BARNES & NOBLE
BOOKSELLERS

ANY BOOK...ANYTIME...ANYWHERE • BARNES & NOBLE •

1999 ANNUAL REPORT

1999 ANNUAL REPORT

ANY BOOK...ANYTIME...ANYWHERE

Clockwise from top left:

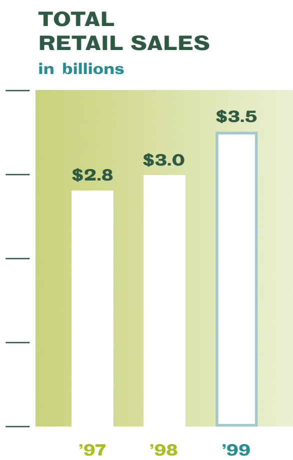
Barnes & Noble store in Flagstaff, Arizona;

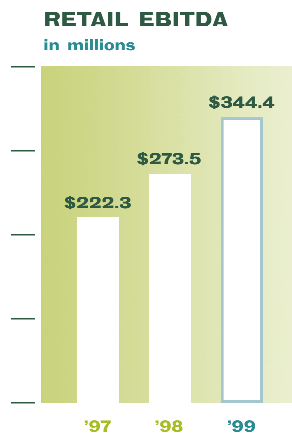
Barnes & Noble.com; Barnes & Noble store

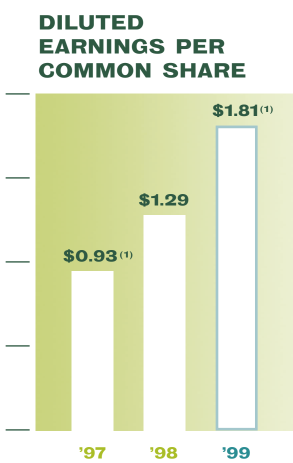
in Mayfair Mall, Milwaukee, Wisconsin;

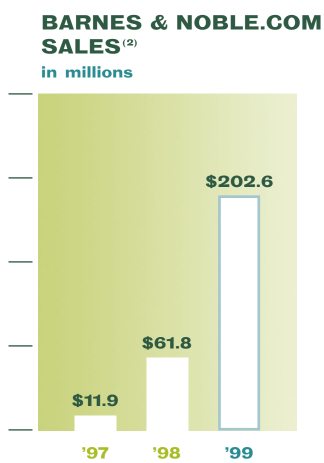
Rocket eBook™.

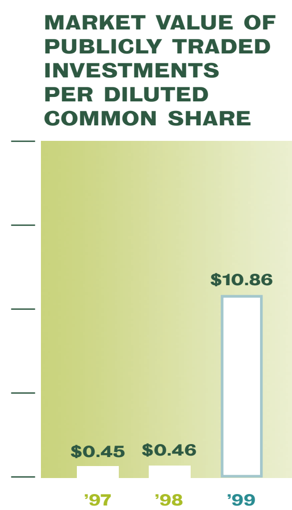
FISCAL YEAR in millions of dollars, except per share data	1999	1998	1997
Sales	$3,486.0	$3,005.6	$2,796.9
Operating Profit	232.1	185.1	145.4
Net Earnings (1)	129.0	92.4	64.7
Diluted Earnings Per Common Share (1)	1.81	1.29	0.93
Return on Average Equity (1)	16.9%	15.3%	13.1%











(1) Before extraordinary charge resulting from early extinguishment of debt, in 1997, and before cumulative effect of a change in accounting principles, in 1999.

(2) Sales for Barnes & Noble.com reflect a 12/31 fiscal year end.

Much energy and huge sums of capital have been spent in the pursuit of the still-unrealized promise of Internet retailing. I'm convinced that the greater potential is with what I call "retail Internetters" or *retail-based* Internet merchants. Let me explain. While the financial markets of the moment would appear to favor the virtual over the real, and spin over substance, I believe that the achievers in this century's multi-channel marketplace will be those with the ability and mettle to combine the best components of retailing – *physical presence, brand loyalty, and direct customer contact* – with those of the Internet – *electronic media, email, home shopping, and home delivery capabilities.*

Regardless of which strategy proves the ultimate winner – whether retail alone, e-commerce alone, or a combination of both – one point is absolutely clear: the Internet is increasing consumer spending and, as a result, *consumers* are driving the new economy. While it is true that some online sales are transfers of traditional store business, the numbers clearly show that consumers are spending more. Just look at the results Barnes & Noble posted for the past holiday season: sales at Barnes & Noble.com *tripled*, from $26 million to $82 million, while during the same period our superstores posted comparable sales gains of six percent. If that isn't evidence of accretion, I don't know what is.

Internet technology is not a threat to retailers; rather, it has become the ultimate *enabler*. As it applies to Barnes & Noble, the Internet enables us to put a super bookstore on every customer's desk. It also enables us to create a virtual community, and enables us to render the community we already have, *whole*. In short, online technology is making us even better at what we already do best.

Our vision for the future is both simple and profound: to create an effective and seamless relationship between our customers' expectations and our mission as booksellers; and to create a similar seamless experience between our virtual community and the real and vibrant community we have already established.

Leonard Riggio
Chairman & Chief Executive Officer

Barnes & Noble's strategy to provide our customers with multi-channel access to our unmatched selection is defining the leading edge of retailing in both the physical and virtual marketplaces, and our results bear out the wisdom of that strategy.

Last year, the nearly 1,500 stores that comprise Barnes & Noble, Inc. turned in a terrific performance, generating record sales of $3.5 billion, up 16 percent from the year before. Our superstores continued to lead the industry, accounting for 81 percent of our total sales, and posting comparable store sales increases that accelerated from five percent in 1998 to 6.1 percent in 1999. Our 38 new stores ran ahead of plan for the year, and the acquisition of Babbage's Etc. in October further contributed to results, boosting our earnings by $0.10 per share in 1999.

So it's little surprise that Barnes & Noble, Inc. posted operating profits in all four quarters of fiscal year 1999 totaling some $232.1 million, an increase of 25.4 percent over 1998's result. Retail earnings per share grew 30.3 percent to $1.72. Cash flow was also robust as retail earnings before interest, taxes, depreciation and amortization (EBITDA) increased 26 percent to $344.4 million for the year, or $4.82 per share.

Executive Officers **From left: Joseph Giamelli, Vice President & Chief Information Officer; Michael Archbold, Vice President & Treasurer; Leonard Riggio, Chairman & Chief Executive Officer; Thomas Tolworthy, President, Barnes & Noble Booksellers; Darrell Meussner, Vice President & Chief Financial Officer of Retail & Distribution; Mitchell Klipper, President, Barnes & Noble Development; Alan Kahn, Chief Operating Officer; Mary Ellen Keating, Senior Vice President, Corporate Communications & Public Affairs.**

Our Barnes & Noble bookstores accounted for much of this growth as we continued to enhance both our top and bottom lines. The completion of our state-of-the-art BookMaster system spurred customer orders considerably. Music, children's books and café sales were all robust. And our newly introduced electronic gift cards pushed gift certificate purchases up 30 percent during the holiday season. Fiscal 1999 earnings per share from bookstores increased 23 percent over the prior year to $1.62 per share, as our operating profit margin increased from 6.2 percent to 6.6 percent, reflecting better occupancy and a more favorable product mix.

But of course, the big news of 1999 was the initial public offering (IPO) and skyrocketing growth of Barnes & Noble.com, in which Barnes & Noble, Inc. retains a 40 percent interest. Barnes & Noble.com generated sales of more than $200 million in 1999. This was more than three times 1998's sales, and was significantly higher than sales of any other traditional retailer online. Barnes & Noble is indisputably the leading "retail Internetter," not only in terms of sales, but also in numbers of visitors and page views. And we intend to hold firmly to our substantial lead. Barnes & Noble.com is building a massive and loyal customer base, with nearly five million cumulative customers at last count, and impressive repeat orders of 68 percent. However, once the ink is dry on this annual report, those numbers will have climbed still further.

Human Resources

From left:

Michelle Smith, Vice President of Human Resources Administration; Thomas Bennett, Vice President, Human Resources Retail; Thomas Tolworthy, President, Barnes & Noble Booksellers.

Last year was indeed the threshold for both Barnes & Noble and the entire retail sector. We believe change – dynamic, exhilarating change – will be the order of the day for the next decade, and the eraser will be as important as the drafting pencil in redefining our business. The time for toe-dipping is long past. Accordingly, we intend to seize our future aggressively on all fronts: retail, online and digital. And, despite the roller-coaster-like performance of the NASDAQ, and especially of e-commerce stocks, we believe our investment in Barnes & Noble.com is an attractive one with much upside potential. Unlike many other e-commerce enterprises, this company is debt-free and cash-rich, with a currency that will enable it to grow.

Moreover, Barnes & Noble.com, as well as the Internet itself, is contributing to the growth of the consumer book market as a whole. Just as television, movies, and even book clubs stimulate retail book sales, the Internet is putting millions of messages about book content in front of consumers every day. As a result, "hits" on our site as well as visits to our stores have increased.

Clearly, we have only just begun to scratch the surface. The new technology promises expansion and enhancement throughout the entire paradigm of book distribution. Indeed, it is clear that digital technology will soon transform the very medium of the book itself. Barnes & Noble has moved assertively to position itself at the forefront of this revolution, investing heavily in online publishing, print-on-demand, and e-book technologies.

In many respects, 1999 was a pivotal year for Barnes & Noble. We proved our belief that retailing and e-commerce can be mutually supportive, not mutually exclusive propositions. And we ended the year exactly where we planned: with a growing bottom line for Barnes & Noble, Inc. and a growing top line for Barnes & Noble.com.

Barnes & Noble café in Flagstaff, Arizona.

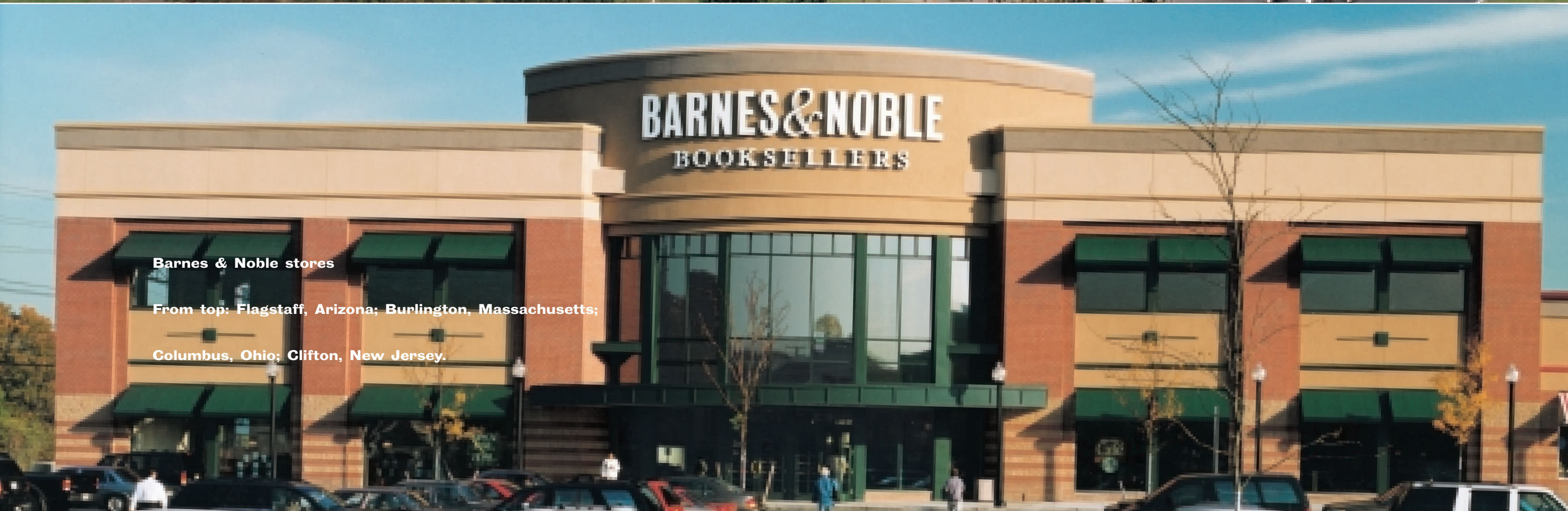
"Our business has never been about building bigger boxes; it's about building *better*, more productive stores..."

LEONARD RIGGIO
CHAIRMAN & CEO, BARNES & NOBLE, INC.

Barnes & Noble continued to solidify its retail base throughout 1999, opening 38 new superstores across the United States from Clifton, New Jersey to San Mateo, California. Featured in the pages of this annual report, these new stores were carefully designed, as always, to complement their natural environment, with broad-ranging book selections geared to the preferences of local book lovers. The stores we opened in 1999 continued to deliver on the promise of the Barnes & Noble bookselling experience. Our business has never been about building bigger boxes; it's about building *better*, more productive stores, and we focused on that mandate in 1999.

Little more than an ambitious vision some six years ago, the Barnes & Noble, Inc. of today encompasses nearly 1,000 Barnes & Noble and B. Dalton bookstores and 500-plus Babbage's®, Software Etc.™ and GameStop® video game and entertainment software stores.

We completed the acquisition of Babbage's Etc. on October 28, 1999, paying $209 million in cash and assumed liabilities, which represents a significant discount to the market value of similar companies. One of the nation's largest operators of video game and entertainment software stores, Babbage's Etc. further extends our selection of products into an exciting new area of tremendous growth. In fact, the video game and PC entertainment market has been growing at an 18 percent compounded annual growth rate for the past five years.



Barnes & Noble stores

From top: Flagstaff, Arizona; Burlington, Massachusetts; Columbus, Ohio; Clifton, New Jersey.

In 1999, Babbage's Etc. grew comparable store sales 12.5 percent and generated a profit margin of 6.9 percent in the fourth quarter. In the fourth quarter alone, Babbage's Etc. added an incremental $0.10 to Barnes & Noble's earnings per share.

Babbage's Etc. Executive Officers **From left: David Carlson, Vice President & Chief Financial Officer; R. Richard Fontaine, Chief Executive Officer; Daniel DeMatteo, President & Chief Operating Officer.**

Barnes & Noble store in Columbus, Ohio.

Real Estate

From left: Mitchell Klipper, President, Barnes & Noble Development; David Deason, Vice President, Barnes & Noble Development.

When we launched the Barnes & Noble superstore concept, we dreamed that, given the opportunity, the average citizen would embrace the culture and community created by great bookstores in a very big way. We realized that the possibilities presented to bookstores were as great as the possibilities described in the volumes that lined their shelves. We planned and we took action.

We brought comfort, convenience, coffee and comprehensive selection to the world of bookselling.

Barnes & Noble sold over 5 million cups of coffee during the holiday season.

Through the seamless integration of our physical and virtual assets, we have created an all-encompassing book "network." At Barnes & Noble, we are far more than "clicks and mortar." We are a destination for content...any book, anytime, anywhere.

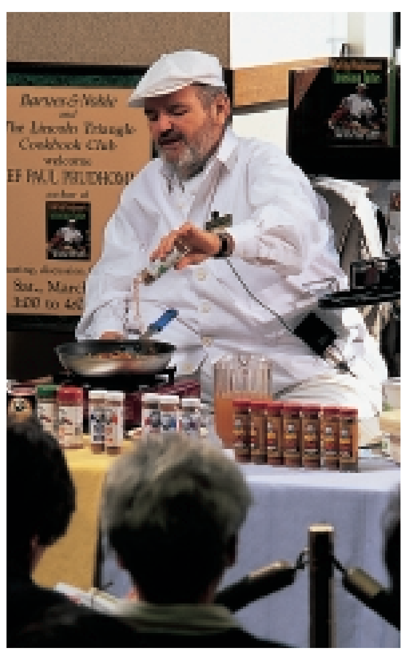
With the completion of our BookMaster system this past year, we have brought Internet technology into our stores, connecting more than 500 Barnes & Noble stores to the vast inventory of our Web site, which includes a substantial number of out-of-print selections. Our customers now have access to some 3 million titles, all ready for immediate delivery to their homes, offices or nearest Barnes & Noble stores. Needless to say, customer orders are up significantly since BookMaster's implementation.

We've jump-started gift certificate purchases with the introduction of the electronic gift card (EGC) in our stores. These cards – which we've developed in partnership with American Express – function like credit cards. The bookseller simply swipes the EGC through a reader on the cash register to sell or redeem dollar value. Purchases are subtracted from the amount stored on the card, and any remaining balance is recorded on the receipt. Barnes & Noble EGCs can be re-used as many times as needed until their stored value is depleted. They are a great advance in customer service.

Since a seamless network of integrated services is our goal, we are also cross-promoting our various distribution channels as evidenced throughout this report. Through in-store promotions, a store locator icon on Barnes & Noble.com, and television, radio and print advertising, Barnes & Noble.com has bolstered the visibility and relevance of the Barnes & Noble name.

Barnes & Noble neighborhood bookstores continued to act as gathering places for local communities throughout America in 1999. Over the course of the year, our stores hosted an estimated 120,000 events for adults and children – from book discussion groups and author signings to storytimes and character appearances. By creating an environment in which people of all ages can explore and discuss ideas, information and different points of view, we at Barnes & Noble connect with our customers and contribute to the intellectual vitality of the communities in which we ourselves live.

Our 32,000 expert booksellers across the country hosted a wide variety of writing workshops, language nights, cookbook demonstrations, craft activity groups and open-mike forums in 1999 as well as the more traditional book groups and author events. Highlights included a "Seniors Memoir-Writing Group" in Brick, New Jersey for aspiring young writers aged 55 to 80, and a series of events in the Southeast, which revolved around John Berendt's Savannah-based bestseller, *Midnight in the Garden of Good and Evil*, including a Q&A with the author.

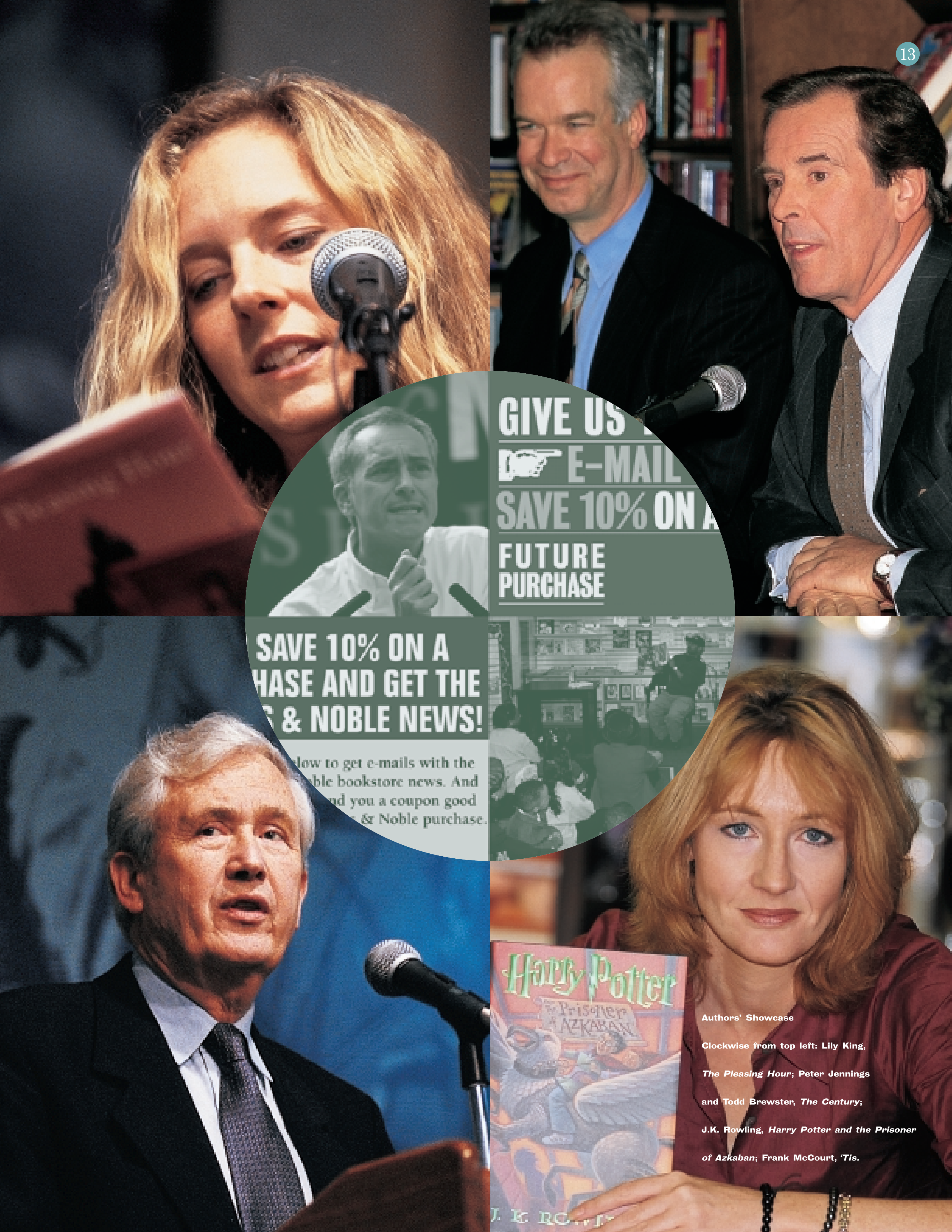


Cooking Demonstration

Paul Prudhomme,

Chef Paul Prudhomme's

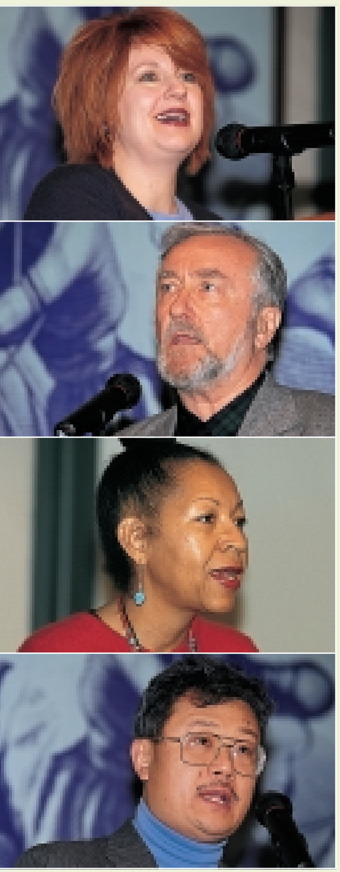
Louisiana Tastes.



Authors' Showcase

Clockwise from top left: Lily King, *The Pleasing Hour*; Peter Jennings and Todd Brewster, *The Century*; J.K. Rowling, *Harry Potter and the Prisoner of Azkaban*; Frank McCourt, *'Tis*.

Book Buyers From left: Kimberley Brown, Vice President, Specialty Businesses; Antoinette Ercolano, Vice President of Trade Book Buying; Patricia Bostelman, Vice President, Merchandising; Joseph Gonnella, Vice President & General Manager of Barnes & Noble Distribution Center; Robert Wietrak, Vice President, Merchandising; Marcella Smith, Director of Small Press & Vendor Relations.



National Book Award Winners

From top: Kimberly Willis Holt, *When Zachary Beaver Came to Town*; John W. Dower, *Embracing Defeat: Japan in the Wake of WWII*; Ai, *Vice: New and Selected Poems*; Ha Jin, *Waiting*.

Our author events drew record crowds across the country in 1999, with some signings inspiring all-night vigils outside the store to ensure a good seat. Colorful authors like Emeril Lagasse (*Every Day's a Party*), Frank McCourt (*'Tis*) and J.K. Rowling (*Harry Potter*) packed them in, generating estimated book sales, when all was said and done, of $3.3 million.

Our Union Square store in New York was uniquely blessed in hosting the National Book Award nominees in November, and a gathering of celebrated authors in September that ran the gamut from Eric Idle to Wes Craven to U.S. Poet Laureate Robert Pinsky.

In addition, Barnes & Noble on the corporate level continued to sponsor great writing and avid reading through a number of major initiatives. Since 1990, we have recognized the arrival of promising new writing talent with our Discover Great New Writers Award. The year's winner was Lily King for her book *The Pleasing Hour*.

Consistent with our longstanding commitment to promote the love of books among children, we announced in August that we would be underwriting the Emmy-award winning PBS children's television series *Reading Rainbow*®, hosted by LeVar Burton. As part of that two-year commitment, we have established a *Reading Rainbow* presence in our stores nationwide, and on our Barnes & Noble.com Web site.

We also continue to sponsor important programming on National Public Radio, including "Morning Edition," "Fresh Air with Terry Gross," "Selected Shorts," and "Regional Storylines." We are the exclusive book sponsor of the Poets & Writers organization, and a leading contributor to First Book, a charity devoted to improving children's literacy by getting books into the hands of kids who need them.

Barnes & Noble is proud of its efforts to introduce more and more readers to the wealth and diversity of ideas expressed in books. To us, these efforts mark the difference between having a casual and distant relationship with our customers, and one that is emotional and personal. In an environment being transformed by technology, new information and entertainment options, that personal brand relationship is the key to our enduring success and our mark of distinction.

Barnes & Noble children's department at Lincoln Triangle store, New York City.

BARNES & NOBLE.COM

Barnes & Noble store in Clifton, New Jersey.

"The Internet is more than anything else, the biggest, the best, and the most cost-effective broadcast channel in the history of retail. It is specific to our demographics; it gets our customers' full attention; and it *will* create more store traffic."

STEPHEN RIGGIO
VICE CHAIRMAN, BARNES & NOBLE.COM

On May 25, 1999, Barnes & Noble took its two-year-old online bookselling subsidiary – Barnes & Noble.com – public in what was the largest Internet IPO in history at the time. Total proceeds generated by the transaction exceeded $486 million, with 20 percent being sold to the public. Barnes & Noble.com has quickly become the number-one multi-channel retail brand on the Web, and is among the largest e-commerce sites, according to Media Metrix.

Sales for the full year ended December 31, 1999 were approximately $203 million, more than three times 1998 sales of $62 million, and significantly higher than the sales of any other traditional retailer online. The net loss for the year was $102.4 million or $0.77 per share.

As its customer count continues to skyrocket (reaching four million by the end of 1999) and repeat orders mount (66 percent during the fourth quarter), Barnes & Noble.com has applied intense focus to its cost structure. The operating loss as a percentage of sales declined to 61 percent in 1999, down from 136 percent in 1998, and sales and marketing expense dropped from 114 percent to 55 percent of sales. Moreover, at year end, Barnes & Noble.com had roughly $550 million in cash and marketable securities and no debt.

Most importantly however, Barnes & Noble.com is an exciting online experience for the consumer. Built by booksellers, the site features the world's largest selection of titles, robust search capabilities, and round-the-clock customer service.

Having debuted online one-to-two years earlier than all of our major bricks and mortar peers, Barnes & Noble.com is already time-tested, attracting readers in droves. The site features easy navigation, extensive editorial content, vast selection and fast delivery.

We have long understood that fulfillment is the key to delivering on the promise of retail Internetting. This past holiday season, Barnes & Noble.com's execution was among the best in e-commerce. And we have two new fulfillment centers with nearly one million square feet in total space opening in Memphis and Reno in 2000 that will improve that execution still further.

The extension and enhancement of our brand by Barnes & Noble.com opens up multiple opportunities to generate additional revenue streams through marketing alliances. Ours is the most highly desirable demographic in all consumer retailing – an audience of educated, affluent book lovers numbering in the millions. As Barnes & Noble.com's recent announcement to introduce a cobranded credit card with MBNA demonstrates,

there is considerable value in our brand, and we intend to continue capitalizing on it.

As Barnes & Noble.com expands its range of offerings to encompass CDs, software, magazines and video, it will hold true to the Barnes & Noble focus on the entertainment, information and education markets; in short, intellectual property. As an enterprise, we have no intention of diluting our brand or our focus by venturing into unrelated e-commerce businesses.

Barnes & Noble.com's outstanding success has been nothing but good news for Barnes & Noble stores. Barnes & Noble.com sales have been largely accretive. In other words, Barnes & Noble.com showed us that if we pay a visit to our customers at their homes, they will return the favor at our stores.

Barnes & Noble's distribution center in New Jersey.

The electronic retailing of books is, of course, just the cusp of the digital revolution that will overtake our market in the years to come. As e-publishing and e-reading technologies are perfected and popularized, there will be an explosion of content in our future that will pale in comparison with what the Internet has so far unleashed.

Today our distribution center houses close to one million titles on its shelves; that's 10 times the number we stocked just three years ago, and vastly larger than the inventory of any other book vendor, including wholesalers. Our goal is to stock every known book in print. Our out-of-print selection alone – now available through Barnes & Noble.com – numbers several million.

As we continue to extend our business from retail commerce to e-commerce to digital commerce, we will also expand our range of content formats to meet the evolving preferences of customers in all the communities we serve.

Already, we are the largest consumer retailer of e-book hand-held devices in the world, both through our stores and online. Barnes & Noble.com has recently opened an e-book superstore featuring thousands of titles for immediate download. As the world's leading bookseller, we are the partner of choice for technology companies looking to reach an affluent, educated demographic. Recently, we announced a partnership with Microsoft to promote the Microsoft® Reader with ClearType™, an e-book technology that provides a much better viewing experience, almost identical to print on paper. As the market for this format approaches critical mass, Barnes & Noble will be ready on every channel.

Meanwhile, we are helping to pry open the doors of publishing through our investment in *i*Universe.com, the world's largest publishing portal. An online service that enables writers to get work published, marketed and distributed to a worldwide market within 30 days, *i*Universe can cost-effectively re-release books that are out-of-print and make available the work of countless talented new writers. Finally, we announced in December our agreement with IBM to use its print-on-demand technology and manufacturing components in our

"To describe our company as "clicks 'n' mortar" trivializes the profound service promise that we presently deliver, as well as those yet to come. What we have created is a real-time digital book network, capable of delivering any book, anytime, anywhere."

LEONARD RIGGIO
CHAIRMAN & CEO, BARNES & NOBLE, INC.


Barnes & Noble store in Sioux Falls, South Dakota.

distribution centers. With this technology, we can print books to order, one at a time, in a manner that is both time-efficient and cost-effective. In so doing, we can provide our customers with a vastly wider range of titles, without having to invest in physical inventory.

The impending marriage of low-cost publishing technologies such as these and the Internet will democratize the book publishing and bookselling businesses. Digital technologies will render huge libraries instantly accessible to PCs, laptops and hand-held devices. A number of imposing copyright and commercial hurdles will have to be cleared to achieve this vision.

LOOKING AHEAD

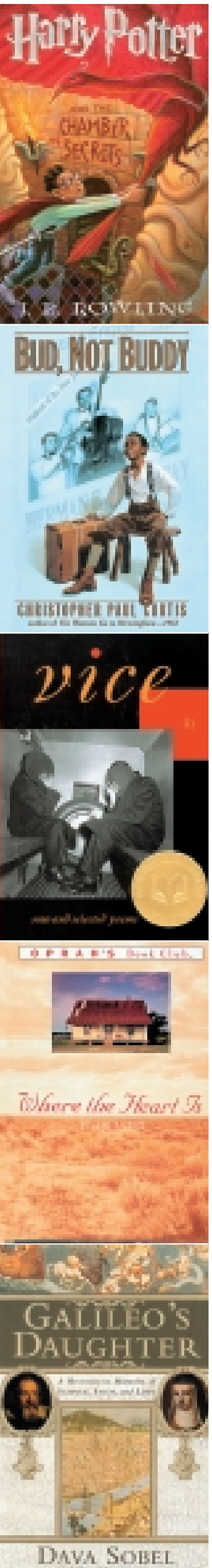
Given the impressive – indeed record – numbers we generated across all channels of distribution in 1999, we are both pleased with our performance and resolute in our determination to stay the multi-channel course.

We will continue to focus on the book purchase and consumption preferences of our target audience: the rich-of-mind and rich-of-pocket. While dot.com developments and hot new technologies attract all the hype, we continue to firmly believe that the key to our business model – now and in the future – is selection. The two most powerful forces in our industry's history – superstores and the Internet – have been principally fueled by wider and deeper choices.

Looking ahead, we anticipate retail earnings per share to grow by 16 percent in the year 2000, based upon comparable sales increases of four to five percent for Barnes & Noble superstores and the opening of 40 to 45 new stores. Barnes & Noble stores will continue to generate generous cash flow in excess of $344 million per year, and we believe that performance should only improve over time.

Given our optimism about our future, we authorized a $250 million stock repurchase program on November 30, 1999. As of the end of fiscal year 1999, we have repurchased 4,025,900 shares of our stock at a total cost of $87 million.

In 2000 and beyond, we will focus our energies on ensuring that our customers get whatever title they desire, when they want it and how they want it. Any book, anytime, anywhere. That's the foundation of the Barnes & Noble promise.



TOP 10 HARDCOVER FICTION

Harry Potter and the Chamber of Secrets
J.K. Rowling
Arthur A. Levine Books/ Scholastic
(581,051)

Harry Potter and the Sorcerer's Stone
J.K. Rowling
Arthur A. Levine Books/ Scholastic
(560,252)

Harry Potter and the Prisoner of Azkaban
J.K. Rowling
Arthur A. Levine Books/ Scholastic
(475,739)

The Testament
John Grisham
Doubleday
(322,394)

Hannibal
Thomas Harris
Delacorte Press
(243,584)

Timeline
Michael Crichton
Random House
(138,713)

White Oleander
Janet Fitch
Little, Brown
(130,225)

Star Wars Episode I: The Phantom Menace
Terry Brooks
Ballantine Books
(119,837)

A Walk to Remember
Nicholas Sparks
Warner Books
(107,632)

The Girl Who Loved Tom Gordon
Stephen King
Scribner
(97,983)

TOP 10 HARDCOVER NON-FICTION

Tuesdays with Morrie
Mitch Albom
Doubleday
(600,137)

The Greatest Generation
Tom Brokaw
Random House
(546,577)

'Tis
Frank McCourt
Scribner
(192,598)

Sugar Busters!
H. Leighton Steward, Morrison C. Bethea, M.D., Sam S. Andrews, M.D., Luis A. Balart, M.D.
Ballantine Books
(173,805)

The Art of Happiness: A Handbook for Living
Dalai Lama, Howard C. Cutler, M.D.
Riverhead Books
(161,485)

The Greatest Generation Speaks
Tom Brokaw
Random House
(142,127)

The Century
Peter Jennings, Todd Brewster
Doubleday (141,575)

Life Strategies: Doing What Works, Doing What Matters
Phillip C. McGraw
Hyperion
(134,772)

Suzanne Somers' Get Skinny on Fabulous Food
Suzanne Somers
Crown Publishing
(122,537)

The Guinness Book of World Records 2000
Guinness Media
Guinness Publishing
(109,176)

TOP 10 PAPERBACK FICTION

Harry Potter and the Sorcerer's Stone
J.K. Rowling
Scholastic
(523,554)

Memoirs of a Geisha
Arthur S. Golden
Vintage
(400,318)

The Pilot's Wife
Anita Shreve
Little, Brown
(353,462)

Where the Heart Is
Billie Letts
Warner Books
(259,798)

The Reader
Bernhard Schlink, Translated by Carol Brown Janeway
Vintage
(251,161)

Divine Secrets of the Ya-Ya Sisterhood
Rebecca Wells
HarperCollins
(206,535)

Charming Billy
Alice McDermott
Delta
(142,688)

Left Behind
Tim F. LaHaye, Jerry B. Jenkins
Tyndale House
(137,882)

I Know This Much Is True
Wally Lamb
ReganBooks
(123,685)

Jewel
Bret Lott
Washington Square Press
(123,552)

TOP 10 PAPERBACK NON-FICTION

Dr. Atkins' New Diet Revolution
Robert C. Atkins, M.D.
Avon
(643,953)

Angela's Ashes
Frank McCourt
Touchstone
(292,177)

Protein Power
Michael R. Eades, M.D., Mary Dan Eades, M.D.
Bantam Doubleday Dell
(228,853)

Don't Sweat the Small Stuff
Richard Carlson, Ph.D.
Hyperion
(186,932)

Dr. Atkins' New Carbohydrate Gram Counter
Robert C. Atkins, M.D.
Evans
(180,113)

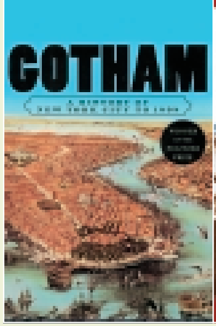
The Carbohydrate Addict's Lifespan Program
Dr. Richard F. Heller, Dr. Rachael F. Heller
Plume
(153,317)

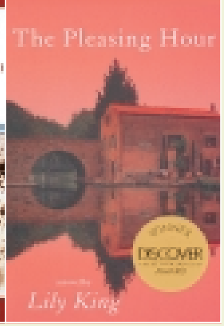
One Day My Soul Just Opened Up
Iyanla Vanzant
Simon & Schuster
(153,226)

The Carbohydrate Addict's Diet
Dr. Rachael F. Heller, Dr. Richard F. Heller
New American Library
(151,217)

What to Expect When You're Expecting
Arlene Eisenberg, Heidi E. Murkoff, Sandee E. Hathaway, B.S.N.
Workman Publishing
(133,057)

Chicken Soup for the Teenage Soul: 101 Stories of Life, Love and Learning
Jack Canfield, Mark Victor Hansen, Kimberly Kirberger
Health Communications
(125,556)





KEEPERS

The year's most notable books:

Pulitzer Prize

Fiction:
The Hours
Michael Cunningham
Farrar Straus Giroux

History:
Gotham
Edwin G. Burrows,
Mike Wallace
Oxford University Press

Biography:
Lindbergh
A. Scott Berg
Putnam

Poetry:
Blizzard of One
Mark Strand
Knopf

General Non-Fiction:
Annals of the Former World
John A. McPhee
Farrar Straus Giroux

Drama:
W;t
Margaret Edson
Faber & Faber

Booker Prize

Disgrace
J.M. Coetzee
Viking

National Book Awards

Fiction:
Waiting
Ha Jin
Pantheon

Non-Fiction:
Embracing Defeat: Japan in the Wake of WWII
John W. Dower
Norton

Young People's Literature:
When Zachary Beaver Came to Town
Kimberly Willis Holt
Henry Holt

Poetry:
Vice: New and Selected Poems
Ai
Norton

The National Book Critic's Circle Awards

Fiction:
Motherless Brooklyn
Jonathan Lethem
Doubleday

General Non-Fiction:
Time, Love, Memory
Jonathan Weiner
Knopf

Criticism:
Selected Non-Fictions
Jorge Luis Borges
Viking

Poetry:
Ordinary Words
Ruth Stone
Consortium

Biography:
The Hairstons
Henry Wiencek
St. Martin's Press

Edgar Allen Poe Awards

Best Novel:
Mr. White's Confession
Robert Clark
Picador USA

Hugo Award

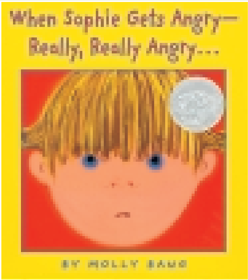
To Say Nothing of the Dog
Connie Willis
Bantam Books

Caldecott Medal

Joseph Had a Little Overcoat
Simms Taback
Viking

Newberry Medal

Bud, Not Buddy
Christopher Paul Curtis
Delacorte Press



Nobel Prize for Literature

Gunter Grass

Coretta Scott King Award

Bud, Not Buddy
Christopher Paul Curtis
Delacorte Press

In the Time of Drums
Kim L. Siegelson
Jump at the Sun

Monster
Walter Dean Myers
HarperCollins

Barnes & Noble Discover Great New Writers Award

The Pleasing Hour
Lily King
Atlantic Monthly Press

Barnes & Noble Maiden Voyage Award

The Jackal of Nar, Book One of Tyrants and Kings
John Marco
Spectra

The New Yorker Book Awards

Fiction:
Close Range
Annie Proulx
Scribner

Non-fiction Winner:
Out of Place
Edward Said
Knopf

Poetry Winner:
Vita Nova
Louise Gluck
The Ecco Press

Debut Novel Winner:
Interpreter of Maladies
Jhumpa Lahiri
Houghton Mifflin

Lifetime Achievement:
Saul Bellow

SLEEPERS

The books that came out of nowhere to become something special:

The Girls' Guide to Hunting and Fishing
Melissa Bank
Viking
(62,171)

Traveling Mercies
Anne Lamott
Pantheon
(34,059)

The Elegant Universe
Brian Greene
Norton
(31,692)

Plainsong
Kent Haruf
Knopf
(27,308)

Galileo's Daughter
Dava Sobel
Walker & Co.
(21,953)

Hitler's Pope
John Cornwell
Viking
(16,157)

For the Relief of Unbearable Urges
Nathan Englander
Knopf
(14,957)

The Orchid Thief
Susan Orlean
Random House
(11,525)

Dr. Seuss Goes to War: The WWII Editorial Cartoons of Theodore Seuss Geisel
Richard H. Minear
New Press
(11,050)

The Trust
Susan E. Tifft
Little, Brown
(8,523)

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data of Barnes & Noble, Inc. and its wholly owned subsidiaries (collectively, the Company) set forth on the following pages should be read in conjunction with the consolidated financial statements and notes included elsewhere in this report. The Company's fiscal year is comprised of 52 or 53 weeks, ending on the Saturday closest to the last day of January. The Statement of Operations Data for the 52 weeks ended January 29, 2000 (fiscal 1999), the 52 weeks ended January 30, 1999 (fiscal 1998) and the 52 weeks ended January 31, 1998 (fiscal 1997) and the Balance Sheet Data as of January 29, 2000 and January 30, 1999 are derived from, and are qualified by reference to, audited consolidated financial statements which are included elsewhere in this report. The Statement of Operations Data for the 53 weeks ended February 1, 1997 (fiscal 1996) and 52 weeks ended January 27, 1996 (fiscal 1995) and the Balance Sheet Data as of January 31, 1998, February 1, 1997 and January 27, 1996 are derived from audited consolidated financial statements not included in this report. Certain prior-period amounts have been reclassified for comparative purposes.

Fiscal Year (Thousands of dollars, except per share data)	**1999**[1]	**1998**	**1997**	**1996**	**1995**
STATEMENT OF OPERATIONS DATA:					
Sales					
Barnes & Noble stores	$2,821,549	2,515,352	2,245,531	1,861,177	1,349,830
B. Dalton stores	426,018	468,414	509,389	564,926	603,204
Barnes & Noble.com	--	--	14,601	--	--
Other	14,728	21,842	27,331	22,021	23,866
Total bookstore sales	3,262,295	3,005,608	2,796,852	2,448,124	1,976,900
Babbage's Etc. stores	223,748	--	--	--	--
Total sales	3,486,043	3,005,608	2,796,852	2,448,124	1,976,900
Cost of sales and occupancy	2,483,729	2,142,717	2,019,291	1,785,392	1,444,555
Gross profit	1,002,314	862,891	777,561	662,732	532,345
Selling and administrative expenses	651,099	580,609	542,336	467,777	383,692
Depreciation and amortization	112,304	88,345	76,951	59,806	47,881
Pre-opening expenses	6,801	8,795	12,918	17,571	12,160
Restructuring charge[2]	--	--	--	--	123,768
Operating profit (loss)	232,110	185,142	145,356	117,578	(35,156)
Interest expense, net and amortization of deferred financing fees[3]	(23,765)	(24,412)	(37,666)	(38,286)	(28,142)
Equity in net loss of Barnes & Noble.com[4]	(42,047)	(71,334)	--	--	--
Gain on formation of Barnes & Noble.com[5]	25,000	63,759	--	--	--
Other income[6]	27,337	3,414	1,913	2,090	--
Earnings (loss) before provision (benefit) for income taxes, extraordinary charge and cumulative effect of a change in accounting principle	218,635	156,569	109,603	81,382	(63,298)
Provision (benefit) for income taxes	89,637	64,193	44,935	30,157	(10,322)
Earnings (loss) before extraordinary charge and cumulative effect of a change in accounting principle	128,998	92,376	64,668	51,225	(52,976)
Extraordinary charge[7]	--	--	(11,499)	--	--
Cumulative effect of a change in accounting principle	(4,500)	--	--	--	--
Net earnings (loss)	$ 124,498	92,376	53,169	51,225	(52,976)

Fiscal Year (Thousands of dollars, except per share data)	1999[1]	1998	1997	1996	1995
Earnings (loss) per common share					
Basic					
Earnings (loss) before extraordinary charge and cumulative effect of a change in accounting principle	$ 1.87	1.35	0.96	0.77	(0.85)
Extraordinary charge	$ --	--	(0.17)	--	--
Cumulative effect of a change in accounting principle	$ (0.07)	--	--	--	--
Net earnings (loss)	$ 1.80	1.35	0.79	0.77	(0.85)
Diluted					
Earnings (loss) before extraordinary charge and cumulative effect of a change in accounting principle	$ 1.81	1.29	0.93	0.75	(0.85)
Extraordinary charge	$ --	--	(0.17)	--	--
Cumulative effect of a change in accounting principle	$ (0.06)	--	--	--	--
Net earnings (loss)	$ 1.75	1.29	0.76	0.75	(0.85)
Weighted average common shares outstanding					
Basic	69,005,000	68,435,000	67,237,000	66,103,000	62,434,000
Diluted	71,354,000	71,677,000	69,836,000	67,886,000	62,434,000
OTHER OPERATING DATA:					
Number of stores					
Barnes & Noble stores[8]	542	520	483	431	358
B. Dalton stores[9]	400	489	528	577	639
Babbage's Etc. stores[10]	526	--	--	--	--
Total	1,468	1,009	1,011	1,008	997
Comparable store sales increase (decrease)[11]					
Barnes & Noble stores	6.1 %	5.0 %	9.4 %	7.3 %	6.9 %
B. Dalton stores	0.1	(1.4)	(1.1)	(1.0)	(4.3)
Babbage's Etc. stores	12.5	--	--	--	--
Capital expenditures	$ 146,294	141,388	121,903	171,885	154,913
BALANCE SHEET DATA:					
Working capital	$ 318,668	315,989	264,719	212,692	226,500
Total assets	$ 2,413,791	1,807,597	1,591,171	1,446,647	1,315,342
Long-term debt, less current portions	$ 431,600	249,100	284,800	290,000	262,400
Shareholders' equity	$ 846,360	678,789	531,755	455,989	400,235

(1) Fiscal 1999 includes the results of operations of Babbage's Etc. from October 28, 1999, the date of acquisition.

(2) Restructuring charge includes restructuring and asset impairment losses recognized upon adoption of Statement of Financial Accounting Standards No. 121, "Impairment of Long-Lived Assets and Assets to be Disposed Of."

(3) Interest expense for fiscal 1999, 1998, 1997, 1996 and 1995 is net of interest income of $1,449, $976, $446, $2,288 and $2,138, respectively.

(4) On November 12, 1998, the Company and Bertelsmann AG (Bertelsmann) completed the formation of a limited liability company to operate the online retail bookselling operations of the Company's wholly owned subsidiary, barnesandnoble.com inc. (Barnes & Noble.com Inc.). Barnes & Noble.com Inc. began operations in fiscal 1997. As a result of the formation of barnesandnoble.com llc (Barnes & Noble.com), the Company began accounting for its interest in Barnes & Noble.com under the equity method of accounting as of the beginning of fiscal 1998. Fiscal 1998 reflects a 100 percent equity interest in Barnes & Noble.com for the first three quarters ended October 31, 1998 (also the effective date of the limited liability company agreement), and a 50 percent equity interest beginning on November 1, 1998 through the end of the fiscal year. As a result of the Barnes & Noble.com Inc. initial public offering (IPO) on May 25, 1999, the Company retained a 40 percent interest in Barnes & Noble.com. Accordingly, fiscal 1999 reflects the Company's 50 percent interest in the net losses of Barnes & Noble.com through the date of the IPO and 40 percent thereafter.

(5) As a result of the formation of the limited liability company, the Company recognized a pre-tax gain during fiscal 1998 in the amount of $126,435, of which $63,759 has been recognized in earnings based on the $75,000 received directly from Bertelsmann and $62,676 ($36,351 after taxes) has been reflected in additional paid-in capital based on the Company's share of the incremental equity of the joint venture resulting from the $150,000 Bertelsmann contribution. As a result of the Barnes & Noble.com Inc. IPO, the Company and Bertelsmann each retained a 40 percent interest in Barnes & Noble.com. The Company recorded an increase in additional paid-in capital of $200,272 ($116,158 after taxes) representing the Company's incremental share in the equity in Barnes & Noble.com. In addition, the Company recognized a pre-tax gain of $25,000 in fiscal 1999 as a result of cash received in connection with the joint venture agreement with Bertelsmann.

(6) Included in other income in fiscal 1999 are pre-tax gains of $22,356 and $10,975 recognized in connection with the Company's investments in NuvoMedia Inc. and Chapters Inc., respectively, as well as a one-time charge of $5,000 attributable to the termination of the Ingram acquisition and losses from equity investments of $994.

(7) Reflects a net extraordinary charge during fiscal 1997 due to the early extinguishment of debt, consisting of: (i) a pre-tax charge of $11,281 associated with the redemption premium on the Company's senior subordinated notes; (ii) the associated write-off of $8,209 of unamortized deferred finance costs; and (iii) the related tax benefits of $7,991 on the extraordinary charge.

(8) Also includes 10 Bookstop and 23 Bookstar stores as of January 29, 2000.

(9) Also includes 10 Doubleday Book Shops, five Scribner's Bookstores and five smaller format bookstores operated under the Barnes & Noble trade name representing the Company's original retail strategy as of January 29, 2000.

(10) Includes 265 Software Etc., 216 Babbage's, 40 GameStop and five smaller format stores as of January 29, 2000.

(11) Comparable store sales increase (decrease) is calculated on a 52-week basis, and includes sales of stores that have been open for 12 months for B. Dalton stores and 15 months for Barnes & Noble stores (due to the high sales volume associated with grand openings). Comparable store sales for fiscal years 1999, 1998 and 1997 include relocated Barnes & Noble stores and exclude B. Dalton stores which the Company has closed or has a formal plan to close. Comparable store sales increase for Babbage's Etc. is calculated on a 52-week basis, and includes sales of stores that have been open for 12 months.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company's fiscal year is comprised of 52 or 53 weeks, ending on the Saturday closest to the last day of January. As used in this section, "fiscal 1999" represents the 52 weeks ended January 29, 2000, "fiscal 1998" represents the 52 weeks ended January 30, 1999 and "fiscal 1997" represents the 52 weeks ended January 31, 1998.

General

Barnes & Noble, Inc. (Barnes & Noble or the Company), the nation's largest bookseller(1), as of January 29, 2000 operates 942 bookstores and 526 video game and entertainment software stores. Of the 942 bookstores, 542 operate under the Barnes & Noble Booksellers, Bookstop and Bookstar trade names (38 of which were opened in fiscal 1999) and 400 operate under the B. Dalton Bookseller, Doubleday Book Shops and Scribner's Bookstore trade names. Through its 40 percent interest in barnesandnoble.com llc (Barnes & Noble.com), the Company is the second largest seller of books on the Internet and is the exclusive bookseller on America Online (AOL). The Company, through its recent acquisition of Babbage's Etc. LLC (Babbage's Etc.), operates 526 video game and entertainment software stores under the Babbage's, Software Etc. and GameStop trade names, and a Web site, gamestop.com. The Company employed approximately 37,400 full- and part-time employees and created nearly 3,000 new jobs nationwide during fiscal 1999.

Barnes & Noble is the largest operator of book "super" stores in the United States(1) with 542 Barnes & Noble bookstores located in 49 states and the District of Columbia as of January 29, 2000. With more than 30 years of bookselling experience, management has a strong sense of customers' changing needs and the Company leads book retailing with a "community store" concept. Barnes & Noble's typical bookstore offers a comprehensive title base, a café, a children's section, a music department, a magazine section and a calendar of ongoing events, including author appearances and children's activities, that make each Barnes & Noble bookstore an active part of its community.

Barnes & Noble bookstores range in size from 10,000 to 60,000 square feet depending upon market size, and each store features an authoritative selection of books, ranging from 60,000 to 175,000 titles. The comprehensive title selection is diverse and reflects local interests. In addition, Barnes & Noble emphasizes books published by small and independent publishers and university presses. Bestsellers represent only 3% of Barnes & Noble bookstore sales. Complementing this extensive on-site selection, all Barnes & Noble bookstores provide customers with access to the millions of books available to online shoppers while offering an option to have the book sent to the store or shipped directly to the customer. During fiscal 1999 the Company completed its rollout of BookMaster, the Company's new in-store operating system, in all Barnes & Noble bookstores. BookMaster enhances the Company's existing merchandise replenishment systems, resulting in higher in-stock positions and better productivity at the store level through efficiencies in receiving, cashiering and returns processing.

During fiscal 1999, the Company added 1.0 million square feet to the Barnes & Noble bookstore base, bringing the total square footage to 12.7 million square feet, a 7% increase over the prior year. Barnes & Noble bookstores contributed more than 86% of the Company's total bookstore sales in fiscal 1999. The Company plans to open between 40 and 45 Barnes & Noble bookstores in fiscal 2000 which are expected to average 26,000 square feet in size.

At the end of fiscal 1999, the Company operated 400 B. Dalton bookstores in 45 states and the District of Columbia. B. Dalton bookstores employ merchandising strategies that target the "Middle-American" consumer book market, offering a wide range of bestsellers and general-interest titles. Most B. Dalton bookstores range in size from 2,800 to 6,000 square feet, and while they are appropriate to the size of adjacent mall tenants, the opening of superstores in nearby locations continues to have a significant impact on B. Dalton bookstores.

The Company is continuing to execute a strategy to maximize returns from its B. Dalton bookstores in response to declining sales attributable primarily to superstore competition. Part of the Company's strategy has been to close underperforming stores, which has resulted in the closing of between 40 to 90 B. Dalton bookstores per year since 1989.

In 1998, the Company and Bertelsmann AG (Bertelsmann) completed the formation of a limited liability company to operate the online retail bookselling operations of the Company's wholly owned subsidiary, barnesandnoble.com inc. (Barnes & Noble.com Inc.). The new entity, Barnes & Noble.com, was formed by combining the online bookselling operations of the Company with funds contributed by the international media company Bertelsmann, one of the largest integrated media companies in the world.

In 1999, Barnes & Noble.com Inc. completed an initial public offering (IPO) of 28.75 million shares of Class A Common Stock and used the proceeds to purchase a 20 percent interest in Barnes & Noble.com. As a result, the Company and Bertelsmann each retained a 40 percent interest in Barnes & Noble.com.

Barnes & Noble.com has become one of the world's largest Web sites and the fourth largest e-commerce site, according to Media Metrix. Focused largely on the sale of books, music, software, magazines, prints, posters and related products,

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

Barnes & Noble.com has capitalized on the recognized brand value of the Barnes & Noble name to become the second largest, and one of the fastest growing, online distributors of books. Customers can choose from millions of new and out-of-print titles and enjoy a variety of related content such as author chats, book synopses and reader reviews. The site also offers thousands of bargain books discounted up to 91 percent, the most popular software and magazine titles, as well as gift items for every occasion. Barnes & Noble.com recently launched its Prints & Posters Gallery, a unique collection of images that can be produced on demand on museum-quality canvas or high-quality paper, and its eCards service, an exclusive selection of greeting card images that can be personalized and enhanced with animation and music. With access to Barnes & Noble's more than 750,000 in-stock titles, Barnes & Noble.com has the largest standing inventory of any online bookseller ready for immediate delivery. The URL http://www.bn.com makes the site easy to find. The Barnes & Noble.com affiliate network has more than 300,000 members and maintains strategic alliances with major Web portals and content sites, such as AOL, Lycos and MSN. Barnes & Noble.com is also a leader in business-to-business e-commerce with its unique Business Solutions program.

Barnes & Noble further differentiates its product offerings from those of its competitors by publishing books under its own imprints for sale in its retail stores and through Barnes & Noble.com's online and direct-mail book sales. With publishing and distribution rights to over 2,000 titles, Barnes & Noble Books offers customers high-quality books at exceptional values, while generating attractive gross margins.

On October 28, 1999, the Company acquired Babbage's Etc., one of the nation's largest operators of video game and entertainment software stores. As a result of the acquisition, the Company currently operates 526 video game and entertainment software stores located in 47 states and Puerto Rico. The Company's video game and entertainment software stores range in size from 500 to 5,000 square feet (averaging 1,500 square feet) depending upon market demographics. Stores feature video game hardware and software, PC entertainment software and a multitude of accessories.

Results of Operations

The Company's sales, operating profit, comparable store sales, store openings, store closings, number of stores open and square feet of selling space at year end are set forth below:

Fiscal Year (Thousands of dollars)	1999	1998	1997
Sales			
Bookstores[1]	$3,262,295	3,005,608	2,796,852
Video game and entertainment software stores	223,748	--	--
Total	$3,486,043	3,005,608	2,796,852
Operating Profit			
Bookstores[1]	$ 216,678	185,142	145,356
Video game and entertainment software stores	15,432	--	--
Total	$ 232,110	185,142	145,356
Comparable Store Sales Increase (Decrease)[2]			
Barnes & Noble stores	6.1 %	5.0 %	9.4 %
B. Dalton stores	0.1	(1.4)	(1.1)
Babbage's Etc. stores	12.5	--	--
Stores Opened			
Barnes & Noble stores	38	50	65
B. Dalton stores	--	4	4
Total	38	54	69
Stores Closed			
Barnes & Noble stores	16	13	13
B. Dalton stores	89	43	53
Total	105	56	66
Number of Stores Open at Year End			
Barnes & Noble stores	542	520	483
B. Dalton stores	400	489	528
Babbage's Etc. stores	526	--	--
Total	1,468	1,009	1,011
Square Feet of Selling Space at Year End (in millions)			
Barnes & Noble stores	12.7	11.9	10.8
B. Dalton stores	1.6	1.9	2.0
Babbage's Etc. stores	0.8	--	--
Total	15.1	13.8	12.8

(1) Included in fiscal 1997 are sales and operating losses associated with Barnes & Noble.com of $14,601 and ($15,395), respectively. Beginning in fiscal 1998 the Company's consolidated statement of operations presents its equity in the results of operations of Barnes & Noble.com as a single line item below operating profit in accordance with the equity method of accounting. The Company's equity in the net loss of Barnes & Noble.com for fiscal 1999 and fiscal 1998 was ($42,047) and ($71,334), respectively.

(2) Comparable store sales for B. Dalton stores are determined using stores open at least 12 months. Comparable store sales for Barnes & Noble stores are determined using stores open at least 15 months, due to the high sales volume associated with grand openings. Comparable store sales for Babbage's Etc. are calculated on a 52-week basis, and include sales of stores that have been open for 12 months.

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

Fiscal Year	1999	1998	1997
Sales	100.0 %	100.0 %	100.0 %
Cost of sales and occupancy	71.2	71.3	72.2
Gross margin	28.8	28.7	27.8
Selling and administrative expenses	18.7	19.3	19.4
Depreciation and amortization	3.2	2.9	2.8
Pre-opening expenses	0.2	0.3	0.4
Operating margin*	6.7	6.2	5.2
Interest expense, net and amortization of deferred financing fees	(0.7)	(0.8)	(1.4)
Equity in net loss of Barnes & Noble.com	(1.2)	(2.4)	--
Gain on formation of Barnes & Noble.com	0.7	2.1	--
Other income	0.8	0.1	0.1
Earnings before provision for income taxes, extraordinary charge and cumulative effect of a change in accounting principle*	6.3	5.2	3.9
Provision for income taxes*	2.6	2.1	1.6
Earnings before extraordinary charge and cumulative effect of a change in accounting principle*	3.7	3.1	2.3
Extraordinary charge, net	--	--	0.4
Earnings before cumulative effect of a change in accounting principle	3.7	3.1	1.9
Cumulative effect of a change in accounting principle	(0.1)	--	--
Net earnings	3.6 %	3.1 %	1.9 %

* If operating margin, earnings before provision for income taxes, extraordinary charge and cumulative effect of a change in accounting principle, provision for income taxes and earnings before extraordinary charge and cumulative effect of a change in accounting principle were presented without Barnes & Noble.com during fiscal 1997, the percentage relationship that these items would bear to total sales of the Company would be 5.8%, 4.5%, 1.8% and 2.7%.

52 Weeks Ended January 29, 2000 Compared with 52 Weeks Ended January 30, 1999

Sales

The Company's sales increased 16.0% during fiscal 1999 to $3.486 billion from $3.006 billion during fiscal 1998. Contributing to this improvement was a 7.4% increase attributable to the inclusion of Babbage's Etc.'s sales for the fourth quarter of 1999. Babbage's Etc., one of the nation's largest operators of video game and entertainment software stores, was acquired by the Company on October 28, 1999. Fiscal 1999 sales from Barnes & Noble "super" stores, which contributed 80.9% of total sales or 86.5% of total bookstore sales, increased 12.2% to $2.822 billion from $2.515 billion in fiscal 1998.

The increase in bookstore sales was primarily attributable to the 6.1% growth in Barnes & Noble comparable store sales, full year sales from the 50 new stores opened during fiscal 1998 and the opening of an additional 38 Barnes & Noble stores during 1999. This increase was partially offset by declining sales of B. Dalton, due to 89 store closings.

Cost of Sales and Occupancy

The Company's cost of sales and occupancy includes costs such as rental expense, common area maintenance, merchant association dues, lease-required advertising and adjustments for LIFO.

Cost of sales and occupancy increased to $2.484 billion in fiscal 1999 from $2.143 billion in fiscal 1998 primarily due to the inclusion of Babbage's Etc.'s cost of sales and occupancy in the fourth quarter of 1999. The Company's gross margin rate increased to 28.8% in fiscal 1999 from 28.7% in fiscal 1998. This increase was attributable to improved leverage on occupancy costs as well as a favorable merchandise mix in the bookstores, partially offset by lower gross margins in the video game and entertainment software stores.

Selling and Administrative Expenses

Selling and administrative expenses increased $70.5 million, or 12.1% to $651.1 million in fiscal 1999 from $580.6 million in fiscal 1998 partially due to the inclusion of Babbage's Etc.'s selling and administrative expenses in the fourth quarter of 1999. Selling and administrative expenses decreased to 18.7% of sales during fiscal 1999 from 19.3% during fiscal 1998.

Depreciation and Amortization

Depreciation and amortization increased $24.0 million, or 27.1%, to $112.3 million in fiscal 1999 from $88.3 million in fiscal 1998. The increase was primarily the result of the depreciation related to Barnes & Noble stores opened during fiscal 1999 and fiscal 1998, as well as the depreciation on the Company's BookMaster system and the inclusion of Babbage's Etc.'s fourth quarter depreciation and amortization of $3.6 million.

Pre-Opening Expenses

Pre-opening expenses declined in fiscal 1999 to $6.8 million from $8.8 million in fiscal 1998 reflecting the opening of fewer new stores compared with prior years and the first quarter adoption of Statement of Position 98-5, "Reporting on Costs of Start-up Activities" (SOP 98-5). SOP 98-5 requires an entity to expense all start-up activities (as defined) as incurred. Prior to 1999, the Company amortized costs associated with the opening of new stores over the respective store's first 12 months of operations. The Company recorded a one-time non-cash charge reflecting the cumulative effect of a change in accounting principle in the amount of $4,500 after taxes, representing such start-up costs capitalized as of the beginning of fiscal year 1999. Since adoption, the Company has expensed all such start-up costs as incurred. The effect of the change in accounting principle on earnings in 1999 was immaterial.

Operating Profit

Operating profit increased to $232.1 million in fiscal 1999 from $185.1 million in fiscal 1998. Fiscal 1999 operating profit includes Babbage's Etc.'s fourth quarter 1999 operating profit of $15.4 million. Bookstore operating profit increased 17.1% to $216.7 million. Bookstore operating margin improved to 6.6% of sales during fiscal 1999 from 6.2% of sales in fiscal 1998 reflecting better occupancy leverage and a more favorable product mix.

Interest Expense, Net and Amortization of Deferred Financing Fees

Interest expense, net of interest income, and amortization of deferred financing fees decreased 2.5% to $23.8 million in fiscal 1999 from $24.4 million in fiscal 1998 despite the inclusion of $3.1 million of additional interest expense attributable to the Babbage's Etc. acquisition in fiscal 1999. The decline was the result of strong cash flows and more favorable interest rates under the Company's senior credit facility.

Equity in Net Loss of Barnes & Noble.com

As a result of the formation of the limited liability company with Bertelsmann, the Company began accounting for its interest in Barnes & Noble.com under the equity method of accounting as of the beginning of fiscal 1998. The Company's equity in the net loss of Barnes & Noble.com for fiscal 1998 was $71.3 million. The Company's share in the net loss of Barnes & Noble.com for fiscal 1998 was based on a 100 percent equity interest for the first three quarters ended October 31, 1998 (the effective date of the limited liability company agreement), and a 50 percent equity interest beginning on November 1, 1998 through the end of the fiscal year.

As a result of the Barnes & Noble.com Inc. IPO on May 25, 1999, the Company and Bertelsmann each retained a 40 percent interest in Barnes & Noble.com. Accordingly, the Company's share in the net loss of Barnes & Noble.com for fiscal 1999 was based on a 50 percent equity interest from the beginning of fiscal 1999 through May 25, 1999 and 40 percent thereafter. The Company's equity in the net loss of Barnes & Noble.com for fiscal 1999 was $42.0 million.

Gain on Formation of Barnes & Noble.com

As a result of the formation of the limited liability company, resulting in the receipt of $75 million by the Company from Bertelsmann, a gain was recorded in fiscal 1998 in the amount of $63.8 million. The gain represents the excess of the amount received over the portion of the net assets of Barnes & Noble.com sold by the Company to Bertelsmann.

Under the terms of the November 12, 1998 joint venture agreement between the Company and Bertelsmann, the Company received a $25 million payment from Bertelsmann in fiscal 1999 in connection with the Barnes & Noble.com IPO.

Other Income

Other income increased to $27.3 million in fiscal 1999 from $3.4 million in fiscal 1998. This increase was primarily attributable to the following transactions which occurred in fiscal 1999:

The Company and the Ingram Book Group (Ingram) announced their agreement to terminate the Company's planned acquisition of Ingram. The Company's application before the Federal Trade Commission for the purchase was formally withdrawn. As a result, other income reflects a one-time charge of $5.0 million for acquisition costs. These costs relate primarily to legal, accounting and other transaction related costs incurred in connection with the proposed acquisition of Ingram.

The Company sold a portion of its investment in Chapters Inc. (Chapters) resulting in a pre-tax gain of $11.0 million.

The Company recognized a pre-tax gain of $22.4 million in connection with the sale of its investment in NuvoMedia Inc. (NuvoMedia) to Gemstar International Ltd., a publicly traded company.

Provision for Income Taxes

Barnes & Noble's effective tax rate was 41 percent during both fiscal 1999 and fiscal 1998.

Earnings

Fiscal 1999 earnings increased $32.1 million, or 34.8%, to $124.5 million (or $1.75 per diluted share) from $92.4 million (or $1.29 per diluted share) during fiscal 1998. Components of earnings per share are as follows:

Fiscal Year	1999	1998
Retail Earnings Per Share		
Bookstores	$ 1.62	1.32
Babbage's Etc.	0.10	--
Retail EPS	$ 1.72	1.32
EPS Impact of Investing Activities		
Cash:		
Gain on Barnes & Noble.com	$ 0.21	0.53
Gain on partial sale of Chapters	0.09	--
Non-cash:		
Share in net losses of Barnes & Noble.com	(0.35)	(0.59)
Share of net earnings (losses) from other equity investments	(0.01)	0.03
Gain on sale of investment in NuvoMedia	0.19	--
Total Investing Activities	$ 0.13	(0.03)
Other Adjustments		
Ingram write-off	$(0.04)	--
Change in accounting for pre-opening costs	(0.06)	--
Total Other Adjustments	$(0.10)	--
Consolidated EPS	$ 1.75	1.29

52 Weeks Ended January 30, 1999 Compared with 52 Weeks Ended January 31, 1998

Sales

The Company's sales increased 7.5% during fiscal 1998 to $3.006 billion from $2.797 billion during fiscal 1997. Fiscal 1998 sales from Barnes & Noble stores, which contributed 83.7% of total sales, increased 12.0% to $2.515 billion from $2.246 billion in fiscal 1997.

The increase in sales was primarily due to the 5.0% increase in Barnes & Noble comparable store sales and the opening of an additional 50 Barnes & Noble stores during 1998. This increase was slightly offset by declining sales of B. Dalton, due to 43 store closings and a comparable store sales decline of 1.4%. In addition, fiscal 1997 includes Barnes & Noble.com sales of $14.6 million whereas fiscal 1998 does not include sales for

Barnes & Noble.com due to the conversion to the equity method of accounting as of the beginning of the year. Excluding Barnes & Noble.com sales in fiscal 1997, retail sales increased 8.0% during fiscal 1998.

Cost of Sales and Occupancy

The Company's cost of sales and occupancy includes costs such as rental expense, common area maintenance, merchant association dues, lease-required advertising and adjustments for LIFO.

Cost of sales and occupancy increased to $2.143 billion in fiscal 1998 from $2.019 billion in fiscal 1997. The Company's gross margin rate increased to 28.7% in fiscal 1998 from 27.8% in fiscal 1997. Excluding Barnes & Noble.com in fiscal 1997 the retail gross margin rate was 27.9%. The fiscal 1998 improvement in gross margin reflects more direct buying, increased distribution center efficiencies, better shrinkage control and a more-favorable merchandise mix.

Selling and Administrative Expenses

Selling and administrative expenses increased $38.3 million, or 7.1% to $580.6 million in fiscal 1998 from $542.3 million in fiscal 1997. Selling and administrative expenses decreased slightly to 19.3% of sales during fiscal 1998 from 19.4% during fiscal 1997 primarily as a result of the start-up expenses from Barnes & Noble.com included in the fiscal 1997 results. Excluding Barnes & Noble.com, retail selling and administrative expenses would have been 18.9% of sales in fiscal 1997 and total retail selling and administrative expenses would have increased 10.1% in fiscal 1998. The fiscal 1998 increase in retail selling and administrative expenses reflects the opening of an additional 50 Barnes & Noble stores, the full year implementation of a new wage plan and expenses associated with new store system enhancements.

Depreciation and Amortization

Depreciation and amortization increased $11.3 million, or 14.8%, to $88.3 million in fiscal 1998 from $77.0 million in fiscal 1997. The increase was primarily the result of the new Barnes & Noble stores opened during fiscal 1998 and fiscal 1997, as well as new store system enhancements made during fiscal 1998.

Pre-Opening Expenses

Pre-opening expenses declined in fiscal 1998 to $8.8 million from $12.9 million in fiscal 1997 reflecting fewer new stores compared with prior years.

Operating Profit

Operating profit increased to $185.1 million in fiscal 1998 from $145.4 million in fiscal 1997. Excluding the $15.4 million operating loss for Barnes & Noble.com included in fiscal 1997, retail operating margin improved to 6.2% of sales during fiscal 1998 from 5.8% of sales in fiscal 1997.

Interest Expense, Net and Amortization of Deferred Financing Fees

Interest expense, net of interest income, and amortization of deferred financing fees decreased 35.2% or $13.3 million in fiscal 1998 to $24.4 million from $37.7 million in fiscal 1997. The decline was the result of the retirement of $190 million in 11 7/8% senior subordinated notes on January 15, 1998 as well as the more-favorable rate environment and lower spreads over the London Interbank Offer Rate (LIBOR) in effect since the November 1997 refinancing.

Equity in Net Loss of Barnes & Noble.com

As a result of the formation of the limited liability company with Bertelsmann, the Company began accounting for its interest in Barnes & Noble.com under the equity method of accounting as of the beginning of fiscal 1998. The Company's equity in the net loss of Barnes & Noble.com for fiscal 1998 was $71.3 million. This reflects a 100 percent equity interest for the first three quarters ended October 31, 1998 (also the effective date of the limited liability company agreement), and a 50 percent equity interest beginning on November 1, 1998 through the end of the fiscal year. Had the Company reported the results of Barnes & Noble.com under the equity method of accounting during fiscal 1997, its fiscal 1997 equity in the net loss of Barnes & Noble.com would have been $15.4 million.

Gain on Formation of Barnes & Noble.com

As a result of the formation of the limited liability company, resulting in the receipt of $75 million by the Company from Bertelsmann, a gain was recorded in fiscal 1998 in the amount of $63.8 million. The gain represents the excess of the amount received over the portion of the net assets of Barnes & Noble.com sold by the Company to Bertelsmann.

Other Income

Other income increased to $3.4 million in fiscal 1998 from $1.9 million in fiscal 1997 as a result of increased equity earnings from minority investments in Chapters and Calendar Club LLC.

Provision for Income Taxes

Barnes & Noble's effective tax rate was 41 percent during both fiscal 1998 and fiscal 1997.

Earnings

Fiscal 1998 earnings before extraordinary charge increased $27.7 million, or 42.8%, to $92.4 million (or $1.29 per diluted share) from $64.7 million (or $0.93 per diluted share) during fiscal 1997. Before the effect of Barnes & Noble.com, retail earnings before extraordinary charge increased $23.0 million, or 31.3% to $96.8 million (or $1.35 per diluted share) from $73.8 million (or $1.06 per diluted share).

Seasonality

The Company's business, like that of many retailers, is seasonal, with the major portion of sales and operating profit realized during the quarter which includes the Christmas selling season. The Company has now reported operating profit for 15 consecutive quarters.

Liquidity and Capital Resources

Working capital requirements are generally at their highest during the Company's fiscal quarter ending on or about January 31 due to the higher payments to vendors for holiday season merchandise purchases and the replenishment of merchandise inventories following this period of increased sales. In addition, the Company's sales and merchandise inventory levels will fluctuate from quarter-to-quarter as a result of the number and timing of new store openings, as well as the amount and timing of sales contributed by new stores.

Cash flows from operating activities, funds available under its revolving credit facility and vendor financing continue to provide the Company with liquidity and capital resources for store expansion, seasonal working capital requirements and capital investments.

Cash Flow

Cash flows provided from operating activities were $187.3 million, $177.7 million and $167.3 million during fiscal 1999, 1998 and 1997, respectively. In fiscal 1999, the improvement in cash flows was primarily due to the improvement in net earnings. Fiscal 1997 cash flows from operating activities without Barnes & Noble.com were $180.0 million. The slight decrease in retail operating cash flows in fiscal 1998 was due to a strategic increase in the distribution center standing inventory, the implementation of a new wage plan in fiscal 1998 and increased operating expenses associated with implementing the Company's new store system enhancements.

Retail earnings before interest, taxes, depreciation and amortization (EBITDA) increased $70.9 million or 25.9% to $344.4 million in fiscal 1999 from $273.5 million in fiscal 1998. This significant improvement in EBITDA is a combination of the inclusion of Babbage's Etc. and the continuing maturation of the Barnes & Noble stores. Total debt to retail EBITDA (excluding the effect of the Babbage's Etc. acquisition) decreased to .68 times in fiscal 1999 from .91 times in fiscal 1998. Including the effect of the acquisition of Babbage's Etc., total debt to retail EBITDA increased to 1.25 times in fiscal 1999, primarily attributable to the debt incurred to fund the acquisition of Babbage's Etc. The weighted-average age per square foot of the Company's 542 Barnes & Noble stores was 3.9 years as of January 29, 2000 and is expected to increase to approximately 4.5 years by February 3, 2001. As the relatively young Barnes & Noble stores mature, and as the number of new stores opened during the fiscal year decreases as a percentage of the existing store base, the increasing operating profits of Barnes & Noble stores are expected to generate a greater portion of cash flows required for working capital, including new store inventories as well as capital expenditures and other initiatives. Additionally, due to the Barnes & Noble.com IPO in fiscal 1999, retail cash flows are now fully available to support the Company's working capital requirements.

Capital Structure

Continued strong cash flows from operations and a continued emphasis on working capital management, once again strengthened the Company's balance sheet in fiscal 1999. Shareholders' equity increased 24.7% to $846.4 million as of January 29, 2000, from $678.8 million as of January 30, 1999. Return on average equity increased to 16.3% in fiscal 1999 from 15.3% during fiscal 1998.

The Company has an $850 million senior credit facility (the Facility), obtained in November 1997, with a syndicate led by The Chase Manhattan Bank. The Facility is structured as a five-year revolving credit. The Facility permits borrowings at various interest rate options based on the prime rate or LIBOR depending upon certain financial tests. In addition, the agreement requires the Company to pay a commitment fee up to 0.25% of the unused portion depending upon certain financial tests. The Facility contains covenants, limitations and events of default typical of credit facilities of this size and nature.

The amount outstanding under the Facility has been classified as long-term debt in the accompanying consolidated balance sheets due to both its terms and the Company's intent and ability to maintain principal amounts outstanding through November 2002.

Borrowings under the Company's senior credit facilities averaged $397.1 million, $380.3 million and $105.1 million and peaked at $693.5 million, $535.0 million and $304.9 million during fiscal 1999, 1998 and 1997, respectively. Despite the increase in average and peak borrowings in fiscal 1999 primarily attributable to the Babbage's Etc. acquisition, interest expense decreased 2.5% to $23.8 million in fiscal 1999 from $24.4 million in fiscal 1998 as a result of more favorable interest rates under the Company's senior credit facility. The ratio of debt to equity increased to 0.51:1.00 as of January 29, 2000 from 0.37:1.00 as of January 30, 1999, primarily attributable to the increased borrowings to fund the Babbage's Etc. acquisition.

Capital Investment

Capital expenditures totaled $146.3 million, $141.4 million and $121.9 million during fiscal 1999, 1998 and 1997, respectively. Capital expenditures in fiscal 2000, primarily for the opening of between 40 and 45 new Barnes & Noble stores and 90 new

Babbage's Etc. stores, are expected to be between $120 million and $130 million, although commitment to such expenditures has not yet been made.

Based on current operating levels and the store expansion planned for the next fiscal year, management believes cash flows generated from operating activities, short-term vendor financing and its borrowing capacity under its revolving credit facility will be sufficient to meet the Company's working capital and debt service requirements, and support the development of its short- and long-term strategies for at least the next 12 months.

In fiscal 1999, the Board of Directors authorized a common stock repurchase program for the purchase of up to $250.0 million of the Company's common shares. As of January 29, 2000, the Company has repurchased 4,025,900 shares at a cost of approximately $86.8 million under this program. The repurchased shares are held in treasury.

On July 10, 1998, the Board of Directors of the Company declared a dividend of one Preferred Share Purchase Right (a Right) for each outstanding share of the Company's common stock (Common Stock). The distribution of the Rights was automatically made on July 21, 1998 to stockholders of record on that date. Each Right entitles the holder to purchase from the Company one four-hundredth of a share of a new series of preferred stock, designated as Series H Preferred Stock, par value $.001 per share (the Preferred Stock), at a price of $225 per one four-hundredth of a share. The Rights will be exercisable only if a person or group acquires 15 percent or more of the Company's outstanding Common Stock or announces a tender offer or exchange offer, the consummation of which would result in such person or group owning 15 percent or more of the Company's outstanding Common Stock. For a further discussion of the terms of the Preferred Stock and Rights see Note 13 of Notes to Consolidated Financial Statements.

Formation of Barnes & Noble.com

On November 12, 1998, the Company and Bertelsmann completed the formation of a joint venture to operate the online retail bookselling operations of the Company's wholly owned subsidiary, Barnes & Noble.com Inc. The new entity, Barnes & Noble.com, was structured as a limited liability company. Under the terms of the relevant agreements, effective as of October 31, 1998, the Company and Bertelsmann each retained a 50 percent membership interest in Barnes & Noble.com. The Company contributed substantially all of the assets and liabilities of its online operations to the joint venture and Bertelsmann paid $75.0 million to the Company and made a $150.0 million cash contribution to the joint venture. Bertelsmann also agreed to contribute an additional $50.0 million to the joint venture for future working capital requirements. The Company recognized a pre-tax gain during fiscal 1998 in the amount of $126.4 million, of which $63.8 million was recognized in earnings based on the $75.0 million received directly and $62.7 million ($36.4 million after taxes) was reflected in additional paid-in capital based on the Company's share of the incremental equity of the joint venture resulting from the $150.0 million Bertelsmann contribution.

On May 25, 1999, Barnes & Noble.com Inc. completed an IPO of 28.75 million shares of Class A Common Stock and used the proceeds to purchase a 20 percent interest in Barnes & Noble.com. As a result, the Company and Bertelsmann each retained a 40 percent interest in Barnes & Noble.com. The Company recorded an increase in additional paid-in capital of $200.3 million ($116.2 million after taxes) representing the Company's incremental share in the equity of Barnes & Noble.com. The Company will continue to account for its investment under the equity method.

Under the terms of the November 12, 1998 joint venture agreement between the Company and Bertelsmann, the Company received a $25.0 million payment from Bertelsmann in connection with the IPO.

The accompanying consolidated financial statements, in accordance with the equity method of accounting, reflect the Company's investment in Barnes & Noble.com as a single line item in the consolidated balance sheets as of January 29, 2000 and January 30, 1999 and reflect the Company's interest in the net loss of Barnes & Noble.com as a single line item in the consolidated statements of operations for fiscal years 1999 and 1998, as if the formation of the joint venture had occurred at the beginning of fiscal 1998. The Company's share in the net loss of Barnes & Noble.com for fiscal 1998 was based on a 100 percent equity interest for the first three quarters ended October 31, 1998 (the effective date of the limited liability company agreement), and a 50 percent equity interest beginning on November 1, 1998 through the end of the fiscal year.

As a result of the Barnes & Noble.com Inc. IPO on May 25, 1999, the Company and Bertelsmann each retained a 40 percent interest in Barnes & Noble.com. Accordingly, the Company's share in the net loss of Barnes & Noble.com for fiscal 1999 was based on a 50 percent equity interest from the beginning of fiscal 1999 through May 25, 1999 and 40 percent thereafter. The accompanying consolidated financial statements reflect the financial position and results of operations of Barnes & Noble.com as a consolidated wholly owned subsidiary in fiscal 1997.

Acquisition of Babbage's Etc.

On October 28, 1999, the Company acquired Babbage's Etc., one of the nation's largest operators of video game and entertainment software stores, for approximately $183 million in cash plus the assumption of $26 million in certain liabilities. If financial performance targets are met over the next two fiscal years, Barnes & Noble will make additional payments of approximately $10 million in 2001 and approximately $10 million in 2002. The acquisition was accounted for by the purchase method. The excess of purchase price over the net assets acquired, in the amount of approximately $202 million has been recorded as goodwill and is being amortized using the straight-line method over an estimated useful life of 30 years. Babbage's Etc.'s results of operations for the fourth quarter ended January 29, 2000 are included in the consolidated financial statements.

Newly Issued Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) which establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS 133 requires companies to recognize all derivatives contracts as either assets or liabilities in the balance sheet and to measure them at fair value. The Company will adopt SFAS 133 as required for its first quarterly filing of fiscal year 2001.

The Company from time to time enters into interest rate swap agreements for the purpose of hedging risks attributable to changing interest rates associated with the Company's revolving credit facility, and, in general, such hedges have been fully effective. The Company may from time to time, enter into interest rate swaps in the future and these transactions are expected to substantially offset the effects of changes in the underlying variable interest rates. The Company does not believe that adoption of SFAS 133 will have a material effect on its consolidated financial statements.

In December 1999, the Securities and Exchange Commission staff released Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101), which provides guidance on the recognition, presentation and disclosure of revenue in financial statements. SAB 101 did not impact the Company's revenue recognition policies.

Year 2000

The Company completed its Year 2000 compliance plan during 1999. The total costs incurred to implement the plan were approximately $4.3 million. The conversion to the Year 2000 occurred without any disruptions to the Company's critical business systems either internally or from outside sources. The Company has no reason to believe that Year 2000 failures will materially affect it in the future. However, since it may take several additional months before it is known whether the Company or third party vendors, suppliers or service providers may have encountered Year 2000 problems, no assurances can be given that the Company will not experience disruptions as a result of Year 2000 compliance failures. The Company will continue to monitor Year 2000 exposures both internally and with its vendors, suppliers and service providers. Such monitoring will be ongoing and encompassed in normal operations. Associated costs are not expected to be significant.

Disclosure Regarding Forward-Looking Statements

This report may contain certain forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) 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, increased or unanticipated costs or effects associated with Year 2000 compliance by the Company or its service or supply providers, 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 initiatives such as Barnes & Noble.com, unanticipated increases in merchandise or occupancy costs, unanticipated adverse litigation results or effects, and other factors which may be outside of the Company's control. In addition, the video game market has historically been cyclical in nature and dependent upon the introduction of new generation systems and related interactive software. 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.

Fiscal Year (Thousands of dollars, except per share data)	1999	1998	1997
Sales	$ 3,486,043	3,005,608	2,796,852
Cost of sales and occupancy	2,483,729	2,142,717	2,019,291
Gross profit	1,002,314	862,891	777,561
Selling and administrative expenses	651,099	580,609	542,336
Depreciation and amortization	112,304	88,345	76,951
Pre-opening expenses	6,801	8,795	12,918
Operating profit	232,110	185,142	145,356
Interest (net of interest income of $1,449, $976 and $446, respectively) and amortization of deferred financing fees	(23,765)	(24,412)	(37,666)
Equity in net loss of Barnes & Noble.com	(42,047)	(71,334)	--
Gain on formation of Barnes & Noble.com	25,000	63,759	--
Other income	27,337	3,414	1,913
Earnings before provision for income taxes, extraordinary charge and cumulative effect of a change in accounting principle	218,635	156,569	109,603
Provision for income taxes	89,637	64,193	44,935
Earnings before extraordinary charge and cumulative effect of a change in accounting principle	128,998	92,376	64,668
Extraordinary charge due to early extinguishment of debt, net of tax benefits of $7,991	--	--	(11,499)
Cumulative effect of a change in accounting principle, net of tax benefits of $3,125	(4,500)	--	--
Net earnings	$ 124,498	92,376	53,169
Earnings per common share			
Basic			
Earnings before extraordinary charge and cumulative effect of a change in accounting principle	$ 1.87	1.35	0.96
Extraordinary charge due to early extinguishment of debt, net of tax benefits	$ --	--	(0.17)
Cumulative effect of a change in accounting principle, net of tax benefits	$ (0.07)	--	--
Net earnings	$ 1.80	1.35	0.79
Diluted			
Earnings before extraordinary charge and cumulative effect of a change in accounting principle	$ 1.81	1.29	0.93
Extraordinary charge due to early extinguishment of debt, net of tax benefits	$ --	--	(0.17)
Cumulative effect of a change in accounting principle, net of tax benefits	$ (0.06)	--	--
Net earnings	$ 1.75	1.29	0.76
Weighted average common shares outstanding			
Basic	69,005,000	68,435,000	67,237,000
Diluted	71,354,000	71,677,000	69,836,000

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(Thousands of dollars, except per share data)	January 29, 2000	January 30, 1999
Assets		
Current assets:		
Cash and cash equivalents	$ 24,247	31,081
Receivables, net	58,240	57,523
Merchandise inventories	1,102,453	945,073
Prepaid expenses and other current assets	56,579	54,634
Total current assets	1,241,519	1,088,311
Property and equipment:		
Land and land improvements	3,247	3,197
Buildings and leasehold improvements	417,535	383,292
Fixtures and equipment	565,345	440,488
	986,127	826,977
Less accumulated depreciation and amortization	418,078	316,631
Net property and equipment	568,049	510,346
Intangible assets, net	298,011	86,980
Investment in Barnes & Noble.com	240,531	82,307
Other noncurrent assets	65,681	39,653
Total assets	$ 2,413,791	1,807,597
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 599,376	498,237
Accrued liabilities	323,475	274,085
Total current liabilities	922,851	772,322
Long-term debt	431,600	249,100
Deferred income taxes	125,006	32,449
Other long-term liabilities	87,974	74,937
Shareholders' equity:		
Common stock; $.001 par value; 300,000,000 shares authorized; 69,553,839 and 68,759,111 shares issued, respectively	70	69
Additional paid-in capital	654,584	523,517
Accumulated other comprehensive loss	(1,198)	--
Retained earnings	279,701	155,203
Treasury stock, at cost, 4,025,900 shares at January 29, 2000	(86,797)	--
Total shareholders' equity	846,360	678,789
Commitments and contingencies	--	--
Total liabilities and shareholders' equity	$ 2,413,791	1,807,597

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Thousands of dollars)		Common Stock	Additional Paid-In Capital	Accumulated Other Compre-hensive Loss	Retained Earnings	Treasury Stock at Cost	Total
Balance at February 1, 1997	$	66	446,265	--	9,658	--	455,989
Comprehensive earnings:							
Net earnings		--	--	--	53,169	--	
Total comprehensive earnings							53,169
Exercise of 1,545,580 common stock options, including tax benefits of $8,253		2	22,595	--	--	--	22,597
Balance at January 31, 1998		68	468,860	--	62,827	--	531,755
Comprehensive earnings:							
Net earnings		--	--	--	92,376	--	
Total comprehensive earnings							92,376
Exercise of 837,281 common stock options, including tax benefits of $9,002		1	18,306	--	--	--	18,307
Barnes & Noble.com issuance of membership units (net of deferred income taxes of $26,325)		--	36,351	--	--	--	36,351
Balance at January 30, 1999		69	523,517	--	155,203	--	678,789
Comprehensive earnings:							
Net earnings		--	--	--	124,498	--	
Other comprehensive loss (net of deferred income taxes of $839)		--	--	(1,198)	--	--	
Total comprehensive earnings							123,300
Exercise of 794,728 common stock options, including tax benefits of $6,302		1	14,909	--	--	--	14,910
Barnes & Noble.com Inc. IPO (net of deferred income taxes of $84,114)		--	116,158	--	--	--	116,158
Treasury stock acquired, 4,025,900 shares		--	--	--	--	(86,797)	(86,797)
Balance at January 29, 2000	$	70	654,584	(1,198)	279,701	(86,797)	846,360

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal Year (Thousands of dollars)	**1999**	**1998**	**1997**
Cash flows from operating activities:			
Net earnings	$ 124,498	92,376	53,169
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Depreciation and amortization	112,693	88,721	78,629
Loss on disposal of property and equipment	5,636	3,291	853
Deferred taxes	9,877	14,761	11,598
Extraordinary charge due to early extinguishment of debt, net of tax benefits	--	--	11,499
Increase in other long-term liabilities for scheduled rent increases in long-term leases	13,472	14,031	16,350
Cumulative effect of a change in accounting principle, net of taxes	4,500	--	--
Other income	(27,337)	(3,414)	(1,913)
Gain on formation of Barnes & Noble.com	(25,000)	(63,759)	--
Equity in net loss of Barnes & Noble.com	42,047	71,334	--
Changes in operating assets and liabilities, net	(73,055)	(39,673)	(2,884)
Net cash flows from operating activities	187,331	177,668	167,301
Cash flows from investing activities:			
Acquisition of consolidated subsidiaries, net of cash received	(175,760)	--	--
Purchases of property and equipment	(146,294)	(141,378)	(121,903)
Investment in Barnes & Noble.com	--	(75,394)	--
Proceeds from formation of Barnes & Noble.com	25,000	75,000	--
Proceeds from the partial sale of Chapters	21,558	--	--
Purchase of investment in *i*Universe.com	(20,000)	--	--
Net increase in other noncurrent assets	(9,282)	(119)	(11,264)
Net cash flows from investing activities	(304,778)	(141,891)	(133,167)
Cash flows from financing activities:			
Net increase (decrease) in revolving credit facility	182,500	(35,700)	244,800
Repayment of long-term debt	--	--	(290,000)
Proceeds from exercise of common stock options including related tax benefits	14,910	18,307	22,597
Payment of note premium	--	--	(11,281)
Purchase of treasury stock through repurchase program	(86,797)	--	--
Net cash flows from financing activities	110,613	(17,393)	(33,884)
Net increase (decrease) in cash and cash equivalents	(6,834)	18,384	250
Cash and cash equivalents at beginning of year	31,081	12,697	12,447
Cash and cash equivalents at end of year	$ 24,247	31,081	12,697
Changes in operating assets and liabilities, net:			
Receivables, net	$ 3,795	(14,012)	1,700
Merchandise inventories	(69,059)	(93,491)	(119,904)
Prepaid expenses and other current assets	(8,543)	(1,047)	9,721
Accounts payable and accrued liabilities	752	68,877	105,599
Changes in operating assets and liabilities, net	$ (73,055)	(39,673)	(2,884)
Supplemental cash flow information:			
Cash paid during the period for:			
Interest	$ 24,911	25,243	37,845
Income taxes	$ 72,342	18,225	20,282
Supplemental disclosure of subsidiaries acquired:			
Assets acquired	$ 201,910		
Liabilities assumed	26,150		
Cash paid	$ 175,760		

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of dollars, except per share data)

For the 52 weeks ended January 29, 2000 (fiscal 1999), January 30, 1999 (fiscal 1998) and January 31, 1998 (fiscal 1997).

1. Summary of Significant Accounting Policies

Business

Barnes & Noble, Inc. (Barnes & Noble), through its wholly owned subsidiaries (collectively, the Company), is primarily engaged in the sale of books, video games and entertainment software products. The Company employs two principal bookselling strategies: its "super" store strategy through its wholly owned subsidiary Barnes & Noble Booksellers, Inc., under its Barnes & Noble Booksellers, Bookstop and Bookstar trade names (hereafter collectively referred to as Barnes & Noble stores) and its mall strategy through its wholly owned subsidiaries B. Dalton Bookseller, Inc. and Doubleday Book Shops, Inc., under its B. Dalton stores, Doubleday Book Shops and Scribner's Bookstore trade names (hereafter collectively referred to as B. Dalton stores). The Company is also engaged in the online retailing of books and other products through a 40 percent interest in barnesandnoble.com llc (Barnes & Noble.com), as more fully described in Note 7. The Company, through its recent acquisition of Babbage's Etc. LLC, operates video game and entertainment software stores under the Babbage's, Software Etc. and GameStop trade names, and a Web site, gamestop.com (hereafter collectively referred to as Babbage's Etc.).

Consolidation

The consolidated financial statements include the accounts of Barnes & Noble and its wholly owned subsidiaries. Investments in affiliates in which ownership interests range from 20 percent to 50 percent, principally Barnes & Noble.com, are accounted for under the equity method. The Company's investment in Barnes & Noble.com has been presented in the accompanying consolidated financial statements under the equity method as of the beginning of fiscal 1998 and as a consolidated wholly owned subsidiary for all of fiscal 1997. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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

Cash and Cash Equivalents

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

Merchandise Inventories

Merchandise inventories are stated at the lower of cost or market. Cost is determined primarily by the retail inventory method on the first-in, first-out (FIFO) basis for 83 percent and 86 percent of the Company's merchandise inventories as of January 29, 2000 and January 30, 1999, respectively. Merchandise inventories of Babbage's Etc., which represent 6 percent of merchandise inventories as of January 29, 2000, are recorded based on the average cost method. The remaining merchandise inventories are valued on the last-in, first-out (LIFO) method.

If substantially all of the merchandise inventories currently valued at LIFO costs were valued at current costs, merchandise inventories would remain unchanged as of January 29, 2000 and January 30, 1999.

Property and Equipment

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

Intangible Assets and Amortization

The costs in excess of net assets of businesses acquired are carried as intangible assets, net of accumulated amortization, in the accompanying consolidated balance sheets. The net intangible assets, consisting primarily of goodwill and trade names of $272,505 and $25,506 as of January 29, 2000 and $59,365 and $27,615 as of January 30, 1999, are amortized using the straight-line method over periods ranging from 30 to 40 years.

Amortization of goodwill and trade names included in depreciation and amortization in the accompanying consolidated statements of operations is $5,148, $3,257 and $3,257 during fiscal 1999, 1998 and 1997, respectively. Accumulated amortization at January 29, 2000 and January 30, 1999 was $49,699 and $44,551, respectively.

The Company periodically evaluates the recoverability of goodwill and considers whether this goodwill should be completely or partially written off or the amortization periods accelerated. The Company assesses the recoverability of this goodwill based upon several factors, including management's intention with respect to the acquired operations and those operations' projected undiscounted store-level cash flows.

Deferred Charges

Costs incurred to obtain long-term financing are amortized over the terms of the respective debt agreements using the straight-line method, which approximates the interest method. Unamortized costs included in other noncurrent assets as of January 29, 2000 and January 30, 1999 were $1,969 and $1,397, respectively. Unamortized costs of $8,209 were included in the extraordinary loss due to the early extinguishment of debt for fiscal 1997. Amortization expense included in interest and amortization of deferred financing fees is $389, $376 and $1,678 during fiscal 1999, 1998 and 1997, respectively.

Marketable Equity Securities

All marketable equity securities included in other noncurrent assets are classified as available-for-sale under FASB Statement No. 115, with unrealized gains and losses (net of taxes) shown as a component of shareholders' equity.

Revenue Recognition

Revenue from sales of the Company's products is recognized at the time of sale.

The Company sells memberships which entitle purchasers to additional discounts. The membership revenue is deferred and recognized as income over the 12-month membership period.

Sales returns (which are not significant) are recognized at the time returns are made.

Pre-opening Expenses

In April 1998, the Accounting Standards Executive Committee issued Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities" (SOP 98-5). SOP 98-5 requires an entity to expense all start-up activities, as defined, when incurred. Prior to 1999, the Company amortized costs associated with the opening of new stores over the respective store's first 12 months of operations. In accordance with SOP 98-5, the Company recorded a one-time non-cash charge reflecting the cumulative effect of a change in accounting principle in the amount of $4,500 after taxes, representing such start-up costs capitalized as of the beginning of fiscal year 1999. Since adoption, the Company has expensed all such start-up costs as incurred. The effect of the change in accounting principle on earnings in 1999 was immaterial.

Closed Store Expenses

Upon a formal decision to close or relocate a store, the Company charges unrecoverable costs to expense. Such costs include the net book value of abandoned fixtures and leasehold improvements and a provision for future lease obligations, net of expected sublease recoveries. Costs associated with store closings of $5,447 and $1,208 during fiscal 1999 and fiscal 1998, respectively, are included in selling and administrative expenses in the accompanying consolidated statements of operations.

Net Earnings Per Common Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding. Diluted earnings per share reflect, in periods in which they have a dilutive effect, the impact of common shares issuable upon exercise of stock options.

Income Taxes

The provision for income taxes includes federal, state and local income taxes currently payable and those deferred because of temporary differences between the financial statement and tax bases of assets and liabilities. The deferred tax assets and liabilities are measured using the enacted tax rates and laws that are expected to be in effect when the differences reverse.

Stock Options

The Company accounts for all transactions under which employees receive shares of stock or other equity instruments in the Company or the Company incurs liabilities to employees in amounts based on the price of its stock in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees."

Reclassifications

Certain prior-period amounts have been reclassified for comparative purposes to conform with the 1999 presentation.

Reporting Period

The Company's fiscal year is comprised of 52 or 53 weeks, ending on the Saturday closest to the last day of January. The reporting periods ended January 29, 2000, January 30, 1999 and January 31, 1998 each consisted of 52 weeks.

2. Receivables, Net

Receivables represent customer, bankcard, landlord and other receivables due within one year as follows:

	January 29, 2000	January 30, 1999
Trade accounts	$ 9,558	6,743
Bankcard receivables	21,309	19,421
Receivables from landlords for leasehold improvements	12,807	23,659
Other receivables	14,566	7,700
Total receivables, net	$58,240	57,523

3. Debt

On November 18, 1997, the Company obtained an $850,000 five-year senior revolving credit facility (the Revolving Credit Facility) with a syndicate led by The Chase Manhattan Bank. The Revolving Credit Facility refinanced an existing $450,000 revolving credit and $100,000 term loan facility (the Old Facility). The Revolving Credit Facility permits borrowings at various interest rate options based on the prime rate or London Interbank Offer Rate (LIBOR) depending upon certain financial tests. In addition, the agreement requires the Company to pay a commitment fee up to 0.25 percent of the unused portion depending upon certain financial tests. The Revolving Credit Facility contains covenants, limitations and events of default typical of credit facilities of this size and nature, including financial covenants which require the Company to meet, among other things, cash flow and interest coverage ratios and which limit capital expenditures. The Revolving Credit Facility is secured by the capital stock, accounts receivable and general intangibles of the Company's subsidiaries.

Net proceeds from the Revolving Credit Facility are available for general corporate purposes and were used to redeem all of the Company's outstanding $190,000 11-7/8 percent senior subordinated notes on January 15, 1998. As a result of the refinancings, the Company recorded an extraordinary charge of $11,499 (net of applicable taxes) due to the early extinguishment of debt during fiscal 1997. The extraordinary charge represents the payment of a call premium associated with the redemption of the senior subordinated notes of $6,656 (net of applicable taxes) and the write-off of unamortized fees of $4,843 (net of applicable taxes).

The Company from time to time enters into interest rate swap agreements to manage interest costs and risk associated with changes in interest rates. These agreements effectively convert underlying variable-rate debt based on prime rate or LIBOR to fixed-rate debt through the exchange of fixed and floating interest payment obligations without the exchange of underlying principal amounts. As of January 29, 2000 and January 30, 1999 the Company had outstanding $85,000 and $125,000 of swaps, respectively, with maturities ranging from 2000 to 2003. The Company recorded interest expense associated with these agreements of $470 and $440 during fiscal years 1999 and 1998, respectively.

Selected information related to the Company's revolving credit facility is as follows:

Fiscal Year	1999	1998	1997
Balance at end of year	$431,600	249,100	284,800
Average balance outstanding during the year	$397,114	380,315	105,127
Maximum borrowings outstanding during the year	$693,500	535,000	304,900
Weighted average interest rate during the year	6.01%	6.29%	7.12%
Interest rate at end of year	6.26%	5.77%	6.60%

Fees expensed with respect to the unused portion of the Company's revolving credit commitment were $664, $733 and $1,204, during fiscal 1999, 1998 and 1997, respectively.

The amounts outstanding under the Company's Revolving Credit Facility of $431,600 and $249,100 as of January 29, 2000 and January 30, 1999, respectively, have been classified as long-term debt based on the terms of the credit agreement and the Company's intention to maintain principal amounts outstanding through November 2002.

The Company has no agreements to maintain compensating balances.

4. Fair Values of Financial Instruments

The carrying values of cash and cash equivalents reported in the accompanying consolidated balance sheets approximate fair value due to the short-term maturities of these assets. The aggregate fair value of the Revolving Credit Facility approximates its carrying amount, because of its recent and frequent repricing based upon market conditions. Investments in publicly traded securities accounted for under Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115) are carried at amounts approximating fair value.

The Company maintains an investment in Chapters Inc. (Chapters), a Canadian book retailer. The carrying value and fair value (based on quoted market prices and conversion rates) of this investment was $18,827 and $33,201, respectively, at January 30, 1999. Due to the partial sale of its investment in

Chapters, as more fully discussed in Note 5, the Company currently accounts for this investment as an available-for-sale security.

Interest rate swap agreements are valued based on market quotes obtained from dealers. The carrying value and estimated fair value of the interest rate swaps asset (liability) was $0 and $447, respectively, at January 29, 2000, and $0 and ($2,189), respectively, at January 30, 1999.

5. Marketable Equity Securities

Marketable equity securities are carried on the balance sheet at their fair market value as a component of other noncurrent assets. The Company did not have any marketable equity securities on January 30, 1999 as defined by SFAS 115. The following marketable equity securities have been classified as available-for-sale securities:

	Cost	Unrealized Losses	Jan. 29, 2000 Market Value
Gemstar International Ltd.	$ 27,137	$ (1,684)	$ 25,453
Chapters	8,294	(353)	7,941
	$ 35,431	$ (2,037)	$ 33,394

In fiscal 1998, the Company accounted for its investment in NuvoMedia Inc. (NuvoMedia) under the cost method. In fiscal 1999, NuvoMedia was acquired by Gemstar International Ltd. (Gemstar), a publicly traded company. Under the terms of the agreement, NuvoMedia shareholders received Gemstar shares in exchange for their ownership interests.

Prior to fiscal 1999, the Company accounted for its investment in Chapters under the equity method. During fiscal 1999, the Company sold a portion of its investment in Chapters. Subsequent to the partial sale of its investment, the Company retained a seven percent interest in Chapters and accordingly, has recorded the remaining investment as an available-for-sale security.

6. Other Income

The following table sets forth the components of other income (expense), in thousands of dollars:

Fiscal Year	1999	1998	1997
Gain on sale of NuvoMedia(1)	$ 22,356	--	--
Gain on partial sale of Chapters(2)	10,975	--	--
Equity in net earnings (losses) of Chapters(2)	(101)	1,140	1,016
Equity in net losses of *i*Universe.com(3)	(2,121)	--	--
Equity in net earnings of Calendar Club LLC(4)	1,228	2,274	897
Termination of planned acquisition of Ingram Book Group(5)	(5,000)	--	--
	$ 27,337	3,414	1,913

(1) In fiscal 1999, in connection with the sale of NuvoMedia as more fully discussed in Note 5, the Company recognized a pre-tax gain of $22,356.

(2) During fiscal 1999, the Company sold a portion of its investment in Chapters resulting in a pre-tax gain of $10,975. Prior to this transaction, the Company accounted for its investment in Chapters under the equity method.

(3) During 1999, the Company acquired a 41 percent interest in *i*Universe.com for $20,000. Subsequent to the fiscal 1999 year end, the Company invested an additional $8,000 in *i*Universe.com thereby increasing its percentage ownership interest to 49 percent. This investment is being accounted for under the equity method and is reflected as a component of other noncurrent assets.

(4) The Company's 50 percent interest in Calendar Club LLC (Calendar Club) is being accounted for under the equity method and is reflected as a component of other noncurrent assets.

(5) In 1999, the Company and the Ingram Book Group (Ingram) announced their agreement to terminate the Company's planned acquisition of Ingram. The Company's application before the Federal Trade Commission for the purchase was formally withdrawn. As a result, other income reflects a one-time charge of $5,000 for acquisition costs relating primarily to legal, accounting and other transaction related costs.

7. Barnes & Noble.com

On November 12, 1998, the Company and Bertelsmann AG (Bertelsmann) completed the formation of a limited liability company to operate the online retail bookselling operations of the Company's wholly owned subsidiary, barnesandnoble.com inc. (Barnes & Noble.com Inc.). The new entity, Barnes & Noble.com, was structured as a limited liability company. Under the terms of the relevant agreements, effective as of October 31, 1998, the Company and Bertelsmann each retained a 50 percent membership interest in Barnes & Noble.com. The Company contributed substantially all of the assets and liabilities of its online operations to the joint venture and Bertelsmann paid $75,000 to the Company and made a $150,000 cash contribution to the joint venture. Bertelsmann also agreed to contribute an additional $50,000 to the joint venture for future working capital requirements. The Company recognized a pre-tax gain during fiscal 1998 in the amount of $126,435, of which $63,759 was recognized in earnings based on the $75,000 received directly and $62,676 ($36,351 after taxes) was reflected in additional paid-in capital based on the Company's share of the incremental equity of the joint venture resulting from the $150,000 Bertelsmann contribution.

On May 25, 1999, Barnes & Noble.com Inc. completed an initial public offering (IPO) of 28.75 million shares of Class A Common Stock and used the proceeds to purchase a 20 percent interest in Barnes & Noble.com. As a result, the Company and Bertelsmann each retained a 40 percent interest in Barnes & Noble.com. The Company recorded an increase in additional paid-in capital of $116,158 after taxes representing the Company's incremental share in the equity of Barnes & Noble.com. The Company will continue to account for its investment under the equity method.

Under the terms of the November 12, 1998 joint venture agreement between the Company and Bertelsmann, the Company received a $25,000 payment from Bertelsmann in connection with the IPO. The Company recognized the $25,000 pre-tax gain in the second quarter of 1999. The estimated fair market value of Barnes & Noble.com at January 29, 2000 was $742,000.

Summarized financial information for Barnes & Noble.com follows:

	12 months ended December 31, 1999	1998
Net sales	$ 202,567	61,834
Gross profit	$ 42,630	14,265
Loss before taxes	$ (102,405)	(83,148)
Cash and cash equivalents	$ 478,047	96,940
Other current assets	27,567	14,736
Noncurrent assets	173,904	90,468
Current liabilities	75,940	32,995
Net assets	$ 603,578	169,149

8. Employees' Retirement and Defined Contribution Plans

As of December 31, 1999, substantially all employees of the Company were covered under a noncontributory defined benefit pension plan (the Pension Plan). As of January 1, 2000, the Pension Plan was amended and frozen 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 the Pension Plan will continue to hold assets and pay benefits. The amendment was treated as a curtailment in fiscal 1999 resulting in a pre-tax gain of $14,142 which is included as a reduction of selling and administrative expenses.

The Company maintains defined contribution plans (the Savings Plans) for the benefit of substantially all employees. In addition, the Company provides certain health care and life insurance benefits (the Postretirement Plan) to retired employees, limited to those receiving benefits or retired as of April 1, 1993.

A summary of the components of net periodic cost for the Pension Plan and the Postretirement Plan follows:

	Pension Plan			Postretirement Plan		
Fiscal Year	**1999**	**1998**	**1997**	**1999**	**1998**	**1997**
Service cost	$4,535	4,157	3,294	--	--	--
Interest cost	2,349	2,039	1,666	151	149	315
Expected return on plan assets	(2,494)	(2,208)	(1,803)	--	--	--
Net amortization and deferral	32	36	36	(123)	(135)	--
Net periodic cost	$4,422	4,024	3,193	28	14	315

Total Company contributions charged to employee benefit expenses for the Savings Plans were $3,374, $3,090 and $2,545 during fiscal 1999, 1998 and 1997, respectively.

Weighted-average actuarial assumptions used in determining the net periodic costs of the Pension Plan and the Postretirement Plan are as follows:

	Pension Plan			Postretirement Plan		
Fiscal Year	**1999**	**1998**	**1997**	**1999**	**1998**	**1997**
Discount rate	7.8%	7.3%	7.3%	7.8%	7.3%	7.3%
Expected return on plan assets	9.5%	9.5%	9.5%	--	--	--
Assumed rate of compensation increase	4.8%	4.3%	4.3%	--	--	--

As a result of the formation of Barnes & Noble.com, as more fully described in Note 7, certain assets of the Pension Plan and a portion of the benefit obligation, were transferred to Barnes & Noble.com's defined benefit pension plan as of the date of the formation.

The following table provides a reconciliation of benefit obligations, plan assets and funded status of the Pension Plan and the Postretirement Plan:

	Pension Plan		Postretirement Plan	
Fiscal Year	**1999**	**1998**	**1999**	**1998**
Change in benefit obligation:				
Benefit obligation at beginning of year	$33,064	30,734	2,145	1,975
Service cost	4,535	4,157	--	--
Interest cost	2,349	2,039	151	149
Transfer to Barnes & Noble.com	--	(642)	--	--
Actuarial (gain) loss	(1,707)	(2,427)	272	136
Benefits paid	(1,062)	(797)	(515)	(115)
Curtailment	(14,142)	--	--	--
Benefit obligation at end of year	$23,037	33,064	2,053	2,145
Change in plan assets:				
Fair value of plan assets at beginning of year	$25,331	22,909	--	--
Actual return on assets	1,393	2,255	--	--
Employer contributions	3,374	1,395	--	--
Benefits paid	(1,062)	(797)	--	--
Transfer to Barnes & Noble.com	--	(431)	--	--
Fair value of plan assets at end of year	$29,036	25,331	--	--
Funded status	$ 5,999	(7,733)	(2,053)	(2,145)
Unrecognized net actuarial (gain) loss	200	805	(1,741)	(2,136)
Unrecognized prior service cost	--	(183)	--	--
Unrecognized net obligation remaining	--	166	--	--
Prepaid (accrued) benefit cost	$ 6,199	(6,945)	(3,794)	(4,281)

The health care cost trend rate used to measure the expected cost of the Postretirement Plan benefits is assumed to be seven percent in 2000, declining at one-half percent decrements each year through 2004 to five percent in 2004 and each year thereafter. The health care cost trend assumption has a significant effect on the amounts reported. For example, a one percent increase or decrease in the health care cost trend rate would change the accumulated postretirement benefit obligation by approximately $193 and $171, respectively, as of January 29, 2000, and would change the net periodic cost by approximately $15 and $13, respectively, during fiscal 1999.

9. Income Taxes

The Company files a consolidated federal return. Federal and state income tax provisions for fiscal 1999, 1998 and 1997 are as follows:

Fiscal Year	1999	1998	1997
Current:			
Federal	$64,454	39,286	26,324
State	15,306	10,146	7,013
	79,760	49,432	33,337
Deferred:			
Federal	7,193	11,697	9,575
State	2,684	3,064	2,023
	9,877	14,761	11,598
Total	$89,637	64,193	44,935

A reconciliation between the provision for income taxes and the expected provision for income taxes at the federal statutory rate of 35 percent during fiscal 1999, 1998 and 1997, is as follows:

Fiscal Year	1999	1998	1997
Expected provision for income taxes at federal statutory rate	$76,522	54,799	38,361
Amortization of non-deductible goodwill and trade names	1,342	1,251	1,140
State income taxes, net of federal income tax benefit	11,694	8,596	5,873
Other, net	79	(453)	(439)
Provision for income taxes	$89,637	64,193	44,935

The tax effects of temporary differences that give rise to significant components of the Company's deferred tax assets and liabilities as of January 29, 2000 and January 30, 1999 are as follows:

	January 29, 2000	January 30, 1999
Deferred tax liabilities:		
Operating expenses	$ (15,437)	(12,528)
Depreciation	(31,289)	(29,829)
Gain on equity increase in Barnes & Noble.com	(110,439)	(26,325)
Total deferred tax liabilities	(157,165)	(68,682)
Deferred tax assets:		
Inventory	4,312	4,043
Lease transactions	18,664	15,025
Reversal of estimated accruals	4,246	5,692
Restructuring charge	14,537	16,931
Insurance liability	2,673	2,502
Deferred income	4,015	11,411
Unrealized holding losses on available-for-sale securities	839	--
Other	7,278	5,632
Total deferred tax assets	56,564	61,236
Net deferred tax liabilities	$(100,601)	(7,446)

Deferred tax liabilities are recorded on the deferred income tax line and deferred tax assets are recorded as a component of prepaid and other current assets in the accompanying balance sheet.

10. Acquisition of Babbage's Etc.

On October 28, 1999, the Company acquired Babbage's Etc., one of the nation's largest operators of video game and entertainment software stores, for $208,670 (including assumed liabilities). If financial performance targets are met over the next two fiscal years, the Company will make additional payments of approximately $10,000 in 2001 and approximately $10,000 in 2002. The acquisition was accounted for under the purchase method of accounting and, accordingly, the results of operations for the period subsequent to the acquisition are included in the consolidated financial statements. The excess of purchase price over the net assets acquired, in the amount of $202,386, has been recorded as goodwill and is being amortized using the straight-line method over an estimated useful life of 30 years.

The following table summarizes pro forma results as if the Company had entered into the agreement on the first day of fiscal year 1998:

Fiscal Year	1999	1998
Sales	$3,815,435	3,470,774
Earnings before cumulative effect of a change in accounting principle	$ 125,011	93,298
Net earnings	$ 120,511	93,298
Net earnings per common share:		
Basic	$ 1.75	1.36
Diluted	$ 1.69	1.30

The pro forma results of operations include adjustments to give effect to amortization of goodwill and interest expense on debt related to the acquisition, together with related income tax effects. The information has been prepared for comparative purposes only and does not purport to be indicative of the results of operations which actually would have resulted had the acquisition occurred on the date indicated, or which may result in the future.

11. Segment Information

Historically, the Company operated as a single segment. As a result of the acquisition of Babbage's Etc. in 1999, the Company is currently operating under two segments and accordingly, is required to disclose information in accordance with Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131). The Company's reportable segments are strategic groups that offer different products. These groups have been aggregated into two segments: bookstores and video game and entertainment software stores.

Bookstores

This segment includes 542 book "super" stores under the Barnes & Noble Booksellers, Bookstop and Bookstar names which generally offer a comprehensive title base, a café, a children's section, a music department, a magazine section and a calendar of ongoing events, including author appearances and children's activities. Additionally, this segment includes 400 small format mall-based stores under the B. Dalton Bookseller, Doubleday Book Shops and Scribner's Bookstore trade names.

Video Game and Entertainment Software Stores

This segment includes 526 video game and entertainment software stores under the Babbage's, Software Etc. and GameStop names, and a Web site, gamestop.com. The principal products of these stores are comprised of video game hardware and software and PC entertainment software. The Company's consolidated financial statements reflect the results of Babbage's Etc. for the fourth quarter of 1999 only.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Segment operating profit includes corporate expenses in each operating segment. Barnes & Noble evaluates the performance of its segments and allocates resources to them based on operating profit.

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

	Sales			Depreciation and Amortization		
Fiscal Year	**1999**	**1998**	**1997**	**1999**	**1998**	**1997**
Bookstores	$3,262,295	3,005,608	2,796,852	$ 108,691	88,345	76,951
Video game & entertainment software stores	223,748	--	--	3,613	--	--
Total	$3,486,043	3,005,608	2,796,852	$ 112,304	88,345	76,951

	Operating Profit			Equity Investment in Barnes & Noble.com		
Fiscal Year	**1999**	**1998**	**1997**	**1999**	**1998**	**1997**
Bookstores	$ 216,678	185,142	145,356	$ 240,531	82,307	--
Operating margin	*6.64%*	*6.16%*	*5.20%*			
Video game & entertainment software stores	15,432	--	--	--	--	--
Operating margin	*6.90%*	*NA*	*NA*			
Total	$ 232,110	185,142	145,356	$ 240,531	82,307	--

	Capital Expenditures			Total Assets		
Fiscal Year	**1999**	**1998**	**1997**	**1999**	**1998**	**1997**
Bookstores	$ 142,005	141,378	121,903	$2,076,795	1,807,597	1,591,171
Video game & entertainment software stores	4,289	--	--	336,996	--	--
Total	$ 146,294	141,378	121,903	$2,413,791	1,807,597	1,591,171

A reconciliation of operating profit reported by reportable segments to earnings before income taxes, extraordinary charge and cumulative effect of a change in accounting principle in the consolidated financial statements is as follows:

Fiscal Year	**1999**	**1998**	**1997**
Reportable segments operating profit	$232,110	185,142	145,356
Interest, net	(23,765)	(24,412)	(37,666)
Equity in net loss of Barnes & Noble.com	(42,047)	(71,334)	--
Gain on formation of Barnes & Noble.com	25,000	63,759	--
Other income	27,337	3,414	1,913
Consolidated earnings before income taxes, extraordinary charge and cumulative effect of a change in accounting principle	$218,635	156,569	109,603

12. Comprehensive Earnings

In 1999, as a result of the Company's investment activities (see Note 5), the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" which establishes standards for reporting and display of comprehensive earnings and its components in the financial statements. Comprehensive earnings are net earnings, plus certain other items that are recorded directly to shareholders' equity. The only such item currently applicable to the Company is the unrealized loss on available-for-sale securities, as follows:

Fiscal Year	1999	1998	1997
Net earnings	$124,498	92,376	53,169
Other comprehensive loss:			
Unrealized loss on available-for-sale securities, net of deferred income tax benefit of $839	(1,198)	--	--
Total comprehensive earnings	$123,300	92,376	53,169

13. Shareholders' Equity

In fiscal 1999, the Board of Directors authorized a common stock repurchase program for the purchase of up to $250,000 of the Company's common shares. As of January 29, 2000, the Company has repurchased 4,025,900 shares at a cost of approximately $86,797 under this program. The repurchased shares are held in treasury.

As discussed more fully in Note 7, shareholders' equity as of January 29, 2000 includes an increase in additional paid-in capital of $116,158 representing the Company's incremental share in the equity of Barnes & Noble.com as a result of the IPO. Shareholders' equity as of January 30, 1999 includes an increase in additional paid-in capital of $36,351 as a result of the formation of Barnes & Noble.com.

On July 10, 1998, the Board of Directors of the Company declared a dividend of one Preferred Share Purchase Right (a Right) for each outstanding share of the Company's common stock (Common Stock). The distribution of the Rights was made on July 21, 1998 to stockholders of record on that date. Each Right entitles the holder to purchase from the Company one four-hundredth of a share of a new series of preferred stock, designated as Series H Preferred Stock, at a price of $225 per one four-hundredth of a share. The Rights will be exercisable only if a person or group acquires 15 percent or more of the Company's outstanding Common Stock or announces a tender offer or exchange offer, the consummation of which would result in such person or group owning 15 percent or more of the Company's outstanding Common Stock.

If a person or group acquires 15 percent or more of the Company's outstanding Common Stock, each Right will entitle a holder (other than such person or any member of such group) to purchase, at the Right's then current exercise price, a number of shares of Common Stock having a market value of twice the exercise price of the Right. In addition, if the Company is acquired in a merger or other business combination transaction or 50 percent or more of its consolidated assets or earning power are sold at any time after the Rights have become exercisable, each Right will entitle its holder to purchase, at the Right's then current exercise price, a number of the acquiring company's common shares having a market value at that time of twice the exercise price of the Right. Furthermore, at any time after a person or group acquires 15 percent or more of the outstanding Common Stock of the Company but prior to the acquisition of 50 percent of such stock, the Board of Directors may, at its option, exchange part or all of the Rights (other than Rights held by the acquiring person or group) at an exchange rate of one four-hundredth of a share of Series H Preferred Stock or one share of the Company's Common Stock for each Right.

The Company will be entitled to redeem the Rights at any time prior to the acquisition by a person or group of 15 percent or more of the outstanding Common Stock of the Company, at a price of $.01 per Right. The Rights will expire on July 20, 2008.

The Company has 5,000,000 shares of $.001 par value preferred stock authorized for issuance, of which 250,000 shares have been designated by the Board of Directors as Series H Preferred Stock and reserved for issuance upon exercise of the Rights. Each such share of Series H Preferred Stock will be nonredeemable and junior to any other series of preferred stock the Company may issue (unless otherwise provided in the terms of such stock) and will be entitled to a preferred dividend equal to the greater of $2.00 per share or 400 times any dividend declared on the Company's Common Stock. In the event of liquidation, the holders of Series H Preferred Stock will receive a preferred liquidation payment of $1,000 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon. Each share of Series H Preferred Stock will have 400 votes, voting together with the Company's Common Stock. However, in the event that dividends on the Series H Preferred Stock shall be in arrears in an amount equal to six quarterly dividends thereon, holders of the Series H Preferred Stock shall have the right, voting as a class, to elect two of the Company's Directors, whose terms shall extend until such time when all accrued and unpaid dividends for all previous quarterly dividend periods and for the current quarterly dividend period on all shares of Series H Preferred Stock then outstanding shall have been declared and paid or set apart for payment. In the event of any merger, consolidation or other transaction in which the Company's Common Stock is exchanged, each share of Series H Preferred Stock will be entitled to receive 400 times the amount and type of consideration received per share of the Company's Common Stock. As of January 29, 2000, there were no shares of Series H Preferred Stock outstanding.

14. Restructuring Charge

From 1989 through 1995, the Company closed, on average, between 40 and 60 mall bookstores per year primarily due to increasing competition from superstores and declining mall traffic. During the fourth quarter of fiscal 1995, the Company accelerated its mall bookstore closing program with the aim of forming a core of more profitable B. Dalton stores, and provided for these closing costs and asset valuation adjustments through a non-cash restructuring charge, and early adoption of Statement of Financial Accounting Standards No. 121, "Accounting for Impairment of Long-Lived Assets and Assets to be Disposed Of" (SFAS 121). In the fourth quarter of fiscal 1995, the Company recorded a non-cash charge to operating earnings of $123,768 ($87,303 after tax or $1.32 per share) to reflect the aggregate impact of its restructuring plan and change in accounting policy. The charge to earnings included a $33,000 write-down of goodwill, and $45,862 related to the write-down of fixed assets and other long-term assets. The Company has completed this store closing program. Costs incurred in excess of the amount provided by the restructuring charge were immaterial and have been included in selling and administrative expenses.

The following table sets forth the restructuring liability activity:

	Provision for Store Closing	Lease Termination Costs	Other	Total
Balance at February 1, 1997	$ 1,532	30,462	1,602	33,596
Fiscal 1997 payments	1,532	9,026	1,602	12,160
Balance at January 31, 1998	--	21,436	--	21,436
Fiscal 1998 payments	--	12,968	--	12,968
Balance at January 30, 1999	--	8,468	--	8,468
Fiscal 1999 payments	--	8,468	--	8,468
Balance at January 29, 2000	$ --	--	--	--

15. Stock Option Plans

The Company currently has two incentive plans under which stock options have been or may be granted to officers, directors and key employees of the Company – the 1991 Employee Incentive Plan (the 1991 Plan) and the 1996 Incentive Plan (the 1996 Plan). The options to purchase common shares generally are issued at fair market value on the date of the grant, begin vesting after one year in 33-1/3 percent or 25 percent increments per year, expire 10 years from issuance and are conditioned upon continual employment during the vesting period.

The Company increased the number of shares available for issuance under the 1996 Plan from 6,000,000 to 11,000,000. The 1996 Plan and the 1991 Plan allow the Company to grant options to purchase up to 11,000,000 and 4,732,704 shares of common stock, respectively.

In addition to the two incentive plans, the Company has granted stock options to certain key executives and directors. The vesting terms and contractual lives of these grants are similar to that of the incentive plans.

In accordance with the Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), the Company discloses the pro forma impact of recording compensation expense utilizing the Black-Scholes model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the Black-Scholes model does not necessarily provide a reliable measure of the fair value of its stock options.

Had compensation cost for the Company's stock option grants been determined based on the fair value at the stock option grant dates consistent with the pro forma method of SFAS 123, the Company's net earnings and diluted earnings per share for fiscal 1999, 1998 and 1997, would have been reduced by approximately $6,298 or $0.09 per share, $6,188 or $0.09 per share, and $3,863 or $0.06 per share, respectively.

Because the application of the pro forma disclosure provision of SFAS 123 are required only to be applied to grants of options made by the Company during fiscal 1995 and after, the above pro forma amounts may not be representative of the effects of applying SFAS 123 to future years.

The weighted-average fair value of the options granted during fiscal 1999, 1998 and 1997 were estimated at $10.00, $12.96 and $8.05 respectively, using the Black-Scholes option-pricing model with the following assumptions: volatility of 35 percent for fiscal 1999 and fiscal 1998 grants, 28 percent for fiscal 1997 grants, risk-free interest rate of 5.90 percent in fiscal 1999, 5.33 percent in fiscal 1998, and 6.54 percent in fiscal 1997, and an expected life of 6.0 years for fiscal 1999, 5.4 years for fiscal 1998 and 6.0 years for fiscal 1997.

A summary of the status of the Company's stock options is presented below:

(Thousands of shares)	Shares	Weighted-Average Exercise Price
Balance, February 1, 1997	9,142	$11.07
Granted	2,254	19.31
Exercised	(1,546)	9.28
Forfeited	(186)	16.25
Balance, January 31, 1998	9,664	13.17
Granted	1,841	31.12
Exercised	(837)	11.11
Forfeited	(390)	22.35
Balance, January 30, 1999	10,278	16.22
Granted	2,148	22.31
Exercised	(795)	11.39
Forfeited	(488)	26.91
Balance, January 29, 2000	11,143	$ 17.27

Options exercisable as of January 29, 2000, January 30, 1999 and January 31, 1998 were 7,133,000, 6,780,000 and 6,558,000, respectively. Options available for grant under the plans were 4,243,000, 5,902,000 and 2,354,000 at January 29, 2000, January 30, 1999 and January 31, 1998, respectively.

The following table summarizes information as of January 29, 2000 concerning outstanding and exercisable options:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding (000s)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable (000s)	Weighted-Average Exercise Price
\$ 3.21 - \$ 3.77	556	3.36	\$ 3.59	556	\$ 3.59
\$10.00 - \$15.00	5,068	3.89	\$ 12.06	5,068	\$ 12.06
\$17.13 - \$24.25	3,729	8.27	\$ 19.92	1,230	\$ 19.29
\$26.50 - \$34.75	1,790	8.52	\$ 30.73	279	\$ 33.90
\$ 3.21 - \$34.75	11,143	6.07	\$ 17.27	7,133	\$ 13.50

16. Leases

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

Rental expense under operating leases are as follows:

Fiscal Year	1999	1998	1997
Minimum rentals	\$291,964	271,201	253,472
Percentage rentals	7,502	3,183	3,216
	\$299,466	274,384	256,688

Future minimum annual rentals, excluding percentage rentals, required under leases that had initial, noncancelable lease terms greater than one year, as of January 29, 2000 are:

Fiscal Year	
2000	\$ 301,622
2001	294,336
2002	279,017
2003	257,289
2004	236,072
After 2004	1,541,439
	\$2,909,775

17. Litigation

In March 1998, the American Booksellers Association (ABA) and 26 independent bookstores filed a lawsuit in the United States District Court for the Northern District of California against the Company and Borders Group, Inc. (Borders) alleging violations of the Robinson-Patman Act, the California Unfair Trade Practice Act and the California Unfair Competition Law. The Complaint seeks injunctive and declaratory relief; treble damages on behalf of each of the bookstore plaintiffs, and, with respect to the California bookstore plaintiffs, any other damages permitted by California law; disgorgement of money, property and gains wrongfully obtained in connection with the purchase of books for resale, or offered for resale, in California from March 18, 1994 until the action is completed and pre-judgment interest on any amounts awarded in the action, as well as attorney fees and costs. In October 1999, Barnes & Noble.com was added as a defendant in the action. The Company intends to vigorously defend this action.

In August 1998, The Intimate Bookshop, Inc. and its owner, Wallace Kuralt, filed a lawsuit in the United States District Court for the Southern District of New York against the Company, Borders, Amazon.com, Inc., certain publishers and others alleging violation of the Robinson-Patman Act and other federal law, New York statutes governing trade practices and common law. The Complaint sought certification of a class consisting of all retail booksellers in the United States, whether or not currently in business, which were in business and were members of the ABA at any time during the four year period preceding the filing of the Complaint. The Complaint alleged that the named plaintiffs have suffered damages of \$11,250 or more and requested treble damages on behalf of the named plaintiffs and each of the purported class members, as well as of injunctive and declaratory relief (including an injunction requiring the closure of all of defendants' stores within 10 miles of any location where plaintiff either has or had a retail bookstore during the four years preceding the filing of the Complaint, and prohibiting the opening by defendants of any bookstore in such areas for the next 10 years), disgorgement of alleged discriminatory discounts, rebates, deductions and payments, punitive damages, interest, costs, attorneys fees and other relief. The plaintiffs subsequently amended their complaint to allege eight causes of action on behalf of the Intimate Bookshop and Wallace Kuralt, accusing the Company and the other defendants of: (i) violating § 2(f) of the Robinson-Patman Act; (ii) violating § 2(c) of the Robinson-Patman Act; (iii) violating § 13a of the Clayton Act; (iv) inducing every publisher in the United States to breach contracts with the plaintiffs; (v) interfering with the plaintiff's advantageous business relationships; (vi) engaging in unfair competition; (vii) violating §§ 349 and 350 of the New York General Business Law; and (viii) being unjustly enriched. The class action allegations have been removed and the plaintiffs voluntarily dismissed defendants Harper Collins Publishers, Inc. and Amazon.com, Inc. from the case.

On April 13, 1999, the Company and the other defendants filed a motion to dismiss the second through eighth causes of action in their entireties and for a more definite statement of the remaining allegations of the first cause of action. As a result, the plaintiffs' third through eighth causes of action were dismissed with prejudice, as were all claims asserted by Wallace Kuralt in his individual capacity. The Company served an Answer on April 5, 2000 denying the material allegations of the Complaint and asserting various affirmative defenses. The Company intends to continue to vigorously defend this action.

In addition to the above actions, various claims and lawsuits arising in the normal course of business are pending against the Company. The subject matter of these proceedings primarily includes commercial disputes and employment issues. The results of these proceedings are not expected to have a material adverse effect on the Company's consolidated financial position or results of operations.

18. Certain Relationships and Related Transactions

The Company leases space for its executive offices in properties in which Leonard Riggio, chairman, chief executive officer and principal stockholder of Barnes & Noble, has a minority interest. The space was rented at an aggregate annual rent including real estate taxes of approximately $2,753, $1,316 and $1,309 in fiscal years 1999, 1998 and 1997, respectively.

The Company leases a 75,000 square foot office/warehouse from a partnership in which Leonard Riggio has a 50 percent interest, pursuant to a lease expiring in 2023. Pursuant to such lease, the Company paid $573, $737 and $743 in fiscal years 1999, 1998 and 1997, respectively.

The Company is provided with certain package shipping services by the LTA Group, Inc. (LTA), a company in which a brother of Leonard Riggio owns a 20 percent interest. The Company paid LTA $13,118, $12,571 and $11,528 for such services during fiscal years 1999, 1998 and 1997, respectively.

The Company leases retail space in a building in which Barnes & Noble College Bookstores, Inc. (B&N College), a company owned by Leonard Riggio, subleases space for its executive offices. Occupancy costs allocated by the Company to B&N College for this space totaled $686, $725 and $634 for fiscal years 1999, 1998 and 1997, respectively. In connection with the space, the Company reimbursed B&N College during fiscal 1997, for a landmark tax credit totaling $726.

B&N College allocated to the Company certain operating costs it incurred on its behalf. These charges are included in the accompanying consolidated statements of operations and approximated $193, $48 and $75 for fiscal 1999, 1998 and 1997, respectively. The Company charged B&N College $1,042 and $972 for fiscal years 1999 and 1998, respectively, for capital expenditures, business insurance and other operating costs incurred on its behalf.

The Company uses a jet aircraft owned by B&N College and pays for the costs and expenses of operating the aircraft based upon the Company's usage. Such costs which include fuel, insurance, personnel and other costs approximate $2,205, $1,760 and $1,910 during fiscal 1999, 1998 and 1997, respectively, and are included in the accompanying consolidated statements of operations.

On October 28, 1999, the Company acquired Babbage's Etc., one of the nation's largest operators of video game and entertainment software stores, a company majority owned by Leonard Riggio, for $208,670. If financial performance targets are met over the next two fiscal years, the Company will make additional payments of approximately $10,000 in 2001 and approximately $10,000 in 2002.

Barnes & Noble.com purchased $74,682 and $33,444 of merchandise from the Company during fiscal 1999 and 1998, respectively, and Barnes & Noble.com expects to source purchases through the Company in the future. The Company has entered into an agreement (the Supply Agreement) with Barnes & Noble.com whereby the Company charges Barnes & Noble.com the costs associated with such purchases plus incremental overhead incurred by the Company in connection with providing such inventory. The Supply Agreement is subject to certain termination provisions.

The Company has entered into agreements (the Service Agreements) whereby Barnes & Noble.com receives various services from the Company, including, among others, services for payroll processing, benefits administration, insurance (property and casualty, medical, dental and life), tax, traffic, fulfillment and telecommunications. In accordance with the terms of such agreements the Company has received, and expects to continue to receive, fees in an amount equal to the direct costs plus incremental expenses associated with providing such services. The Company received $2,037, $856 and $250 for such services during fiscal 1999, 1998 and 1997, respectively.

The Company subleases to Barnes & Noble.com approximately one-third of a 300,000 square foot warehouse facility located in New Jersey. The Company has received from Barnes & Noble.com $473 and $310 for such subleased space during fiscal 1999 and 1998, respectively.

Since 1993, the Company has used the music distributor AEC One Stop Group, Inc. (AEC) as its primary music and video supplier and to provide a music and video database. In 1999, AEC's parent corporation was acquired by an investor group in which Leonard Riggio was a significant minority investor. The Company paid AEC $126,241 in connection with this agreement during fiscal 1999.

19. Selected Quarterly Financial Information (Unaudited)

A summary of quarterly financial information for each of the last two fiscal years is as follows:

Fiscal 1999 Quarter End On or About	April 1999	July 1999	October 1999	January 2000	Total Fiscal Year 1999
Sales	$718,336	727,165	715,903	1,324,639	3,486,043
Gross profit	$192,371	199,275	200,490	410,178	1,002,314
Equity in net loss of Barnes & Noble.com (a)	$(11,544)	(6,532)	(8,736)	(15,235)	(42,047)
Earnings (loss) before cumulative effect of a change in accounting principle	$ (1,444)	23,543	3,387	103,512	128,998
Net earnings (loss) (b) (c)	$ (5,944)	23,543	3,387	103,512	124,498
Basic earnings (loss) per common share					
Earnings (loss) before cumulative effect of a change in accounting principle	$ (0.02)	0.34	0.05	1.52	1.87
Net earnings (loss)	$ (0.09)	0.34	0.05	1.52	1.80
Diluted earnings (loss) per common share					
Earnings (loss) before cumulative effect of a change in accounting principle	$ (0.02)	0.33	0.05	1.48	1.81
Net earnings (loss)	$ (0.09)	0.33	0.05	1.48	1.75

Fiscal 1998 Quarter End On or About	April 1998	July 1998	October 1998	January 1999	Total Fiscal Year 1998
Sales	$656,976	662,507	656,837	1,029,288	3,005,608
Gross profit	$172,387	179,844	182,967	327,693	862,891
Equity in net loss of Barnes & Noble.com (d)	$(13,603)	(23,003)	(20,472)	(14,256)	(71,334)
Net earnings (loss) (e)	$ (3,335)	(5,709)	(4,596)	106,016	92,376
Basic earnings (loss) per common share	$ (0.05)	(0.08)	(0.07)	1.54	1.35
Diluted earnings (loss) per common share	$ (0.05)	(0.08)	(0.07)	1.47	1.29

(a) As a result of the Barnes & Noble.com Inc. initial public offering on May 25, 1999, the Company retained a 40 percent interest in Barnes & Noble.com. Accordingly, fiscal 1999 reflects the Company's 50 percent interest in the net losses of Barnes & Noble.com through the date of the IPO and 40 percent thereafter.

(b) Included in net earnings for the second quarter of fiscal 1999 is a pre-tax gain of $25,000 ($14,750 after tax) or $0.21 per diluted share from the receipt of $25,000 from Bertelsmann as a result of the Barnes & Noble.com initial public offering, as well as a pre-tax gain of $10,975 ($6,475 after tax) or $0.09 per basic and diluted common share resulting from the partial sale of the Company's investment in Chapters.

(c) Included in net earnings for the fourth quarter of fiscal 1999 is a pre-tax gain of $22,356 ($13,190 net of tax) or

$0.18 per diluted share in connection with the sale of the Company's investment in NuvoMedia as more fully discussed in Note 6 of the Notes to Consolidated Financial Statements. In addition, the fourth quarter of fiscal 1999 includes the results of the Company's acquisition of Babbage's Etc. as more fully discussed in Note 10 of the Notes to Consolidated Financial Statements.

(d) As a result of the formation of Barnes & Noble.com on October 31, 1998, each quarter of fiscal 1998 presents the Company's equity in net loss of Barnes & Noble.com as a separate line item in accordance with the equity method of accounting. Accordingly, the first three quarters of fiscal 1998 reflect the Company's 100 percent equity in net losses of Barnes & Noble.com and the fourth quarter reflects the Company's 50 percent interest in the net losses of Barnes & Noble.com.

(e) Included in net earnings for the fourth quarter of fiscal 1998 is a pre-tax gain on the formation of Barnes & Noble.com of $63,759 ($37,618 after tax) or $0.52 per diluted share.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
Barnes & Noble, Inc.

We have audited the accompanying consolidated balance sheets of Barnes & Noble, Inc. and subsidiaries as of January 29, 2000 and January 30, 1999 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three fiscal years in the period ended January 29, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Barnes & Noble, Inc. and its subsidiaries as of January 29, 2000 and January 30, 1999 and the results of their operations and their cash flows for each of the three fiscal years in the period ended January 29, 2000, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the Consolidated Financial Statements, effective January 31, 1999, the Company changed its method of accounting for pre-opening expenses.

New York, New York
March 16, 2000

BDO Seidman, LLP

BDO Seidman, LLP

SHAREHOLDER INFORMATION

Barnes & Noble, Inc. Board of Directors

Leonard Riggio
Chairman and Chief Executive Officer
Barnes & Noble, Inc.

Stephen Riggio
Vice Chairman
Barnes & Noble, Inc.
Vice Chairman and Acting Chief Executive Officer
Barnes & Noble.com

Matthew A. Berdon
Chairman of the New York Division
Urbach, Kahn & Werlin

Michael J. Del Giudice
Managing Director
Millennium Credit Markets LLC

William Dillard II
Chief Executive Officer
Dillard Department Stores, Inc.

Irene R. Miller
Former Vice Chairman and Chief Financial Officer
Barnes & Noble, Inc.

Margaret T. Monaco
Chief Operating Officer
KECALP Inc., a subsidiary of Merrill Lynch & Co., Inc.

Michael N. Rosen
Chairman, Robinson Silverman Pearce Aronsohn
& Berman LLP

William Sheluck, Jr.
Retired President and Chief Executive Officer
Nationar

Barnes & Noble, Inc. Executive Officers

Leonard Riggio
Chairman and Chief Executive Officer

Stephen Riggio
Vice Chairman

J. Alan Kahn
Chief Operating Officer

Mitchell S. Klipper
President, Barnes & Noble Development

Maureen O'Connell
Chief Financial Officer

Thomas A. Tolworthy
President, Barnes & Noble Booksellers

Mary Ellen Keating
Senior Vice President, Corporate Communications
and Public Affairs

Michael Archbold
Vice President and Treasurer

David S. Deason
Vice President, Barnes & Noble Development

Joseph Giamelli
Vice President and Chief Information Officer

Darrell Meussner
Vice President and Chief Financial Officer
of Retail and Distribution

Michael N. Rosen
Secretary

Babbage's Etc. Executive Officers

Leonard Riggio
Chairman

R. Richard Fontaine
Chief Executive Officer

Daniel D. DeMatteo
President and Chief Operating Officer

David W. Carlson
Vice President and Chief Financial Officer

Price Range of Common Stock

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

Fiscal Year	1999		1998	
	High	Low	High	Low
First Quarter	40 1/4	25 13/16	39 13/16	30 1/4
Second Quarter	36 3/8	22 1/2	48	31 15/16
Third Quarter	27 1/2	20 1/16	41 11/16	22 3/16
Fourth Quarter	25 3/8	18 1/2	48	26 3/4

As of March 31, 2000, there were 64,081,125 shares of common stock outstanding held by 2,064 shareholders of record. No dividends have been paid on the common stock since the initial public offering date and dividend payments are currently restricted as a covenant of the Company's debt agreement.

Corporate Information

Corporate Headquarters:
Barnes & Noble, Inc.
122 Fifth Avenue
New York, New York 10011
(212) 633-3300

Common Stock:
New York Stock Exchange, Symbol: BKS

Transfer Agent and Registrar:
The Bank of New York
Shareholder Relations, Department 11E
P.O. Box 11258, Church Street Station
New York, New York 10286
Shareholder Inquiries: (800) 524-4458
E-mail address: shareowner-svcs@bankofny.com

Counsel:
Robinson Silverman Pearce Aronsohn & Berman LLP
New York, New York

Independent Public Accountants:
BDO Seidman, LLP, New York, New York

Annual Meeting:
The Annual Meeting of the Shareholders will be held at 10 a.m. on Wednesday, June 7, 2000 at the Marriot Marquis, 1535 Broadway, New York, New York.

Shareholder Services:
Inquiries from our shareholders and potential investors are always welcome.

General financial information can be obtained via the Internet by visiting the Company's Investor Relations Web site: http://www.shareholder.com/bks/

Up-to-the-minute news about Barnes & Noble, requests for Annual Reports, Form 10-K and 10-Q documents and other available financial information can be obtained toll-free by calling 1-888-BKS-NEWS.

All other inquiries should be directed to:
Investor Relations Department, Barnes & Noble, Inc.
122 Fifth Avenue, New York, New York 10011
Phone: (212) 633-3489 Fax: (212) 675-0413

Design: MVision – Marilyn Budnick, Englewood, NJ

Photographers:

Whitney Cox: Page 1, Store photos; Page 8, Store photo; Page 9, Store photos; Page 10, bottom left Store photo; Page 16, Store photo; Page 18, Store photo; Page 19, Store photo.

Douglas Levere: Page 1, Great Expectations photo; Page 5, Leonard Riggio photo; Page 6, Executives photo; Page 7, Human Resources photo; Page 10, Real Estate photo; Page 11, Store photos; Page 12, Cooking Demonstration photo; Page 14, Book Buyers photo; Page 15, Store photo; Page 20, Distribution Center photo.

Andrea Renault: Page 13, Author photos; Page 14, National Book Award Author photos.

Mark Green: Page 10, Babbage's Etc. Executive Officers photo.

BARNES & NOBLE
BOOKSELLERS

BARNES & NOBLE, INC.
122 FIFTH AVENUE
NEW YORK, NEW YORK 10011