

BARNES & NOBLE INC
Form 10-Q
September 10, 2009
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended August 1, 2009

OR

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

For the transition period from _____ to _____

Commission File Number: 1-12302

BARNES & NOBLE, INC.

(Exact Name of Registrant as Specified in Its Charter)

| | |
|--|--|
| Delaware (State or Other Jurisdiction of Incorporation or Organization) | 06-1196501 (I.R.S. Employer Identification No.) |
| 122 Fifth Avenue, New York, NY (Address of Principal Executive Offices) | 10011 (Zip Code) |
| (212) 633-3300 (Registrant's Telephone Number, Including Area Code) | |

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

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of August 31, 2009, 57,175,834 shares of Common Stock, par value \$.001 per share, were outstanding, which number includes 1,253,908 shares of unvested restricted stock that have voting rights and are held by members of the Board of Directors and the Company's employees.

Table of Contents

BARNES & NOBLE, INC. AND SUBSIDIARIES

August 1, 2009

Index to Form 10-Q

| | Page No. |
|----------------|--|
| PART I | FINANCIAL INFORMATION |
| Item 1. | Financial Statements (Unaudited) |
| | <u>Consolidated Statements of Operations For the 13 weeks and 26 weeks ended August 1, 2009 and August 2, 2008</u> |
| | 3 |
| | <u>Consolidated Balance Sheets August 1, 2009, August 2, 2008 and January 31, 2009</u> |
| | 4 |
| | <u>Consolidated Statement of Changes in Shareholders Equity For the 26 weeks ended August 1, 2009</u> |
| | 6 |
| | <u>Consolidated Statements of Cash Flows For the 26 weeks ended August 1, 2009 and August 2, 2008</u> |
| | 7 |
| | <u>Notes to Consolidated Financial Statements</u> |
| | 8 |
| | <u>Report of Independent Registered Public Accounting Firm</u> |
| | 22 |
| Item 2. | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> |
| | 23 |
| Item 3. | <u>Quantitative and Qualitative Disclosures About Market Risk</u> |
| | 31 |
| Item 4. | <u>Controls and Procedures</u> |
| | 31 |
| PART II | OTHER INFORMATION |
| Item 1. | <u>Legal Proceedings</u> |
| | 32 |
| Item 1A. | <u>Risk Factors</u> |
| | 34 |
| Item 2. | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> |
| | 34 |
| Item 4. | <u>Submission of Matters to a Vote of Security Holders</u> |
| | 34 |
| Item 6. | <u>Exhibits</u> |
| | 36 |
| | <u>SIGNATURES</u> |
| | 37 |
| | <u>Exhibit Index</u> |
| | 38 |

Table of Contents

PART I FINANCIAL INFORMATION

Item 1: Financial Statements

BARNES & NOBLE, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

(In thousands, except per share data)

(unaudited)

| | 13 weeks ended | | 26 weeks ended | |
|---|-------------------|-------------------|-------------------|-------------------|
| | August 1, 2009 | August 2, 2008 | August 1, 2009 | August 2, 2008 |
| Sales | \$ 1,155,681 | 1,220,989 | 2,260,833 | 2,376,871 |
| Cost of sales and occupancy | 799,826 | 846,590 | 1,573,317 | 1,654,505 |
| Gross profit | 355,855 | 374,399 | 687,516 | 722,366 |
| Selling and administrative expenses | 288,651 | 299,792 | 575,205 | 603,655 |
| Depreciation and amortization | 44,854 | 42,485 | 90,733 | 83,799 |
| Pre-opening expenses | 1,698 | 3,166 | 4,170 | 7,703 |
| Operating profit | 20,652 | 28,956 | 17,408 | 27,209 |
| Interest expense, net and amortization of deferred financing fees | 304 | 1,087 | 503 | 280 |
| Income from continuing operations before taxes | 20,348 | 27,869 | 16,905 | 26,929 |
| Income taxes | 8,110 | 11,168 | 6,736 | 10,794 |
| Income from continuing operations (net of income tax) | 12,238 | 16,701 | 10,169 | 16,135 |
| Loss from discontinued operations (net of income tax) | | (1,360) | (654) | (3,018) |
| Net income | 12,238 | 15,341 | 9,515 | 13,117 |
| Net loss attributable to noncontrolling interests | 29 | 70 | 59 | 70 |
| Net income attributable to Barnes & Noble, Inc. | \$ 12,267 | 15,411 | 9,574 | 13,187 |
| Income attributable to Barnes & Noble, Inc. | | | | |
| Income from continuing operations | \$ 12,238 | 16,701 | 10,169 | 16,135 |
| Less loss attributable to noncontrolling interests | 29 | 70 | 59 | 70 |
| Income from continuing operations attributable to Barnes & Noble, Inc. | \$ 12,267 | 16,771 | 10,228 | 16,205 |
| Basic earnings per common share | | | | |
| Income from continuing operations attributable to Barnes & Noble, Inc. | \$ 0.22 | 0.30 | 0.18 | 0.28 |
| Loss from discontinued operations attributable to Barnes & Noble, Inc. | | (0.02) | (0.01) | (0.05) |
| Net income attributable to Barnes & Noble, Inc. | \$ 0.22 | 0.28 | 0.17 | 0.23 |
| Diluted earnings per common share | | | | |
| Income from continuing operations attributable to Barnes & Noble, Inc. | \$ 0.21 | 0.29 | 0.18 | 0.27 |
| Loss from discontinued operations attributable to Barnes & Noble, Inc. | | (0.02) | (0.01) | (0.05) |

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| | | | | | |
|---|----|--------|--------|--------|--------|
| Net income attributable to Barnes & Noble, Inc. | \$ | 0.21 | 0.27 | 0.17 | 0.22 |
| Weighted average common shares outstanding | | | | | |
| Basic | | 55,186 | 54,201 | 54,973 | 55,907 |
| Diluted | | 56,221 | 55,819 | 55,894 | 57,678 |
| Dividends declared per common share | \$ | 0.25 | 0.25 | 0.50 | 0.40 |

See accompanying notes to consolidated financial statements.

Table of Contents

BARNES & NOBLE, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except per share data)

| | August 1, 2009 | August 2, 2008 | January 31, 2009 |
|--|-------------------|-------------------|---------------------|
| | (unaudited) | | |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 157,743 | 21,626 | 281,608 |
| Receivables, net | 93,693 | 106,093 | 80,998 |
| Merchandise inventories | 1,229,761 | 1,337,918 | 1,203,471 |
| Prepaid expenses and other current assets | 130,143 | 135,280 | 127,028 |
| Current assets of discontinued operations | | 41,862 | 30,199 |
| Total current assets | 1,611,340 | 1,642,779 | 1,723,304 |
| Property and equipment: | | | |
| Land and land improvements | 9,298 | 9,324 | 9,298 |
| Buildings and leasehold improvements | 1,105,660 | 1,083,461 | 1,096,801 |
| Fixtures and equipment | 1,338,289 | 1,341,883 | 1,385,454 |
| | 2,453,247 | 2,434,668 | 2,491,553 |
| Less accumulated depreciation and amortization | 1,675,461 | 1,595,563 | 1,670,839 |
| Net property and equipment | 777,786 | 839,105 | 820,714 |
| Goodwill | 255,845 | 240,418 | 240,008 |
| Intangible assets, net | 89,798 | 85,707 | 83,443 |
| Deferred taxes | 110,309 | 103,395 | 110,098 |
| Other noncurrent assets | 13,287 | 7,100 | 8,000 |
| Noncurrent assets of discontinued operations | | 26,753 | 8,321 |
| Total assets | \$ 2,858,365 | 2,945,257 | 2,993,888 |

(Continued)

Table of Contents

BARNES & NOBLE, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except per share data)

| | August 1, 2009 | August 2, 2008 | January 31, 2009 |
|--|-------------------|-------------------|---------------------|
| | (unaudited) | | |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 760,467 | 736,478 | 746,599 |
| Accrued liabilities | 616,400 | 597,688 | 710,269 |
| Current liabilities of discontinued operations | | 39,584 | 18,807 |
| Total current liabilities | 1,376,867 | 1,373,750 | 1,475,675 |
| Long-term debt | | | |
| | | 119,000 | |
| Deferred taxes | 189,268 | 173,496 | 189,268 |
| Other long-term liabilities | 379,319 | 392,141 | 393,006 |
| Noncurrent liabilities of discontinued operations | | 10,680 | 12,713 |
| Shareholders' equity: | | | |
| Common stock; \$.001 par value; 300,000 | | | |
| | 88 | 87 | 88 |
| shares authorized; 88,380, 87,148 and 87,681 shares issued, respectively | | | |
| Additional paid-in capital | 1,273,598 | 1,245,742 | 1,262,358 |
| Accumulated other comprehensive loss | (12,015) | (9,550) | (14,503) |
| Retained earnings | 699,802 | 686,709 | 721,200 |
| Treasury stock, at cost, 33,181, 33,026 and 33,066 shares, respectively | (1,050,115) | (1,046,728) | (1,047,529) |
| Total Barnes & Noble, Inc. shareholders' equity | 911,358 | 876,260 | 921,614 |
| Noncontrolling interest | 1,553 | (70) | 1,612 |
| Total shareholders' equity | 912,911 | 876,190 | 923,226 |
| Commitments and contingencies | | | |
| Total liabilities and shareholders' equity | \$ 2,858,365 | 2,945,257 | 2,993,888 |

See accompanying notes to consolidated financial statements.

Table of Contents

BARNES & NOBLE, INC. AND SUBSIDIARIES

Consolidated Statement of Changes in Shareholders' Equity

For the 26 weeks ended August 1, 2009

(In thousands)

(unaudited)

| | Barnes & Noble, Inc. Shareholders' Equity | | | | | | |
|---|---|-----------------|----------------------------------|---|----------------------|------------------------------|------------|
| | Noncontrolling Interest | Common Stock | Additional Paid-In Capital | Accumulated Other Comprehensive Losses | Retained Earnings | Treasury Stock at Cost | Total |
| Balance at January 31, 2009 | \$ 1,612 | 88 | 1,262,358 | (14,503) | 721,200 | (1,047,529) | \$ 923,226 |
| Comprehensive income (loss): | | | | | | | |
| Net income (loss) | (59) | | | | 9,574 | | |
| Total comprehensive income | | | | | | | 9,515 |
| Exercise of 316 common stock options | | | 6,097 | | | | 6,097 |
| Stock options and restricted stock tax benefits | | | (2,495) | | | | (2,495) |
| Stock-based compensation expense | | | 7,638 | | | | 7,638 |
| Sale of Calendar Club (See Note 5) | | | | 2,488 | (2,488) | | |
| Cash dividend paid to stockholders | | | | | (28,484) | | (28,484) |
| Treasury stock acquired, 115 shares | | | | | | (2,586) | (2,586) |
| Balance at August 1, 2009 | \$ 1,553 | 88 | 1,273,598 | (12,015) | 699,802 | (1,050,115) | \$ 912,911 |

See accompanying notes to consolidated financial statements.

Table of Contents

BARNES & NOBLE, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the 26 weeks ended August 1, 2009 and August 2, 2008

(Thousands of dollars, except per share data)

(unaudited)

| | 26 weeks ended | |
|---|-------------------|-------------------|
| | August 1, 2009 | August 2, 2008 |
| Cash flows from operating activities: | | |
| Net income | \$ 9,574 | 13,187 |
| Net loss from discontinued operations | (654) | (3,018) |
| Net income from continuing operations | 10,228 | 16,205 |
| Adjustments to reconcile net income from continuing operations to net cash flows from operating activities: | | |
| Depreciation and amortization (including amortization of deferred financing fees) | 91,007 | 84,076 |
| Stock-based compensation expense | 7,638 | 9,866 |
| Deferred taxes | 2,003 | 1,452 |
| Loss on disposal of property and equipment | 608 | 3,858 |
| Increase (decrease) in other long-term liabilities | (14,612) | 8,409 |
| Noncontrolling interest | (59) | (70) |
| Changes in operating assets and liabilities, net | (134,790) | (226,734) |
| Net cash flows from operating activities | (37,977) | (102,938) |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (46,103) | (110,575) |
| Acquisition of Fictionwise | (15,729) | |
| Net decrease in other noncurrent assets | 136 | 983 |
| Net cash flows from investing activities | (61,696) | (109,592) |
| Cash flows from financing activities: | | |
| Proceeds from exercise of common stock options | 6,097 | 3,395 |
| Excess tax benefit from stock-based compensation | 435 | 431 |
| Purchase of treasury stock | (2,586) | (200,680) |
| Cash dividend paid to shareholders | (28,484) | (23,337) |
| Net increase in revolving credit facility | | 119,000 |
| Net cash flows from financing activities | (24,538) | (101,191) |
| Cash flow from discontinued operations: | | |
| Operating cash flows | (654) | 1,745 |
| Investing cash flows | 1,000 | (660) |
| Financing cash flows | | (818) |
| Net cash flows from discontinued operations | 346 | 267 |

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| | | |
|--|--------------|-----------|
| Net decrease in cash and cash equivalents | (123,865) | (313,454) |
| Cash and cash equivalents at beginning of period | 281,608 | 335,080 |
| Cash and cash equivalents at end of period | \$ 157,743 | 21,626 |
| Changes in operating assets and liabilities, net: | | |
| Receivables, net | \$ (12,650) | (12,898) |
| Merchandise inventories | (26,290) | 20,252 |
| Prepaid expenses and other current assets | (3,115) | (10,237) |
| Accounts payable and accrued liabilities | (92,735) | (223,851) |
| Changes in operating assets and liabilities, net | \$ (134,790) | (226,734) |
| Supplemental cash flow information: | | |
| Cash paid (received) during the period for: | | |
| Interest paid (received) | \$ 222 | (353) |
| Income taxes (net of refunds) | \$ 39,290 | 54,517 |
| Supplemental disclosure of subsidiaries acquired: | | |
| Assets acquired | \$ 26,666 | |
| Liabilities assumed | 10,937 | |
| Cash paid | \$ 15,729 | |
| Noncash activities: | | |
| Note receivable on sale of Calendar Club | \$ 6,000 | |
| See accompanying notes to consolidated financial statements. | | |

Table of Contents

BARNES & NOBLE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the 26 weeks ended August 1, 2009 and August 2, 2008

(Thousands of dollars, except per share data)

(unaudited)

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

In the opinion of the Company's management, the accompanying unaudited consolidated financial statements of the Company contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly its consolidated financial position as of August 1, 2009 and the results of its operations and its cash flows for the 13 and 26 weeks then ended. These consolidated financial statements are condensed and therefore do not include all of the information and footnotes required by generally accepted accounting principles. The consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the 52 weeks ended January 31, 2009 (fiscal 2008). The Company follows the same accounting policies in preparation of interim reports, except as set out in Note 7, Earnings per Share, and Note 8, Noncontrolling Interest.

Due to the seasonal nature of the business, the results of operations for the 26 weeks ended August 1, 2009 are not indicative of the results to be expected for the 52 weeks ending January 30, 2010 (fiscal 2009).

(1) Merchandise Inventories

Merchandise inventories are stated at the lower of cost or market. Cost is determined on the first-in, first-out (FIFO) basis. The Company uses the retail inventory method on the FIFO basis for 97%, 98% and 97% of the Company's merchandise inventories as of August 1, 2009, August 2, 2008 and January 31, 2009, respectively.

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

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

(2) Reclassifications

Certain prior period amounts have been reclassified to conform to the current presentation.

(3) Income Taxes

As of August 1, 2009, the Company had \$25,011 of gross unrecognized tax benefits, all of which, if recognized, would affect the Company's effective tax rate. The Company's continuing practice is to recognize interest and penalties related to income tax matters in income tax expense. The Company had \$7,197 accrued for interest and penalties, which is included in the \$25,011 of unrecognized tax benefits noted above.

Table of Contents

BARNES & NOBLE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the 26 weeks ended August 1, 2009 and August 2, 2008

(Thousands of dollars, except per share data)

(unaudited)

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 2004 through 2008. Some earlier years remain open for a small minority of states. Prior to 2006, the Company had a tax year ending in October.

(4) 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 and may make earn-out payments contingent upon the achievement of certain performance and technology related targets through 2011. 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 the iPhone® and iPod touch®, BlackBerry® smartphones, as well as most Windows® and Mac® laptops or full-sized desktop computers.

The acquisition was accounted for as a business purchase pursuant to Statement of Financial Accounting Standards (SFAS) 141(R) (as amended) [ASC 805], *Business Combinations* (See Note 13). 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 acquisition date is included in the purchase price shown below. 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 |

Table of Contents

BARNES & NOBLE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the 26 weeks ended August 1, 2009 and August 2, 2008

(Thousands of dollars, except per share data)

(unaudited)

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 goodwill arising from the acquisition consists largely of expectations that Fictionwise will provide the Company with an enhanced digital platform. The goodwill recognized is expected to be 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 3 years. Acquired technology is being amortized on a straight-line basis over a range of 5 to 10 years. Customer relationships are being amortized using an accelerated method over their 5 year useful life. The Company recorded \$789 in amortization during the 13 weeks ended August 1, 2009 related to these intangibles.

The Fictionwise results of operations for the period subsequent to the acquisition date are included in the consolidated financial statements. The pro forma effect assuming the acquisition of Fictionwise at the beginning of fiscal 2008 is not material.

(5) Discontinued Operations

During the 13 weeks ended January 31, 2009, 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 on February 25, 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. As a result of the sale and the operating loss to the date of the sale, the Company incurred a non-cash after-tax charge of \$654 during the 26 weeks ended August 1, 2009. 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.

(6) 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 remained available under the Company's shareholder-approved 2004 Incentive Plan. At August 1, 2009, there were approximately 2,956,039 shares of common stock available for future grants under the 2009 Incentive Plan.

A restricted stock award is an award of common shares 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

Table of Contents

BARNES & NOBLE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the 26 weeks ended August 1, 2009 and August 2, 2008

(Thousands of dollars, except per share data)

(unaudited)

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 weighted average assumptions relating to the valuation of the Company's stock options for the 13 and 26 weeks ended August 2, 2008 are shown below. No options were granted for the 13 and 26 weeks ended August 1, 2009.

| | 13 weeks ended August 2, 2008 | 26 weeks ended August 2, 2008 |
|---------------------------------------|--|--|
| Weighted average fair value of grants | \$ 0.01 | \$ 13.54 |
| Expected volatility | 42.12% | 56.09% |
| Expected risk-free interest rate | 1.39% | 2.41% |
| Expected life | 0.25 years | 1.89 years |
| Expected dividend yield | 4.66% | 2.16% |

Table of Contents

BARNES & NOBLE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the 26 weeks ended August 1, 2009 and August 2, 2008

(Thousands of dollars, except per share data)

(unaudited)

Stock-Based Compensation Activity

The following table presents a summary of the Company's stock options activity for the 26 weeks ended August 1, 2009:

| | Number of Shares (in thousands) | Weighted Average Exercise Price |
|---------------------------|--|--|
| Balance, January 31, 2009 | 5,967 | \$ 20.11 |
| Granted | | |
| Exercised | (316) | 19.27 |
| Forfeited | (182) | 22.80 |
| Balance, August 1, 2009 | 5,469 | 20.07 |

Exercisable at August 1, 2009 5,468 20.06

As of August 1, 2009, there was \$7 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 0.5 years.

Table of Contents

BARNES & NOBLE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the 26 weeks ended August 1, 2009 and August 2, 2008

(Thousands of dollars, except per share data)

(unaudited)

The following table presents a summary of the Company's restricted stock activity for the 26 weeks ended August 1, 2009:

| | Number of Shares (in thousands) | Weighted Average Grant Date Fair Value |
|---------------------------|------------------------------------|--|
| Balance, January 31, 2009 | 1,451 | \$ 33.55 |
| Granted | 175 | 19.37 |
| Vested | (384) | 37.66 |
| Forfeited | (61) | 35.46 |
| Balance, August 1, 2009 | 1,181 | 30.01 |

As of August 1, 2009, there was \$30,500 of unrecognized stock-based compensation expense related to unvested restricted stock awards. That cost is expected to be recognized over a weighted average period of 2.5 years.

For the 13 and 26 weeks ended August 1, 2009 and August 2, 2008, the Company recognized stock-based compensation expense as follows:

| | 13 weeks ended | | 26 weeks ended | |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | August 1, 2009 | August 2, 2008 | August 1, 2009 | August 2, 2008 |
| Selling and administrative expenses | \$ 3,738 | 4,994 | 7,638 | 9,866 |

(7) Earnings per Share

On February 1, 2009, the Company adopted the Financial Accounting Standards Board (FASB) Staff Position No. EITF 03-6-1 (FSP EITF 03-6-1) [ASC 260-10-45], *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. ASC 260-10-45 requires unvested shares that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) to be considered participating securities, and therefore is included in computing earnings per share using the two-class method. The Company's unvested restricted shares and shares issuable under the Company's deferred compensation plan are considered participating securities. The calculation of earnings per share for common stock presented here has been 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. The Company has retroactively applied the provisions of ASC 260-10-45 to the financial information included herein.

Table of Contents

BARNES & NOBLE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the 26 weeks ended August 1, 2009 and August 2, 2008

(Thousands of dollars, except per share data)

(unaudited)

The following is a reconciliation of the Company's basic and diluted earnings per share calculation applying the two-class method:

| | 13 weeks ended | | 26 weeks ended | |
|---|-------------------|-------------------|-------------------|-------------------|
| | August 1, 2009 | August 2, 2008 | August 1, 2009 | August 2, 2008 |
| Numerator for basic earnings per share: | | | | |
| Income from continuing operations attributable to Barnes & Noble, Inc. | \$ 12,267 | 16,771 | 10,228 | 16,205 |
| Less allocation of earnings and dividends to participating securities | (389) | (562) | (322) | (500) |
| Net income from continuing operations available to common shareholders | 11,878 | 16,209 | 9,906 | 15,705 |
| Less loss from discontinued operations, net of allocation of earnings and dividends to participating securities | | (1,295) | (594) | (2,893) |
| Net income available to common shareholders | \$ 11,878 | 14,914 | 9,312 | 12,812 |
| Numerator for diluted earnings per share: | | | | |
| Net income from continuing operations available to common shareholders | \$ 11,878 | 16,209 | 9,906 | 15,705 |
| Effect of diluted options | (1) | 3 | (10) | (7) |
| Net income from continuing operations available to common shareholders | 11,877 | 16,212 | 9,896 | 15,698 |
| Less loss from discontinued operations | | (1,360) | (654) | (3,018) |
| Net income available to common shareholders | \$ 11,877 | 14,852 | 9,242 | 12,680 |
| Denominator for basic and diluted earnings per share: | | | | |
| Basic weighted average common shares | 55,186 | 54,201 | 54,973 | 55,907 |
| Average diluted options | 1,035 | 1,618 | 921 | 1,771 |
| Diluted weighted average common shares | 56,221 | 55,819 | 55,894 | 57,678 |
| Basic earnings per common share | | | | |
| Income from continuing operations attributable to Barnes & Noble, Inc. | \$ 0.22 | 0.30 | 0.18 | 0.28 |
| Loss from discontinued operations attributable to Barnes & Noble, Inc. | | (0.02) | (0.01) | (0.05) |
| Net income attributable to Barnes & Noble, Inc. | \$ 0.22 | 0.28 | 0.17 | 0.23 |
| Diluted earnings per common share | | | | |
| Income from continuing operations attributable to Barnes & Noble, Inc. | \$ 0.21 | 0.29 | 0.18 | 0.27 |
| Loss from discontinued operations attributable to Barnes & Noble, Inc. | | (0.02) | (0.01) | (0.05) |
| Net income attributable to Barnes & Noble, Inc. | \$ 0.21 | 0.27 | 0.17 | 0.22 |

Table of Contents

BARNES & NOBLE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the 26 weeks ended August 1, 2009 and August 2, 2008

(Thousands of dollars, except per share data)

(unaudited)

(8) Noncontrolling Interest

On February 1, 2009, the Company adopted SFAS No. 160 (SFAS 160) [ASC 810-10-45], *Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 5*, which changed the accounting and reporting for minority interests, to be recharacterized as noncontrolling interests and classified as a component of equity within the consolidated balance sheets. The Company has retroactively applied the provisions in ASC 810-10-45 to the financial information included herein. As of August 1, 2009 and August 2, 2008, noncontrolling interests of \$1,553 and (\$70), respectively, have been classified as a component of equity in the consolidated balance sheet. For the 13 weeks ended August 1, 2009 and August 2, 2008, net loss attributable to noncontrolling interest of \$29 and \$70, respectively, is included in the Company's net income. For the 26 weeks ended August 1, 2009 and August 2, 2008, net loss attributable to noncontrolling interest of \$59 and \$70, respectively, is included in the Company's net income.

(9) Changes in Intangible Assets and Goodwill

| | As of August 1, 2009 | | | |
|--|----------------------|--------------------------|-----------------------------|-----------|
| | Useful Life | Gross Carrying Amount | Accumulated Amortization | Total |
| Amortizable intangible assets | | | | |
| Author contracts | 10 | \$ 18,461 | (11,971) | \$ 6,490 |
| Distribution contracts | 10 | 8,325 | (3,207) | 5,118 |
| D&O insurance | 6 | 3,202 | (2,752) | 450 |
| Technology | 5-10 | 5,610 | (300) | 5,310 |
| Customer relationships | 5 | 2,410 | (440) | 1,970 |
| Trade name | 3 | 640 | (64) | 576 |
| | | \$ 38,648 | (18,734) | \$ 19,914 |
| Unamortizable intangible assets | | | | |
| Trade name | | | | \$ 48,400 |
| Copyrights | | | | 148 |
| Publishing contracts | | | | 21,336 |
| | | | | \$ 69,884 |

Table of Contents

BARNES & NOBLE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the 26 weeks ended August 1, 2009 and August 2, 2008

(Thousands of dollars, except per share data)

(unaudited)

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

Aggregate Amortization Expense:

| | |
|---------------------------------------|----------|
| For the 26 weeks ended August 1, 2009 | \$ 2,309 |
|---------------------------------------|----------|

Estimated Amortization Expense:

(12 months ending on or about January 31)

| | |
|------|----------|
| 2010 | \$ 4,887 |
| 2011 | \$ 4,277 |
| 2012 | \$ 3,737 |
| 2013 | \$ 3,448 |
| 2014 | \$ 3,312 |

The changes in the carrying amount of goodwill for the 26 weeks ended August 1, 2009 are as follows:

| | |
|--|------------|
| Balance as of January 31, 2009 | \$ 240,008 |
| Fictionwise acquisition (See Note 4) | 18,051 |
| Benefit of excess tax amortization (a) | (2,214) |
| Balance as of August 1, 2009 | \$ 255,845 |

- (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 SFAS 109 [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.

(10) Pension and Other Postretirement Benefit 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 barnesandnoble.com llc (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 for the 13 weeks ended August 1, 2009 and August 2, 2008 was \$762 and \$245, respectively. Pension expense for the 26 weeks ended August 1, 2009 and August 2, 2008 was \$1,514 and \$675, respectively.

Table of Contents

BARNES & NOBLE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the 26 weeks ended August 1, 2009 and August 2, 2008

(Thousands of dollars, except per share data)

(unaudited)

The Company provides certain health care and life insurance benefits (the Postretirement Plan) to certain 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 \$38 and \$61 for the 13 weeks ended August 1, 2009 and August 2, 2008, respectively. Postretirement Plan expense for the 26 weeks ended August 1, 2009 and August 2, 2008 was \$75 and \$122, respectively.

(11) **Gift Cards**

The Company sells gift cards which can be used in 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 also sells online gift certificates for use solely on Barnes & Noble.com, which are treated the same way as gift cards.

(12) **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

The class action lawsuit *In re Initial Public Offering Securities Litigation* filed in the United States District Court for the Southern District of New York in April 2002 (the Action) named over 1,000 individuals and 300 corporations, including Fatbrain.com, LLC, a former subsidiary of Barnes & Noble.com (Fatbrain), 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 (SEC), 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 after market at increasing prices. The amended complaints also allege that the foregoing constitute violations of:

(i) Section 11 of the Securities 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 Exchange Act, by the same parties; and (iii) the control

Table of Contents

BARNES & NOBLE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the 26 weeks ended August 1, 2009 and August 2, 2008

(Thousands of dollars, except per share data)

(unaudited)

person provisions of the Securities Act and Exchange Act 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 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. Plaintiffs then filed, in January 2007, 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.

An agreement in principle has now been negotiated among counsel for all of the issuers, plaintiffs, insurers and underwriters, which has been executed by the Company and remains subject to court approval. If the proposed settlement is approved, no settlement payment will be made by the Company. If the proposed settlement is not approved, the Company intends to vigorously defend this lawsuit.

Hostetter v. Barnes & Noble Booksellers, Inc. et al.

On December 4, 2008, a purported class action complaint was filed against Barnes & Noble Booksellers, Inc. in the Superior Court for the State of California making the following allegations against defendants with respect to hourly managers and/or assistant managers at Barnes & Noble stores located in the State of California: (1) failure to pay wages and overtime; (2) failure to provide meal and/or rest breaks; (3) waiting time penalties; and (4) unfair competition. The complaint contains no allegations concerning the number of any such alleged violations or the amount of recovery sought on behalf the purported class. On March 4, 2009, Barnes & Noble Booksellers filed an answer denying all claims. On March 5, 2009, Barnes & Noble Booksellers removed this matter to federal court. Written discovery concerning purported class member wages, hours worked, and other matters has commenced. The plaintiffs' class certification motion is due October 19, 2009. The Court has set a trial date of August 10, 2010.

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

On May 1, 2009, a purported class action complaint was filed against Barnes & Noble Booksellers, Inc. 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 seeks restitution of such allegedly

Table of Contents

BARNES & NOBLE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the 26 weeks ended August 1, 2009 and August 2, 2008

(Thousands of dollars, except per share data)

(unaudited)

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, Barnes & Noble Booksellers filed an answer denying all claims.

Louisiana Municipal Police Employees Employee 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.

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, Inc., 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 and directing plaintiffs to file a consolidated amended complaint, to which the Company will respond in due course. 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.

(13) Recent Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a Replacement of FASB Statement No. 162*. The Accounting Standards Codification (ASC) identifies itself as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles in the United States (GAAP). Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The ASC does not change U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. Effective September 15, 2009, all public filings of the Company will reference the ASC as the sole source of authoritative literature.

In April 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS 165) [ASC 855-10-05], which provides guidance to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Under ASC 855-10-05 entities are required to disclose the date through which subsequent events were evaluated, as well as the rationale for why that date was selected. ASC 855-10-05 is effective for interim and annual periods ending after June 15,

Table of Contents

BARNES & NOBLE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the 26 weeks ended August 1, 2009 and August 2, 2008

(Thousands of dollars, except per share data)

(unaudited)

2009. The Company adopted ASC 855-10-05 at May 3, 2009 and the adoption had no impact on the Company's financial position, results of operations and cash flows.

In April 2009, the FASB issued Staff Position No. FAS 107-1 and Accounting Principles Board (APB) 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP 107-1) [ASC 825-10]. ASC 825-10 amends SFAS No. 107 (SFAS 107) [ASC 825-10], *Disclosures About Fair Value of Financial Instruments*, and requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. ASC 825-10 also amends APB Opinion No. 28 (APB 28) [ASC 270-10], *Interim Financial Reporting*, and requires those disclosures in summarized financial information at interim reporting periods. ASC 825-10 is effective for interim reporting periods ending after June 15, 2009. The Company adopted ASC 825-10 at May 3, 2009. The carrying amounts of Cash and Cash Equivalents, Receivables and Accounts Payable approximate fair value due to the short-term maturities of these financial instruments.

Table of Contents

BARNES & NOBLE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the 26 weeks ended August 1, 2009 and August 2, 2008

(Thousands of dollars, except per share data)

(unaudited)

(14) **Subsequent Events**

SFAS 165 [ASC 855-10-05] requires that public entities evaluate subsequent events through the date that the financial statements are issued. Management has evaluated subsequent events through the time of the filing of these financial statements with the SEC on September 10, 2009.

On August 20, 2009, the Company announced that its Board of Directors had declared a quarterly cash dividend of \$0.25 per share for stockholders of record at the close of business on September 9, 2009, payable on September 30, 2009.

As previously announced in the Company's Forms 8-K filed with the SEC on August 10, 2009, the Company entered into a Stock Purchase Agreement (the Purchase Agreement) on August 7, 2009, with Leonard Riggio and Louise Riggio (the sellers), pursuant to which the Company will acquire all of the issued and outstanding capital stock of Barnes & Noble College Booksellers, Inc. (B&N College) from the sellers for \$596,000 or approximately \$460,000 net of estimated B&N College cash on hand on the expected closing date. Mr. Riggio is Chairman of the Company's Board of Directors. The \$596,000 purchase price consists of \$346,000 in cash and \$250,000 in aggregate principal amount of unsecured subordinated seller notes. In connection with the acquisition of B&N College, the Company entered into an amended and restated commitment letter (the Commitment Letter) pursuant to which Bank of America, N.A., JPMorgan Chase Bank N.A. and Wells Fargo Retail Finance, LLC (collectively, the Lead Commitment Parties) have committed to provide up to \$600,000 under a \$1,000,000 four-year asset-backed revolving credit facility (the New Credit Facility). The commitments of the Lead Commitment Parties are subject to various conditions, including consummation of the acquisition of B&N College in accordance with the terms of the Purchase Agreement; no material adverse change having occurred in the operations or condition (financial or otherwise) of the Company, B&N College and their subsidiaries, taken as a whole; the negotiation of definitive documentation with respect to the New Credit Facility satisfactory to the Lead Commitment Parties; satisfaction of a minimum excess availability under the New Credit Facility at closing; and the other closing conditions set forth in the Commitment Letter. The Company has also received commitments exceeding \$400,000 in the aggregate from other financial institutions pursuant to individual commitment letters with terms and conditions that are substantially similar to those contained in the Commitment Letter. The New Credit Facility would replace the Company's and B&N College's existing revolving credit facilities. The Company intends to finance the acquisition with a combination of proceeds of the New Credit Facility, the seller notes, and B&N College's cash on hand as of the closing. The acquisition is expected to close on or around October 1, 2009, or such later date as all of the conditions to closing are satisfied or waived.

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors

Barnes & Noble, Inc.

New York, New York

We have reviewed the condensed consolidated balance sheets of Barnes & Noble, Inc. and Subsidiaries as of August 1, 2009 and August 2, 2008, and the related consolidated statements of operations for the 13 week and 26 week periods ended August 1, 2009 and August 2, 2008, changes in shareholders' equity for the 26 week period ended August 1, 2009, and cash flows for the 26 week periods ended August 1, 2009 and August 2, 2008 included in the accompanying Securities and Exchange Commission Form 10-Q for the period ended August 1, 2009. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board, the consolidated balance sheets of Barnes & Noble, Inc. and Subsidiaries as of January 31, 2009, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the year then ended included in the Company's Form 10-K for the fiscal year ended January 31, 2009; and in our report dated March 31, 2009, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheets as of January 31, 2009 is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ BDO Seidman, LLP
BDO Seidman, LLP

New York, New York
September 10, 2009

Table of Contents

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

Liquidity and Capital Resources

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

The Company's cash and cash equivalents were \$157.7 million as of August 1, 2009, compared with \$21.6 million as of August 2, 2008.

Merchandise inventories decreased \$108.2 million, or 8.1%, to \$1.230 billion as of August 1, 2009, compared with \$1.338 billion as of August 2, 2008.

The Company's investing activities consist principally of capital expenditures for new store construction, the maintenance of existing stores and system enhancements for the retail stores and the Company's website. Capital expenditures totaled \$46.1 million and \$110.6 million during the 26 weeks ended August 1, 2009 and August 2, 2008, respectively. This decrease was primarily the result of 7 new store openings during the 26 weeks ended August 1, 2009 compared to 21 new store openings during the 26 weeks ended August 2, 2008. Furthermore, during the second quarter of fiscal 2008, the Company purchased its distribution facility and related equipment located in South Brunswick, New Jersey for approximately \$21.0 million.

The Company has an \$850 million revolving credit facility dated as of June 17, 2005, as amended and restated on August 2, 2006 (Revolving Credit Facility). The Revolving Credit Facility has a maturity date of July 31, 2011 and may be increased to \$1.0 billion under certain circumstances at the option of the Company. The Revolving Credit Facility has an applicable margin that is applied to loans and standby letters of credit ranging from 0.500% to 1.000% above the stated Eurodollar rate. A fee is paid on commercial letters of credit ranging from 0.2500% to 0.5000%. In addition, a commitment fee ranging from 0.100% to 0.200% is paid on the unused portion of the Revolving Credit Facility. In each case, the applicable rate is based on the Company's consolidated fixed charge coverage ratio. Proceeds from the Revolving Credit Facility are used for general corporate purposes, including seasonal working capital needs.

The Company had no outstanding debt as of August 1, 2009, compared to \$119.0 million in borrowings as of August 2, 2008.

As previously announced in the Company's Forms 8-K filed with the Securities and Exchange Commission (SEC) on August 10, 2009, the Company entered into a Stock Purchase Agreement (the Purchase Agreement) on August 7, 2009, with Leonard Riggio and Louise Riggio (the sellers), pursuant to which the Company will acquire all of the issued and outstanding capital stock of Barnes & Noble College Booksellers, Inc. (B&N College) from the sellers for \$596.0 million in cash or approximately \$460.0 million net of estimated B&N College cash on hand on the expected closing date. Mr. Riggio is Chairman of the Company's Board of Directors. The \$596.0 million purchase price consists of \$346.0 million in cash and \$250.0 million in aggregate principal amount of unsecured subordinated seller notes. In connection with the acquisition of B&N College, the Company entered into an amended and restated commitment letter (the Commitment Letter) pursuant to which Bank of America, N.A., JPMorgan Chase Bank N.A. and Wells Fargo Retail Finance, LLC (collectively, the Lead Commitment Parties) have committed to provide up to \$600.0 million under a \$1.0 billion four-year asset-backed revolving credit facility (the New Credit Facility). The commitments of the Lead Commitment Parties are subject to various conditions, including consummation of the acquisition of B&N College in

Table of Contents

accordance with the terms of the Purchase Agreement; no material adverse change having occurred in the operations or condition (financial or otherwise) of the Company, B&N College and their subsidiaries, taken as a whole; the negotiation of definitive documentation with respect to the New Credit Facility satisfactory to the Lead Commitment Parties; satisfaction of a minimum excess availability under the New Credit Facility at closing; and the other closing conditions set forth in the Commitment Letter. The Company has also received commitments exceeding \$400.0 million in the aggregate from other financial institutions pursuant to individual commitment letters with terms and conditions that are substantially similar to those contained in the Commitment Letter. The New Credit Facility would replace the Company's and B&N College's existing revolving credit facilities. The Company intends to finance the acquisition with a combination of proceeds of the New Credit Facility, the seller notes, and B&N College's cash on hand as of the closing. The acquisition is expected to close on or around October 1, 2009, or such later date as all of the conditions to closing are satisfied or waived.

Based upon the Company's current operating levels, management believes cash and cash equivalents on hand, net cash flows from operating activities and the capacity under the Revolving Credit Facility or the New Credit Facility will be sufficient to meet the Company's normal working capital and debt service requirements for at least the next twelve months.

The Company paid quarterly cash dividends of \$0.25 per share on March 31, 2009 to stockholders of record at the close of business on March 10, 2009 and on June 30, 2009 to stockholders of record at the close of business on June 9, 2009. On August 20, 2009, the Company announced it had authorized a quarterly cash dividend of \$0.25 per share for stockholders of record at the close of business on September 9, 2009, payable on September 30, 2009.

Seasonality

The Company's business, like that of many retailers, is seasonal, with the major portion of sales and operating profit realized during the fourth quarter, which includes the holiday selling season.

Results of Operations

13 weeks ended August 1, 2009 compared with the 13 weeks ended August 2, 2008

Sales

During the 13 weeks ended August 1, 2009, the Company's sales decreased \$65.3 million, or 5.3%, to \$1.156 billion from \$1.221 billion during the 13 weeks ended August 2, 2008. This decrease was primarily attributable to a \$58.1 million decrease in sales at Barnes & Noble stores and a \$5.6 million decrease in sales at B. Dalton stores, offset by a \$1.5 million increase in sales at Barnes & Noble.com.

Barnes & Noble store sales for the 13 weeks ended August 1, 2009 decreased \$58.1 million, or 5.3%, to \$1.032 billion from \$1.090 billion during the same period a year ago, and accounted for 89.3% of total Company sales. The 5.3% decrease in Barnes & Noble store sales was primarily attributable to a 6.9% decrease in comparable store sales or \$70.0 million and by closed stores that decreased sales by \$21.5 million, offset by new Barnes & Noble store sales of \$33.7 million.

B. Dalton sales decreased \$5.6 million, or 34.4%, to \$10.6 million during the 13 weeks ended August 1, 2009 from \$16.2 million during the 13 weeks ended August 2, 2008. This decrease was primarily attributable to the closing of 23 stores over the last 12 months.

Table of Contents

Barnes & Noble.com sales increased \$1.5 million, or 1.5%, to \$102.0 million during the 13 weeks ended August 1, 2009 from \$100.5 million during the 13 weeks ended August 2, 2008.

During the 13 weeks ended August 1, 2009, the Company opened one Barnes & Noble store and closed three, bringing its total number of Barnes & Noble stores to 724 with 18.8 million square feet. The Company closed one B. Dalton store, ending the period with 50 B. Dalton stores and 0.2 million square feet. As of August 1, 2009, the Company operated 774 stores in the fifty states and the District of Columbia.

Cost of Sales and Occupancy

During the 13 weeks ended August 1, 2009, cost of sales and occupancy decreased \$46.8 million, or 5.5%, to \$799.8 million from \$846.6 million during the 13 weeks ended August 2, 2008. Cost of sales and occupancy decreased slightly as a percentage of sales to 69.2% from 69.3% the same period one year ago. This decrease was primarily attributable to lower distribution expenses, particularly in freight and payroll, continued physical inventory shortage rates at last year's levels, reduced markdowns as well as favorable product mix, partially offset by the deleveraging of fixed occupancy costs on the negative comparable store sales.

Selling and Administrative Expenses

Selling and administrative expenses decreased \$11.1 million, or 3.7%, to \$288.7 million during the 13 weeks ended August 1, 2009 from \$299.8 million during the 13 weeks ended August 2, 2008. Selling and administrative expenses increased as a percentage of sales to 25.0% from 24.6% during the same period one year ago. This increase was primarily due to the deleveraging of fixed expenses with the negative comparable store sales, offset in part by planned cost reductions as well as a \$6.7 million benefit related to an insurance settlement.

Depreciation and Amortization

During the 13 weeks ended August 1, 2009, depreciation and amortization increased \$2.4 million, or 5.6%, to \$44.9 million from \$42.5 million during the same period one year ago. This increase was primarily due to depreciation on additional capital expenditures for existing store maintenance, new store openings and technology investments, as well as amortization related to certain intangible assets resulting from the acquisition of Fictionwise Inc.

Pre-opening Expenses

Pre-opening expenses decreased \$1.5 million, or 46.4%, to \$1.7 million during the 13 weeks ended August 1, 2009 from \$3.2 million for the 13 weeks ended August 2, 2008. This decrease was primarily the result of the lower volume of new store openings.

Operating Profit

The Company's consolidated operating profit decreased \$8.3 million, or 28.7%, to \$20.7 million during the 13 weeks ended August 1, 2009 from \$29.0 million during the 13 weeks ended August 2, 2008. This decrease was primarily due to the negative comparable store sales, as well as the matters discussed above.

Table of Contents

Interest Expense, Net and Amortization of Deferred Financing Fees

Net interest expense and amortization of deferred financing fees decreased \$0.8 million, or 72.0%, to \$0.3 million during the 13 weeks ended August 1, 2009 from \$1.1 million during the 13 weeks ended August 2, 2008. This decrease in interest expense was primarily due to lower average borrowings.

Income Taxes

Income tax expense during the 13 weeks ended August 1, 2009 was \$8.1 million compared with income tax expense of \$11.2 million during the 13 weeks ended August 2, 2008. The Company's effective tax rate was 39.86% and 40.07% for the 13 weeks ended August 1, 2009 and August 2, 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. 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 \$1.4 million loss from discontinued operations for the 13 weeks ended August 2, 2008.

Net Loss Attributable to Noncontrolling Interests

Net loss attributable to noncontrolling interests decreased slightly to \$0.03 million during the 13 weeks ended August 1, 2009 from \$0.07 million during the 13 weeks ended August 2, 2008, and relates to the 50% outside interest in Begin Smart LLC.

Net Income Attributable to Barnes & Noble, Inc.

As a result of the factors discussed above, the Company reported a consolidated net income attributable to Barnes & Noble, Inc. of \$12.3 million (or \$0.21 per diluted share) during the 13 weeks ended August 1, 2009, compared with a consolidated net income attributable to Barnes & Noble, Inc. of \$15.4 million (or \$0.27 per diluted share) during the 13 weeks ended August 2, 2008.

Results of Operations

26 weeks ended August 1, 2009 compared with the 26 weeks ended August 2, 2008

Sales

During the 26 weeks ended August 1, 2009, the Company's sales decreased \$116.0 million, or 4.9%, to \$2.261 billion from \$2.377 billion during the 26 weeks ended August 2, 2008. This decrease was primarily attributable to a \$93.6 million decrease in sales at Barnes & Noble stores, a \$10.8 million decrease in sales at B. Dalton stores, and a \$5.7 million decrease in sales at Barnes & Noble.com.

Barnes & Noble store sales for the 26 weeks ended August 1, 2009 decreased \$93.6 million, or 4.4%, to \$2.021 billion from \$2.115 billion during the same period a year ago, and accounted for 89.4% of total Company sales. This decrease was primarily attributable to a 6.3% decrease in comparable store sales which decreased sales by \$124.6 million and by closed stores that decreased sales by \$44.9 million, offset by new Barnes & Noble stores that contributed to an increase in sales of \$75.9 million.

Table of Contents

B. Dalton sales decreased \$10.8 million, or 33.6%, to \$21.4 million during the 26 weeks ended August 1, 2009 from \$32.3 million during the 26 weeks ended August 2, 2008. This decrease was primarily attributable to the closing of 23 stores over the last 12 months.

Barnes & Noble.com sales decreased \$5.7 million, or 2.8%, to \$195.1 million during the 26 weeks ended August 1, 2009 from \$200.8 million during the 26 weeks ended August 2, 2008.

During the 26 weeks ended August 1, 2009, the Company opened seven Barnes & Noble stores and closed nine, bringing its total number of Barnes & Noble stores to 724 with 18.8 million square feet. The Company closed two B. Dalton stores, ending the period with 50 B. Dalton stores with 0.2 million square feet. As of August 1, 2009, the Company operated 774 stores in the fifty states and the District of Columbia.

Cost of Sales and Occupancy

During the 26 weeks ended August 1, 2009, cost of sales and occupancy decreased \$81.2 million, or 4.9%, to \$1.573 billion from \$1.655 billion during the 26 weeks ended August 2, 2008. Cost of sales and occupancy remained flat as a percentage of sales of 69.6% during the 26 weeks ended August 1, 2009 and August 2, 2008. This was accomplished primarily due to lower distribution expenses, particularly in freight and payroll, continued physical inventory shortage rates at last year's levels, reduced markdowns as well as favorable product mix, offset by the deleveraging of fixed occupancy costs on the negative comparable store sales.

Selling and Administrative Expenses

Selling and administrative expenses decreased \$28.5 million, or 4.7%, to \$575.2 million during the 26 weeks ended August 1, 2009 from \$603.7 million during the 26 weeks ended August 2, 2008. Selling and administrative expenses remained flat as a percentage of sales of 25.4% during the 26 weeks ended August 1, 2009 and August 2, 2008. This was accomplished primarily due to planned cost reductions, a \$6.7 million benefit related to an insurance settlement recorded during the 26 weeks ended August 1, 2009 and an \$8.3 million charge 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 recorded during the 26 weeks ended August 2, 2008, offset by the deleveraging of fixed expenses with the negative comparable store sales.

Depreciation and Amortization

During the 26 weeks ended August 1, 2009, depreciation and amortization increased \$6.9 million, or 8.3%, to \$90.7 million from \$83.8 million during the same period last year. This increase was primarily due to depreciation on additional capital expenditures for existing store maintenance, technology investments and new store openings.

Pre-opening Expenses

Pre-opening expenses decreased \$3.5 million, or 45.9%, to \$4.2 million during the 26 weeks ended August 1, 2009 from \$7.7 million for the 26 weeks ended August 2, 2008. This decrease in pre-opening expenses was primarily the result of the lower volume of new store openings.

Table of Contents

Operating Profit

The Company's consolidated operating profit decreased \$9.8 million, or 36.0%, to \$17.4 million during the 26 weeks ended August 1, 2009 from \$27.2 million during the 26 weeks ended August 2, 2008. This decrease was primarily due to the negative comparable store sales, as well as the matters discussed above.

Interest Expense, Net and Amortization of Deferred Financing Fees

Net interest expense and amortization of deferred financing fees increased \$0.2 million, or 79.6%, to \$0.5 million during the 26 weeks ended August 1, 2009 from \$0.3 million during the 26 weeks ended August 2, 2008. The increase was primarily due to lower investment rates related to interest income offset by lower average borrowings, compared with the prior year period.

Income Taxes

Income tax expense during the 26 weeks ended August 1, 2009 was \$6.7 million compared with income tax expense of \$10.8 million during the 26 weeks ended August 2, 2008. The Company's effective tax rate was 39.84% and 40.08% for the 26 weeks ended August 1, 2009 and August 2, 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 26 weeks ended August 1, 2009. 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 \$3.0 million loss from discontinued operations for the 26 weeks ended August 2, 2008.

Net Loss Attributable to Noncontrolling Interests

Net loss attributable to noncontrolling interests decreased slightly to \$0.06 million during the 26 weeks ended August 1, 2009 from \$0.07 million during the 26 weeks ended August 2, 2008, and relates to the 50% outside interest in Begin Smart LLC.

Net Income Attributable to Barnes & Noble, Inc.

As a result of the factors discussed above, the Company reported a consolidated net income attributable to Barnes & Noble, Inc. of \$9.6 million (or \$0.17 per diluted share) during the 26 weeks ended August 1, 2009, compared with a consolidated net income attributable to Barnes & Noble, Inc. of \$13.2 million (or \$0.22 per diluted share) during the 26 weeks ended August 2, 2008.

Critical Accounting Policies

SEC Financial Reporting Release No. 60 requests all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. Management of 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.

Table of Contents

Merchandise Inventories. Merchandise inventories are stated at the lower of cost or market. Cost is determined primarily by the retail inventory method on the first-in, first-out (FIFO) basis. The Company uses the retail inventory method for 97%, 98% and 97% of the Company's merchandise inventories as of August 1, 2009, August 2, 2008 and January 31, 2009, respectively.

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.

Other Long-Lived Assets. The Company's other long-lived assets include property and equipment and amortizable intangibles. At August 1, 2009, the Company had \$777.8 million of property and equipment, net of accumulated depreciation, and \$19.9 million of amortizable intangible assets, net of amortization, accounting for approximately 27.9% 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 Statement of Financial Accounting Standards (SFAS) No. 144 [ASC 360-10], *Accounting for the Impairment or Disposal of Long-Lived Assets*. The Company evaluates long-lived assets for impairment at the individual 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.

Goodwill and Unamortizable Intangible Assets. At August 1, 2009, the Company had \$255.8 million of goodwill and \$69.9 million of unamortizable intangible assets (those with an indefinite useful life), accounting for approximately 11.4% of the Company's total assets. SFAS No. 142 [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 impairment test on its goodwill in November 2008 and deemed that no impairment charge was necessary. 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. Changes in market conditions, among other factors, could have a material impact on these estimates.

Gift Cards. The Company sells gift cards which can be used in 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

Table of Contents

actual redemption patterns vary from the Company's estimates, actual gift card breakage may differ from the amounts recorded. The Company also sells online gift certificates for use solely on Barnes & Noble.com, which are treated the same way as gift cards.

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 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.

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 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, general economic and market conditions, decreased consumer demand for the Company's products, possible disruptions in the Company's computer or telephone systems, possible risks associated with data privacy and information security, possible work stoppages or increases in labor costs, possible increases in shipping rates or interruptions in shipping service, effects of competition, possible disruptions or delays in the opening of new stores or the inability to obtain suitable sites for new stores, higher-than-anticipated store closing or relocation costs, higher interest rates, the performance of the Company's online, digital and other initiatives, the performance and successful integration of acquired businesses, the success of the Company's strategic investments, unanticipated increases in merchandise or occupancy costs, unanticipated adverse litigation results or effects, the results or effects of any governmental review of the Company's stock option practices, product shortages, 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 January 31, 2009, and in the Company's other filings made 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-Q.

Table of Contents

Item 3: Quantitative and Qualitative Disclosures About Market Risk

The Company limits its interest rate risks by investing certain of its excess cash balances in short-term, highly-liquid instruments with an original maturity of one year or less. The Company does not expect any material losses from its invested cash balances and the Company believes that its interest rate exposure is modest. As of August 1, 2009, the Company's cash and cash equivalents totaled approximately \$157.7 million.

Additionally, the Company may from time to time borrow money under its Revolving Credit Facility at various interest-rate options based on the prime rate or the Eurodollar rate (a publicly published rate), depending upon certain financial tests. Accordingly, the Company may be exposed to interest rate risk on money that it borrows under the Revolving Credit Facility. The Company had no outstanding debt on August 1, 2009. The Company had \$119.0 million in borrowings outstanding on August 2, 2008.

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

Item 4: Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

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). Based on this 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. Notwithstanding the foregoing, 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.

(b) Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

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

In re Initial Public Offering Securities Litigation

The class action lawsuit *In re Initial Public Offering Securities Litigation* filed in the United States District Court for the Southern District of New York in April 2002 (the Action) named over 1,000 individuals and 300 corporations, including Fatbrain.com, LLC, a former subsidiary of Barnes & Noble.com (Fatbrain), 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 SEC, 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 after market at increasing prices. The amended complaints also allege that the foregoing constitute violations of: (i) Section 11 of the Securities 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 Exchange Act, by the same parties; and (iii) the control person provisions of the Securities Act and Exchange Act 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 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. Plaintiffs then filed, in January 2007, 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.

An agreement in principle has now been negotiated among counsel for all of the issuers, plaintiffs, insurers and underwriters, which has been executed by the Company and remains subject to court approval. If the proposed settlement is approved, no settlement payment will be made by the Company. If the proposed settlement is not approved, the Company intends to vigorously defend this lawsuit.

Table of Contents

Hostetter v. Barnes & Noble Booksellers, Inc. et al.

On December 4, 2008, a purported class action complaint was filed against Barnes & Noble Booksellers, Inc. in the Superior Court for the State of California making the following allegations against defendants with respect to hourly managers and/or assistant managers at Barnes & Noble stores located in the State of California: (1) failure to pay wages and overtime; (2) failure to provide meal and/or rest breaks; (3) waiting time penalties; and (4) unfair competition. The complaint contains no allegations concerning the number of any such alleged violations or the amount of recovery sought on behalf the purported class. On March 4, 2009, Barnes & Noble Booksellers filed an answer denying all claims. On March 5, 2009, Barnes & Noble Booksellers removed this matter to federal court. Written discovery concerning purported class member wages, hours worked, and other matters has commenced. The plaintiffs' class certification motion is due October 19, 2009. The Court has set a trial date of August 10, 2010.

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

On May 1, 2009, a purported class action complaint was filed against Barnes & Noble Booksellers, Inc. 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 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, Barnes & Noble Booksellers filed an answer denying all claims.

Louisiana Municipal Police Employees Employee 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.

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, Inc., 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 and directing plaintiffs to file a consolidated amended complaint, to which the Company will respond in due course. 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.

Table of Contents**Item 1A. Risk Factors**

There have been no material changes to the risk factors disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2009.

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

| 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 |
|-------------------------------|--------------------------------------|------------------------------|--|--|
| May 3, 2009 - June 1, 2009 | 31,244 | \$ 24.28 | | \$ 2,470,561 |
| June 2, 2009 - July 1, 2009 | 1,037 | \$ 26.78 | | \$ 2,470,561 |
| July 2, 2009 - August 1, 2009 | | \$ | | \$ 2,470,561 |
| Total | 32,281 | \$ 24.36 | | |

(a) All of the shares on this table above were originally granted to employees as restricted stock pursuant to the Company's 2004 Incentive Plan. The 2004 Incentive Plan 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 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 this program is approximately \$2.5 million as of August 1, 2009.

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 August 1, 2009, the Company has repurchased 33,180,580 shares at a cost of approximately \$1,050.1 million. The repurchased shares are held in treasury.

Item 4. Submission of Matters to a Vote of Security Holders

The Company's Annual Meeting of Shareholders was held on June 2, 2009 (the Annual Meeting). At the close of business on the record date for the meeting (which was April 8, 2009), there were 56,803,751 shares of Common Stock outstanding and entitled to vote at the Annual Meeting. Holders of 50,099,113 shares of Common Stock (representing a like number of votes) were present at the Annual Meeting, either in person or by proxy.

Table of Contents

At the Annual Meeting, the following individuals were elected to the Company's Board of Directors to hold office for a term of three years and until their respective successors are duly elected and qualified, by the following vote:

| Nominee | In Favor | Withheld |
|---------------------|-----------------|-----------------|
| William Dillard, II | 48,558,942 | 1,540,172 |
| Patricia L. Higgins | 49,100,642 | 998,472 |
| Irene R. Miller | 49,183,244 | 915,870 |

There were no abstentions and broker non-votes with respect to the election of directors.

The following individuals continue to serve on the Company's Board of Directors until the expiration of their terms: Leonard Riggio, Stephen Riggio, George Campbell Jr., Michael J. Del Giudice, Margaret T. Monaco and Lawrence S. Zilavy.

At the Annual Meeting, the shareholders also approved the Barnes & Noble, Inc. 2009 Incentive Plan as well as the Barnes & Noble, Inc. 2009 Executive Performance Plan by the following votes:

| | In Favor | Against | Abstained |
|---------------------------------|-----------------|----------------|------------------|
| 2009 Incentive Plan | 40,755,139 | 3,346,217 | 318,502 |
| 2009 Executive Performance Plan | 47,019,268 | 2,526,750 | 553,096 |

At the Annual Meeting, the shareholders also ratified the appointment of BDO Seidman, LLP as the Company's independent registered public accountants for the fiscal year ending January 30, 2010, by the following vote:

| In Favor | Against | Abstained |
|-----------------|----------------|------------------|
| 49,659,748 | 393,563 | 45,807 |

There were no broker non-votes with respect to the approval of the Barnes & Noble, Inc. 2009 Incentive Plan, the Barnes & Noble, Inc. 2009 Executive Performance Plan and the appointment of BDO Seidman, LLP.

Table of Contents

Item 6. Exhibits

- 10.1 The Company's 2009 Incentive Plan. (1)
- 10.2 The Company's 2009 Executive Performance Plan. (2)
- 15.1 Letter from BDO Seidman, LLP regarding unaudited interim financial information. (3)
- 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. (3)
- 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. (3)
- 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. (3)
- 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. (3)

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- (1) Previously filed as Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on April 16, 2009.
- (2) Previously filed as Appendix B to the Company's Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on April 16, 2009.
- (3) Filed herewith.

Table of Contents

SIGNATURES

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

BARNES & NOBLE, INC.

(Registrant)

By: /s/ Joseph J. Lombardi
Joseph J. Lombardi

Chief Financial Officer

(principal financial officer)

By: /s/ Allen W. Lindstrom
Allen W. Lindstrom

Vice President, Corporate Controller

(principal accounting officer)
September 10, 2009

Table of Contents

EXHIBIT INDEX

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 - 10.2 The Company's 2009 Executive Performance Plan. (2)
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 - 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. (3)
-
- (1) Previously filed as Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on April 16, 2009.
 - (2) Previously filed as Appendix B to the Company's Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on April 16, 2009.
 - (3) Filed herewith.