.  Also in connection with the Acquisition, and as set forth in the Purchase Agreement, B&N College made a tax distribution payment of $54,997 to the Sellers related to taxes imposed on the Sellers' pro rata share of B&N College S corporation taxable earnings from January 1, 2009 through the date of Acquisition.  The Company pays COBRA benefits for certain former employees and family members that were on the B&N College health benefit plan (prior to the Acquisition). Leonard Riggio has reimbursed the Company $140 to cover such costs, based upon standard COBRA rates, for the period subsequent to Acquisition through fiscal 2010.  In connection with the Acquisition, B&N College and the Company amended and restated B&N College's existing long-term supply agreement (Supply Agreement) with MBS Textbook Exchange, Inc. (MBS), which is majority owned by Leonard Riggio, Stephen Riggio (the Company's Vice Chairman and former Chief Executive Officer) and other members of the Riggio family. MBS is a new and used textbook wholesaler, which also sells textbooks online and provides bookstore systems and distant learning distribution services. Pursuant to the Supply Agreement, which has a term of ten years, and subject to availability and competitive terms and conditions, B&N College will continue to purchase new and used printed textbooks for a given academic term from MBS prior to buying them from other suppliers, other than in connection with student buy-back programs. MBS pays B&N College commissions based on the volume of textbooks sold to MBS each year and with respect to the textbook requirements of certain distance learning programs that MBS fulfills on B&N College's behalf. MBS paid B&N College $13,031 and $7,014 related to these commissions in fiscal 2011 and fiscal 2010 from the date of Acquisition, respectively. In addition, the Supply Agreement contains restrictive covenants that limit the ability of B&N College and the Company to become a used textbook wholesaler and that place certain limitations on MBS's business activities. B&N College and Barnes & Noble.com also entered into an agreement with MBS in 2011 pursuant to which MBS agrees to purchase at the end of a given semester certain agreed upon textbooks which B&N College and Barnes & Noble.com shall have rented to students during such semester. Total sales to MBS under this program were $506 for fiscal 2011. In addition, B&N College entered into an agreement with MBS in 2011 pursuant to which MBS purchases books from B&N College, which have no resale value for a flat rate per box. Total sales to MBS under this program were $427 for fiscal 2011.  The Company purchases new and used textbooks at market prices directly from MBS. Total purchases were $102,573, $24,186, $1,799 and $8,250 for fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively. Prior to fiscal 2010, MBS distributed certain proprietary products on behalf of the Company. Net sales received by the Company after deducting MBS fees were $9 and $340 for the transition period and fiscal 2008, respectively, and fees paid to MBS were $2 and $50 during the transition period and fiscal 2008, respectively. MBS sells used books through the Barnes & Noble.com dealer network. Barnes & Noble.com earned a commission of $5,474, $3,115, $915 and $1,410 on the MBS used book sales in fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively. In addition, Barnes & Noble.com hosts pages on its website through which Barnes & Noble.com customers are able to sell used books directly to MBS. Barnes & Noble.com is paid a fixed commission on the price paid by MBS to the customer. Total commissions paid to Barnes & Noble.com were $184, $172, $29 and $130 for fiscal 2011, fiscal 2010, the transition period, and fiscal 2008, respectively.  In fiscal 2010, the Company's wholly owned subsidiary Barnes & Noble Bookquest LLC (Bookquest) entered into an agreement with TXTB.com LLC (TXTB), a subsidiary of MBS, pursuant to which the Bookquest marketplace database of third party sellers on the Barnes & Noble.com website was made available on the TXTB website. Bookquest receives a fee from third party sellers for sales of Bookquest marketplace items and, upon receipt of such fee, Bookquest remits a separate fee to TXTB for any marketplace items sold on the TXTB website. Total commissions paid to TXTB were $775 and $0 during fiscal 2011 and fiscal 2010, respectively. Outstanding amounts payable to TXTB were $8 and $33 for fiscal 2011 and fiscal 2010, respectively.  In fiscal 2011, Barnes & Noble.com entered into an agreement with TXTB pursuant to which Barnes & Noble.com became the exclusive provider of trade books to TXTB customers through www.textbooks.com. TXTB receives a commission from Barnes & Noble.com on each purchase by a TXTB customer. Outstanding amounts payable to TXTB were $4 for fiscal 2011.  Prior to the Acquisition, the Company licensed the "Barnes & Noble" name under a royalty-free license agreement dated February 11, 1987, as amended, from B&N College (the General License Agreement). Barnes & Noble.com licensed the "Barnes & Noble" name under a royalty-free license agreement, dated October 31, 1998, as amended, between Barnes & Noble.com and B&N College (the License Agreement). Pursuant to the License Agreement, Barnes & Noble.com had been granted an exclusive license to use the "Barnes & Noble" name and trademark in perpetuity for the purpose of selling books over the Internet (excluding sales of college textbooks). Under a separate agreement dated as of January 31, 2001 (the Textbook License Agreement), between Barnes & Noble.com, B&N College and Textbooks.com, Barnes & Noble.com was granted the right to sell college textbooks over the Internet using the "Barnes & Noble" name. Pursuant to the Textbook License Agreement, Barnes & Noble.com paid Textbooks.com a royalty on revenues (net of product returns, applicable sales tax and excluding shipping and handling) realized by Barnes & Noble.com from the sale of books designated as textbooks. Royalty expense was $3,431, $973 and $5,814 during fiscal 2010 prior to Acquisition, the transition period and fiscal 2008, respectively, under the terms of the Textbook License Agreement. During fiscal 2010, subsequent to the closing of the Acquisition, Textbooks.com paid $146 to B&N College for funds that were received by Textbooks.com and were earned by B&N College. In connection with the closing of the Acquisition, the Company terminated the Textbook License Agreement and as a result no longer pays a royalty with respect to online textbook sales.  In fiscal 2010, the Company entered into an Aircraft Time Sharing Agreement with LR Enterprises Management LLC (LR Enterprises), which is owned by Leonard Riggio and Louise Riggio, pursuant to which LR Enterprises granted the Company the right to use a jet aircraft owned by it on a time-sharing basis in accordance with, and subject to the reimbursement of certain operating costs and expenses as provided in, the Federal Aviation Regulations (FAR). Such operating costs were $932 and $429 during fiscal 2011 and fiscal 2010, respectively. LR Enterprises is solely responsible for the physical and technical operation of the aircraft, aircraft maintenance and the cost of maintaining aircraft liability insurance, other than insurance obtained for the specific flight as requested by the Company, as provided in the FAR. Prior to the Acquisition, the Company used a jet aircraft owned by B&N College and paid for the costs and expenses of operating the aircraft based upon the Company's usage. Such costs which included fuel, insurance and other costs were $113, $420 and $1,823 during fiscal 2010 prior to Acquisition, the transition period and fiscal 2008, respectively, and were included in the accompanying consolidated statements of operations.  The Company has leases for two locations for its corporate offices with related parties: the first location is leased from an entity in which Leonard Riggio has a majority interest and expires in 2013; the second location is leased from an entity in which Leonard Riggio has a minority interest and expires in 2016. The space was rented at an aggregate annual rent including real estate taxes of approximately $4,868, $4,889, $1,198 and $4,681 during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively.  The Company leases one of its B&N College stores from a partnership owned by Leonard and Stephen Riggio, pursuant to a lease expiring in 2014. Rent of $862 and $512 was paid during fiscal 2011 and fiscal 2010 from the date of the Acquisition, respectively.  The Company leases an office/warehouse from a partnership in which Leonard Riggio has a 50% interest, pursuant to a lease expiring in 2023. The space was rented at an annual rent of $763, $759, $186 and $810 during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively. Net of subtenant income, the Company paid $246, $241, $57 and $307 during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively.  Prior to the Acquisition, the Company leased retail space in a building in which B&N College subleased space from the Company, pursuant to a sublease expiring in 2020. Pursuant to such sublease, the Company charged B&N College $347, $206 and $773 for such subleased space and other operating costs incurred on its behalf during fiscal year 2010 prior to the Acquisition, the transition period and fiscal 2008, respectively. The amount paid by B&N College to the Company exceeded the cost per square foot paid by the Company to its unaffiliated third-party landlord.  Prior to the Acquisition, the Company reimbursed B&N College certain operating costs B&N College incurred on the Company's behalf. These charges were $71, $34 and $235 during fiscal 2010 prior to the Acquisition, the transition period and fiscal 2008, respectively. Prior to the Acquisition, B&N College purchased inventory, at cost plus an incremental fee, of $25,187, $2,742 and $49,172 from the Company during fiscal 2010 prior to the Acquisition, the transition period and fiscal 2008, respectively. Also prior to the Acquisition, B&N College reimbursed the Company $2,700, $926 and $3,506 for fiscal year 2010 prior to the Acquisition, the transition period and fiscal 2008, respectively, for capital expenditures, business insurance and other operating costs incurred on its behalf.  GameStop Corp. (GameStop), a company in which Leonard Riggio is a member of the Board of Directors and a minority shareholder, operates departments within some of the Company's bookstores. GameStop pays a license fee to the Company in an amount equal to 7% of the gross sales of such departments, which totaled $989, $1,061, $250 and $1,250, during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively. GameStop sells new and used video games and consoles on the Barnes & Noble.com website. Barnes & Noble.com receives a commission on sales made by GameStop. For fiscal 2011, fiscal 2010, the transition period, and fiscal 2008, the commission earned by Barnes & Noble.com was $356, $334, $76, and $531, respectively. Until June 2005, GameStop participated in the Company's worker's compensation, property and general liability insurance programs. The costs incurred by the Company under these programs were allocated to GameStop based upon GameStop's total payroll expense, property and equipment, and insurance claim history. GameStop reimbursed the Company for these services $51, $128, $62 and $162 during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively. Although GameStop secured its own insurance coverage, costs are continuing to be incurred by the Company on insurance claims which were made under its programs prior to June 2005 and any such costs applicable to insurance claims against GameStop will be charged to GameStop at the time incurred.  The Company is provided with national freight distribution, including trucking services by Argix Direct Inc. (Argix), a company in which a brother of Leonard and Stephen Riggio owns a 20% interest, pursuant to a transportation agreement expiring in 2012. The Company paid Argix $15,890, $16,536, $3,820 and $16,981 for such services during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively. At the time of the agreement, the cost of freight delivered to the stores by Argix was comparable to the prices charged by publishers and the Company's other third party freight distributors. However, due to higher contracted fuel surcharge and transportation costs, Argix's rates are now higher than the Company's other third party freight distributors. As a result, the Company amended its existing agreement with Argix effective January 1, 2009. The amendment provides the Company with a $3,000 annual credit to its freight and transportation costs for the remaining life of the existing agreement. Argix provides B&N College with transportation services under a separate agreement expiring in 2011. The Company believes that the transportation costs that B&N College paid to Argix are comparable to the transportation costs charged by third party distributors. B&N College paid Argix $1,477 and $658 for such services during fiscal 2011 and fiscal 2010 from the date of Acquisition, respectively. Argix also leases office and warehouse space from the Company in Jamesburg, New Jersey, pursuant to a lease expiring in 2011. The Company charged Argix $2,719, $2,646, $736 and $2,835, for such leased space and other operating costs incurred on its behalf during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively.  The Company used Source Interlink Companies, Inc. (Source Interlink) as its primary supplier of music and DVD/video, as well as magazines and newspapers. Leonard Riggio is an investor in an investment company that formerly owned a minority interest in Source Interlink. In addition, Ronald W. Burkle, who owns a minority interest in the Company, also owned a minority interest in Source Interlink through his ownership interests in AEC Associates, LLC. Pursuant to the confirmation order of the United States Bankruptcy Court of the District of Delaware, as of June 19, 2009 (the Discharge Date) the equity interests held by the then owners of Source Interlink were discharged, cancelled, released and extinguished. The Company paid Source Interlink $33,979, $91,115 and $395,294 for merchandise purchased at market prices during fiscal 2010 prior to the Discharge Date, the transition period and fiscal 2008, respectively. In addition, Source Interlink purchases certain data related to magazine sales of the Company. Source Interlink paid the Company $20, $38 and $150 during fiscal 2010 prior to the Discharge Date, the transition period and fiscal 2008, respectively.  The Company uses Digital on Demand as its provider of music and video database equipment and services. Leonard Riggio owns a minority interest in Digital on Demand through the same investment company through which he owned a minority interest in Source Interlink. The Company paid Digital on Demand $1,932, $2,593, $1,960 and $4,893 for music and video database equipment and services during fiscal 2011, fiscal 2010, the transition period and fiscal 2008, respectively. This agreement was terminated on May 31, 2011. |

**Dividends**

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| --- | --- |
| Dividends  (USD $) | 12 Months Ended  04/30/2011 |
| Dividends | |  |  |  | | --- | --- | --- | |  | **22.** | **Dividends** |   During fiscal 2011, the Company paid a dividend of $0.25 per share on June 30, 2010 to stockholders of record at the close of business on June 11, 2010, on September 30, 2010 to stockholders of record at the close of business on September 9, 2010, and on December 31, 2010 to stockholders of record at the close of business on December 10, 2010. On February 22, 2011, the Company announced that its Board of Directors was suspending its quarterly dividend payment of $0.25 per share. This will provide the Company the financial flexibility to continue investing into its high growth digital strategies.  During fiscal 2010, the Company paid quarterly cash dividends of $0.25 per share on June 30, 2009 to stockholders of record at the close of business on June 9, 2009, on September 30, 2009 to stockholders of record at the close of business on September 9, 2009, on December 31, 2009 to stockholders of record at the close of business on December 10, 2009 and on March 31, 2010 to stockholders of record at the close of business on March 10, 2010.  During the transition period, the Company paid a dividend of $0.25 per share on March 31, 2009 to stockholders of record at the close of business on March 10, 2009.  During fiscal 2008, the Company paid a quarterly cash dividend of $0.15 per share on March 31, 2008 to stockholders of record at the close of business on March 10, 2008. On March 20, 2008, the Company announced that its Board of Directors had authorized an increase to its quarterly cash dividend from $0.15 to $0.25 per share, commencing with the dividend to be paid in June 2008. The Company paid quarterly cash dividends of $0.25 per share on June 30, 2008 to stockholders of record at the close of business on June 9, 2008, on September 30, 2008 to stockholders of record at the close of business on September 9, 2008, and on December 31, 2008 to stockholders of record at the close of business on December 10, 2008. |

**Selected Quarterly Financial Information**

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| Selected Quarterly Financial Information  (USD $) | 12 Months Ended  04/30/2011 |
| Selected Quarterly Financial Information | |  |  |  | | --- | --- | --- | |  | **23.** | **Selected Quarterly Financial Information (Unaudited)** |   A summary of quarterly financial information for fiscal 2011 and fiscal 2010 is as follows:   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |   Fiscal 2011 Quarter Ended   |  |  | | --- | --- | | On or About |  |   July   |  |  |  |  | | --- | --- | --- | --- | | 2010 | |  |  |   October   |  |  |  |  | | --- | --- | --- | --- | | 2010 | |  |  |   January   |  |  |  |  |  | | --- | --- | --- | --- | --- | | 2011 | | |  |  |   April   |  |  |  |  | | --- | --- | --- | --- | | 2011 | |  |  |   Total  Fiscal   |  |  |  | | --- | --- | --- | | Year 2011 | |  | | Sales |  | $ | 1,396,570 |  |  |  | 1,905,577 |  |  |  | 2,325,199 |  |  | |  | 1,371,220 |  |  |  | 6,998,565 |  | | Gross profit |  | $ | 351,700 |  |  |  | 450,120 |  |  |  | 613,672 |  |  | |  | 377,362 |  |  |  | 1,792,853 |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  | | Net earnings (loss) attributable to Barnes & Noble, Inc. |  | $ | (62,518 | ) |  |  | (12,568 | ) |  |  | 60,583 |  |  | |  | (59,416 | ) |  |  | (73,920 | ) | | Basic earnings (loss) per common share: |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  | | Net earnings (loss) attributable to Barnes & Noble, Inc. |  | $ | (1.12 | ) |  |  | (0.22 | ) |  |  | 1.01 |  |  | |  | (1.04 | ) |  |  | (1.31 | ) | | Diluted earnings (loss) per common share: |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  | | Net earnings (loss) attributable to Barnes & Noble, Inc. |  | $ | (1.12 | ) |  |  | (0.22 | ) |  |  | 1.00 |  |  | |  | (1.04 | ) |  |  | (1.31 | ) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  | |  |  | | | |  | | | |  | | | | |  | | | |  | | | | |   Fiscal 2010 Quarter Ended   |  |  | | --- | --- | | On or About |  |   July   |  |  |  |  | | --- | --- | --- | --- | | 2009 | |  |  |   October   |  |  |  |  | | --- | --- | --- | --- | | 2009 | |  |  |   January   |  |  |  |  |  | | --- | --- | --- | --- | --- | | 2010 | | |  |  |   April   |  |  |  |  | | --- | --- | --- | --- | | 2010(a) | |  |  |   Total  Fiscal   |  |  |  | | --- | --- | --- | | Year 2010 | |  | | Sales |  | $ | 1,155,681 |  |  |  | 1,160,569 |  |  |  | 2,173,243 |  |  | |  | 1,318,261 |  |  |  | 5,807,754 |  | | Gross profit |  | $ | 355,855 |  |  |  | 342,189 |  |  |  | 615,671 |  |  | |  | 363,030 |  |  |  | 1,676,745 |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  | | Net earnings (loss) attributable to Barnes & Noble, Inc. |  | $ | 12,267 |  |  |  | (23,957 | ) |  |  | 80,403 |  |  | |  | (32,038 | ) |  |  | 36,676 |  | | Basic earnings (loss) per common share: |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  | | Net earnings (loss) attributable to Barnes & Noble, Inc. |  | $ | 0.22 |  |  |  | (0.43 | ) |  |  | 1.40 |  |  | |  | (0.58 | ) |  |  | 0.64 |  | | Diluted earnings (loss) per common share: |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  | | Net earnings (loss) attributable to Barnes & Noble, Inc. |  | $ | 0.21 |  |  |  | (0.43 | ) |  |  | 1.38 |  |  | |  | (0.58 | ) |  |  | 0.63 |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  |  |  |  | | --- | --- | | (a) | Included in the 13 weeks ended May 1, 2010 was a physical inventory benefit of $10.6 million, as results were more favorable than previously estimated and accrued, and a tax benefit of $13.7 million due to the recognition of previously unrecognized tax benefits for years settled with the applicable tax authorities. | |

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Source: BARNES & NOBLE INC, 10-K, June 29, 2011