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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended February 2, 2002

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

For the transition period from __________ to __________

Commission File No. 1-12302

Barnes & Noble, Inc.

(Exact name of registrant as specified in its Charter)

Delaware	06-1196501
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
122 Fifth Avenue, New York, NY	10011
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:	
Common Stock, $0.001 par value per share	New York Stock Exchange
(Title of Class)	(Name of Exchange on which registered)

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $1,672,201,713 based upon the closing market price of $30.99 per share of Common Stock on the New York Stock Exchange as of March 28, 2002.

Number of shares of $.001 par value Common Stock outstanding as of March 28, 2002: 67,289,009

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2002 Annual Meeting of Shareholders are incorporated by reference into Part III.

Portions of the Registrant's Annual Report to Shareholders for the fiscal year ended February 2, 2002 are incorporated by reference into Parts II and IV.

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PART I

ITEM 1. BUSINESS

General

Barnes & Noble, Inc. (Barnes & Noble or the Company), the nation's largest bookseller*, as of February 2, 2002 operated 896 bookstores and 1,038 video-game and entertainment-software stores. Of the 896 bookstores, 591 operate under the Barnes & Noble Booksellers, Bookstop and Bookstar trade names (40 of which were opened in the year ended February 2, 2002) and 305 operate under the B. Dalton Bookseller, Doubleday Book Shops and Scribner's Bookstore trade names. Through its approximate 36 percent interest in barnesandnoble.com llc (Barnes & Noble.com), the Company is one of the largest sellers of books on the Internet. In October 1999, the Company acquired Babbage's Etc. LLC (Babbage's Etc.), one of the nation's largest video-game and entertainment-software specialty retailers. In June 2000, the Company acquired Funco, Inc. (Funco), a Minneapolis-based electronic games retailer. Through a corporate restructuring, Babbage's Etc. became a wholly owned subsidiary of Funco and Funco's name was changed to GameStop, Inc. As a result of these transactions, the Company became the nation's largest video-game and PC-entertainment software specialty retailer, operating 1,038 video-game and entertainment-software stores as of February 2, 2002 under the GameStop, Babbage's, Software Etc. and FuncoLand trade names, a Web site, gamestop.com, and *Game Informer*, one of the largest multi-platform video-game magazines, with circulation of over 415,000 subscribers (collectively, GameStop or Video Game & Entertainment Software). In February 2002, the Company completed an initial public offering of its GameStop business, reducing the Company's ownership interest to approximately 63%.

The Company's principal business is the retail sale of trade books (generally hardcover and paperback consumer titles, excluding educational textbooks and specialized religious titles), mass market paperbacks (such as mystery, romance, science fiction and other popular fiction), children's books, bargain books and magazines. These collectively account for substantially all of the Company's bookstore sales. During fiscal 2001, the Company's share of the consumer book market was approximately 16 percent. Bestsellers represent only 3 percent of the Barnes & Noble store sales.

The Company's fiscal year is comprised of 52 or 53 weeks, ending on the Saturday closest to the last day of January. The fiscal year ended February 2, 2002 (fiscal 2001) was comprised of 52 weeks and the fiscal year ended February 3, 2001 (fiscal 2000) was comprised of 53 weeks.

The Company's sales increased $494.6 million or 11.3% during fiscal 2001 to $4.870 billion from $4.376 billion during fiscal 2000. Contributing to this improvement was an increase of $363.8 million from GameStop store sales.

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

Barnes & Noble Bookstores

General

Barnes & Noble is the nation's largest operator of bookstores* with 591 Barnes & Noble bookstores located in 49 states and the District of Columbia as of February 2, 2002. With more than 35 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. Barnes & Noble bookstores opened during fiscal 2001 added 0.8 million square feet to the Barnes & Noble bookstore base, bringing the total square footage to 14.2 million square feet, a six percent increase over the prior fiscal year. Fiscal 2001 sales from Barnes & Noble bookstores, which contributed 89.6 percent of the Company's total bookstore sales, increased 6.0% to $3.359 billion from $3.170 billion in fiscal 2000. The Company plans to open between 40 and 45 Barnes & Noble bookstores in the fiscal year ending February 1, 2003 (fiscal 2002), which are expected to average 26,000 square feet in size. The Company believes that the key elements contributing to the success of the Barnes & Noble bookstores are:

Proximity to Customers. The Company's strategy is to increase its share of the consumer book market, as well as to increase the size of the market. Since it began its bookstore roll-out, the Company has employed a market clustering strategy. As of February 2, 2002, Barnes & Noble had stores in 150 of the total 210 DMA (Designated Market Area) markets. In 67 of the 150 markets, the Company has only one Barnes & Noble store. The Company believes its bookstores' proximity to their customers strengthen its market position and increase its franchise value. Most Barnes & Noble bookstores are located in high-traffic areas with convenient access to major commercial thoroughfares and ample parking. Most stores offer extended shopping hours, generally 9:00 a.m. to 11:00 p.m., seven days a week.

Dominant Title Selection. Each Barnes & Noble store features an authoritative selection of books, ranging between 60,000 to 200,000 titles, and has access to one million titles for immediate delivery. 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 percent 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. The Company believes that its tremendous selection, including many otherwise hard-to-find titles, builds customer loyalty.

Store Design and Ambiance. Many of the Barnes & Noble bookstores create a comfortable atmosphere with ample public space; a café offering, among other things, sandwiches and bakery items; and public restrooms. The cafés, for which the Starbucks Corporation is the sole provider of coffee products, foster the image of the bookstores as a community meeting place. In addition, the Company continues to develop and introduce new product line extensions, such as gift, game, music, video, DVD and children's sections, to meet customers' changing tastes and needs. These offerings and services have helped to make many of the stores neighborhood institutions.

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

Music Departments. Many of the Barnes & Noble bookstores have music departments, which range in size from 1,700 to 7,800 square feet. The music departments generally stock over 50,000 titles in classical music, opera, jazz, blues and pop rock and an extensive collection of DVD's, tailored to the tastes of the Company's core customers. Listening stations are available for customers to preview selected compact discs.

Discount Pricing. Barnes & Noble bookstores employ an aggressive nationwide discount pricing strategy. The current pricing is 30 percent off publishers' suggested retail prices for hardcover bestsellers, 30 percent off paperback bestsellers and 20 percent off select feature titles in departments such as children's books and computer books. The Company believes that its pricing strategies enable the Company to increase the discount on the books its customers buy most often while bringing the Company closer to online pricing.

The Company also offers Readers' Advantage™ memberships which entitle the customer to receive a 10 percent discount in the Company's stores and a 5 percent discount on the Barnes & Noble.com Web site. Readers' Advantage™ also offers other benefits and invitations to member-only events.

Marketing and Community Relations. Barnes & Noble stores are launched with a major grand opening campaign involving extensive print and radio advertising, direct-mail marketing and community events. Each store plans its own community-based calendar of events, including author appearances, children's storytelling hours, poetry readings and discussion groups. The Company believes its community focus encourages customer loyalty, word-of-mouth publicity and media coverage. The Company also supports communities through efforts on behalf of local non-profit organizations that focus on literacy, the arts or education (K-12). In addition, the Company is the exclusive book sponsor of the Poets & Writers organization, and a co-sponsor with the Anti-Defamation League of a nationwide campaign, "Close the Book on Hate," which encourages adults to begin a dialogue with young children on combating prejudice.

Merchandising and Marketing

The Company's merchandising strategy for its Barnes & Noble bookstores is to be the authoritative community bookstore which carries a dominant selection of titles in all subjects, including an extensive selection of titles from small independent publishers and university presses. Each Barnes & Noble store stocks from 60,000 to 200,000 titles, of which approximately 50,000 titles are common to all stores; the balance is crafted to reflect the lifestyles and interests of each store's customers. Before a store opens, the Company's buyers study the community and customize the title selection with offerings from the store's local publishers and authors. After the store opens, each Barnes & Noble store manager is responsible for adjusting the buyers' selection to the interests, lifestyles and demands of the store's local customers. BookMaster, the Company's proprietary inventory management database, has more than 3.0 million titles. It includes catalogued sales rankings of over 1.0 million titles in over 150 subjects and provides each store with comprehensive title selections in those subjects in which it seeks to expand. By enhancing the Company's existing merchandise replenishment systems, BookMaster allows the Company to achieve higher in-stock positions and better productivity at the store level through efficiencies in receiving, cashiering and returns processing.

Store Locations and Properties

The Company's experienced real estate personnel select sites for new Barnes & Noble stores after an extensive review of demographic data and other information relating to market potential, bookstore visibility and access, available parking, surrounding businesses, compatible nearby tenants, competition and the location of other Barnes & Noble stores. Most stores are located in high-visibility areas adjacent to main traffic corridors in strip shopping centers or freestanding buildings. The Company has successfully converted existing structures such as old movie theaters, bowling alleys, power plants and landmark buildings into bookstores.

The number of Barnes & Noble stores located in each state and the District of Columbia as of February 2, 2002 are listed below:

STATE	NUMBER OF STORES	STATE	NUMBER OF STORES
Alabama	5	Missouri	9
Alaska	1	Montana	3
Arizona	14	Nebraska	4
Arkansas	2	Nevada	4
California	79	New Hampshire	4
Colorado	13	New Jersey	21
Connecticut	11	New Mexico	2
Delaware	1	New York	38
Dist. Of Columbia	2	North Carolina	15
Florida	40	North Dakota	2
Georgia	13	Ohio	17
Hawaii	1	Oklahoma	5
Idaho	3	Oregon	8
Illinois	26	Pennsylvania	23
Indiana	9	Rhode Island	1
Iowa	4	South Carolina	9
Kansas	4	South Dakota	1
Kentucky	6	Tennessee	9
Louisiana	7	Texas	54
Maine	1	Utah	8
Maryland	10	Vermont	1
Massachusetts	18	Virginia	19
Michigan	18	Washington	17
Minnesota	17	Wisconsin	9
Mississippi	2	Wyoming	1

Expansion

According to Veronis, Suhler & Associates Communications Industry Forecast (Veronis Suhler), total U.S. consumer spending on books is expected to increase at a compound annual growth rate of 2.4%, from approximately $17.8 billion in 2000 to approximately $20.0 billion in 2005. The Company believes Barnes & Noble bookstores offer the greatest opportunity to increase the Company's share of the expanding consumer book market. The Company expects to open approximately 40 to 45 new stores during fiscal 2002. All stores will be opened under the Barnes & Noble Booksellers trade name and management positions in those stores are expected to be filled mostly by employees from existing stores.

B. Dalton Bookstores

General

The Company is the second largest operator of mall bookstores in the United States.* During fiscal 2001, B. Dalton (including Doubleday and Scribner's) generated sales of approximately $310.3 million, or 8.3% of the Company's total bookstore sales, compared with $372.2 million, or 10.3% of total bookstore sales during fiscal 2000.

Most of the 305 B. Dalton stores range in size from 2,000 to 6,000 square feet. These stores stock between 20,000 and 25,000 titles. B. Dalton generally discounts hardcover and paperback bestsellers at 30% off the publishers' suggested retail prices. B. Dalton also offers Readers' Advantage™, a membership loyalty program which gives members additional discounts and other benefits. The Company's eight Doubleday bookstores and one Scribner's bookstore utilize a more upscale format in select shopping malls and place a greater emphasis on hardcover and gift books.

The Company is continuing to execute a strategy to maximize returns from its B. Dalton stores in response to declining sales attributable primarily to superstore competition. Part of the Company's strategy has been to close underperforming stores as leases come up for renewal. In fiscal 2001, the Company closed 35 B. Dalton stores.

Merchandising and Marketing

Each B. Dalton store carries a selection of core titles within a variety of popular subject categories such as business, computers, cooking and reference, which are supplemented by new releases, bestsellers and other titles specially selected to meet local interests and demands. B. Dalton's merchandise strategy is to expand title assortments within categories it believes have significant growth potential, such as children's books, mass market paperbacks (such as mystery, romance, science fiction and other popular fiction), publishers' remainders and other bargain books including the Company's self-published books. B. Dalton's product offerings are tailored to attract shoppers interested in movies, television talk show topics and current events.

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

Store Locations and Properties

Approximately 89 percent of B. Dalton stores are located in enclosed regional shopping malls. The remaining stores are located in strip shopping centers and central business districts. Lease renewals for B. Dalton stores are made after an extensive review of financial results, demographic data, mall tenants, location within the mall and competitive factors.

The number of B. Dalton stores located in each state and the District of Columbia as of February 2, 2002 are listed below:

STATE	NUMBER OF STORES	STATE	NUMBER OF STORES
Alabama	1	Montana	1
Arizona	8	Nebraska	1
Arkansas	1	Nevada	3
California	42	New Hampshire	2
Colorado	3	New Jersey	9
Connecticut	3	New Mexico	2
Dist. Of Columbia	1	New York	10
Florida	15	North Carolina	6
Georgia	9	North Dakota	3
Idaho	3	Ohio	15
Illinois	15	Oklahoma	1
Indiana	5	Oregon	4
Iowa	6	Pennsylvania	13
Kansas	5	South Carolina	3
Kentucky	2	South Dakota	1
Louisiana	7	Tennessee	1
Maine	2	Texas	19
Maryland	6	Utah	5
Massachusetts	4	Virginia	10
Michigan	14	Washington	11
Minnesota	15	West Virginia	1
Mississippi	1	Wisconsin	5
Missouri	9	Wyoming	2

Barnes & Noble.com

General

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. The new entity, barnesandnoble.com llc (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 from the date of the IPO through November 2000. In November 2000, Barnes & Noble.com acquired Fatbrain.com, Inc. (Fatbrain), the then third largest online bookseller. Barnes & Noble.com issued shares of its common stock to Fatbrain shareholders. As a result of this merger, the Company and Bertelsmann each retained an approximate 36 percent interest in Barnes & Noble.com. Accordingly, the Company's share in the net loss of Barnes & Noble.com was 40 percent from the beginning of fiscal 2000 through November 2000 and approximately 36 percent thereafter.

Barnes & Noble.com is a leading online retailer of knowledge, information, education and entertainment-related products. Since opening its online store in March 1997, Barnes & Noble.com has attracted more than 11.2 million customers in 228 countries. In addition to books, the Barnes & Noble.com Web site, www.bn.com, sells music, DVD/video and magazine subscriptions. Barnes & Noble.com's online bookstore includes the largest-in-stock selection of in-print book titles with access to one million titles for immediate delivery and supplemented by more than 20 million listings from its nationwide network of out-of-print, rare and used book dealers. Barnes & Noble.com offers its customers fast delivery, easy and secure ordering and rich editorial content.

According to Jupiter Media Metrix, in January 2002, Barnes & Noble.com's Web site was the fifth-most-trafficked shopping site and was among the top 50 largest Web properties on the Internet. Co-marketing agreements with major Web portals such as AOL, Yahoo! and MSN as well as content sites have extended Barnes & Noble.com's brand and increased consumer exposure to its site. Barnes & Noble.com has also established a network of remote storefronts across the Internet by creating direct links with more than 512,000 affiliate Web sites.

GameStop Stores

General

As a result of its acquisitions of Babbage's Etc. and Funco in October 1999 and June 2000, respectively, the Company is the nation's largest video-game and PC-entertainment software specialty retailer.* As of February 2, 2002, the Company operated 1,038 video-game and entertainment-software stores located in 49 states, Puerto Rico and Guam. 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. The Company operates stores under the GameStop, Babbage's, Software Etc. and FuncoLand trade names, a Web site, gamestop.com and *Game Informer* magazine.

Of the 1,038 stores, 542 stores are located in shopping malls and other locations and 496 stores are located in strip centers. Mall stores carry primarily new video-game hardware, video-game software and accessories and PC-entertainment software, as well as a limited selection of used video game products. Strip center stores carry a balanced mix of new and used video-game products and, in selected stores, PC-entertainment software. The used video-game products provide a unique value proposition to customers, and the Company's purchasing of video-game products provides customers with an opportunity to trade in their used video-game products for store credits and apply those credits towards other merchandise, which, in turn, drives more sales.

On February 19, 2002, the Company successfully completed an initial public offering for GameStop Corp., GameStop's parent company, raising net proceeds of approximately $348.0 million. A portion of those proceeds was used to repay $250.0 million of indebtedness to the Company, with the

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

Company contributing the remaining (approximately $150.0 million) indebtedness to GameStop Corp. as additional paid-in-capital. The balance of the proceeds (approximately $98.0 million) is being used for GameStop Corp. working capital and general corporate purposes. The Company retained an approximate 63% interest in GameStop Corp.

Merchandising and Marketing

The mall stores primarily focus on the electronic game enthusiast who demands the latest merchandise featuring the “hottest” technology immediately on the day of release. The strip center stores also serve the electronic game enthusiast, but focus on serving the value-oriented customer by offering a wide selection of value-priced used video-game products and the opportunity to trade in used video-game products in exchange for store credits applicable to future purchases, which, in turn, drives more sales.

Store Locations and Properties

GameStop’s stores are mainly in prime locations in regional shopping malls, strip centers or other high traffic locations in markets with desirable demographics. All new stores, lease renewals, relocations and major remodels are evaluated on the basis of their return on investment, strategic positioning and condition of the market.

The number of video-game and entertainment-software stores located in each state, the Commonwealth of Puerto Rico and Guam as of February 2, 2002 are listed below:

STATE	NUMBER OF STORES	STATE	NUMBER OF STORES
Alabama	9	Montana	4
Alaska	3	Nebraska	3
Arizona	19	Nevada	6
Arkansas	4	New Hampshire	6
California	114	New Jersey	54
Colorado	14	New Mexico	4
Connecticut	17	New York	55
Delaware	3	North Carolina	21
Florida	33	North Dakota	4
Georgia	21	Ohio	54
Guam	1	Oklahoma	9
Hawaii	9	Oregon	6
Idaho	2	Pennsylvania	61
Illinois	51	Puerto Rico	9
Indiana	18	Rhode Island	1
Iowa	9	South Carolina	11
Kansas	5	South Dakota	2
Kentucky	15	Tennessee	19
Louisiana	11	Texas	98
Maine	1	Utah	9
Maryland	30	Virginia	35
Massachusetts	26	Vermont	1
Michigan	49	Washington	27
Minnesota	22	West Virginia	8
Mississippi	4	Wisconsin	20
Missouri	21		

Expansion

GameStop intends to continue to open new strip center stores in targeted markets and new mall stores in selected mall locations. GameStop opened 74 new stores in fiscal 2001 and 65 new stores in fiscal 2000. GameStop plans on opening approximately 150 to 200 new stores in fiscal 2002. The primary growth vehicle will be the expansion of the strip center store base, which could grow to over 2,000 stores in the United States. GameStop's strategy is to open clusters of strip center stores in targeted major metropolitan markets under the GameStop brand name. GameStop analyzes each market relative to target population and other demographic indices, real estate availability, competitive factors and past operating history, if available.

Industry experts believe that the electronic game industry is at the beginning stage of a new expansion cycle. International Data Corporation, an industry forecaster, forecasts that domestic sales of new video-game products will increase at a compound annual growth rate of approximately 47.5 percent over the next three years. In addition, Interactive Digital Software Association estimates that 60 percent of all Americans, or approximately 145 million people, play video or computer games on a regular basis.

Other Strategies

Proprietary Publishing. Barnes & Noble 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 book sales. As part of this activity, Barnes & Noble licenses titles directly from domestic and international publishers as well as from literary agents, commissions books directly from authors, reprints classic titles in the public domain and creates collections of fiction and non-fiction using in-house editors. With publishing and distribution rights to nearly 4,000 titles, Barnes & Noble Books offers customers high quality books at exceptional values. By self-publishing books, the Company is able to significantly lower its merchandise costs and pass on a portion of the savings to its customers. While the prices of these books represent significant value to the customers, they also generate substantially higher gross profit margins than those realized on sales of non-proprietary books.

Strategic Investments

The Company maintains equity investments in iUniverse.com (an Internet publishing portal), *BOOK*® magazine (a leading magazine on book reviews and other book-related information) and enews, inc. (an Internet marketer of magazine subscriptions). The Company also owns a 74 percent interest in Calendar Club L.L.C., an operator of seasonal calendar kiosks.

Store Operations

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

Each Barnes & Noble store generally employs a manager, two assistant managers and approximately 50 full- and part-time booksellers. Many Barnes & Noble stores also employ a full-time community relations manager. Each GameStop store generally employs a manager, one or two assistant managers and between two and 10 game advisors, most of whom are part-time employees. Each B. Dalton store generally employs a manager, an assistant manager and approximately seven full- and part-time booksellers. The large employee base provides the Company with experienced booksellers and interactive gaming experts to fill positions in the Company's new Barnes & Noble and GameStop stores.

The Company anticipates that a significant percentage of the personnel required to manage its expanding business will continue to come from within its existing operations.

Field management for all of the Company's bookstores and GameStop stores, including regional directors, district managers and store managers, participate in a bonus program tied to sales. The Company believes that the compensation of its field management is competitive with that offered by other specialty retailers of comparable size.

Barnes & Noble, B. Dalton and GameStop have in-store training programs providing specific information needed for success at each level, beginning with the entry-level positions of bookseller and game advisor. Store managers attend annual merchandising conferences every fall, and district managers participate in semi-annual training and merchandising conferences. GameStop's training program incorporates an element of on-the-job training where existing store managers train new store managers in all areas of store operations. Barnes & Noble and B. Dalton store managers are generally responsible for training other booksellers and employees in accordance with detailed procedures and guidelines prescribed by the Company, utilizing training aids available at each bookstore.

Purchasing

Barnes & Noble's buyers negotiate terms, discounts and cooperative advertising allowances with publishers for all of the Company's bookstores. The Company's distribution center enables it to maximize available discounts and enhance its ability to create marketing programs with many of its vendors. The Company has teams of buyers who specialize in customizing inventory for each of the Company's bookselling strategies. Store inventories are further customized by store managers, who may respond to local demand by purchasing a limited amount of fast-selling titles through a nationwide wholesaling network.

The Company purchases books on a regular basis from over 1,700 publishers and approximately 45 wholesale distributors. Purchases from the top five suppliers (including publishers and wholesale distributors) accounted for approximately 44 percent of the Company's book purchases during fiscal 2001, and no single supplier accounted for more than 15 percent of the Company's purchases during this period. Consistent with retail book industry practice, substantially all of the Company's book purchases are returnable for full credit, a practice which substantially reduces the Company's risk of inventory obsolescence.

Publishers control the distribution of titles by virtue of copyright protection, which limits availability on most titles to a single publisher. Since the retail, or list, prices of titles, as well as the retailers' cost price, are also generally determined by publishers, the Company has limited options concerning availability, cost and profitability of its book inventory. However, these limitations are mitigated by the substantial number of titles available (over 3.0 million), the Company's ability to maximize available discounts and its well-established relationships with publishers, which are enhanced by the Company's significant purchasing volume.

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

GameStop purchases substantially all of its video-game and entertainment-software products from approximately 85 manufacturers and software publishers and approximately five distributors.

Purchases from the top five vendors (including publishers and distributors) accounted for approximately 49 percent of the GameStop store purchases and only Sony, Microsoft and Electronic Arts (which accounted for 25 percent, 11 percent and 11 percent, respectively) accounted for more than 10 percent of GameStop's new product purchases during fiscal 2001. GameStop has established price protections and return privileges with its primary vendors in order to reduce the risk of inventory obsolescence. In addition, GameStop has no purchase contracts with trade vendors and conducts business on an order-by-order basis, a practice that is typical throughout the industry. GameStop believes that maintaining and strengthening its long-term relationships with its vendors is essential to its operations and continued expansion. GameStop believes it has very good relations with its vendors.

Distribution

The Company has invested significant capital in its systems and technology, by building new platforms, implementing new software applications and maintaining efficient distribution centers. As of February 2, 2002, the Company's book distribution centers had over one million square feet. Historically, the Company had replenished through its distribution network some of its fast-moving frontlist titles and bargain and self-published books and had the remaining inventory drop-shipped directly to the stores from wholesalers and publishers. The Company now sources more of its inventory through the distribution centers, which has increased direct buying from publishers rather than wholesalers. This has also led to improved just-in-time deliveries to stores.

Barnes & Noble.com recently determined it could not effectively utilize the full capacity of its Reno, Nevada distribution center. As a result, Barnes & Noble.com's Board of Directors approved the transfer of the Reno warehouse lease and the sale of inventory located in Reno to the Company at cost. In addition, the Company intends to refurbish the facility. The Company's Board of Directors also approved the Company's assumption of the lease, which expires in 2010, and the hiring of all of the employees at the Reno facility. The Company intends to use the Reno facility to facilitate distribution to its current and future West Coast stores. The Reno lease assignment and the transfer of the Reno facility to the Company is expected to be completed during the first half of fiscal 2002.

GameStop operates a 200,000-square-foot distribution center in Grapevine, Texas, which provides the majority of products to its stores. By operating with a centralized distribution facility, GameStop effectively controls and minimizes inventory levels. Technologically advanced conveyor systems and flow-through racks control costs and improve speed of fulfillment. The technology used in the distribution center allows for high-volume receiving, distributions to stores and returns to vendors. Inventory is shipped to each store at least twice a week, or daily, if necessary, in order to keep stores in supply of products. In order to support its first-to-market distribution network, GameStop utilizes the services of 15 off-site, third-party operated distribution centers that pick up products from suppliers, repackage the products for the stores and ships those products to the stores by package carriers. GameStop's ability to rapidly process incoming shipments of new release titles and distribute them to all of its stores, either that day or by the next morning, enables GameStop to meet peak demand and replenish stores at least twice a week.

Management Information and Control Systems

The Company has focused a majority of its information resources on strategically positioning and implementing systems to support store operations, merchandising and finance. BookMaster, the Company's bookstore inventory management system, integrates point-of-sale features that utilize a proprietary data-warehouse based replenishment system. BookMaster enhances communications and real-time access to the Company's network of bookstores, distribution center and wholesalers. In addition, the implementation of just-in-time replenishment has provided for more rapid replenishment of books to all of the Company's bookstores, resulting in higher in-stock positions and better productivity at the bookstore level through efficiencies in receiving, cashiering and returns processing.

GameStop's proprietary inventory management system and point of sale technology shows daily sales and in-store stock by title by store. Systems in place use this data to automatically generate replenishment shipments to each store from its distribution center, enabling each store to carry a merchandise assortment uniquely tailored to its own sales mix and rate of sale. GameStop's call lists and reservation system also provide its centralized buying staff with information to determine order size and inventory management for store-by-store inventory allocation. GameStop constantly reviews and edits its merchandise categories with the objective of ensuring that inventory is up-to-date and meets customer needs. GameStop uses a centralized PC network-based information system based in its corporate offices, in order to minimize initial outlay of capital while allowing for flexibility and growth as operations expand.

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

Competition

The retail book business is highly competitive. The Company competes in the superstores business with Borders Group, Inc. (Borders) and Books-a-Million. The Company also faces competition from mass merchandisers, such as Wal-Mart and Costco, some of which may have greater financial and other resources than the Company. B. Dalton Bookseller, Doubleday Book Shops and Scribner's Bookstores face direct competition from the Walden division of Borders, as well as regional chains and superstores. The Company's bookstores also compete with specialty retail stores that offer books in particular subject areas, independent single store operators, variety discounters, drug stores, warehouse clubs, mail-order clubs and other retailers offering books and music. In addition, the Company's bookstores may also face competition from the expanding market for electronic books.

The video-game and entertainment-software industry is intensely competitive and subject to rapid changes in consumer preferences and frequent new product introductions. GameStop competes with mass merchants and regional chains, including Wal-Mart, Kmart and Target, other video-game and PC-software specialty stores located in malls and other locations, including Electronics Boutique, toy retail chains, including Toys 'R' Us and KB Toys, mail-order businesses, catalogs, direct sales by software publishers, online retailers, and computer product and consumer electronics superstores, including Best Buy and Circuit City. In addition, video games are available for rental from many video stores and can be downloaded from interactive sites accessible on the Internet and may also be distributed through other methods which may emerge in the future. GameStop also competes with sellers of previously played video game merchandise. Some of GameStop's competitors in the video game business have longer operating histories and may have significantly greater financial resources than the Company. Additionally, GameStop competes with other forms of entertainment activities, including movies, television, theater, sporting events and family entertainment centers.

The Company also faces competition from the Internet. The online commerce market is rapidly evolving and intensely competitive, having few barriers to entry. The Company believes that many small Web sites and several large Web sites currently offer and sell most of the same products the Company offers. Moreover, companies that control access to Internet commerce transactions through network access or Web browsers currently promote, and will likely continue to promote, certain of the Company's competitors. The Company is aware that some of its competitors have and may continue to adopt aggressive pricing or inventory availability policies and devote substantially more resources to Web site and systems development than the Company.

Trademarks and Servicemarks

B. Dalton Bookseller, Bookstar, Readers' Advantage, Book$avers, GameStop, Game Informer, Babbage's and FuncoLand are Company-owned service marks registered with the United States Patent and Trademark Office. Barnes & Noble, Doubleday Book Shops and Scribner's Bookstores are federally registered service marks which have been licensed to the Company under long-term license agreements which are royalty-free. These license agreements provide the Company with the exclusive right to use the Doubleday and Scribner's service marks only in connection with the retail sale of books.

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 holiday selling season. The Company has now reported operating profit for 23 consecutive quarters.

Employees

The Company's bookstores cultivate a culture of outgoing, helpful and knowledgeable employees. GameStop's stores cultivate a work environment that attracts knowledgeable employees who are actively interested in video games and entertainment software. As of February 2, 2002, the Company had approximately 37,000 full- and part-time booksellers. As of February 2, 2002, GameStop employed approximately 8,000 full- and part-time employees in its stores. The Company's employees are not represented by unions and the Company believes that its relationship with its employees is excellent.

ITEM 2. PROPERTIES

All but two of the Barnes & Noble stores are leased. The leases typically provide for an initial term of 10 or 15 years with one or more renewal options. The terms of the Barnes & Noble store leases for its 589 leased stores open as of February 2, 2002 expire as follows:

Lease Terms to Expire During (12 months ending on or about January 31)	Number of Stores
2003	46
2004	37
2005	28
2006	21
2007	29
2008 and later	428

All B. Dalton stores are leased. The leases generally provide for an initial 10 year term with no renewal option. The terms of the 305 B. Dalton leases as of February 2, 2002 expire as follows:

Lease Terms to Expire During (12 months ending on or about January 31)	Number of Stores
2003	169
2004	40
2005	44
2006	17
2007	16
2008 and later	19

All GameStop stores are leased. The leases generally provide for an initial term of three to 10 years. The terms of the 1,038 GameStop leases as of February 2, 2002 expire as follows:

Lease Terms to Expire During (12 months ending on or about January 31)	Number of Stores
2003	267
2004	226
2005	173
2006	103
2007	58
2008 and later	211

The Company generally has been able to renew expiring leases on favorable terms, and believes that renewals of leases expiring in the future will not have a material adverse effect on its financial condition or results of operations.

ITEM 3. LEGAL PROCEEDINGS

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 approximately $11,250,000 or more and requested treble damages on behalf of the named plaintiffs and each of the purported class members, as well as 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: (1) violating Section 2(f) of the Robinson-Patman Act; (2) violating Section 2(c) of the Robinson-Patman Act; (3) violating Section 13(a) of the Clayton Act; (4)

inducing every publisher in the United States to breach contracts with plaintiffs; (5) interfering with the plaintiff's advantageous business relationships; (6) engaging in unfair competition; (7) violating Sections 349 and 350 of the New York General Business Law; and (8) being unjustly enriched. The class action allegations have been withdrawn 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. Pursuant to the court's order, plaintiff The Intimate Bookshop, Inc. filed a second amended complaint on March 13, 2000. The Company served an answer on April 5, 2000 denying the material allegations of the complaint and asserting various affirmative defenses. On January 11, 2002, the Company and the other defendants filed a motion for summary judgment. A hearing on that motion was held on March 22, 2002. 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, personal injury claims 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.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the 13 weeks ended February 2, 2002.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Price Range of Common Stock

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

	Fiscal 2001		Fiscal 2000	
	High	Low	High	Low
First Quarter	$33.61	23.40	$24.06	16.31
Second Quarter	41.20	30.40	23.88	16.44
Third Quarter	43.99	32.84	21.44	16.44
Fourth Quarter	38.40	23.30	29.94	17.38

Approximate Number of Holders of Common Equity

Title of Class	Approximate Number of Record Holders as of March 29, 2002
Common stock, $0.001 par value	1,986

Dividends

The terms of the Company's revolving credit agreement limit payment of cash dividends. During fiscal 2001 and fiscal 2000, the Company did not declare or pay any cash dividends or make distributions or payments on its common stock.

ITEM 6. SELECTED FINANCIAL DATA

The information included in the Company's Annual Report to Shareholders for the fiscal year ended February 2, 2002 (the Annual Report) under the section entitled "Selected Financial Data" is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information with respect to directors and executive officers of the Company is incorporated herein by reference to the Company's definitive Proxy Statement relating to the Company's 2002 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission within 120 days of the Company's fiscal year ended February 2, 2002 (the Proxy Statement).

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

ITEM 11. EXECUTIVE COMPENSATION

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

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

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) 1. Consolidated Financial Statements:

(i) "The Report of Independent Certified Public Accountants" included in the Annual Report is incorporated herein by reference.

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

(b) There were no reports filed on Form 8-K during the Company's quarter ended February 2, 2002.

2. Schedules:

Valuation and Qualifying Accounts.

3. Exhibits:

The following are filed as Exhibits to this form:

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of the Company, as amended. (1)
3.2	Amendment to the Amended and Restated Certificate of Incorporation of the Company filed May 30, 1996. (2)
3.3	Amended and Restated By-laws of the Company. (1)
3.4	Amendment to the Company's By-laws adopted May 31, 1995. (3)
3.5	Certificate of Designation of Preferences and Rights of Preferred Stock, Series H of Barnes & Noble, Inc. (4)
3.6	Certificate of Amendment of The Amended and Restated Certificate of Incorporation of Barnes & Noble, Inc., dated July 17, 1998 and filed July 17, 1998. (4)
4.1	Specimen Common Stock certificate. (1)

Exhibit No.	Description
4.2	Rights Agreement, dated as of July 10, 1998, between Barnes & Noble, Inc. and The Bank of New York, as Rights Agent. (4)
10.1	Amended and Restated Credit Agreement, dated as of November 18, 1997 (the “Credit Agreement”), among the Company, its subsidiaries, The Chase Manhattan Bank (National Association), as Administrative Agent (the “Agent”) and the Banks party thereto. (5)
10.2	Amendment No. 2, dated as of October 21, 1999, to the Credit Agreement. (10)
10.3	Pledge and Security Agreement dated as of March 15, 1996 (the “Pledge Agreement”), among the Company, its subsidiaries and the Agent. (6)
10.4	Amendment to the Pledge and Security Agreement dated as of November 18, 1997. (5)
10.5	Second Amendment dated as of October 27, 1999 to the Pledge Agreement. (10)
10.6	Third Amendment dated as of July 2, 2000 to the Pledge Agreement. (13)
10.7	1996 Incentive Plan, as amended. (9)
10.8	Supplemental Compensation Plan. (7)
10.9	License Agreement for “Barnes & Noble” service mark, dated as of February 11, 1987. (1)
10.10	Consents to “Barnes & Noble” License Agreement Assignments, dated as of November 18, 1988 and November 16, 1992, respectively. (6)
10.11	Employment Agreement between the Company and Mitchell S. Klipper, dated as of February 18, 2002. (16)
10.12	Employment Agreement between the Company and Stephen Riggio, dated as of January 1, 2000. (10)
10.13	Amended and Restated Limited Liability Company Agreement of barnesandnoble.com llc (the “LLC Agreement”) among Barnes & Noble, Inc., B&N.com Holding Corp., Bertelsmann AG and BOL.US Online, Inc. (8)
10.14	Amendment No. 1 to the LLC Agreement. (10)
10.15	Supply Agreement, dated as of October 31, 1998, between Barnes & Noble, Inc. and barnesandnoble.com llc. (9)
10.16	Agreement and Plan of Merger, dated as of May 4, 2000, by and among Funco, Inc., Barnes & Noble, Inc. and B&N Acquisition Corporation. (11)

Exhibit No.	Description
10.17	Indenture, dated as of March 14, 2001, between Barnes & Noble, Inc. and United States Trust Company of New York, as Trustee. (13)
10.18	Registration Rights Agreement, dated as of March 8, 2001, between Barnes & Noble, Inc. and Credit Suisse First Boston Corporation and Merrill Lynch, Pierce, Fenner & Smith Incorporated. (13)
13.1	The sections of the Company's Annual Report entitled: "Selected Financial Data", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Consolidated Statements of Operations", "Consolidated Balance Sheets", "Consolidated Statements of Changes in Shareholders' Equity", "Consolidated Statements of Cash Flows", "Notes to Consolidated Financial Statements" and "The Report of Independent Certified Public Accountants". (16)
21.1	List of subsidiaries. (16)
23.1	Consent of BDO Seidman, LLP. (16)
23.2	Report of BDO Seidman, LLP. (16)

(1) Previously filed as an exhibit to the Company's Registration Statement on Form S-4 (Commission File No. 33-59778) and incorporated herein by reference.
(2) Previously filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended April 27, 1996.
(3) Previously filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended April 29, 1995.
(4) Previously filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended August 1, 1998.
(5) Previously filed as an exhibit to the Company's Form 10-K for the fiscal year ended January 31, 1998.
(6) Previously filed as an exhibit to the Company's Form 10-K for the fiscal year ended January 27, 1996.
(7) Previously filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended July 29, 1995.
(8) Previously filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended October 31, 1998.
(9) Previously filed as an exhibit to the Company's Form 10-K for the fiscal year ended January 30, 1999.
(10) Previously filed as an exhibit to the Company's Form 10-K for the fiscal year ended January 29, 2000.
(11) Previously filed as an exhibit to the Company's Form 8-K filed with the Securities and Exchange Commission on May 10, 2000.
(12) Previously filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended October 28, 2000.
(13) Previously filed as an exhibit to the Company's Form 8-K filed with the Securities and Exchange Commission on March 22, 2001.
(14) Previously filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended May 5, 2001.
(15) Previously filed as an exhibit to the Company's Form 10-K for the fiscal year ended February 3, 2001.
(16) Filed herewith.

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SIGNATURES

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

BARNES & NOBLE, INC.

(Registrant)

By: /s/Mitchell S. Klipper

Mitchell S. Klipper,
Chief Operating Officer
May 1, 2002

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

Name	Title	Date
/s/ Leonard Riggio Leonard Riggio	Chairman of the Board	May 1, 2002
/s/ Stephen Riggio Stephen Riggio	Vice Chairman and Chief Executive Officer (principal executive officer)	May 1, 2002
/s/Maureen O’Connell Maureen O’Connell	Chief Financial Officer (principal financial and accounting officer)	May 1, 2002
/s/ Michael N. Rosen Michael N. Rosen	Secretary and Director	May 1, 2002
/s/ Matthew A. Berdon Matthew A. Berdon	Director	May 1, 2002
/s/ Michael J. Del Giudice Michael J. Del Giudice	Director	May 1, 2002
/s/ William Dillard II William Dillard II	Director	May 1, 2002
/s/ Irene R. Miller Irene R. Miller	Director	May 1, 2002
/s/ Margaret T. Monaco Margaret T. Monaco	Director	May 1, 2002
/s/ William Sheluck, Jr. William Sheluck, Jr.	Director	May 1, 2002

Schedule

Valuation and Qualifying Accounts
As of February 2, 2002, February 3, 2001 and January 29, 2000

	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Write-offs	Balance at End of Period
Allowance for Doubtful Accounts at February 2, 2002	$ 1,716,169	$ 1,252,390	$592,244	$ 2,376,315
Allowance for Doubtful Accounts at February 3, 2001	$ 1,388,956	$ 1,178,683	$851,470	$ 1,716,169
Allowance for Doubtful Accounts at January 29, 2000	$ 1,165,291	$ 652,157	$428,492	$ 1,388,956

Exhibit 10.11

BARNES & NOBLE, INC.

122 Fifth Avenue

New York, New York 10011

As of February 18, 2002

Mr. Mitchell S. Klipper
3 Clearmeadow Lane
Woodbury, New York 11797

Dear Mr. Klipper:

This letter agreement is intended to set forth our mutual understanding regarding your employment as Chief Operating Officer of Barnes & Noble, Inc. (the "Company"). Accordingly, we are pleased to agree as follows:

1. Employment; Duties. You agree to be Chief Operating Officer of the Company for the term of this Agreement. In this capacity you shall perform such duties and have such responsibilities as are typically associated with the office of Chief Operating Officer, including such duties and responsibilities as are prescribed by the Board of Directors of the Company (the "Board") consistent with the office of Chief Operating Officer. While you are the Company's employee, you agree to devote your full business time and attention to the performance of your duties and responsibilities hereunder.

2. Term. (a) Unless terminated earlier in accordance with the provisions set forth below, the term of this Agreement will be for a period beginning on the date hereof and ending on the third anniversary of the date hereof. At the expiration (but not earlier termination) of the term (including any renewal term), the term of this Agreement shall automatically renew for an additional period of one year, unless either party has given the other party written notice of non-renewal at least one year prior to such renewal.

(b) This Agreement shall terminate upon your death and may be terminated by the Company by written notice to you following your Disability (as defined below). This Agreement may also be terminated by the Company for Cause (as defined below) upon written notice to you. This Agreement may also be terminated by you for Good Cause (as defined below) upon written notice to the Company.

(c) For purposes of this Agreement:

(i) "Cause" shall mean (A) your final conviction of a felony impacting on the performance of your duties or involving a crime of moral turpitude, or (B) misappropriation or embezzlement in the performance of your duties as an employee of the Company, or (C) willfully engaging in conduct materially injurious to the Company and in violation of your obligations under this Agreement, which violation continues for at least 30 days after written notice thereof from the Company to you specifying such violation in reasonable detail.

(ii) "Disability" shall mean a written determination by a physician mutually agreeable to the Company and you (or, in the event of your total physical or mental disability, your legal representative) that you are physically or mentally unable to perform your duties of Chief Operating Officer under this Agreement and that such disability can reasonably be expected to continue for a period of six consecutive months or for shorter periods aggregating 180 days in any 12-month period.

3. Compensation.

3.1. Salary. The Company will pay you, for all services you perform hereunder, an annual salary of $600,000, or such higher amount as the Compensation Committee of the Board (the "Compensation Committee") may determine, payable in accordance with the Company's payroll schedule applicable to executive officers of the Company.

3.2. Bonus Compensation. In addition to your above-mentioned salary, we will pay you, within 90 days following the end of each fiscal year of the Company during the term of your employment, annual bonus compensation in an amount determined in accordance with the Company's Supplemental Compensation Plan. We agree that for the entire term hereof, you shall be entitled to participate in that plan.

3.3. Employee Benefits. During the term of your employment, you will participate in and receive any benefits to which you are entitled under employee benefit plans which the Company provides for all employees, as well as all benefits which the Company provides, or may at any time in the future provide, for its executive officers.

3.4. Expenses; Car Allowance. During the term of your employment, we will: (a) pay you a car allowance per month of $1,500, or such higher amount as may be determined by the Compensation Committee; and (b) reimburse you for all expenses incurred by you in the performance of your duties and responsibilities under this Agreement, including, without limitation, entertainment and travel expenses, in accordance with the policies and procedures established by the Compensation Committee.

3.5. Life and Disability Insurance. In addition to the foregoing, we will obtain in your name a life insurance policy providing for a death benefit of $1,000,000 payable to any beneficiary or beneficiaries named by you, and a disability insurance policy providing for monthly payments to you of at least $12,800 during the period of any disability until the earlier of your attaining age 65 or death. During the term of your employment, we will pay all premiums due on such policies.

3.6. Severance. In the event of the expiration or termination of the term of your employment (other than for Cause, your death or Disability, or your voluntary termination of your employment, whether through resignation, non-renewal or otherwise), we will pay you a lump sum, within 30 days following such expiration or termination, equal to (a) the sum of (i) your then annual salary, (ii) your annual bonus for the then most recently completed fiscal year of the Company, and (iii) the then aggregate annual dollar amount of the payments made or to be made by the Company for purposes of providing you with the benefits set forth in paragraphs 3.3 through 3.5 above, multiplied by (b) the greater of (i) two or (ii) the number of months remaining in the term of this Agreement divided by 12. You shall be under no duty to mitigate damages and the amount paid to you under this paragraph 3.6 shall not be diminished in any way by your earnings or income from any other sources.

3.7. Stock Options. Effective as of the date hereof, you shall be granted stock options to purchase 275,000 shares of common stock of the Company at an exercise price of $29.50 per share. Between the date hereof and the earliest date hereafter that the stockholders of the Company adopt a new stock option plan or increase the number of shares issuable under options granted under any of the Company's existing stock option plans (the "New Plan Date"), you may be granted additional stock options to purchase shares of common stock of the Company at an exercise price of not more than $29.50 per share. Effective as of the New Plan Date, you shall be granted stock options to purchase that number of shares of common stock of the Company which, when added to all other grants to you under this Section 3.7, equals 800,000 shares, at an exercise price of not more than $29.50 per share unless you otherwise agree; provided, however, that the maximum number of shares for which you will be granted options to purchase in any calendar year shall not exceed 700,000, and any options which would otherwise have been granted to you but for such limitation shall be granted to you in the next calendar year. All options granted to you under this Section 3.7 shall expire on the earlier of (a) the tenth anniversary of the date hereof and (b) one year after the expiration or earlier termination (other than for Cause) of the term of your employment, unless otherwise extended by the Compensation Committee. Such options shall vest and be exercisable in equal one-fourth increments on the first through fourth anniversaries of the date hereof, respectively. Notwithstanding the foregoing, all such options shall vest and be immediately exercisable in full upon a Change of Control (as defined below) or upon the earlier expiration or termination of this Agreement (unless such earlier termination is for Cause or results from your voluntary termination of your employment).

3.8. Change of Control Payments. (a) If at any time during the term of this Agreement there is a Change of Control and (i) your employment is terminated by the Company for any reason (other than for Cause) or (ii) you voluntarily terminate your employment for Good Cause, in either case within the greater of two years following the Change of Control or the remaining term of this Agreement, the Company shall pay to you the following amount: (A) the sum of (x) your then annual salary, (y) your then most recent annual bonus, and (z) the then aggregate annual dollar amount of the payments made or to be made by the Company for purposes of providing you with the benefits set forth in paragraphs 3.3 through 3.6 above, multiplied by (B) the greater of (x) three or (y) the number of months remaining in the term of this Agreement divided by 12; provided that the maximum amount payable pursuant to this Section 3.8 shall be the maximum amount payable to the Executive without triggering an excise tax under Section 280G of the Internal Revenue Code of 1986, as amended, or any successor provision thereto. The amount due under this Section 3.8 shall be paid to you in one lump sum within 30 days after the date your employment terminates. Subject to the Section 280G limitation referred to above, to the extent that you are not fully vested in any retirement benefits from any pension, profit-sharing or other retirement plan or program maintained by the Company, the Company shall pay directly to you the difference between the amounts which would have been paid to you had you been fully vested on the date that your employment terminates and the amounts actually paid or payable to you pursuant to such plans or programs. The amounts payable to you under this Section 3.8 shall be in lieu of any amounts payable to you under Section 3.6 above.

(b) As used herein, “Change of Control” shall mean the occurrence of one or more of the following events:

(i) after the date hereof, any person, entity or “group” as identified in Sections 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934 (the “1934 Act”), other than you or any of your affiliates or Leonard Riggio or any of his heirs or affiliates, becomes a beneficial owner (as such term is defined in Rule 13d-3 under the 1934 Act) directly or indirectly of securities representing 40% or more of the total number of votes that may be cast for the election of directors of the Company; or

(ii) within two years after a merger, consolidation, liquidation or sale of assets involving the Company, or a contested election of a Company director, or any combination of the foregoing, the individuals who were directors of the Company immediately prior thereto shall cease to constitute a majority of the Board; or

(iii) within two years after a tender offer or exchange offer for voting securities of the Company, the individuals who were directors of the Company immediately prior thereto shall cease to constitute a majority of the Board.

(c) As used herein, “Good Cause” shall mean the occurrence of one or more of the following events within two years after a Change of Control:

(i) there shall have been a material modification of your duties, title or direct reports;

(ii) there shall have been a material reduction in the compensation and benefits you receive from the Company; or

(iii) the principal executive offices of the Company shall be relocated to a location outside of the New York City metropolitan area.

4. Non-Competition.

4.1. Covenant. You agree that so long as you are employed by the Company and for a period of two years thereafter, you will not directly or indirectly, either as principal, agent, stockholder, employee or in any other capacity, engage in or have a financial interest in any business that is competitive with the businesses operated by the Company or any of its subsidiaries. The foregoing provision shall cease to apply after: (i) you voluntary terminate your employment for Good Cause within two years following a Change of Control; or (ii) your employment terminates involuntarily, other than for Cause prior to a Change of Control.

4.2. Ownership of Other Securities. Nothing in paragraph 4.1 shall be construed as denying you the right to own securities of any corporation listed on a national securities exchange or quoted in the NASDAQ System to the extent of an aggregate of 5% of the outstanding shares of such securities.

4.3. Reasonableness. You acknowledge that the foregoing limitations are reasonable and properly required by the Company and that in the event that any such limitations are found to be unreasonable by a court of competent jurisdiction, you will submit to the reduction of such limitations as the court shall find reasonable.

4.4. Severability. If any of the restrictions in paragraph 4.1 should for any reason whatsoever be declared invalid by a court of competent jurisdiction, the validity or enforceability of the remainder of this Agreement will not be adversely affected thereby.

4.5. Equitable Relief. You acknowledge that your services to the Company are of a unique character which give them a special value to the Company. You further recognize that any violation of the restrictions in paragraph 4.1 may give rise to losses or damages for which the Company cannot be reasonably or adequately compensated in an action at law and that such violation may result in irreparable and continuing harm to the Company. Accordingly, you agree that, in addition to any other remedy which the Company may have at law or in equity, the Company shall be entitled to injunctive relief to restrain any violation by you of the restrictions in paragraph 4.1.

5. Indemnification. You shall be indemnified by the Company, as an officer and director of the Company and its affiliates, against all actions, suits, claims, legal proceedings and the like to the fullest extent permitted by law, including advancement of expenses, partial indemnification, indemnification following the termination of this Agreement, indemnification of your estate and similar matters.

6. Miscellaneous.

6.1. Entire Agreement. This Agreement constitutes the entire agreement between you and the Company with respect to the terms and conditions of your employment by the Company and supersedes all prior agreements, understandings and arrangements, oral or written, between you and the Company with respect to the subject matter hereof.

6.2. Binding Effect; Benefits. This Agreement shall inure to the benefit of and shall be binding upon you and the Company and our respective heirs, legal representatives, successors and assigns.

6.3. Amendments and Waivers. This Agreement may not be amended or modified except by an instrument or instruments in writing signed by the party against whom enforcement of any such modification or amendment is sought. Either party may, by an instrument in writing, waive compliance by the other party with any term or provision of this Agreement to be performed or complied with by such other party.

6.4. Assignment. Neither this Agreement nor any rights or obligations which either party may have by reason of this Agreement shall be assignable by either party without the prior written consent of the other party.

6.5. Litigation Expenses. The Company will pay any actual expenses for reasonable attorneys' fees and disbursements incurred by you, or your personal representative, in seeking to obtain or enforce any right or benefit under this Agreement, if you or your representative is the prevailing party.

6.6. No Mitigation. In the event of termination of this Agreement by you as a result of the breach by the Company of any of its obligations hereunder, or in the event of the termination of your employment by the Company in breach of this Agreement, you shall not be required to seek other employment in order to mitigate damages hereunder.

6.7. Notices. Any notice which may or must be given under this Agreement shall be in writing and shall be personally delivered or sent by certified or registered mail, postage prepaid, or reputable overnight courier, addressed to you or the Company, as the case may be, at the address set forth on the first page hereof, or to such other address as you or the Company, as the case may be, may designate in writing in accordance with the provisions of this paragraph.

6.8. Section and Other Headings. The section and other headings contained in this Agreement are for reference purposes only and are not deemed to be a part of this Agreement or to affect the meaning and interpretation of this Agreement.

6.9. Governing Law. This Agreement shall be construed (both as to validity and performance) and enforced in accordance with and governed by the laws of the State of New York applicable to agreements made and to be performed wholly within the State of New York.

6.10. Survival of Rights and Obligations. All rights and obligations of you and the Company arising during the term of this Agreement shall continue to have full force and effect after the termination of this Agreement unless otherwise provided herein.

If the foregoing accurately reflects our agreement, kindly sign and return to us the enclosed duplicate copy of this letter.

Very truly yours,
BARNES & NOBLE, INC.

By: /s/Maureen O'Connell

Name: Maureen O'Connell
Title: Chief Financial Officer

ACCEPTED AND AGREED TO:

/s/Mitchell S. Klipper

Mitchell S. Klipper

Exhibit 13.1
SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data of Barnes & Noble, Inc. and its subsidiaries (collectively, the Company) set forth on the following pages should be read in conjunction with the consolidated financial statements and notes included elsewhere in this report. 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 February 2, 2002 (fiscal 2001), 53 weeks ended February 3, 2001 (fiscal 2000) and the 52 weeks ended January 29, 2000 (fiscal 1999) and the Balance Sheet Data as of February 2, 2002 and February 3, 2001 are derived from, and are qualified by reference to, audited consolidated financial statements which are included elsewhere in this report. The Statement of Operations Data for the 52 weeks ended 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, January 30, 1999 and January 31, 1998 are derived from audited consolidated financial statements not included in this report. Certain prior-period amounts have been reclassified for comparative purposes.

Fiscal Year	2001	2000(1)(2)	1999(3)	1998	1997
(Thousands of dollars, except per share data)					
STATEMENT OF OPERATIONS DATA:					
Sales					
Barnes & Noble stores(4)	$3,359,464	3,169,591	2,821,549	2,515,352	2,245,531
B. Dalton stores(5)	310,303	372,230	426,018	468,414	509,389
Barnes & Noble.com	—	—	—	—	14,601
Other	79,225	76,419	14,728	21,842	27,331
Total bookstore sales	3,748,992	3,618,240	3,262,295	3,005,608	2,796,852
GameStop stores(6)	1,121,398	757,564	223,748	—	—
Total sales	4,870,390	4,375,804	3,486,043	3,005,608	2,796,852
Cost of sales and occupancy	3,560,038	3,169,724	2,483,729	2,142,717	2,019,291
Gross profit	1,310,352	1,206,080	1,002,314	862,891	777,561
Selling and administrative expenses	904,280	812,992	651,099	580,609	542,336
Legal settlement expense(7)	4,500	—	—	—	—
Depreciation and amortization	147,826	144,760	112,304	88,345	76,951
Pre-opening expenses	7,959	7,669	6,801	8,795	12,918
Impairment charge(8)	—	106,833	—	—	—
Operating profit	245,787	133,826	232,110	185,142	145,356
Interest expense, net and amortization of deferred financing fees(9)	(36,334)	(53,541)	(23,765)	(24,412)	(37,666)
Equity in net loss of Barnes & Noble.com(10)	(88,378)	(103,936)	(42,047)	(71,334)	—
Gain on formation of Barnes & Noble.com(11)	—	—	25,000	63,759	—
Other income (expense)(12)	(11,730)	(9,346)	27,337	3,414	1,913
Earnings (loss) before provision for income taxes, extraordinary charge and cumulative effect of a change in accounting principle	109,345	(32,997)	218,635	156,569	109,603
Provision for income taxes	45,378	18,969	89,637	64,193	44,935
Earnings (loss) before extraordinary charge and cumulative effect of a change in accounting principle	63,967	(51,966)	128,998	92,376	64,668
Extraordinary charge(13)	—	—	—	—	(11,499)
Cumulative effect of a change in accounting principle	—	—	(4,500)	—	—
Net earnings (loss)	$ 63,967	(51,966)	124,498	92,376	53,169
Earnings (loss) per common share					
Basic					
Earnings (loss) before extraordinary charge and cumulative effect of a change in accounting principle	$ 0.96	(0.81)	1.87	1.35	0.96
Extraordinary charge	$ —	—	—	—	(0.17)
Cumulative effect of a change in accounting principle	$ —	—	(0.07)	—	—
Net earnings (loss)	$ 0.96	(0.81)	1.80	1.35	0.79

Fiscal Year (Thousands of dollars, except per share data)		2001	2000(1)(2)	1999(3)	1998	1997
Diluted						
Earnings (loss) before extraordinary charge and cumulative effect of a change in accounting principle	$	0.94	(0.81)	1.81	1.29	0.93
Extraordinary charge	$	—	—	—	—	(0.17)
Cumulative effect of a change in accounting principle	$	—	—	(0.06)	—	—
Net earnings (loss)	$	0.94	(0.81)	1.75	1.29	0.76
Weighted average common shares outstanding						
Basic		66,393,000	64,341,000	69,005,000	68,435,000	67,237,000
Diluted		77,839,000	64,341,000	71,354,000	71,677,000	69,836,000
OTHER OPERATING DATA:						
Number of stores						
Barnes & Noble stores(4)		591	569	542	520	483
B. Dalton stores(5)		305	339	400	489	528
GameStop stores(6)		1,038	978	526	—	—
Total		1,934	1,886	1,468	1,009	1,011
Comparable store sales increase (decrease) (14)						
Barnes & Noble stores(4)		2.7%	4.9%	6.1%	5.0%	9.4%
B. Dalton stores(5)		(3.7)	(1.7)	0.1	(1.4)	(1.1)
GameStop stores(6)		32.0	(6.7)	12.5	—	—
Capital expenditures	$	168,833	134,292	146,294	141,378	121,903
BALANCE SHEET DATA:						
Working capital	$	450,766	520,178	318,668	315,989	264,719
Total assets	$	2,623,220	2,557,476	2,413,791	1,807,597	1,591,171
Long-term debt	$	449,000	666,900	431,600	249,100	284,800
Shareholders' equity	$	888,110	777,677	846,360	678,789	531,755

(1) Fiscal 2000 includes the results of operations of Funco, Inc. from June 14, 2000, the date of acquisition.

(2) In fiscal 2000, the Company acquired a controlling interest in Calendar Club L.L.C. (Calendar Club). The Company's consolidated statement of operations includes the results of operations of Calendar Club. Prior to fiscal 2000, the Company included its equity in the results of operations of Calendar Club as a component of other income (expense).

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

(4) Also includes Bookstop and Bookstar stores.

(5) Also includes Doubleday Book Shops, Scribner’s Bookstores and smaller format bookstores operated under the Barnes & Noble trade name representing the Company’s original retail strategy.

(6) Also includes FuncoLand stores, Software Etc. stores and Babbage’s stores.

(7) Represents legal and settlement costs associated with the lawsuit brought by the American Booksellers Association.

(8) Represents a non-cash charge to operating earnings to adjust the carrying value of certain assets, primarily goodwill relating to the purchase of B. Dalton and other mall-bookstore assets.

(9) Interest expense for fiscal 2001, 2000, 1999, 1998 and 1997 is net of interest income of $1,319, $939, $1,449, $976 and $446, respectively.

(10) 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., which had begun 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 initial public offering (IPO) for the Barnes & Noble.com business 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 through the end of the fiscal year. In November 2000, Barnes & Noble.com acquired Fatbrain.com, Inc. (Fatbrain), the third largest online bookseller. Barnes & Noble.com issued shares of its common stock to Fatbrain shareholders. As a result of this merger, the Company and Bertelsmann each retained an approximate 36 percent interest in Barnes & Noble.com. Accordingly, the Company’s share in the net loss of Barnes & Noble.com was 40 percent from the beginning of fiscal 2000 through November 2000 and approximately 36 percent thereafter.

(11) 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 IPO, 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.

(12) Included in other expense for fiscal 2001 is $3,985 in equity losses in iUniverse.com, $2,500 in equity losses in *BOOK*® magazine and $5,581 in equity losses in enews, inc. Included in other expense in fiscal 2000 are losses of $9,730 from the Company's equity investments. 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 Gemstar International Ltd. (formerly NuvoMedia Inc.) and Indigo Books & Music Inc. (formerly Chapters Inc.), respectively, as well as a one-time charge of $5,000 attributable to the termination of the Ingram Book Group acquisition and losses from equity investments of $994.

(13) 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.

(14) Comparable store sales increase (decrease) is calculated on a 52-week basis, and includes sales of stores that have been open for 15 months for Barnes & Noble stores (due to the high sales volume associated with grand openings) and 12 months for B. Dalton stores. Comparable store sales increase (decrease) for the GameStop stores are calculated on a 52-week basis, and include 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 2001” represents the 52 weeks ended February 2, 2002, “fiscal 2000” represents the 53 weeks ended February 3, 2001 and “fiscal 1999” represents the 52 weeks ended January 29, 2000.

General

Barnes & Noble, Inc. (Barnes & Noble or the Company), the nation’s largest bookseller[1], as of February 2, 2002 operates 896 bookstores and 1,038 video-game and entertainment-software stores. Of the 896 bookstores, 591 operate under the Barnes & Noble Booksellers, Bookstop and Bookstar trade names (40 of which were opened in fiscal 2001) and 305 operate under the B. Dalton Bookseller, Doubleday Book Shops and Scribner’s Bookstore trade names. Through its approximate 36 percent interest in barnesandnoble.com llc (Barnes & Noble.com), the Company is one of the largest sellers of books on the Internet. The Company, through its acquisitions of Babbage’s Etc. LLC (Babbage’s Etc.) and Funco, Inc. (now known as GameStop, Inc.), is the nation’s largest video-game and PC-entertainment software specialty retailer, operating 1,038 video-game and entertainment-software stores under the GameStop, Babbage’s, Software Etc. and FuncoLand trade names, a Web site, gamestop.com, and *Game Informer*, one of the largest multi-platform video-game magazines, with circulation of over 415,000 subscribers. The Company employed approximately 45,000 full- and part-time employees as of February 2, 2002.

Barnes & Noble is the nation’s largest operator of bookstores[1] with 591 Barnes & Noble bookstores located in 49 states and the District of Columbia as of February 2, 2002. With more than 35 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 200,000 titles. The comprehensive title selection is diverse and reflects local interests. In addition, Barnes & Noble emphasizes books published by small and independent publishers and university presses. Bestsellers represent only three percent 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. All Barnes & Noble bookstores are equipped with the BookMaster in-store operating system, which enhances the Company’s merchandise-replenishment system, resulting in higher in-stock positions and better productivity at the store level through efficiencies in receiving, cashiering and returns processing.

During fiscal 2001, the Company added 0.8 million square feet to the Barnes & Noble bookstore base, bringing the total square footage to 14.2 million square feet, a six percent increase over the prior year. Barnes & Noble bookstores contributed approximately 90 percent of the Company’s total bookstore sales in fiscal 2001. The Company plans to open between 40 and 45 Barnes & Noble bookstores in fiscal 2002, which are expected to average 26,000 square feet in size.

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

At the end of fiscal 2001, the Company operated 305 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 2,000 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 adverse 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 35 and 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. The new entity, barnesandnoble.com llc (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 from the date of the IPO through November 2000. In November 2000, Barnes & Noble.com acquired Fatbrain.com, Inc. (Fatbrain), the third largest online bookseller. Barnes & Noble.com issued shares of its common stock to Fatbrain shareholders. As a result of this merger, the Company and Bertelsmann each retained an approximate 36 percent interest in Barnes & Noble.com. Accordingly, the Company's share in the net loss of Barnes & Noble.com was 40 percent from the beginning of fiscal 2000 through November 2000 and approximately 36 percent thereafter.

Barnes & Noble.com is a leading online retailer of knowledge, information, education and entertainment-related products. Since opening its online store in March 1997, Barnes & Noble.com has attracted more than 11.2 million customers in 228 countries. In addition to books, the Barnes & Noble.com Web site, www.bn.com, sells music, DVD/video and magazine subscriptions. Barnes & Noble.com's online bookstore includes the largest-in-stock selection of in-print book titles with access to one million titles for immediate delivery and supplemented by more than 20 million listings from its nationwide network of out-of-print, rare and used book dealers. Barnes & Noble.com offers its customers fast delivery, easy and secure ordering and rich editorial content.

According to Jupiter Media Metrix, in January 2002, Barnes & Noble.com's Web site was the fifth-most-trafficked shopping site and was among the top 50 largest Web properties on the Internet. Co-marketing agreements with major Web portals such as AOL, Yahoo! and MSN as well as content sites have extended Barnes & Noble.com's brand and increased consumer exposure to its site. Barnes & Noble.com has also established a network of remote storefronts across the Internet by creating direct links with more than 512,000 affiliate Web sites.

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 book sales. With publishing and distribution rights to nearly 4,000 titles, Barnes & Noble Books offers customers high quality books at exceptional values, while generating attractive gross margins.

As a result of its acquisitions of Babbage's Etc. and Funco, Inc. in October 1999 and June 2000, respectively, the Company is the nation's largest video-game and PC-entertainment software specialty retailer. The Company owns and operates 1,038 video-game and entertainment-software stores located in

49 states, Puerto Rico and Guam. 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. The Company operates stores under the GameStop, Babbage's, Software Etc. and FuncoLand trade names, a Web site, gamestop.com and *Game Informer* magazine (collectively, GameStop or Video Game & Entertainment Software).

Critical Accounting Policies

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

Impairment of Long-Lived Assets

The Company's long-lived assets include property and equipment and intangibles (primarily goodwill). At February 2, 2002, the Company had $595.8 million of property and equipment, net of accumulated depreciation and $352.9 million of goodwill, net of amortization, accounting for approximately 36.2% of the Company's total assets. The Company periodically reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable or their depreciation or amortization periods should be accelerated. The Company assesses recoverability based on several factors, including management's intention with respect to its stores and those stores' projected undiscounted cash flows. An impairment loss is recognized for the amount by which the carrying amount of the assets exceeds the present value of their projected cash flows. For a further discussion, see Newly Issued Accounting Pronouncements.

During fiscal 2000, the Company recorded a non-cash charge to operating earnings of $106.8 million. This charge included approximately $69.9 million of goodwill and $32.4 million of property, plant and equipment related to the book business, primarily goodwill associated with the purchase of B. Dalton and other mall-bookstore assets.

Marketable Equity Securities

All marketable equity securities are classified as available-for-sale. The Company carries these investments at fair value, based on quoted market prices, with unrealized gains and losses (net of taxes) included in accumulated other comprehensive earnings, which is reflected as a separate component of shareholders' equity. Realized gains and losses are recognized in the Company's consolidated statement of operations when securities are sold or impairment is considered other than temporary. The Company reviews its equity holdings on a regular basis to evaluate whether or not each security has experienced an other-than-temporary decline in fair value. The Company has reviewed each of the companies' financial position, results of operations, stock price performance and various analyst research reports and believes that the declines in fair value of its equity holdings are temporary.

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 $9.8 million, $5.0 million and $5.4 million during fiscal 2001, fiscal 2000 and fiscal 1999, respectively, are included in selling and administrative expenses in the accompanying consolidated statements of operations.

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)	2001	2000	1999
Sales			
Bookstores(1)	$3,748,992	3,618,240	3,262,295
Video Game & Entertainment Software stores	1,121,398	757,564	223,748
Total	$4,870,390	4,375,804	3,486,043
Operating Profit			
Bookstores(1)(2)	$ 211,700	127,812	216,678
Video Game & Entertainment Software stores	34,087	6,014	15,432
Total	$ 245,787	133,826	232,110
Comparable Store Sales Increase (Decrease)(3)			
Barnes & Noble stores	2.7%	4.9%	6.1%
B. Dalton stores	(3.7)	(1.7)	0.1
GameStop stores	32.0	(6.7)	12.5
Stores Opened			
Barnes & Noble stores	40	32	38
B. Dalton stores	1	—	—
GameStop stores	74	65	—
Total	115	97	38
Stores Closed			
Barnes & Noble stores	18	5	16
B. Dalton stores	35	61	89
GameStop stores	14	17	—
Total	67	83	105
Number of Stores Open at Year End			
Barnes & Noble stores	591	569	542
B. Dalton stores	305	339	400
GameStop stores(4)	1,038	978	526
Total	1,934	1,886	1,468
Square Feet of Selling Space at **Year End (in millions)**			
Barnes & Noble stores	14.2	13.4	12.7
B. Dalton stores	1.2	1.4	1.6
GameStop stores	1.6	1.5	0.8
Total	17.0	16.3	15.1

(1) In fiscal 2000, the Company acquired a controlling interest in Calendar Club L.L.C. (Calendar Club) by increasing its percentage

ownership interest to approximately 74 percent. Accordingly, the Company has consolidated the results of operations of Calendar Club. Included in fiscal 2001 are sales and operating profits associated with Calendar Club of $68,157 and $3,009, respectively. Included in fiscal 2000 are sales and operating profits of $66,301 and $1,395, respectively. Prior to fiscal 2000, the Company's consolidated statement of operations included its equity in the results of operations of Calendar Club as a component of other income (expense). The Company's equity in the net earnings of Calendar Club for fiscal 1999 was $1,228.

(2) Fiscal 2001 operating profit is net of legal and settlement expenses of $4,500. Fiscal 2000 operating profit is net of a non-cash impairment charge of $106,833.

(3) 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 B. Dalton stores are determined using stores open at least 12 months. Comparable store sales for the GameStop stores include sales of stores that have been open for 12 months.

(4) Includes FuncoLand stores acquired in June 2000.

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

Fiscal Year	2001	2000	1999
Sales	100.0%	100.0%	100.0%
Cost of sales and occupancy	73.1	72.4	71.2
Gross margin	26.9	27.6	28.8
Selling and administrative expenses	18.6	18.6	18.7
Legal settlement expense	0.1	—	—
Depreciation and amortization	3.0	3.3	3.2
Pre-opening expenses	0.2	0.2	0.2
Impairment charge	—	2.4	—
Operating margin	5.0	3.1	6.7
Interest expense, net and amortization of deferred financing fees	(0.8)	(1.2)	(0.7)
Equity in net loss of Barnes & Noble.com	(1.8)	(2.4)	(1.2)
Gain on formation of Barnes & Noble.com	—	—	0.7
Other income (expense)	(0.2)	(0.2)	0.8
Earnings (loss) before provision for income taxes and cumulative effect of a change in accounting principle	2.2	(0.7)	6.3
Provision for income taxes	0.9	0.4	2.6
Earnings (loss) before cumulative effect of a change in accounting principle	1.3	(1.1)	3.7
Cumulative effect of a change in accounting principle	—	—	(0.1)
Net earnings (loss)	1.3%	(1.1)%	3.6%

52 Weeks Ended February 2, 2002 Compared with 53 Weeks Ended February 3, 2001

Sales

The Company’s sales increased $494.6 million or 11.3% during fiscal 2001 to $4.870 billion from $4.376 billion during fiscal 2000. Contributing to this improvement was an increase of $363.8 million from Video Game & Entertainment Software store sales. Fiscal 2001 sales from Barnes & Noble bookstores, which contributed 69.0% of total sales or 89.6% of total bookstore sales, increased 6.0% to $3.359 billion from $3.170 billion in fiscal 2000.

The increase in bookstore sales was primarily attributable to the 2.7% growth in Barnes & Noble comparable store sales and sales from the 40 new Barnes & Noble stores opened during fiscal 2001. This increase was partially offset by declining sales of B. Dalton, due to 35 store closings and a comparable store sales decline of (3.7%) in fiscal 2001.

GameStop sales during fiscal 2001 increased to $1.121 billion from $757.6 million during fiscal 2000. This increase in sales was primarily attributable to the 32.0% growth in the GameStop comparable store sales and sales from the 74 new GameStop stores opened during fiscal 2001. This increase was also attributable to the inclusion of a full year of Funco, Inc. sales in fiscal 2001 compared with sales for approximately one-half of fiscal 2000.

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 and lease-required advertising.

Cost of sales and occupancy increased $390.3 million, or 12.3%, to $3.560 billion in fiscal 2001 from $3.170 billion in fiscal 2000, primarily due to growth in the Video Game & Entertainment Software segment. The Company's gross margin rate decreased to 26.9% in fiscal 2001 from 27.6% in fiscal 2000. This decrease was primarily attributable to the lower gross margins in the Video Game & Entertainment Software segment and slightly lower gross margins in the bookstore segment due to discounts related to the Readers' Advantage™ program.

Selling and Administrative Expenses

Selling and administrative expenses increased $91.3 million, or 11.2%, to $904.3 million in fiscal 2001 from $813.0 million in fiscal 2000, primarily due to growth in the Video Game & Entertainment Software segment and the increase in bookstore expenses from the opening of 40 Barnes & Noble stores in fiscal 2001. Selling and administrative expenses remained unchanged at 18.6% of sales during fiscal 2001 and 2000.

Legal Settlement Expense

In fiscal 2001, the Company recorded a pre-tax charge of $4.5 million in connection with a lawsuit brought by the American Booksellers Association and 26 independent bookstores. The charges included a settlement of $2.4 million to be paid to plaintiffs and approximately $2.1 million in legal expenses incurred by the Company during the first quarter.

Depreciation and Amortization

Depreciation and amortization increased $3.1 million, or 2.1%, to $147.8 million in fiscal 2001 from $144.8 million in fiscal 2000. The increase was primarily the result of the increase in depreciation and amortization in the Video Game & Entertainment Software segment offset by the reduction in depreciable assets in our mall bookstores due to the impairment charge recorded in fiscal 2000.

Pre-Opening Expenses

Pre-opening expenses increased in fiscal 2001 to $8.0 million from $7.7 million in fiscal 2000. Due to management's expense control efforts, pre-opening expenses increased only slightly while opening 40 Barnes & Noble stores and 74 new GameStop stores in fiscal 2001, compared with 32 new Barnes & Noble stores and 65 new GameStop stores during fiscal 2000.

Operating Profit

Operating profit increased to $245.8 million in fiscal 2001 from $133.8 million in fiscal 2000. Operating profit increased $9.6 million to $250.3 million, before the effect of the $4.5 million legal settlement expense during fiscal 2001, from $240.7 million, before the effect of the $106.8 million impairment charge during fiscal 2000. Bookstore operating profit decreased 7.9% to $216.2 million, before the effect of the $4.5 million legal settlement expense, from $234.6 million, before the effect of the $106.8 million impairment charge, primarily attributable to lower comparable store sales and lower gross margins due to discounts related to the Readers' Advantage™ program. Bookstore operating margin decreased to 5.8% of sales during fiscal 2001, before the effect of the legal settlement expense, from 6.5% of sales during fiscal 2000, before the effect of the impairment charge.

Interest Expense, Net and Amortization of Deferred Financing Fees

Interest expense, net of interest income, and amortization of deferred financing fees, decreased $17.2 million to $36.3 million in fiscal 2001 from $53.5 million in fiscal 2000. The decrease was primarily the result of reduced borrowings due to effective working capital management and lower interest rates on the Company's outstanding debt, partially through the issuance of the Company's convertible subordinated notes sold in March 2001.

Equity in Net Loss of Barnes & Noble.com

In November 2000, Barnes & Noble.com acquired Fatbrain.com, Inc. (Fatbrain), the third largest online bookseller. Barnes & Noble.com issued shares of its common stock to Fatbrain shareholders. As a result of this merger, the Company and Bertelsmann each retained an approximate 36 percent interest in Barnes & Noble.com. Accordingly, the Company's share in the net loss of Barnes & Noble.com is based on an approximate 40 percent equity interest from the beginning of fiscal 2000 through November 2000 and approximately 36 percent thereafter. The Company's equity in the net loss of Barnes & Noble.com for fiscal 2001 and fiscal 2000 was $88.4 million and $103.9 million, respectively.

Other Expense

Other expense of $11.7 million in fiscal 2001 was due to $4.0 million in equity losses in iUniverse.com, $2.5 million in equity losses in *BOOK®* magazine and $5.5 million in equity losses in enews, inc., partially offset by a one-time gain of $0.3 million from the partial sale of Indigo Books & Music Inc. (formerly Chapters Inc.). Other expense of $9.3 million in fiscal 2000 was primarily due to the equity losses of iUniverse.com, partially offset by a one-time gain of $0.3 million from the partial sale of iUniverse.com.

Provision for Income Taxes

Barnes & Noble's effective tax rate in fiscal 2001 decreased to 41.5 percent compared with (57.5) percent during fiscal 2000. The fiscal 2001 decrease was primarily related to the goodwill write-down associated with the impairment charge, which provided no tax benefit in fiscal 2000.

Earnings (Loss)

As a result of the factors discussed above, the Company reported consolidated net earnings of $64.0 million (or $0.94 per share) during fiscal 2001 compared with a net loss of ($52.0) million (or ($0.81) per share) during fiscal 2000. Components of diluted earnings per share are as follows:

Fiscal Year	2001	2000
Retail Earnings Per Share		
Bookstores	$ 1.59	1.85
Video Game & Entertainment Software Stores	0.11	(0.16)
Retail EPS	$ 1.70	1.69
EPS Impact of Investing Activities		
Share in net losses of Barnes & Noble.com	$(0.66)	(0.98)
Share of net losses from other investments (including Calendar Club)	(0.07)	(0.08)
Total Investing Activities	$(0.73)	(1.06)
Other Adjustments		
Legal settlement expense	$(0.03)	—
Impairment charge	—	(1.44)
Total Other Adjustments	$(0.03)	(1.44)
Consolidated EPS	$ 0.94	(0.81)

53 Weeks Ended February 3, 2001 Compared with 52 Weeks Ended January 29, 2000

Sales

The Company's sales increased $889.8 million or 25.5% during fiscal 2000 to $4.376 billion from $3.486 billion during fiscal 1999. Contributing to this improvement was an increase of $533.8 million attributable to the inclusion of sales from Babbage's Etc. and Funco, Inc. (Video Game & Entertainment Software or GameStop). Through its acquisitions of Babbage's Etc. in October 1999 and Funco, Inc. in June 2000 (the Acquisitions), the Company has become the nation's largest video-game and PC-entertainment software specialty retailer. Fiscal 2000 sales from Barnes & Noble bookstores, which contributed 72.4% of total sales or 87.6% of total bookstore sales, increased 12.3% to $3.170 billion from $2.822 billion in fiscal 1999.

The increase in bookstore sales was primarily attributable to the 4.9% growth in Barnes & Noble comparable store sales and the opening of 32 Barnes & Noble stores during fiscal 2000. This increase was partially offset by declining sales of B. Dalton, due to 61 store closings and a comparable store sales decline of (1.7%) in fiscal 2000.

GameStop sales during fiscal 2000 increased to $757.6 million from $223.7 million during fiscal 1999. This increase in sales was attributable to the inclusion of a full year of Babbage's Etc.'s sales in fiscal 2000 compared with sales for the fourth quarter only in fiscal 1999, as well as the inclusion of Funco, Inc. sales for approximately one-half of fiscal 2000. Comparable store sales as if Babbage's Etc.

and Funco, Inc. had been included for the entire 52-week period decreased 6.7%.

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 and lease-required advertising.

Cost of sales and occupancy increased to $3.170 billion in fiscal 2000 from $2.484 billion in fiscal 1999 primarily due to the increase in Video Game & Entertainment Software's cost of sales and occupancy as a result of the Acquisitions. The Company's gross margin rate decreased to 27.6% in fiscal 2000 from 28.8% in fiscal 1999. This decrease was primarily attributable to lower gross margins in the Video Game & Entertainment Software stores, partially offset by improved leverage on occupancy costs as well as a favorable product mix in the bookstores.

Selling and Administrative Expenses

Selling and administrative expenses increased $161.9 million, or 24.9%, to $813.0 million in fiscal 2000 from $651.1 million in fiscal 1999 primarily due to the increase in Video Game & Entertainment Software's selling and administrative expenses as a result of the Acquisitions. Selling and administrative expenses decreased slightly to 18.6% of sales during fiscal 2000 from 18.7% during fiscal 1999.

Depreciation and Amortization

Depreciation and amortization increased $32.5 million, or 28.9%, to $144.8 million in fiscal 2000 from $112.3 million in fiscal 1999. The increase was primarily the result of the increase in GameStop's depreciation and amortization as a result of the Acquisitions, as well as depreciation related to the Barnes & Noble stores opened during fiscal 2000 and fiscal 1999.

Pre-Opening Expenses

Pre-opening expenses increased in fiscal 2000 to $7.7 million from $6.8 million in fiscal 1999. This increase was the result of additional labor used to facilitate the rollout of the new Barnes & Noble bookstores as well as the opening of 65 new GameStop stores.

Impairment Charge

During fiscal 2000, the Company recorded a non-cash charge to operating earnings of $106.8 million ($92.4 million after taxes or $1.44 per share). This charge included approximately $69.9 million of goodwill and $32.4 million of property, plant and equipment related to the book business, primarily goodwill associated with the purchase of B. Dalton, other mall-bookstore assets and $6.2 million of warehouse equipment. The Company's mall-based bookstores have experienced significant declines in sales and profitability as a result of increased competition from book superstores and Internet book retailers. In fiscal 2000, B. Dalton comparable store sales declined (1.7%) compared with an increase in comparable store sales of 0.1% in fiscal 1999. As a result, the anticipated future cash flows from certain stores were no longer sufficient to recover the carrying value of the underlying assets. Also, included in this charge were other charges of $4.5 million related to the write-off of certain investments which had continuing adverse financial results.

Operating Profit

Operating profit decreased to $133.8 million in fiscal 2000 from $232.1 million in fiscal 1999.

Operating profit, before the effect of the $106.8 million impairment charge, increased $8.5 million to $240.7 million during fiscal 2000. Bookstore operating profit, before the effect of the $106.8 million impairment charge, increased 8.3% to $234.6 million. Bookstore operating margin, before the effect of the impairment charge, decreased slightly to 6.5% of sales during fiscal 2000 from 6.6% of sales in fiscal 1999 as a result of the inclusion of Calendar Club operating results.

Interest Expense, Net and Amortization of Deferred Financing Fees

Interest expense, net of interest income, and amortization of deferred financing fees, increased $29.7 million to $53.5 million in fiscal 2000 from $23.8 million in fiscal 1999. This increase was primarily the result of the increased borrowings under the Company's revolving credit facility used to support the Company's Acquisitions and the common stock repurchase program.

Equity in Net Loss of Barnes & Noble.com

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 through the end of 1999. The Company's equity in the net loss of Barnes & Noble.com for fiscal 1999 was $42.0 million. In November 2000, Barnes & Noble.com acquired Fatbrain.com, Inc. (Fatbrain), the third largest online bookseller. Barnes & Noble.com issued shares of its common stock to Fatbrain shareholders. As a result of this merger, the Company and Bertelsmann each retained an approximate 36 percent interest in Barnes & Noble.com. Accordingly, the Company's share in the net losses of Barnes & Noble.com for fiscal 2000 was based on an approximate 40 percent equity interest from the beginning of fiscal 2000 through November 2000 and approximately 36 percent thereafter. The Company's equity in the net loss of Barnes & Noble.com for fiscal 2000 was $103.9 million.

Gain on Formation of Barnes & Noble.com

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 fiscal 1999 in connection with the Barnes & Noble.com Inc. IPO.

Other Income (Expense)

Other expense of ($9.3) million in fiscal 2000 was primarily due to the equity losses of iUniverse.com. Other income of $27.4 million in fiscal 1999 was primarily attributable to a one-time gain of $11.0 million on the partial sale of Indigo Books & Music Inc., a one-time gain of $22.4 million in connection with the sale of its investment in NuvoMedia Inc. (NuvoMedia) to Gemstar International Ltd., partially offset by a one-time charge of ($5.0) million attributable to the termination of the planned Ingram Book Group (Ingram) acquisition.

Provision for Income Taxes

Barnes & Noble's effective tax rate in fiscal 2000 increased to (57.5) percent compared with 41.0 percent during fiscal 1999. The fiscal 2000 increase was primarily related to the goodwill write-down associated with the impairment charge, which provided no tax benefit.

Earnings (Loss)

As a result of the factors discussed above, the Company reported a consolidated net loss of ($52.0) million (or ($0.81) per share) in fiscal 2000. The Company's earnings, before the effect of the impairment charge, were $40.5 million during fiscal 2000 compared with $124.5 million during fiscal 1999. Components of earnings per share are as follows:

Fiscal Year	2000	1999
Retail Earnings Per Share		
Bookstores	$ 1.85	1.62
Video Game & Entertainment Software Stores	(0.16)	0.10
Retail EPS	$ 1.69	1.72
EPS Impact of Investing Activities		
Cash:		
Gain on Barnes & Noble.com	$ —	0.21
Gain on partial sale of Indigo Books & Music Inc.	—	0.09
Non-cash:		
Share in net losses of Barnes & Noble.com	(0.98)	(0.35)
Share of net losses from other equity investments	(0.08)	(0.01)
Gain on sale of investment in NuvoMedia	—	0.19
Total Investing Activities	$(1.06)	0.13
Other Adjustments		
Impairment charge	$(1.44)	—
Ingram write-off	—	(0.04)
Change in accounting for pre-opening costs	—	(0.06)
Total Other Adjustments	$(1.44)	(0.10)
Consolidated EPS	$(0.81)	1.75

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 holiday selling season. The Company has now reported operating profit for 23 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 $457.4 million, $80.5 million and $187.3 million during fiscal 2001, 2000 and 1999, respectively. In fiscal 2001, the increase in cash flows from operating activities was primarily attributable to increased accounts payable leverage and improvement in net earnings. In fiscal 2000, the decrease in cash flows from operating activities was primarily attributable to a weaker-than-expected holiday season which resulted in lower net earnings and an increase in standing inventory as well as an increase in prepaid rent due to the fiscal year-end date. In fiscal 1999, the improvement in cash flows was primarily due to the improvement in net earnings.

Retail earnings before interest, taxes, depreciation and amortization (EBITDA) increased $10.8 million or 2.8% to $392.2 million in fiscal 2001 from $381.4 million in fiscal 2000. This improvement in EBITDA is due to the growth in the Video Game & Entertainment Software segment and the continuing maturation of the Barnes & Noble stores offset by the lower gross margins in the bookstore segment due to the increased spending by Readers' Advantage™ members. Total debt to retail EBITDA improved to 1.14 times in fiscal 2001 from 1.75 times in fiscal 2000 primarily due to increased cash flows from operations that reduced debt incurred to fund the Company's Acquisitions. The weighted-average age per square foot of the Company's 591 Barnes & Noble stores was 5.3 years as of February 2, 2002 and is expected to increase to approximately 5.8 years by February 1, 2003. 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, capital expenditures and other initiatives. Additionally, due to the Barnes & Noble.com Inc. IPO in fiscal 1999, retail cash flows are fully available to support the Company's working capital requirements.

Capital Structure

Strong cash flows from operations and a continued emphasis on working capital management strengthened the Company's balance sheet in fiscal 2001. Shareholders' equity increased 14.2% to $888.1 million as of February 2, 2002, from $777.7 million as of February 3, 2001.

The Company has an $850.0 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 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 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 the Company's intent and ability to maintain principal amounts.

In fiscal 2000, the Company obtained an additional $100.0 million senior unsecured seasonal credit facility (seasonal credit facility) with a syndicate of banks led by The Chase Manhattan Bank. The seasonal credit facility, which matured on January 31, 2001, permitted for borrowings at an interest rate based on LIBOR. In addition, the agreement required the Company to pay a commitment fee of 0.375 percent of the unused portion. The seasonal credit facility was guaranteed by all restricted subsidiaries of Barnes & Noble.

In fiscal 2001, the Company issued $300.0 million, 5.25 percent convertible subordinated notes due March 15, 2009, further strengthening its balance sheet. The notes are convertible into the Company's common stock at a conversion price of $32.512 per share.

Borrowings under the Company's senior and seasonal credit facilities averaged $689.3 million,

$697.8 million and $397.1 million and peaked at $870.0 million, $918.7 million and $693.5 million during fiscal 2001, 2000 and 1999, respectively. The ratio of debt to equity improved significantly to 0.51:1.00 as of February 2, 2002 from 0.86:1.00 as of February 3, 2001, primarily due to decreased borrowings under the Company's senior credit facility.

Interest rate swap agreements are valued based on market quotes obtained from dealers. The estimated fair value of the interest rate swaps liability was $2.3 million and $0.5 million at February 2, 2002 and February 3, 2001, respectively. The interest rate swaps are included as a component of other long-term liabilities.

Capital Investment

Capital expenditures totaled $168.8 million, $134.3 million and $146.3 million during fiscal 2001, 2000 and 1999, respectively. Capital expenditures in fiscal 2002, primarily for the opening of between 40 and 45 new Barnes & Noble stores and 175 GameStop stores, are expected to be between $170 million and $190 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 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 February 3, 2001, the Company has repurchased 5,504,700 shares at a cost of approximately $117.4 million under this program. The repurchased shares are held in treasury.

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.

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 February 2, 2002 and February 3, 2001 and reflect the Company's share of the net loss of Barnes & Noble.com as a single line item in the consolidated statements of operations for fiscal years 2001, 2000 and 1999.

Certain Relationships and Related Transactions

The Company believes that the transactions and agreements discussed below (including renewals of any existing agreements) between the Company and its affiliates are at least as favorable to the Company as could be obtained from unaffiliated parties. The Board of Directors and the Audit Committee must approve in advance any proposed transaction or agreement with affiliates and will utilize procedures in evaluating the terms and provisions of such proposed transaction or agreement as are appropriate in light of the fiduciary duties of directors under Delaware law.

The Company leases space for its executive offices in properties in which Leonard Riggio, Chairman of the Board 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 $4.0 million, $3.4 million and $2.9 million in fiscal years 2001, 2000 and 1999, respectively. Rent per square foot is approximately $28, which is below market.

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 $0.5 million, $0.6 million and $0.6 million in fiscal years 2001, 2000 and 1999, 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 from the Company. Occupancy costs allocated by the Company to B&N College for this space totaled $0.7 million**,** $0.7 million and $0.7 million for fiscal years 2001, 2000 and 1999, respectively. The amount paid by B&N College to the Company approximates the cost per square foot paid by the Company to its unaffiliated third-party landlord.

The Company subleases warehouse space from Barnes & Noble.com in Reno, Nevada. The Company paid Barnes & Noble.com $1.8 million and $1.4 million for such subleased space during fiscal 2001 and 2000, respectively. Additionally, in January 2001, the Company purchased $6.2 million of warehouse equipment (valued at original cost) from Barnes & Noble.com's Reno warehouse. Barnes & Noble.com recently determined it could not effectively utilize the full capacity of the Reno, Nevada distribution center. As a result, Barnes & Noble.com's Board of Directors approved the transfer of the Reno warehouse lease and the sale of inventory located in Reno to the Company. The Company purchased the inventory from Barnes & Noble.com at cost for approximately $10.0 million. In addition, the Company intends to spend approximately $2.0 million to refurbish the facility. The Company's Board of Directors also approved the Company's assumption of the lease, which expires in 2010, and the hiring of all of the employees at the Reno facility. The Company intends to use the Reno facility to facilitate distribution to its current and future West Coast stores. In connection with the transition, Barnes & Noble.com will pay rent for the Reno facility through December 31, 2002 of $1.6 million. The Reno lease assignment and the transfer the Reno facility to the Company is expected to be completed during the first half of fiscal 2002.

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 $0.5 million annually for such subleased space during each of the fiscal years 2001, 2000 and 1999. The amount paid by Barnes & Noble.com to the Company approximates the cost per square foot paid by the Company as a tenant pursuant to the lease of the space from an unaffiliated third party.

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. Barnes & Noble.com purchased $119.3 million, $110.5 million and $74.7 million of merchandise from the Company during fiscal 2001, 2000 and 1999, respectively, and Barnes & Noble.com expects to source purchases through the Company in the future.

The Company has entered into 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 $5.5 million, $1.7 million and $2.0 million for such services during fiscal 2001, 2000 and 1999, respectively.

The aggregate receivable from Barnes & Noble.com in connection with the agreements described above was $47.2 million and $18.0 million as of February 2, 2002 and February 3, 2001, respectively.

The Company and Barnes & Noble.com commenced a marketing program in November 2000, whereby a customer purchases a “Readers’ Advantage™ card” for an annual fee of $25.00. With this card, customers can receive discounts of 10 percent on all Company purchases and 5 percent on all Barnes & Noble.com purchases. The Company and Barnes & Noble.com have agreed to share the expenses, net of revenue from the sale of the cards, related to this program in proportion to the discounts customers receive on purchases with each company.

Barnes & Noble.com, through its fulfillment centers, ships various customer orders for the Company to its retail stores as well as to the Company’s customers’ homes. Barnes & Noble.com charges the Company the costs associated with such shipments plus any incremental overhead incurred by Barnes & Noble.com to process these orders. The Company paid Barnes & Noble.com $1.0 million and $0.2 million for shipping and handling during fiscal 2001 and 2000, respectively. In addition, during fiscal 2001, the Company and Barnes & Noble.com reached an agreement whereby the Company pays a commission on all items ordered by customers at the Company’s stores and shipped directly to customers’ homes by Barnes & Noble.com. Commissions paid for these sales were $0.4 million during fiscal 2001.

The Company paid B&N College certain operating costs B&N College incurred on the Company’s behalf. These charges are included in the accompanying consolidated statements of operations and approximated $0.2 million, $0.3 million and $0.2 million for fiscal 2001, 2000 and 1999, respectively. B&N College purchased $41.5 million, $17.2 million and $16.1 million of merchandise from the Company during fiscal 2001, 2000 and 1999, respectively. The Company charged B&N College $1.5 million, $1.3 million and $1.0 million for fiscal years 2001, 2000 and 1999, 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, approximated $2.2 million, $2.4 million and $2.2 million during fiscal 2001, 2000 and 1999, respectively, and are included in the accompanying consolidated statements of operations.

In fiscal 1999, the Company acquired Babbage's Etc., one of the nation's largest video-game and entertainment-software specialty retailers, a company majority owned by Leonard Riggio, for $208.7 million. An independent Special Committee of the Board of Directors negotiated and approved the acquisition on behalf of the Company. The Company made an additional payment of $9.7 million in 2002 due to certain financial performance targets having been met during fiscal year 2001.

The Company is provided with national freight distribution, including trucking, 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 $17.7 million, $16.7 million and $13.1 million for such services during fiscal years 2001, 2000 and 1999, respectively. The Company believes the cost of freight delivered to the stores compares favorably to the prices charged by publishers and other third-party freight distributors.

Since 1993, the Company has used AEC One Stop Group, Inc. (AEC) as its primary music and video supplier and to provide a music and video database. AEC is one of the largest wholesale distributors of music and videos in the United States. In 1999, AEC's parent corporation was acquired by an investor group in which Leonard Riggio was a minority investor. The Company paid AEC $168.1 million, $159.2 million and $126.2 million for merchandise purchased during fiscal 2001, 2000 and 1999, respectively. Amounts payable to AEC for merchandise purchased were $51.1 million and $39.4 million as of February 2, 2002 and February 3, 2001, respectively.

Newly Issued Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interests method of accounting for business combinations initiated after June 30, 2001. SFAS No. 141 also requires that the Company recognize acquired intangible assets apart from goodwill if the acquired intangible assets meet certain criteria. SFAS No. 141 applies to all business combinations initiated after June 30, 2001 and for purchase business combinations completed on or after July 1, 2001. It also requires that, upon adoption of SFAS No. 142, the Company reclassify the carrying amounts of intangible assets and goodwill based on the criteria in SFAS No. 141.

SFAS No. 142 requires, among other things, that the Company no longer amortize goodwill, but instead test goodwill for impairment at least annually. In addition, SFAS No. 142 requires that the Company identify reporting units for the purposes of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life. An intangible asset with an indefinite useful life should be tested for impairment in accordance with the guidance in SFAS No. 142.

The Company will apply the new standards on accounting for goodwill and other intangible assets beginning in the first quarter of the Company's fiscal year ending February 1, 2003, at which time the Company will cease to record amortization expense on its goodwill. The adoption of SFAS No. 142 will result in an approximate $12.3 million reduction of amortization expense in 2002. The Company expects to complete its analysis of any potential impairment of goodwill as a result of adopting this standard by the end of the second quarter of fiscal 2002.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", that is applicable to financial statements issued for fiscal years beginning after December 15, 2001. The FASB's new rules on asset impairment supersede SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", and portions of Accounting Principles Bulletin Opinion 30, "Reporting the Results of Operations". This new standard provides a single accounting model for long-lived assets to be disposed of and significantly changes the criteria that would have to be met to classify an asset as held-for-sale. Classification as held-for-sale is an important distinction since such assets are not depreciated and are stated at the lower of fair value and carrying amount. This new standard also requires expected future operating losses from discontinued operations to be displayed in the period(s) in which the losses are incurred, rather than as of the measurement date as presently required. The Company is currently evaluating the impact of this pronouncement to determine its effect, if any, on the Company's financial position or operating results.

Recent Events

On February 19, 2002, the Company successfully completed an initial public offering for its GameStop subsidiary, raising $250.0 million in cash for the Company and $98.0 million in net proceeds for GameStop. Barnes & Noble has retained an approximate 63 percent interest in GameStop.

During the first quarter of 2002, the Board of Directors of Barnes & Noble.com approved the transfer of the Reno facility to the Company and the Board of Directors of the Company approved the Company's assumption of the Reno lease, the purchase of inventory, and the hiring of all the Reno employees. The Reno lease assignment and the transfer of the operations of the Reno facility to the Company is expected to be completed during the first half of 2002.

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, 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, the performance and successful integration of acquired businesses, the success of the Company's strategic investments, unanticipated increases in merchandise or occupancy costs, unanticipated adverse litigation results or effects, 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.

CONSOLIDATED STATEMENTS OF OPERATIONS

Fiscal Year (Thousands of dollars, except per share data)	2001	2000	1999
Sales	$ 4,870,390	4,375,804	3,486,043
Cost of sales and occupancy	3,560,038	3,169,724	2,483,729
Gross profit	1,310,352	1,206,080	1,002,314
Selling and administrative expenses	904,280	812,992	651,099
Legal settlement expense	4,500	—	—
Depreciation and amortization	147,826	144,760	112,304
Pre-opening expenses	7,959	7,669	6,801
Impairment charge	—	106,833	—
Operating profit	245,787	133,826	232,110
Interest (net of interest income of $1,319, $939 and $1,449, respectively) and amortization of deferred financing fees	(36,334)	(53,541)	(23,765)
Equity in net loss of Barnes & Noble.com	(88,378)	(103,936)	(42,047)
Gain on formation of Barnes & Noble.com	—	—	25,000
Other income (expense)	(11,730)	(9,346)	27,337
Earnings (loss) before provision for income taxes and cumulative effect of a change in accounting principle	109,345	(32,997)	218,635
Provision for income taxes	45,378	18,969	89,637
Earnings (loss) before cumulative effect of a change in accounting principle	63,967	(51,966)	128,998
Cumulative effect of a change in accounting principle, net of tax benefit of $3,125	—	—	(4,500)
Net earnings (loss)	$ 63,967	(51,966)	124,498
Earnings (loss) per common share			
Basic			
Earnings (loss) before cumulative effect of a change in accounting principle	$ 0.96	(0.81)	1.87
Cumulative effect of a change in accounting principle, net of tax benefit	$ —	—	(0.07)
Net earnings (loss)	$ 0.96	(0.81)	1.80
Diluted			
Earnings (loss) before cumulative effect of a change in accounting principle	$ 0.94	(0.81)	1.81
Cumulative effect of a change in accounting principle, net of tax benefit	$ —	—	(0.06)
Net earnings (loss)	$ 0.94	(0.81)	1.75
Weighted average common shares outstanding			
Basic	66,393,000	64,341,000	69,005,000
Diluted	77,839,000	64,341,000	71,354,000

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(Thousands of dollars, except per share data)	February 2, 2002	February 3, 2001
Assets		
Current assets:		
Cash and cash equivalents	$ 108,218	26,003
Receivables, net	98,570	84,505
Merchandise inventories	1,285,005	1,238,618
Prepaid expenses and other current assets	99,201	106,127
Total current assets	1,590,994	1,455,253
Property and equipment:		
Land and land improvements	3,247	3,247
Buildings and leasehold improvements	468,954	436,289
Fixtures and equipment	798,505	682,444
	1,270,706	1,121,980
Less accumulated depreciation and amortization	674,937	555,760
Net property and equipment	595,769	566,220
Intangible assets, net	352,897	359,192
Investment in Barnes & Noble.com	48,217	136,595
Other noncurrent assets	35,343	40,216
Total assets	$ 2,623,220	2,557,476
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 695,284	582,075
Accrued liabilities	444,944	353,000
Total current liabilities	1,140,228	935,075
Long-term debt	449,000	666,900
Deferred income taxes	36,178	74,289
Other long-term liabilities	109,704	103,535
Shareholders' equity:		
Common stock; $.001 par value; 300,000,000 shares authorized; 72,713,069 and 70,549,176 shares issued, respectively	73	71
Additional paid-in capital	728,015	673,122
Accumulated other comprehensive loss	(14,303)	(5,874)
Retained earnings	291,702	227,735
Treasury stock, at cost, 5,504,700 shares	(117,377)	(117,377)
Total shareholders' equity	888,110	777,677
Commitments and contingencies	—	—
Total liabilities and shareholders' equity	$ 2,623,220	2,557,476

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 Comprehensive Loss	Retained Earnings	Treasury Stock at Cost	Total
Balance at January 30, 1999	$ 69	523,517	—	155,203	—	678,789
Comprehensive earnings:						
Net earnings	—	—	—	124,498	—	
Other comprehensive loss:						
Unrealized loss on available-for-sale securities (net of deferred tax benefit 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
Comprehensive earnings:						
Net loss	—	—	—	(51,966)	—	
Other comprehensive loss:						
Unrealized loss on available-for-sale securities (net of deferred tax benefit of $3,317)	—	—	(4,676)	—	—	
Total comprehensive loss						(56,642)
Exercise of 995,337 common stock options, including tax benefits of $4,727	1	18,538	—	—	—	18,539
Treasury stock acquired, 1,478,800 shares	—	—	—	—	(30,580)	(30,580)
Balance at February 3, 2001	71	673,122	(5,874)	227,735	(117,377)	777,677
Comprehensive earnings:						
Net earnings	—	—	—	63,967	—	
Other comprehensive loss:						
Unrealized loss on available-for-sale securities (net of deferred tax benefit of $5,044)	—	—	(7,109)	—	—	
Unrealized loss on derivative instrument (net of deferred tax benefit of $936)	—	—	(1,320)	—	—	
Total comprehensive earnings						55,538
Exercise of 2,163,893 common stock options, including tax benefits of $15,769	2	54,893	—	—	—	54,895
Balance at February 2, 2002	$ 73	728,015	(14,303)	291,702	(117,377)	888,110

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal Year (Thousands of dollars)	2001	2000	1999
Cash flows from operating activities:			
Net earnings (loss)	$ 63,967	(51,966)	124,498
Adjustments to reconcile net earnings (loss) to net cash flows from operating activities:			
Depreciation and amortization (including amortization of deferred financing fees)	150,118	146,317	112,693
Loss on disposal of property and equipment	4,019	3,313	5,636
Deferred taxes	(32,131)	(54,098)	9,877
Impairment charge	—	106,833	—
Increase in other long-term liabilities for scheduled rent increases in long-term leases	5,829	9,417	13,472
Cumulative effect of a change in accounting principle, net of taxes	—	—	4,500
Other (income) expense, net	11,730	9,346	(27,337)
Gain on formation of Barnes & Noble.com	—	—	(25,000)
Equity in net loss of Barnes & Noble.com	88,378	103,936	42,047
Changes in operating assets and liabilities, net	165,481	(192,566)	(73,055)
Net cash flows from operating activities	457,391	80,532	187,331
Cash flows from investing activities:			
Acquisition of consolidated subsidiaries, net of cash received	(13,412)	(157,817)	(175,760)
Purchases of property and equipment	(168,833)	(134,292)	(146,294)
Proceeds from the partial sale of investments	6,072	2,962	21,558
Proceeds from formation of Barnes & Noble.com	—	—	25,000
Purchase of investments	(5,581)	(12,802)	(20,000)
Net increase in other noncurrent assets	(14,648)	(86)	(9,282)
Net cash flows from investing activities	(196,402)	(302,035)	(304,778)
Cash flows from financing activities:			
Net increase (decrease) in revolving credit facility	(517,900)	235,300	182,500
Proceeds from issuance of long-term debt	300,000	—	—
Proceeds from exercise of common stock options	39,126	18,539	14,910
Purchase of treasury stock through repurchase program	—	(30,580)	(86,797)
Net cash flows from financing activities	(178,774)	223,259	110,613
Net increase (decrease) in cash and cash equivalents	82,215	1,756	(6,834)
Cash and cash equivalents at beginning of year	26,003	24,247	31,081
Cash and cash equivalents at end of year	$ 108,218	26,003	24,247
Changes in operating assets and liabilities, net:			
Receivables, net	$ (14,065)	(29,004)	3,795
Merchandise inventories	(46,387)	(103,668)	(69,059)
Prepaid expenses and other current assets	6,926	(29,972)	(8,543)
Accounts payable and accrued liabilities	219,007	(29,922)	752
Changes in operating assets and liabilities, net	$ 165,481	(192,566)	(73,055)
Supplemental cash flow information:			
Cash paid during the period for:			
Interest	$ 29,867	49,007	24,911
Income taxes	$ 43,646	73,371	72,342
Supplemental disclosure of subsidiaries acquired:			
Assets acquired	$ 13,412	206,105	201,910
Liabilities assumed	—	48,288	26,150
Cash paid	$ 13,412	157,817	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 February 2, 2002 (fiscal 2001), 53 weeks ended February 3, 2001 (fiscal 2000) and 52 weeks ended January 29, 2000 (fiscal 1999).

1. Summary of Significant Accounting Policies

Business

Barnes & Noble, Inc. (Barnes & Noble), through its 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 superstore 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 an approximate 36 percent interest in barnesandnoble.com llc (Barnes & Noble.com), as more fully described in Note 8. The Company, through its acquisitions of Babbage's Etc. LLC (Babbage's Etc.) and Funco, Inc. (now known as GameStop, Inc.) operates video-game and entertainment-software stores under the GameStop, Babbage's, Software Etc. and FuncoLand trade names, a Web site (gamestop.com) and *Game Informer* magazine (hereafter collectively referred to as GameStop stores). Additionally, the Company owns an approximate 74 percent interest in Calendar Club L.L.C. (Calendar Club), an operator of seasonal calendar kiosks.

Consolidation

The consolidated financial statements include the accounts of Barnes & Noble and its wholly and majority-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. 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 81 percent and 82 percent of the Company's merchandise inventories as of February 2, 2002 and February 3, 2001, respectively. Merchandise inventories of GameStop stores and Calendar Club represent 11 percent and 9 percent of merchandise inventories as of February 2, 2002 and February 3, 2001, respectively and 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 February 2, 2002 and February 3, 2001.

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 $352,897 as of February 2, 2002 and $359,192 as of February 3, 2001, are amortized using the straight-line method over periods ranging from 30 to 40 years.

On February 3, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," and as a result, the Company will cease to amortize the remaining goodwill. In lieu of amortization, the Company is required to perform an initial impairment review of its goodwill in the first six months of fiscal 2002 and an annual impairment review thereafter.

Amortization of goodwill and trade names included in depreciation and amortization in the accompanying consolidated statements of operations is $12,682, $12,593 and $5,148 during fiscal 2001, 2000 and 1999, respectively. Accumulated amortization at February 2, 2002 and February 3, 2001 was $74,974 and $62,292, respectively.

Impairment of Long-Lived Assets

The Company periodically reviews property and equipment and intangibles (primarily goodwill) whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable or their depreciation or amortization periods should be accelerated. The Company assesses recoverability based on several factors, including management's intention with respect to its stores and those stores' projected undiscounted cash flows. An impairment loss is recognized for the amount by which the carrying amount of the assets exceeds the present value of their projected 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 February 2, 2002 and February 3, 2001 were $10,436 and $1,286, respectively. Amortization expense included in interest and amortization of deferred financing fees is $2,292, $1,557 and $389 during fiscal 2001, 2000 and 1999, respectively.

Marketable Equity Securities

All marketable equity securities included in other noncurrent assets are classified as available-for-sale under SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities”. The Company carries these investments at fair value with unrealized gains and losses (net of taxes) included in accumulated other comprehensive earnings, which is reflected as a separate component of shareholders’ equity. Realized gains and losses are recognized in the Company’s consolidated statement of operations when the securities are sold or impairment is considered other than temporary. The Company reviews its equity holdings on a regular basis to evaluate whether or not each security has experienced an other-than-temporary decline in fair value. The Company has reviewed each of the companies’ financial position, results of operations, stock price performance and various analyst research reports and believes that the declines in fair value of its equity holdings are temporary.

Derivative Instruments

Under an agreement expiring February 2, 2003, the Company uses an interest-rate swap as a derivative to modify the interest characteristics of its outstanding floating rate long-term debt, to reduce its exposure to fluctuations in interest rates. The Company’s accounting policy is based on its designation of such instruments as cash flow hedges. The Company does not enter into such contracts for speculative purposes.

Revenue Recognition

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

Readers’ Advantage™ membership entitles the customer to receive a 10 percent discount on all purchases made during the twelve-month membership period. The annual membership fee of $25.00 is non-refundable after the first 30 days of the membership term. Revenue is being recognized over the twelve-month membership period based upon historical spending patterns for Barnes & Noble customers. Refunds of membership fees due to cancellations within the first 30 days are minimal.

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

Advertising Costs

The costs of advertising are expensed as incurred during the year pursuant to Statement of Position 93-7, “Reporting on Advertising Costs”. In addition, consideration received from vendors in conjunction with the Company’s cooperative advertising program is netted against the related expenses. Advertising costs are charged to selling and administrative expenses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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 fiscal 2001, fiscal 2000 and fiscal 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 $9,831, $5,026 and $5,447 during fiscal 2001, fiscal 2000 and fiscal 1999, 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 its stock options and those of its GameStop subsidiary, and assumes the conversion of the Company’s 5.25% convertible subordinated notes for the period outstanding since their issuance in March 2001.

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 fiscal 2001 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 February 2, 2002, February 3, 2001 and January 29, 2000 contained 52 weeks, 53 weeks and 52 weeks, respectively.

2. Receivables, Net

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

	February 2, 2002	February 3, 2001
Trade accounts	$ 5,594	8,146
Credit card receivables (a)	26,632	24,000
Receivables from landlords for leasehold improvements	10,407	18,568
Barnes & Noble.com receivable	47,204	17,987
Other receivables	8,733	15,804
Total receivables, net	$ 98,570	84,505

(a) Credit card receivables consist of receivables from credit card companies. The Company assumes no customer credit risk for these receivables.

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 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.

In fiscal 2000, the Company obtained an additional $100,000 senior unsecured seasonal credit facility (seasonal credit facility) with a syndicate of banks led by The Chase Manhattan Bank. The seasonal credit facility, which matured on January 31, 2001, provided for borrowings at an interest rate based on LIBOR. In addition, the agreement required the Company to pay a commitment fee of 0.375 percent of the unused portion. The seasonal credit facility was guaranteed by all restricted subsidiaries of Barnes & Noble.

In fiscal 2001, the Company issued $300,000, 5.25 percent convertible subordinated notes due March 15, 2009. The notes are convertible into the Company's common stock at a conversion price of $32.512 per share.

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. For each of the years ended February 2, 2002 and February 3, 2001, the Company had outstanding $55,000 of swaps, maturing in 2003.

Selected information related to the Company's Revolving Credit Facility and seasonal credit facility is as follows:

Fiscal Year	2001	2000	1999
Balance at end of year	$449,000	666,900	431,600
Average balance outstanding during the year	$689,326	697,832	397,114
Maximum borrowings outstanding during the year	$870,000	918,700	693,500
Weighted average interest rate during the year	5.27%	7.55%	6.01%
Interest rate at end of year	4.33%	6.01%	6.26%

Fees expensed with respect to the unused portion of the Company's revolving credit commitment were $516, $272 and $664, during fiscal 2001, 2000 and 1999, respectively.

The amounts outstanding under the Company's Revolving Credit Facility have been classified as long-term debt based on the Company's intention to maintain principal amounts outstanding.

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 SFAS 115 are carried at fair value.

Interest-rate swap agreements are valued based on market quotes obtained from dealers. The estimated fair value of the interest-rate swaps liability was $2,256 and $542 at February 2, 2002 and February 3, 2001, respectively. The interest-rate swaps are included as a component of other long-term liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

5. Other Income (Expense)

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

Fiscal Year	2001	2000	1999
iUniverse.com (1)	$ (3,985)	(9,277)	(2,121)
Equity in net losses of *BOOK*® magazine (2)	(2,500)	(127)	—
Equity in net losses of enews, inc. (3)	(5,581)	—	—
Gain on sale of Gemstar International Ltd. (formerly NuvoMedia Inc.) (4)	—	—	22,356
Indigo Books & Music Inc. (formerly Chapters Inc.) (5)	336	—	10,874
Equity in net earnings of Calendar Club (6)	—	—	1,228
Termination of planned acquisition of Ingram Book Group (7)	—	—	(5,000)
Other	—	58	—
Total other income (expense)	$(11,730)	$(9,346)	27,337

(1) During fiscal 1999, the Company acquired a 41 percent interest in iUniverse.com for $20,000. In the first quarter of fiscal 2000, the Company invested an additional $8,000 in iUniverse.com thereby increasing its percentage ownership interest to 49 percent. In the third quarter of fiscal 2000, the Company sold a portion of its investment in iUniverse.com decreasing its percentage ownership interest to 29 percent. This transaction resulted in a pre-tax gain of $326. In fiscal 2001, the Company’s percentage ownership interest in iUniverse.com decreased to 22 percent when an additional capital contribution was made to iUniverse.com by one of its other investors. This investment is being accounted for under the equity method and is reflected as a component of other noncurrent assets. The investment balance is $9,809 at February 2, 2002.

(2) During fiscal 2000, the Company acquired a 50 percent interest in *BOOK*® magazine for $4,254. In fiscal 2001 the Company loaned an aggregate amount of $2,500 for which it received interest-bearing promissory notes. This investment is being accounted for under the equity method and is reflected as a component of other noncurrent assets. The investment balance is $4,944 at February 2, 2002.

(3) In fiscal 2001, the Company acquired a 49 percent interest in enews, inc. for $5,581. This investment is being accounted for under the equity method and is reflected as a component of other noncurrent assets. The investment balance is $0 at February 2, 2002.

(4) In fiscal 1999, NuvoMedia Inc. (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. In fiscal 1999, in connection with the sale of NuvoMedia, the Company recognized a pre-tax gain of $22,356. The Company’s investment in Gemstar is being accounted for as an available-for-sale investment and is reflected as a component of other noncurrent assets. The investment balance is $6,881 at February 2, 2002.

(5) During fiscal 1999, the Company sold a portion of its investment in Chapters Inc. (Chapters) resulting in a pre-tax gain of $10,975. Through a series of transactions spanning from November 2000 through August 2001, Chapters and Indigo Books & Music Inc. merged under the corporate name Indigo Books & Music Inc. During fiscal 2001, the Company sold a portion of its investment resulting in a pre-tax gain of $336. The investment balance is $632 at February 2, 2002.

(6) In fiscal 2000, the Company invested $11,000 to acquire a controlling interest in Calendar Club by increasing its percentage ownership interest to approximately 74 percent. Accordingly, the Company

has consolidated the results of operations of Calendar Club. Prior to fiscal 2000, the Company held a 50 percent interest in Calendar Club and accounted for its investment under the equity method and reflected it as a component of other noncurrent assets.

(7) 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.

6. 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 following marketable equity securities as of February 2, 2002 and February 3, 2001 have been classified as available-for-sale securities:

	Gemstar International Ltd.	Indigo Books & Music Inc. (formerly Chapters Inc.)	Total
Carrying value	$ 27,137	8,294	35,431
Fiscal 1999 unrealized losses	(1,684)	(353)	(2,037)
Fiscal 2000 unrealized losses	(6,974)	(1,019)	(7,993)
Market value at February 3, 2001	18,479	6,922	25,401
Partial sale of investment	—	(4,786)	(4,786)
Fiscal 2001 unrealized losses	(11,598)	(1,504)	(13,102)
Market value at February 2, 2002	$ 6,881	632	7,513

7. Net Earnings (Loss) Per Share

Following is a reconciliation of net earnings (loss) and weighted average common shares outstanding for purposes of calculating basic and diluted net earnings per share:

	2001(a)	2000(b)	1999
Basic net earnings (loss) per share			
Net earnings (loss)	$ 63,967	(51,966)	124,498
Weighted average common shares outstanding	66,393,000	64,341,000	69,005,000
Basic net earnings (loss) per share	$ 0.96	(0.81)	1.80
Diluted net earnings (loss) per share			
Net earnings (loss)	$ 63,967	(51,966)	124,498
After-tax equivalent of interest expense on 5.25% convertible subordinated notes	8,821	—	—
Earnings (loss) for purposes of computing diluted net earnings (loss) per share	$ 72,788	(51,966)	124,498
Weighted average common shares outstanding	66,393,000	64,341,000	69,005,000
Dilutive stock options	3,207,000	—	2,349,000
Weighted average assumed conversion of 5.25% convertible subordinated notes	8,239,000	—	—
Weighted average shares outstanding for purposes of computing diluted net earnings (loss) per share	77,839,000	64,341,000	71,354,000
Diluted net earnings (loss) per share	$ 0.94	(0.81)	1.75

(a) The effect of GameStop stock options are not dilutive.

(b) Fiscal 2000 excludes the effect of the dilutive stock options. Inclusion of stock options would have an antidilutive effect on loss per share.

8. 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. The new entity, barnesandnoble.com llc (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. In November

2000, Barnes & Noble.com acquired Fatbrain.com, Inc. (Fatbrain), the third largest online bookseller. Barnes & Noble.com issued shares of its common stock to Fatbrain shareholders. As a result of this merger, the Company and Bertelsmann each retained an approximate 36 percent interest in 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 fiscal 1999. The estimated fair market values of the Company's investment in Barnes & Noble.com were $109,825, $122,000 and $742,000 at February 2, 2002, February 3, 2001 and January 29, 2000, respectively.

Summarized financial information for Barnes & Noble.com follows:

	12 months ended December 31,		
	2001	2000	1999
Net sales	$ 404,600	374,938(a)	193,730
Gross profit	$ 91,235	70,816(a)	33,793
Net loss(b)	$(244,366)	(329,657)(a)	(102,404)
Cash and cash equivalents	$ 115,266	212,304	478,047
Other current assets	68,135	80,332	27,567
Noncurrent assets	103,975	236,299	173,904
Current liabilities	138,773	135,987	75,940
Minority interest	105,845	282,824	482,896
Net assets	$ 42,758	110,124	120,682

(a) Includes the pro forma consolidated results of Barnes & Noble.com and Fatbrain as if the acquisition of Fatbrain had taken place on January 1, 2000.

(b) Includes impairment charge of $88,213 and $75,051 in 2001 and 2000, respectively.

9. Employees' Retirement and Defined Contribution Plans

As of December 31, 1999, substantially all employees of the Company were covered under a noncontributory defined benefit pension plan (the Pension Plan). As of January 1, 2000, the Pension Plan was amended so that employees no longer earn benefits for subsequent service. 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	2001	2000	1999	2001	2000	1999
Service cost	$ —	—	4,535	—	—	—
Interest cost	1,869	1,779	2,349	175	151	151
Expected return on plan assets	(3,030)	(2,887)	(2,494)	—	—	—
Net amortization and deferral	43	—	32	(73)	(104)	(123)
Net periodic expense (income)	$(1,118)	(1,108)	4,422	102	47	28

Total Company contributions charged to employee benefit expenses for the Savings Plans were $5,929, $5,681 and $3,374 during fiscal 2001, 2000 and 1999, 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	2001	2000	1999	2001	2000	1999
Discount rate	7.3%	7.8%	7.8%	7.3%	7.8%	7.8%
Expected return on plan assets	9.5%	9.5%	9.5%	—	—	—
Assumed rate of compensation increase*	N/A	4.8%	4.8%	—	—	—

* A graded salary scale was used.

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	2001	2000	2001	2000
Change in benefit obligation:				
Benefit obligation at beginning of year	$24,187	23,037	2,081	2,053
Interest cost	1,869	1,779	175	151
Actuarial loss	2,525	129	569	54
Benefits paid	(419)	(758)	(284)	(177)
Settlement	(1,663)	—	—	—
Benefit obligation at end of year	$26,499	24,187	2,541	2,081
Change in plan assets:				
Fair value of plan assets at beginning of year	$32,114	29,036	—	—
Actual loss on assets	(379)	(446)	—	—
Employer contributions	—	4,282	—	—
Settlement	(2,343)	—	—	—
Benefits paid	(419)	(758)	—	—
Fair value of plan assets at end of year	$28,973	32,114	—	—
Funded status	$ 2,474	7,927	(2,541)	(2,081)
Unrecognized net actuarial (gain) loss	9,401	3,661	(941)	(1,583)
Prepaid (accrued) benefit cost	$11,875	11,588	(3,482)	(3,664)

Settlements in the form of lump sum cash payments were made in fiscal 2001 to plan participants in exchange for their rights to receive specified pension benefits.

The health-care cost trend rate used to measure the expected cost of the Postretirement Plan benefits is assumed to be nine percent in 2002 declining at one percent decrements each year through 2005 and one-half percent decrements through 2007 to five percent in 2007 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 $216 and $191, respectively, as of February 2, 2002, and would change the net periodic cost by approximately $16 and $13, respectively, during fiscal 2001.

10. Income Taxes

The Company files a consolidated federal return. Federal and state income tax provisions (benefits) for fiscal 2001, 2000 and 1999 are as follows:

Fiscal Year	2001	2000	1999
Current:			
Federal	$ 62,141	59,055	64,454
State	13,891	13,086	15,306
	76,032	72,141	79,760
Deferred:			
Federal	(25,790)	(44,390)	7,193
State	(4,864)	(8,782)	2,684
	(30,654)	(53,172)	9,877
Total	$ 45,378	18,969	89,637

A reconciliation between the provision (benefit) for income taxes and the expected provision for income taxes at the federal statutory rate of 35 percent during fiscal 2001, 2000 and 1999, is as follows:

Fiscal Year	2001	2000	1999
Expected provision (benefit) for income taxes at federal statutory rate	$38,271	(11,549)	76,522
Amortization of non-deductible goodwill and trade names and write-down of goodwill	1,987	26,669	1,342
State income taxes, net of federal income tax benefit	5,868	2,798	11,694
Other, net	(748)	1,051	79
Provision for income taxes	$45,378	18,969	89,637

The tax effects of temporary differences that give rise to significant components of the Company's deferred tax assets and liabilities as of February 2, 2002 and February 3, 2001 are as follows:

	February 2, 2002	February 3, 2001
Deferred tax liabilities:		
Operating expenses	$ (19,655)	(16,236)
Depreciation	(22,278)	(20,886)
Investment in Barnes & Noble.com	(32,572)	(69,693)
Total deferred tax liabilities	(74,505)	(106,815)
Deferred tax assets:		
Inventory	4,119	6,520
Lease transactions	23,446	20,705
Reversal of estimated accruals	5,573	7,733
Restructuring charge	13,496	13,530
Insurance liability	2,312	1,871
Deferred income	—	2,056
Unrealized holding losses on available-for-sale securities	9,199	4,156
Unrealized holding loss on derivative instrument	936	—
Other	9,993	8,409
Total deferred tax assets	69,074	64,980
Net deferred tax liabilities	$ (5,431)	(41,835)

11. Acquisitions

In fiscal 1999, the Company acquired Babbage's Etc., one of the nation's largest video-game and entertainment-software specialty retailers, a company majority owned by Leonard Riggio, for $208,670. An independent Special Committee of the Board of Directors negotiated and approved the acquisition on behalf of the Company. The Company made an additional payment of $9,665 in 2002 due to certain financial performance targets having been met during fiscal year 2001.

On June 14, 2000, the Company acquired all of the outstanding shares of Funco, Inc., a Minneapolis-based electronic games retailer for approximately $167,560. The acquisition was accounted for by 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 approximately $131,400, has been recorded as goodwill and is being amortized using the straight-line method over an estimated useful life of 30 years. The pro forma effect assuming the acquisition of Funco, Inc. at the beginning of fiscal 2000 is not material.

Through a corporate restructuring, Babbage's Etc. became a wholly owned subsidiary of Funco, Inc. and the name of Funco, Inc. was changed to GameStop, Inc.

On February 19, 2002, the Company successfully completed an initial public offering for its GameStop subsidiary, raising $250,000 in cash for Barnes & Noble, Inc. and $98,000 in net proceeds for GameStop. Barnes & Noble has retained an approximate 63 percent interest in GameStop.

12. Segment Information

The Company operates under two strategic groups that offer different products. These groups have been aggregated into two reportable operating segments: bookstores and video-game and entertainment-software stores.

Bookstores

This segment includes 591 bookstores 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. This segment also includes 305 small format mall-based stores under the B. Dalton Bookseller, Doubleday Book Shops and Scribner's Bookstore trade names. Additionally, this segment includes the operations of Calendar Club, the Company's majority-owned subsidiary. Calendar Club is an operator of seasonal calendar kiosks. The bookstore segment employs a merchandising strategy that targets the "Middle American" consumer book market.

Video-Game and Entertainment-Software Stores

This segment includes 432 Video Game & Entertainment Software stores under the Babbage's and Software Etc. names, 606 stores operated under the GameStop and FuncoLand names, a Web site (gamestop.com) and *Game Informer* magazine. 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. from October 1999 and Funco, Inc. from June 2000, the respective dates of acquisition.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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

	Sales			Depreciation and Amortization		
Fiscal Year	2001	2000	1999	2001	2000	1999
Bookstores	$3,748,992	3,618,240	3,262,295	$117,529	122,563	108,691
Video Game & Entertainment Software stores	1,121,398	757,564	223,748	30,297	22,197	3,613
Total	$4,870,390	4,375,804	3,486,043	$147,826	144,760	112,304

	Operating Profit			Equity Investment in Barnes & Noble.com		
Fiscal Year	2001	2000	1999	2001	2000	1999
Bookstores *	$211,700	127,812	216,678	$48,217	136,595	240,531
Operating margin	*5.65%*	*3.53%*	*6.64%*			
Video Game & Entertainment Software stores	34,087	6,014	15,432	—	—	—
Operating margin	*3.04%*	*0.79%*	*6.90%*			
Total	$245,787	133,826	232,110	$48,217	136,595	240,531

	Capital Expenditures			Total Assets		
Fiscal Year	2001	2000	1999	2001	2000	1999
Bookstores	$148,371	109,161	142,005	$2,026,123	2,049,639	2,076,795
Video Game & Entertainment Software stores	20,462	25,131	4,289	587,433	507,837	336,996
Total	$168,833	134,292	146,294	$2,613,556	2,557,476	2,413,791

* Fiscal 2001 operating profit is net of legal settlement expense of $4,500. Fiscal 2001 operating profit excluding the legal settlement expense would have been $216,200. Fiscal 2000 operating profit is net of a non-cash impairment charge of $106,833. Fiscal 2000 operating profit excluding the non-cash impairment charge would have been $234,645.

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

Fiscal Year	2001	2000	1999
Reportable segments operating profit	$245,787	133,826	232,110
Interest, net	(36,334)	(53,541)	(23,765)
Equity in net loss of Barnes & Noble.com	(88,378)	(103,936)	(42,047)
Gain on formation of Barnes & Noble.com	—	—	25,000
Other income (expense)	(11,730)	(9,346)	27,337
Consolidated earnings (loss) before income taxes and cumulative effect of a change in accounting principle	$109,345	(32,997)	218,635

13. Comprehensive Earnings (Loss)

Comprehensive earnings are net earnings, plus certain other items that are recorded directly to shareholders' equity. The only such items currently applicable to the Company are the unrealized losses on available-for-sale securities and derivative instruments, as follows:

Fiscal Year	2001	2000	1999
Net earnings (loss)	$63,967	(51,966)	124,498
Other comprehensive loss:			
Unrealized loss on available-for-sale securities (net of deferred tax benefit of $5,437, $3,317 and $839, respectively)	(7,665)	(4,676)	(1,198)
Less: reclassification adjustment, net of deferred income tax expense of $395	556	—	—
	(7,109)	(4,676)	(1,198)
Unrealized loss on derivative instrument (net of deferred tax benefit of $936)	(1,320)	—	—
Total comprehensive earnings (loss)	$55,538	(56,642)	123,300

14. 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 February 2, 2002, the Company has repurchased 5,504,700 shares at a cost of approximately $117,377 under this program. The repurchased shares are held in treasury.

Each share of the Company's Common Stock also entitles the holder to the right (the Right) to purchase one four-hundredth of a share of the Company's Series H Preferred Stock for $225. The Right is only exercisable 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.

15. Impairment Charge

During fiscal 2000, the Company recorded a non-cash charge to operating earnings of $106,833. This charge included approximately $69,928 of goodwill and $32,405 of property, plant and equipment related to the book business, primarily goodwill associated with the purchase of B. Dalton, other mall-bookstore assets and $6,186 of warehouse equipment. The Company's mall-based bookstores have experienced significant declines in sales and profitability as a result of increased competition from book superstores and Internet book retailers. In fiscal 2000, B. Dalton comparable store sales declined (1.7%) compared with an increase in comparable store sales of 0.1% in fiscal 1999. As a result, the anticipated future cash flows from certain stores were no longer sufficient to recover the carrying value of the underlying assets. Also, included in this charge were other charges of $4,500 related to the write-off of certain investments which had continuing adverse financial results. The estimated fair value of the assets was based on anticipated future cash flows discounted at a rate commensurate with the risk involved.

16. 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 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. No more grants may be made under the 1991 Plan.

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 of the stock at the grant dates, the Company's net earnings and diluted earnings per share for fiscal 2001, 2000 and 1999, would have been reduced by approximately $9,521 or $0.12 per share, $8,529 or $0.13 per share, and $6,298 or $0.09 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 2001, 2000 and 1999 were estimated at $10.13, $7.86 and $10.00, respectively, using the Black-Scholes option-pricing model with the following assumptions: volatility of 35 percent, risk-free interest rate of 4.86 percent in fiscal 2001, 6.50 percent in fiscal 2000, and 5.90 percent in fiscal 1999, and an expected life of six years.

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

(Thousands of shares)	Shares	Weighted-Average Exercise Price
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
Granted	2,675	17.04
Exercised	(995)	13.64
Forfeited	(807)	22.76
Balance, February 3, 2001	12,016	17.15
Granted	2,204	18.24
Exercised	(2,163)	21.81
Forfeited	(362)	23.76
Balance, February 2, 2002	11,695	$ 18.04

The following table summarizes information as of February 2, 2002 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	339	1.40	$ 3.59	339	$ 3.59
$10.00 - $16.75	5,829	3.55	$ 13.42	4,319	$ 12.26
$17.13 - $24.25	4,355	7.95	$ 21.95	1,405	$ 20.37
$26.50 - $34.75	1,172	6.60	$ 30.74	626	$ 32.10
$3.21 - $34.75	11,695	5.43	$ 18.04	6,689	$ 15.38

17. 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	2001	2000	1999
Minimum rentals	$358,522	338,922	291,964
Percentage rentals	14,274	10,782	7,502
	$372,796	349,704	299,466

Future minimum annual rentals, excluding percentage rentals, required under leases that had initial, noncancelable lease terms greater than one year, as of February 2, 2002 are:

Fiscal Year	
2002	$ 342,716
2003	316,448
2004	292,527
2005	272,457
2006	255,173
After 2006	1,367,558
	$2,846,879

18. Legal Proceedings

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. On March 20, 2001, the court granted the Company summary judgment dismissing all claims for damages under federal and state law. On April 19, 2001, the parties settled the litigation of all other remaining claims.

Under the terms of the Settlement Agreement, (1) the Company and Borders will each pay $2,350 to the ABA as partial reimbursement for its legal fees, and (2) the plaintiffs have released all claims against the Company up to the date of the settlement relating to matters asserted in the litigation, and have agreed not to sue the Company for three years over any practices that were the subject of the litigation. The Settlement Agreement does not impose any restrictions on the Company’s business practices.

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 approximately $11,250 or more and requested treble damages on behalf of the named plaintiffs and each of the purported class members, as well as 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: (1) violating Section 2(f) of the Robinson-Patman Act; (2) violating Section 2(c) of the Robinson-Patman Act; (3) violating Section 13(a) of the Clayton Act; (4) inducing every publisher in the United States to breach contracts with plaintiffs; (5) interfering with the plaintiff's advantageous business relationships; (6) engaging in unfair competition; (7) violating Sections 349 and 350 of the New York General Business Law; and (8) being unjustly enriched. The class action allegations have been withdrawn 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. Pursuant to the court's order, plaintiff The Intimate Bookshop, Inc. filed a second amended complaint on March 13, 2000. The Company served an answer on April 5, 2000 denying the material allegations of the complaint and asserting various affirmative defenses. On January 11, 2002, the Company and the other defendants filed a motion for summary judgment. A hearing on that motion was held on March 22, 2002. The Company intends to continue to vigorously defend this action.

On November 3, 2000, plaintiffs Lucky, Inc. and Bookmark It, LLC, operators of an independent bookstore in Great Falls, Montana, filed an action against the Company, Borders, certain book publishers and others in the United States District Court for the District of Montana. Plaintiffs filed an amended complaint on November 14, 2000. In their amended complaint, plaintiffs purported to assert claims on behalf of all persons or entities who as part of their business purchase or sell books. Plaintiffs alleged that the Company entered into agreements with book publishers and distributors pursuant to which the Company received discounts and other benefits that were not available to plaintiffs. Plaintiffs alleged that such agreements were in violation of the Robinson-Patman Act and the Montana Unfair Trade Practices and Consumer Protection Act. This action was settled in August 2001.

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, personal injury claims 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.

19. Certain Relationships and Related Transactions

The Company believes that the transactions and agreements discussed below (including renewals of any existing agreements) between the Company and its affiliates are at least as favorable to the

Company as could be obtained from unaffiliated parties. The Board of Directors and the Audit Committee must approve in advance any proposed transaction or agreement with affiliates and will utilize procedures in evaluating the terms and provisions of such proposed transaction or agreement as are appropriate in light of the fiduciary duties of directors under Delaware law.

The Company leases space for its executive offices in properties in which Leonard Riggio, Chairman of the Board 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 $3,966, $3,378 and $2,879 in fiscal years 2001, 2000 and 1999, respectively. Rent per square foot is approximately $28.00, which is below market.

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 $490, $648 and $573 in fiscal years 2001, 2000 and 1999, 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 from the Company. Occupancy costs allocated by the Company to B&N College for this space totaled $748**,** $709 and $686 for fiscal years 2001, 2000 and 1999, respectively. The amount paid by B&N College to the Company approximates the cost per square foot paid by the Company to its unaffiliated third-party landlord.

The Company subleases warehouse space from Barnes & Noble.com in Reno, Nevada. The Company paid Barnes & Noble.com $1,838 and $1,401 for such subleased space during fiscal 2001 and 2000, respectively. Additionally, in January 2001, the Company purchased $6,186 of warehouse equipment (valued at original cost) from Barnes & Noble.com’s Reno warehouse. Barnes & Noble.com recently determined it could not effectively utilize the full capacity of the Reno, Nevada distribution center. As a result, Barnes & Noble.com’s Board of Directors approved the transfer of the Reno warehouse lease and the sale of inventory located in Reno to the Company. The Company purchased the inventory from Barnes & Noble.com at cost for approximately $10,000. In addition, the Company intends to spend approximately $2,000 to refurbish the facility. The Company’s Board of Directors also approved the Company’s assumption of the lease, which expires in 2010, and the hiring of all of the employees at the Reno facility. The Company intends to use the Reno facility to facilitate distribution to its current and future West Coast stores. In connection with the transition, Barnes & Noble.com will pay rent for the Reno facility through December 31, 2002 of $1,600. The Reno lease assignment and the transfer of the Reno facility to the Company is expected to be completed during the first half of 2002.

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 $479, $489 and $473 for such subleased space during fiscal 2001, 2000 and 1999, respectively. The amount paid by Barnes & Noble.com to the Company approximates the cost per square foot paid by the Company as a tenant pursuant to the lease of the space from an unaffiliated third party.

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. Barnes & Noble.com purchased $119,290, $110,462 and $74,682 of merchandise from the Company during fiscal 2001, 2000 and 1999, respectively, and Barnes & Noble.com expects to source purchases through the Company in the future.

The Company has entered into 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 $5,465, $1,699 and $2,037 for such services during fiscal 2001, 2000 and 1999, respectively.

The aggregate receivable from Barnes & Noble.com in connection with the agreements described above was $47,204 and $17,987 as of February 2, 2002 and February 3, 2001, respectively.

The Company and Barnes & Noble.com commenced a marketing program in November 2000, whereby a customer purchases a “Readers’ Advantage™ card” for an annual membership fee of $25.00 which is non-refundable after the first 30 days of the membership term. With this card, customers can receive discounts of 10 percent on all Company purchases and 5 percent on all Barnes & Noble.com purchases. The Company and Barnes & Noble.com have agreed to share the expenses, net of revenue from the sale of the cards, related to this program in proportion to the discounts customers receive on purchases with each company.

Barnes & Noble.com, through its fulfillment centers, ships various customer orders for the Company to its retail stores as well as to the Company’s customers’ homes. Barnes & Noble.com charges the Company the costs associated with such shipments plus any incremental overhead incurred by Barnes & Noble.com to process these orders. The Company paid Barnes & Noble.com $1,030 and $222 for shipping and handling during fiscal 2001 and 2000, respectively. In addition, during fiscal 2001, the Company and Barnes & Noble.com reached an agreement whereby the Company pays a commission on all items ordered by customers at the Company’s stores and shipped directly to customers’ homes by Barnes & Noble.com. Commissions paid for these sales were $359 during fiscal 2001.

The Company paid B&N College certain operating costs B&N College incurred on the Company’s behalf. These charges are included in the accompanying consolidated statements of operations and approximated $188, $264 and $193 for fiscal 2001, 2000 and 1999, respectively. B&N College purchased $41,452, $17,198 and $16,125 of merchandise from the Company during fiscal 2001, 2000 and 1999, respectively. The Company charged B&N College $1,517, $1,331 and $1,042 for fiscal years 2001, 2000 and 1999, 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 approximated $2,228, $2,401 and $2,205 during fiscal 2001, 2000 and 1999, respectively, and are included in the accompanying consolidated statements of operations.

In fiscal 1999, the Company acquired Babbage’s Etc., one of the nation’s largest video-game and entertainment-software specialty retailers, a company majority owned by Leonard Riggio, for $208,670. An independent Special Committee of the Board of Directors negotiated and approved the acquisition on behalf of the Company. The Company made an additional payment of $9,665 in 2002 due to certain financial performance targets having been met during fiscal year 2001.

The Company is provided with national freight distribution, including trucking, 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 $17,746, $16,661 and $13,118 for such services during fiscal years 2001, 2000 and 1999, respectively. The Company believes the cost of freight delivered to the stores compares favorably to the prices charged by publishers and other third-party freight distributors.

Since 1993, the Company has used AEC One Stop Group, Inc. (AEC) as its primary music and video supplier and to provide a music and video database. AEC is one of the largest wholesale distributors of music and videos in the United States. In 1999, AEC's parent corporation was acquired by an investor group in which Leonard Riggio was a minority investor. The Company paid AEC $168,114, $159,179 and $126,241 for merchandise purchased during fiscal 2001, 2000 and 1999, respectively. Amounts payable to AEC for merchandise purchased were $51,121 and $39,388 as of February 2, 2002 and February 3, 2001, respectively.

20. Recent Events

On February 19, 2002, the Company successfully completed an initial public offering for its GameStop subsidiary, raising $250,000 in cash for Barnes & Noble, Inc. and $98,000 in net proceeds for GameStop. Barnes & Noble has retained an approximate 63 percent interest in GameStop.

During the first quarter of 2002, the Board of Directors of Barnes & Noble.com approved the transfer of the Reno facility to the Company and the Board of Directors of the Company approved the Company's assumption of the Reno lease, the purchase of inventory, and the hiring of all the Reno employees. The Reno lease assignment and the transfer of the operations of the Reno facility to the Company is expected to be completed during the first half of 2002.

21. Selected Quarterly Financial Information (Unaudited)

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

Fiscal 2001 Quarter End On or About	April 2001	July 2001	October 2001	January 2002	Total Fiscal Year 2001
Sales	$1,009,637	1,050,018	995,605	1,815,130	4,870,390
Gross profit	$ 259,051	275,322	261,794	514,185	1,310,352
Equity in net loss of Barnes & Noble.com (a)	$ (14,315)	(13,906)	(13,865)	(46,292)	(88,378)
Net earnings (loss)	$ (11,492)	(1,690)	(6,806)	83,955	63,967
Earnings (loss) per common share					
Basic	$ (0.18)	(0.03)	(0.10)	1.25	0.96
Diluted	$ (0.18)	(0.03)	(0.10)	1.09	0.94

Fiscal 2000 Quarter End On or About	April 2000	July 2000	October 2000	January 2001	Total Fiscal Year 2000
Sales	$894,256	924,330	951,834	1,605,384	4,375,804
Gross profit	$240,089	248,067	258,871	459,053	1,206,080
Equity in net loss of Barnes & Noble.com (a)	$ (17,598)	(17,940)	(18,901)	(49,497)	(103,936)
Net loss (c)	$ (4,144)	(8,646)	(5,177)	(33,999)	(51,966)
Loss per common share	$ (0.06)	(0.13)	(0.08)	(0.52)	(0.81)

(a) Based on varying ownership interests as more fully discussed in Note 8 of the Notes to Consolidated Financial Statements.

(b) In the first quarter of fiscal 2001, the Company recorded $4,500 ($2,633 after taxes or $0.03 per share) to operating earnings for legal and settlement expenses.

(c) In the fourth quarter of fiscal 2000, the Company recorded a non-cash charge of $106,833 ($92,440 after taxes or $1.44 per share) to operating earnings as more fully discussed in Note 15 of the Notes to Consolidated Financial Statements.

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 February 2, 2002 and February 3, 2001 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 February 2, 2002. 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 auditing standards generally accepted in the United States of America. 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 February 2, 2002 and February 3, 2001 and the results of their operations and their cash flows for each of the three fiscal years in the period ended February 2, 2002, in conformity with accounting principles generally accepted in the United States of America.

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 21, 2002

BDO Seidman, LLP

Exhibit 21.1

Subsidiaries of Barnes & Noble, Inc.

1. Barnes & Noble Booksellers, Inc., a Delaware corporation, that operates its retail bookstores directly and through nine wholly owned United States subsidiaries.
2. B. Dalton Bookseller, Inc., a Minnesota corporation.
3. Doubleday Book Shops, Inc., a Delaware corporation.
4. B&N GameStop Holding Corp., a Delaware corporation.
5. GameStop Corp., a Delaware corporation.
6. GameStop, Inc., a Minnesota corporation.
7. Babbage's Etc. LLC, a Delaware limited liability company.
8. B&N.com Holding Corp., a Delaware corporation.
9. Barnes & Noble Publishing Inc., a Delaware corporation that operates its book publishing business directly and through two wholly owned United States subsidiaries.
10. CCI Holdings, Inc., a Texas corporation.
11. Calendar Club L.L.C., a Delaware limited liability corporation.

Exhibit 23.1

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Barnes & Noble, Inc.
New York, New York

We hereby consent to the incorporation by reference of our report dated March 21, 2002 relating to the consolidated financial statements of Barnes & Noble, Inc. and subsidiaries, incorporated by reference into the Company's Annual Report on Form 10-K for the year ended February 2, 2002, into the prospectuses constituting a part of the following registration statements: No. 33-84826 on Form S-3, No. 33-89258 on Form S-3, No. 33-270333 on Form S-8, No. 33-89260 on Form S-8, and No. 33-97410 on Form S-3.

We also consent to the references to us under the caption "Experts" in the Prospectuses.

BDO Seidman, LLP
New York, New York
May 1, 2002

Exhibit 23.2

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
Barnes & Noble, Inc.

The audits referred to in our report dated March 21, 2002 relating to the consolidated financial statements of Barnes & Noble, Inc. and subsidiaries which is incorporated in Item 8 of the Form 10-K by reference to the annual report to stockholders for the year ended February 2, 2002 included the audit of the financial statement schedules listed in the accompanying index. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement schedules based upon our audits.

In our opinion such financial statement schedules present fairly, in all material respects, the information set forth therein.

BDO Seidman, LLP

New York, New York

May 1, 2002