

BARNES & NOBLE INC
Form 10-K
June 23, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended April 30, 2016

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission File No. 1-12302

Barnes & Noble, Inc.

(Exact name of registrant as specified in its Charter)

Delaware (State or other jurisdiction of incorporation or organization)	06-1196501 (I.R.S. Employer Identification No.)
122 Fifth Avenue, New York, NY (Address of principal executive offices)	10011 (Zip Code)
Registrant's telephone number, including area code: (212) 633-3300	

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

Title of Class	Name of Exchange on which registered
Common Stock, \$0.001 par value per share	New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act: None	

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

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

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

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

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

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

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

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

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant was approximately \$818,450,838 based upon the closing market price of \$12.99 per share of Common Stock on the New York Stock Exchange as of October 31, 2015.

As of May 31, 2016, 73,866,102 shares of Common Stock, par value \$0.001 per share, were outstanding, which number includes 64,414 shares of unvested restricted stock that have voting rights and are held by members of the Board of Directors and the Company's employees.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2016 Annual Meeting of Shareholders are incorporated by reference into Part III.

Portions of the Registrant's Annual Report to Shareholders for the fiscal year ended April 30, 2016 are incorporated by reference into Parts II and IV.

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FORWARD-LOOKING STATEMENTS

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

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

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described as anticipated, believed, estimated, expected, intended or planned. Subsequent written and oral forward-looking statements attributable to Barnes & Noble or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements in this paragraph. Barnes & Noble undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this Form 10-K.

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PART I

ITEM 1. BUSINESS

General

Barnes & Noble, Inc. (Barnes & Noble or the Company), one of the nation's largest booksellers, is a leading content and commerce company providing customers easy and convenient access to trade books and other content across its multi-channel distribution platform. As of April 30, 2016, the Company operates 640 bookstores in 50 states, maintains an eCommerce site, develops digital reading products and operates one of the largest digital bookstores. Barnes & Noble is utilizing the strength of its retail footprint in combination with its online and digital businesses to provide an omni-channel experience for its customers, fulfilling its commitment to offer customers any book, anytime, anywhere and in any format.

Barnes & Noble Retail (B&N Retail) operates 640 retail bookstores, primarily under the Barnes & Noble Booksellers® trade name, and includes the Company's eCommerce site. B&N Retail also includes Sterling Publishing Co., Inc. (Sterling or Sterling Publishing), a leader in general trade book publishing. The NOOK segment represents the Company's digital business, offering digital books and magazines for sale and consumption online, NOOK®2 reading devices, co-branded NOOK® tablets and reading software for iOS, Android and Windows 8. The Company employed approximately 28,000 full- and part-time employees as of April 30, 2016. Including seasonal and temporary employees, the Company employed approximately 29,000 employees as of April 30, 2016.

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

In recent years, B&N Retail has experienced declining sales trends due to secular industry challenges, leading to lower comparable store sales, decreased online sales and store closures. The Company also experienced expense deleverage due to the declining sales trends. More recently, the Company has benefited from favorable book industry trends, including a plateauing of the growth of the digital book market. In addition, the Company implemented successful merchandising initiatives, which improved traffic and sales trends, especially in its non-book businesses. The Company has also increased the size and scope of its in-store events, which now include nationwide campaigns, such as Get Pop-Cultured and Maker Faire that increase traffic and sales and further reinforce Barnes & Noble as a community center. The Company is also improving the navigation and discovery of titles that takes place in its stores to make books easier to find amongst its vast selection, which it believes will improve performance. The Company launched a new eCommerce platform in June 2015 and expected certain challenges that generally accompany any new site launch. However, the challenges were greater than anticipated and reduced website traffic, as well as conversion. The Company has been and continues to implement website fixes to increase traffic and conversion on the site, as well as improve the overall user experience. BN.com is an important component of the Company's omni-channel strategy, and it believes that in the long term the new platform will enable it to be more competitive in the marketplace.

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

² Any references to NOOK® include the Company's Samsung Galaxy Tab S2 NOOK®, Samsung Galaxy Tab E NOOK®, Samsung Galaxy Tab® 4 NOOK® 7.0 device and NOOK GlowLight™ Plus, each of which includes the trademark symbol (® or ™, as applicable) even if a trademark symbol is not included.

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NOOK represents the Company's digital business, which includes the Company's eBookstore, digital newsstand and sales of NOOK devices and accessories. The underlying strategy of the NOOK business is to offer customers any digital book, newspaper or magazine, anytime, on any device. The Company remains committed to delivering to customers the best digital bookstore experience, providing easy access to Barnes & Noble's expansive digital collection of over four million eBooks, digital magazines and newspapers, while rationalizing its existing cost structure.

The Company believes that through its omni-channel offering it is well positioned to improve results and is focused on executing four key objectives to achieve success, including: significantly reducing NOOK losses; growing online and bookstore sales; reducing B&N Retail's selling and administrative expenses; and growing its Membership program.

The Company has recently taken a number of actions that will help further reduce NOOK losses, including the exit of its Apps and video businesses, as well as the exit of the U.K. eBook market. The Company also entered into an agreement with Bahwan CyberTek (BCT) to outsource certain NOOK functions, including cloud management and development support for NOOK software, which enabled it to close its Santa Clara, CA and Taipei offices. Additionally, the Company entered into a revised partnership with Samsung to bring new co-branded devices to market.

To grow online and bookstore sales, the Company will utilize the strong Barnes & Noble brand and retail footprint to attract customers to its omni-channel offerings. The Company has also recently created individual bookstore social media accounts, which enable its booksellers to communicate directly with customers at the local level to inform them of all the great events and merchandise available at their local Barnes & Noble stores. The Company is also focused on increasing traffic through store events, and conversion through improved navigation and discovery throughout the store, including a customer friendly and more intuitive organization of books and improved signage for easier browsing within and across sections.

The Company is reviewing its organizational design and exploring process improvements to look for opportunities to reduce B&N Retail's selling and administrative expenses.

The Company's Membership program provides the Company with valuable data and insights into its customer base, enabling the Company to have deeper relationships and more meaningful communications with its Members. The Company plans to leverage its unique assets to increase the appeal of the program and the loyalty of its Members.

Separation of B&N Education, Inc.

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

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

On August 2, 2015, Barnes & Noble completed the Spin-Off of Barnes & Noble Education and distributed, on a pro rata basis, all of the shares of B&N Education common stock to the Company's

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

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

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

Discontinued Operations of B&N Education, Inc.

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

Resignation Charge

On August 2, 2015, Michael P. Huseby resigned from the Company's Board of Directors and as Chief Executive Officer of the Company, which was contingent upon the successful separation of B&N Education. In connection with his termination of employment, he received severance payments based on the terms of his employment agreement with the Company, effective as of January 7, 2014. Under the terms of his employment agreement, upon a resignation for "Good Reason", Mr. Huseby was entitled to receive lump-sum severance equal to two times the sum of (a) annual base salary, (b) the average annual incentive compensation paid to the named executive officer with respect to the preceding two completed years and (c) the cost of benefits. In addition, Mr. Huseby was entitled to accelerated vesting of the equity-based awards granted pursuant to his employment agreement. As a result, Mr. Huseby received a severance payment equal to \$7.7 million and additionally was entitled to 300,000 shares of the Company's common stock pursuant to the accelerated vesting of the equity-based awards, which were settled for cash based on the closing price of the Company's common stock on the record date of the Spin-Off in an amount equal to \$8.0 million. The net cash payments related to Mr. Huseby's resignation totaled \$15.7 million during the second fiscal quarter ended October 31, 2015. Mr. Huseby's 300,000 shares have been ratably expensed from the initial grant date, thereby reducing the total resignation charge to \$10.5 million, which was recorded within selling and administrative expenses during the second fiscal quarter ended October 31, 2015.

History of B&N Education, Inc.

On September 30, 2009, Barnes & Noble acquired Barnes & Noble College Booksellers, LLC (B&N College) from Leonard and Louise Riggio. From that date until October 4, 2012, B&N College

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

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

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

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

Samsung Commercial Agreement

On June 4, 2014, NOOK Digital, LLC (NOOK Digital) (formerly NOOK Media Sub and barnesandnoble.com llc), a wholly owned subsidiary of B&N Education as of such date and a subsidiary of Barnes & Noble, entered into a commercial agreement (Agreement) with Samsung Electronics America, Inc. (Samsung) relating to tablets.

Pursuant to the Agreement, NOOK Digital, after good faith consultations with Samsung and subject to Samsung's agreement, selected Samsung tablet devices under development to be customized and co-branded by NOOK Digital. Such devices are produced by Samsung. The co-branded NOOK® tablet devices are sold by NOOK Digital through Barnes & Noble retail stores, www.barnesandnoble.com and www.nook.com.

Under the Agreement, NOOK Digital committed to purchase a minimum of 1,000,000 NOOK®-Samsung co-branded devices from Samsung within 12 months after the launch of the initial co-branded device, which occurred on August 20, 2014. The 12-month period was automatically extended by three months due to the quantity of sales of such co-branded devices through December 31, 2014, and the period was further extended until June 30, 2016 by an amendment executed by the parties on March 7, 2015.

NOOK Digital and Samsung have agreed to coordinate customer service for the co-branded NOOK® devices and have both agreed to a license of intellectual property to promote and market the devices. Additionally, Samsung has agreed to fund a marketing fund for the co-branded NOOK® devices at the initial launch and for the duration of the Agreement.

The Agreement had a two-year term, with certain termination rights, including termination (i) by NOOK Digital for a Samsung material default; (ii) by Samsung for a NOOK Digital material default; (iii) by NOOK Digital if Samsung fails to meet its shipping and delivery obligations in any material respect on a timely basis; and (iv) by either party upon insolvency or bankruptcy of the other party.

On May 17, 2016, NOOK Digital and Samsung amended the Agreement, pursuant to which NOOK Digital agreed to a minimum purchase commitment of devices with a total retail value equal to

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\$10.0 million during the first twelve months after launch of any co-branded NOOK tablet device. The amended minimum purchase commitment replaces all prior purchase commitments contained in the Agreement by NOOK Digital and Samsung.

Series J Preferred Stock

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

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

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

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

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

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

The Company was incorporated in Delaware in 1986.

Segments

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

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B&N Retail

This segment includes 640 bookstores as of April 30, 2016, primarily under the Barnes & Noble Booksellers trade name. These Barnes & Noble stores generally offer a comprehensive trade book title base, a café, and departments dedicated to Juvenile, Toys & Games, DVDs, Music & Vinyl, Gift, Magazine, Bargain products and a dedicated NOOK® area. The stores also offer a calendar of ongoing events, including author appearances and children's activities. The B&N Retail segment also includes the Company's eCommerce website, www.barnesandnoble.com, and its publishing operation, Sterling Publishing.

Barnes & Noble stores range in size from 3,000 to 60,000 square feet depending upon market size, with an overall average store size of 26,000 square feet. In fiscal 2016, the Company reduced the Barnes & Noble store base by approximately 229,000 square feet, bringing the total square footage to 16.9 million square feet, a net reduction of 1.3% from fiscal 2015. The Company did not open any new Barnes & Noble stores in fiscal 2016.

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

Proximity to Customers. The Company's strategy has been to increase its share of the consumer book market, as well as to increase the size of the market through a market clustering strategy. As of April 30, 2016, Barnes & Noble had stores in 161 of the total 210 Designated Market Area markets. In 67 of the 161 markets, the Company has only one Barnes & Noble store. The Company believes its bookstores' proximity to its customers strengthens its market position and increases the value of its brand. Most Barnes & Noble stores are located in high-traffic areas with convenient access to major commercial thoroughfares and ample parking. Most stores offer extended shopping hours seven days a week.

Extensive Title Selection. Each Barnes & Noble store features an authoritative selection of books, ranging from 22,000 to 160,000 titles. The comprehensive title selection is diverse and reflects local interests and regional titles and authors' works. Bestsellers typically represent between approximately 4% and 6% of Barnes & Noble store sales. Complementing this extensive on-site selection, all Barnes & Noble stores provide customers with access to the millions of books available to online shoppers at www.barnesandnoble.com by offering an option to have the book sent to the store or shipped directly to the customer. Additionally, the website allows customers to purchase over four million eBooks, newspapers and magazines. The Company believes that its tremendous selection, including many otherwise hard-to-find titles, builds customer loyalty.

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

NOOK® Boutique/Counter. The Company is utilizing its traditional retail bookstores to promote NOOK® via NOOK counters, NOOK Boutiques, and NOOK Digital Shops within the bookstores. These dedicated areas provide customers the ability to see, feel, and experiment with NOOK®, speak to knowledgeable booksellers, and receive pre- and post-sales customer support. The Company offers NOOK® owners Always Free NOOK® Support in all of its retail bookstores, as well as free Wi-Fi connectivity to enjoy the Read In Store feature to read NOOK Books for free. These acclaimed

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devices, which provide a fun, easy-to-use and immersive reading experience, include the Samsung Galaxy Tab® S2 NOOK®, Samsung Galaxy Tab® E NOOK®, Samsung Galaxy Tab® 4 NOOK® 7.0 device and NOOK GlowLight Plus. The NOOK® devices have also opened up an additional market for NOOK®-related accessories such as stands, covers, lights, and other items. Through our NOOK in Education program, the retail bookstores provide support and service to schools and educators who deploy NOOK® devices in their classrooms.

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

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

Music and Movies & TV Departments. Many of the Barnes & Noble stores have Music and Movies & TV departments, which offer CDs, Vinyl LPs, DVDs and Blu-ray discs. These departments range in size from approximately 300 to 8,000 square feet and typically stock approximately 12,000 titles. The Company's DVD and Blu-ray selection focuses on current and classic movies, documentaries, fitness and instructional titles, British TV series and movies, and foreign films. The music selection is tailored to the tastes of the Company's customers, centering on classical music, jazz, pop rock, and show tunes. The Company also offers a strong selection of Vinyl titles, available in all stores, along with turntables.

Discount Pricing. Barnes & Noble stores employ an aggressive nationwide discount pricing strategy and offer special promotions throughout the year, including *Buy 2, Get the 3rd Free* promotions on kids' books, *Special Value Purchase* promotions with purchases in kids' books and toys & games, *Buy 1, Get 1 50% Off* on select B&N Collectible Editions and up to 50% off promotions on DVDs & Blu-ray discs. The Barnes & Noble Member Program offers members greater discounts and other benefits for products and services as well as exclusive offers and promotions via email or direct mail. The Company's website, www.barnesandnoble.com, also utilizes a competitive model that includes everyday low pricing as well as various promotional offerings designed for members and non-members alike and enables the Company to offer better value to its customers. The Barnes & Noble Kids' Club Program offers free rewards and special offers to participants and invites children to celebrate their birthday within the retail bookstores.

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

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

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Merchandising and Marketing. The Company's merchandising strategy for its Barnes & Noble stores is to be the authoritative community bookstore carrying an extensive selection of titles in all subjects, including an extensive selection of titles from small independent publishers and university presses. Each Barnes & Noble store features an extensive selection of books from 22,000 to 160,000 unique titles, of which approximately 28,000 titles are common to virtually all stores. Each store is tailored to reflect the lifestyles and interests of the area's customers.

Product Master, the Company's proprietary inventory database, has approximately 17.1 million titles. It includes approximately 7.3 million active titles and provides each store with comprehensive title selections. By enhancing the Company's existing merchandise replenishment systems, Product Master allows the Company to achieve higher in-stock positions and better productivity at the bookstore level through efficiencies in receiving, cashiering and returns processing. Complementing this extensive on-site selection, all Barnes & Noble stores provide customers with access to the millions of books available to online shoppers at www.barnesandnoble.com by offering an option to have the book sent to the store or shipped directly to the customer.

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

The Company launched a new eCommerce platform in June 2015 and expected certain challenges that generally accompany any new site launch. However, the challenges were greater than anticipated and reduced traffic, as well as conversion. The Company has been and continues to implement website fixes to increase traffic and conversion on the site, as well as improve the overall user experience. BN.com is an important component of the Company's omni-channel strategy and it believes that in the long term the new platform will enable it to be more competitive in the marketplace.

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

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

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

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The B&N Retail segment includes 640 bookstores as of April 30, 2016, primarily under the Barnes & Noble Booksellers trade name. The number of Barnes & Noble stores located in each state as of April 30, 2016 is listed below:

	NUMBER		NUMBER
STATE	OF STORES	STATE	OF STORES
Alabama	7	Montana	4
Alaska	2	Nebraska	4
Arizona	15	Nevada	4
Arkansas	5	New Hampshire	4
California	71	New Jersey	24
Colorado	15	New Mexico	3
Connecticut	12	New York	39
Delaware	2	North Carolina	21
Florida	40	North Dakota	3
Georgia	19	Ohio	18
Hawaii	2	Oklahoma	5
Idaho	3	Oregon	7
Illinois	27	Pennsylvania	26
Indiana	12	Rhode Island	3
Iowa	7	South Carolina	10
Kansas	4	South Dakota	1
Kentucky	7	Tennessee	8
Louisiana	7	Texas	51
Maine	1	Utah	10
Maryland	13	Vermont	1
Massachusetts	17	Virginia	24
Michigan	19	Washington	18
Minnesota	17	West Virginia	1
Mississippi	3	Wisconsin	11
Missouri	12	Wyoming	1
<i>Sterling Publishing</i>			

Sterling Publishing is a leading publisher of non-fiction trade titles. Founded in 1949, Sterling publishes a wide range of non-fiction and illustrated books and kits across a variety of imprints, in categories such as health & wellness, music & popular culture, food & wine, crafts & photography, puzzles & games, coloring books and history & current affairs, as well as a large children's line. Sterling, with a solid backlist and robust value publishing program, has a title base of approximately 16,000 eBooks and print books. In addition, Sterling also distributes approximately 1,000 titles on behalf of client publishers.

Operations

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

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

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

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

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

Purchasing

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

The Company's B&N Retail segment purchases physical books on a regular basis from over 500 publishers and nearly 50 wholesalers or distributors. Purchases from the top five suppliers (including publishers, wholesalers and distributors) accounted for approximately 66% of the B&N Retail's book purchases during fiscal 2016, and no single supplier accounted for more than 30% of B&N Retail's book purchases during this period. Consistent with industry practice, a substantial majority of the physical book purchases are returnable for full credit, a practice which substantially reduces the Company's risk of inventory obsolescence.

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

Distribution

The Company has invested significant capital in its systems and technology by building new platforms, implementing new software applications and building and maintaining efficient distribution

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centers. This investment has enabled the Company to source a majority of its inventory through its own distribution centers, resulting in direct buying from vendors rather than wholesalers. Using the Company's own distribution centers rather than wholesalers lowers distribution costs per unit, increases inventory turns, and improves product margins. The Company's distribution centers' 3-prong strategy of (1) accelerating speed to market, (2) improving order quality (on-time, complete and damage free) and (3) reducing costs has improved just-in-time deliveries to stores as well as deliveries to the Company's customers on orders placed via the Barnes & Noble website and through the Company's in-store order network.

As of April 30, 2016, the Company has approximately 1,745,000 square feet of distribution center capacity. The Company has an approximately 1,145,000 square foot distribution center in Monroe Township, New Jersey, which ships merchandise to stores throughout the country and to online customers. The Company also has an approximately 600,000 square foot distribution center in Reno, Nevada, which is used to facilitate distribution to stores and online customers in the western United States.

Information Technologies

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

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

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

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

Competition

The book business is highly competitive in every channel in which Barnes & Noble operates. B&N Retail stores compete primarily on the quality of the shopping and store experience and the price and availability of products. The importance of price varies depending on the competitor, with some of Barnes & Noble's competitors engaging in significant discounting and other promotional activities. B&N

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Retail competes with other bookstores, including Books-A-Million. It also faces competition from many online businesses, notably Amazon.com and Apple. Increases in consumer spending via the Internet may significantly affect its ability to generate sales in B&N Retail stores. B&N Retail also faces competition from mass merchandisers, such as Costco, Target and Wal-Mart. Some of the Company's competitors have greater financial and other resources and different business strategies than B&N Retail does. B&N Retail stores also compete with specialty retail stores that offer books in particular subject areas, independent store operators, variety discounters, drug stores, warehouse clubs, mail-order clubs and other retailers offering books, music, toys, games, gifts and other products in its market segments.

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

Seasonality

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

Employees

The Company cultivates a culture of outgoing, helpful and knowledgeable employees. As of April 30, 2016, the B&N Retail segment had approximately 28,000 full- and part-time booksellers. The B&N Retail segment's employees are not represented by unions.

NOOK

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

Barnes & Noble's NOOK digital bookstore and Reading Apps provide customers the ability to purchase and read their digital content and access their Lifetime Library on a wide range of digital platforms, including Windows 8 PCs and tablets, iPad®, iPhone®, Android smartphones and tablets, PC and Mac®. Barnes & Noble has implemented innovative features on its digital platform to ensure that customers can access their NOOK content from almost all of today's most popular devices.

NOOK currently sells a number of different devices to satisfy customers' digital needs, including the Samsung Galaxy Tab® S2 NOOK®, Samsung Galaxy Tab® E NOOK®, Samsung Galaxy Tab® 4 NOOK® 7.0 device and NOOK GlowLight® Plus. These devices provide customers access to the millions of books and magazines in the NOOK Store, and through Google Play, Android apps and games, songs, movies and TV shows, plus popular Google services like the Chrome® browser, Gmail®, YouTube®, Google Search® and Google Maps®. NOOK GlowLight® Plus provides customers a simple, easy to use, intuitive eReader on an E Ink display that replicates the experience of reading from physical paper and provides access to the Company's digital content store. Always Free NOOK Support in any of the B&N Retail bookstores provides customers the ability to interact with a knowledgeable bookseller to receive pre- and post- customer sales support. The bookstores also provide free Wi-Fi

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connectivity for NOOK[®] devices, Read In Store access, which allows owners to read NOOK Books for free. NOOK[®] devices also allow for digital lending of a wide selection of books through its LendMe[®] technology.

Operations

The digital products group has knowledgeable product development and operational management teams in the areas of reading software, digital content retailing and mobile device development. Digital product management oversees product concept, software development, engineering, and user experience. Operational management has historically overseen demand planning, strategic sourcing