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 (NO FEE REQUIRED, EFFECTIVE OCTOBER 7, 1996)

For the fiscal year ended February 1, 1997

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the transition period from __________ to __________

Commission File No. 1-12302

Barnes & Noble, Inc.
(Exact name of registrant as specified in its Charter)

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

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

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

Common Stock, $0.001 par value per share (Title of Class)	New York Stock Exchange (Name of Exchange on which registered)

Securities registered pursuant to Section 12(b) 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 /X/ 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 $948,632,750 based upon the closing market price of

$37.25 per share of Common Stock on the New York Stock Exchange as of April 4, 1997.

Number of shares of $.001 par value Common Stock outstanding as of April 4, 1997: 33,238,528

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 1997 Annual Meeting of Shareholders are incorporated by reference into Part III.

Portions of the Registrant's Annual Report to Shareholder for the fiscal year ended February 1, 1997 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 world's largest bookseller, operated 431 "super" bookstores in 47 states and the District of Columbia and 577 mall-based bookstores in 46 states and the District of Columbia as of February 1, 1997. The Company's rapidly expanding "super" store business operates under the Barnes & Noble Booksellers, Bookstop and Bookstar tradenames (collectively "Barnes & Noble stores") and its mall-based business operates under the B. Dalton Bookseller, Doubleday Book Shops and Scribner's Bookstore tradenames (collectively "B. Dalton").The Company is the world's largest supplier of books through direct-mail catalogs and it publishes books under its own imprint for exclusive sale through its retail bookstores and mail-order catalogs. The Company is also the exclusive bookseller in America Online's Marketplace and has plans to launch a World Wide Web site, operating the "world's largest bookseller online," during 1997.

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, off-price bargain books and magazines. These collectively account for substantially all of the Company's sales.

The Company generated revenues of $2.448 billion during the 53 weeks ended February 1, 1997, an increase of 23.8% compared to revenues of $1.977 billion during the 52 weeks ended January 27, 1996. During the 53 weeks ended February 1, 1997 revenues from the Barnes & Noble stores rose 37.9% to $1.861 billion from $1.350 billion during the 52 weeks ended January 27, 1996. The Company's net earnings increased to $51.2 million during the 53 weeks ended February 1, 1997 from $34.3 million during the 52 weeks ended January 27, 1996 and net earnings per common share were $1.48 compared with $1.05 for the same respective periods.

Barnes & Noble Stores

General

The Company is the largest operator of book "super" stores in the United States with 431 stores, of which 91 were opened during the 53 weeks ended February 1, 1997. During the 53 weeks ended February 1, 1997, Barnes & Noble stores generated 76.0% of total Company revenues, up from 68.3% during the 52 weeks ended January 27, 1996, and contributed more than 85% of the Company's operating profits. The Barnes & Noble stores realized a comparable store sales increase of 7.3% during the 53 weeks ended February 1, 1997.

Barnes & Noble stores average 22,000 square feet and, depending upon market size, range in size from 10,000 to 60,000 square feet. Since its acquisition of 23 stores from Bookstop, Inc. ("Bookstop"), most of which averaged 10,000 square feet, the Barnes & Noble store prototype has grown steadily in size, reaching an average of 27,000 square feet in 1995, and has since remained relatively constant through 1996. The Company upgraded 12 of its early generation Barnes & Noble and Bookstop stores during the 53 weeks

ended February 1, 1997 when it relocated and expanded the stores to conform to its current "super" store prototype. The Company expects to complete this modernization program during 1997 with eight more store relocations or expansions. With its current, overall market leadership position and its high standards for site selection, store design, merchandising and customer service, the Company believes that its Barnes & Noble "super" store business has significant growth opportunities and intends to expand its operations in new and existing markets. During the 53 weeks ended February 1, 1997, the Company opened 91 Barnes & Noble stores and plans to continue to open as many new stores in the future that meet its strict standard for return on investment. As of February 1, 1997, the total square footage of the Barnes & Noble stores exceeded 9.3 million square feet, a 33% increase over the prior year. The Company intends to open approximately 70 stores during the 52 weeks ending January 31, 1998. The Company believes that the key elements contributing to the success of the Barnes & Noble stores 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 "super" store roll-out, the Company has employed a market clustering strategy. As of February 1, 1997 Barnes & Noble had stores in 132 of the total 208 ADI markets (Area of Dominant Influence), and more than one "super" store in 61 of these markets. The Company believes its early market penetration and the stores' proximity to their customers strengthen its market position and increase its franchise value. During the 53 weeks ended February 1, 1997, the Barnes & Noble stores' share of the consumer book market increased to approximately 9%. Most Barnes & Noble stores are located in high-traffic areas with convenient access to major commercial thoroughfares and ample parking. Most stores offer extended shopping hours, 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 and 175,000 titles. Each store's comprehensive title selection is customized to the local community's interests and demands. To further the breadth of title selection, Barnes & Noble funds the Discover Great New Writers program supporting the work of newly published authors, and emphasizes books published by small and independent publishers and university presses. In addition to this extensive on-site selection, each store will special order any book from the more than 1.2

million books in print. The Company believes that its tremendous selection, including many otherwise hard-to-find titles, builds customer loyalty.

Experienced Booksellers. Six years into its "super" store roll-out, the Company has a large and experienced base of booksellers from which it can select managers and booksellers to fill positions in the Company's expanding business. The Company's culture of outgoing, helpful and knowledgeable booksellers consists of 24,000 full- and part-time employees operating over 1,000 stores as of February 1, 1997. During the 53 weeks ended February 1, 1997, 75% of the new Barnes & Noble store managers were promoted from within this group, a record for which the Company expects to realize the benefits of better store-level

execution, staffing and customer service.

Store Design and Ambiance. The Barnes & Noble stores are designed to be reminiscent of an old world library, with wood fixtures, antique style chairs and tables, ample public space, a cafe and public restrooms. Barnes & Noble's literary cafes, for which the Starbucks Coffee Company is the sole provider of coffee products, further the image of its "super" stores as a community meeting place.

Music Departments. As of February 1, 1997, the Company had 124 Barnes & Noble stores with music departments which range in size from 2,000 to 4,000 square feet. The music departments generally stock over 50,000

titles in classical music, opera, jazz, blues and pop rock, tailored to the tastes of the Company's core customers - the 35- to 45-year age group. Listening stations are available for customers to preview selected compact disks.

Discount Pricing. The Barnes & Noble stores employ a nationwide discount pricing strategy. The New York Times hardcover bestsellers are discounted 30% off the publishers' suggested retail price, with a 10% discount on most other hardcover books. The Company believes that its pricing strategies enable the Company to be highly competitive.

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, significant word-of-mouth publicity and free media coverage.

Proprietary Product. The Company features titles published under the Barnes & Noble Books imprint in its Barnes & Noble and B. Dalton stores and mail-order catalogs. During the 53 weeks ended February 1, 1997, sales of Barnes & Noble's self-published titles grew 40% over the 52 weeks ended January 27, 1996. During 1996 the Company introduced more than 350 new titles under its own imprint, bringing its total catalog of self-published books to 1,500 titles. Sales of these books enable the Company to distinguish its product offerings from those of its competitors and offer customers high quality books at excellent values while generating higher gross margins. Barnes & Noble expects its proprietary publishing will become a larger part of its operations and plans to increase the number of titles it publishes.

Merchandising and Marketing

The Company's merchandising strategy for its Barnes & Noble stores 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 175,000 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. The Company's proprietary database, which has catalogued sales rankings of over 650,000 titles in over 110 subjects, provides each store with comprehensive title selections in those subjects in which it seeks to expand. The Company's current on-line proprietary inventory management information system, WINGS, enables store managers to respond quickly to local sales trends. During 1997, the Company will roll-out the next generation of its state-of-the-art store systems with its significantly improved "BookMaster." The new store system greatly enhances store-level customer service and productivity with its extremely fast register transactions and its 2.5 million title database designed specifically for book browsing.

Barnes & Noble store openings are launched with a major grand opening campaign involving extensive print and radio advertising, direct-mail marketing and community events. In markets where stores are clustered, the Company generally leverages its existing advertising expenses with full-page

promotional ads funded by cooperative advertising funds from publishers. In addition, the Company's mail-order catalogs generally include addresses of Barnes & Noble stores located in the particular geographical area.

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 been successful in converting buildings into dynamic bookstores in the Barnes & Noble store format.

The number of Barnes & Noble stores located in each state and the District of Columbia as of February 1, 1997 are listed below:

STATE	NUMBER OF STORES	STATE	NUMBER OF STORES
Alaska	1	Montana	2
Alabama	5	Nebraska	2
Arizona	11	Nevada	5
Arkansas	2	New Hampshire	3
California	64	New Jersey	14
Colorado	9	New Mexico	2
Connecticut	9	New York	29
Dist. of Columbia	1	North Carolina	11
Florida	34	North Dakota	1
Georgia	8	Ohio	11
Hawaii	1	Oklahoma	4
Idaho	3	Oregon	7
Illinois	17	Pennsylvania	11
Indiana	5	Rhode Island	1
Iowa	2	South Carolina	4
Kansas	4	South Dakota	1
Kentucky	3	Tennessee	6
Louisiana	4	Texas	51
Maine	1	Utah	7
Maryland	3	Vermont	1
Massachusetts	14	Virginia	9
Michigan	10	Washington	11
Minnesota	13	Wisconsin	6
Missouri	7	Wyoming	1

Expansion

The Company believes its Barnes & Noble store format offers the greatest opportunity to increase its share of the expanding consumer book market and intends to strengthen its position as the world's leading operator of book superstores by opening approximately 70 new stores during the 52 weeks ending January 31, 1998. The Company believes its lower capital program will strengthen its financial position, improve its cash flow and allow its "super" store profits to grow with the maturation of the base of "super" stores.

All stores will be opened under the Barnes & Noble Booksellers tradename, and with nearly 24,000 full- and part-time employees operating its 1,008 stores, the Company believes it will be able to fill positions in its new stores with experienced managers and booksellers.

The Company anticipates that its expansion plans will be supported by a combination of continuing strong demand for consumer books, which has grown over the past five years at a rate of 6% compounded annually according to Veronis, Suhler & Associates Communications Industry Forecast ("Veronis Suhler") and incremental sales generated by new "super" stores. The Company estimates that as much as 80% of the sales generated by a new Barnes & Noble store can be incremental to the community in which the store is located.

Demographic trends in the United States support the prospect of continued growth in the retail book industry. The principal book buying population is between 35 and 54 years of age. According to the U.S. Bureau of the Census, over the next five years this age group is expected to increase 10%. In addition, Veronis Suhler estimates that more than 70% of consumer book buyers have some college education. According to the U.S. Bureau of Labor Statistics, the percentage of the U.S. population with some college education is at an all-time high.

B. Dalton

General

The Company is the second largest operator of mall bookstores in the United States. During the 53 weeks ended February 1, 1997, B. Dalton generated revenues of approximately $564.9 million, or 23.1% of the Company's total revenues, compared to 30.5% of total Company revenues during the 52 weeks ended January 27, 1996.

Most B. Dalton stores range in size from 2,800 to 6,000 square feet. These stores stock between 15,000 and 25,000 titles, feature new releases, bestsellers and children's books, and carry a standard selection of titles in categories such as business, computers, cooking and reference. B. Dalton employs a market-by-market discount pricing strategy which generally discounts hardcover bestsellers from 15% to 25% off the publishers' suggested retail prices. B. Dalton also offers a Book$avers discount card for an annual fee which allows customers an additional 10% discount on substantially all purchases.

The Company's 24 Doubleday and 9 Scribner's bookstores utilize a more upscale format aimed at the "carriage trade" in higher-end shopping malls and place a greater emphasis on hardcover and gift books.

During the past six years, the Company has pursued a two-pronged strategy to maximize returns from its B. Dalton division in response to declining sales attributable primarily to superstore competition and, to a lesser extent, weaker overall consumer traffic in shopping malls. The first part of the Company's strategy has been to rigorously identify and close underperforming stores. Since 1989, the Company has closed more than 50 B. Dalton stores per year. During the fourth quarter of 1995, the Company accelerated its store closing strategy, and provided for these closing costs as part of the non-cash restructuring charge of $123.8 million ($87.3 million after-tax or $2.65 per common share) with the aim of forming a core of more profitable B. Dalton stores for the future. The Company's B. Dalton store operations began to stabilize during 1996. During the 53 weeks ended February 1, 1997, same-store sales for the B. Dalton stores improved from a decline of 4.3% during the 52 weeks ended January 27, 1996 to a decline of 1%.

Concurrent with the implementation of the store closing strategy, the Company has been expanding the size of some of its new B. Dalton stores and is seeking better locations within malls for increased visibility and higher traffic flow. A new B. Dalton prototype was developed for this purpose in 1993 and, since that time, more than 100 new or converted stores have been opened and are performing, on average, better than the remaining store base.

Merchandising and Marketing

Each B. Dalton store carries a standard selection of core titles within a variety of subject categories which are supplemented by new releases, bestsellers and other titles specially selected to meet local demand. 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 merchandised to attract shoppers responding to movies, television talk show topics and current events. Each store has the ability to customize its selection to its local customers based upon their interests and demands.

B. Dalton's advertising and promotional programs focus on point-of-sale and storefront signage and other in-store promotions designed to attract walk-by mall traffic. B. Dalton takes full advantage of cooperative advertising funds made available by publishers and generally limits its expenditures and promotional programs to the amount of such funds. In addition, stores customarily incur advertising costs, often in amounts equal to a percentage of their annual sales, for lease required advertising of mall-related promotional events.

Store Locations and Properties

Approximately 90% of B. Dalton stores are located in enclosed regional shopping malls. The remaining stores are located in strip shopping centers and central business districts. Site selections for all new B. Dalton stores are made after an extensive review of demographic data, mall tenants, proposed 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 1, 1997 are listed below:

STATE	NUMBER OF STORES	STATE	NUMBER OF STORES
Alabama	2	Montana	4
Arizona	12	Nebraska	3
Arkansas	2	Nevada	3
California	81	New Hampshire	2
Colorado	12	New Jersey	19
Connecticut	7	New Mexico	2
Delaware	1	New York	25
Dist. of Columbia	4	North Carolina	12
Florida	32	North Dakota	4
Georgia	16	Ohio	24
Idaho	3	Oklahoma	5
Illinois	21	Oregon	6
Indiana	8	Pennsylvania	26
Iowa	12	South Carolina	8
Kansas	7	South Dakota	2
Kentucky	4	Tennessee	5
Louisiana	13	Texas	41
Maine	2	Utah	7
Maryland	14	Virginia	16
Massachusetts	10	Washington	17
Michigan	28	West Virginia	1
Minnesota	24	Wisconsin	11
Mississippi	1	Wyoming	2
Missouri	16		

The Company remains committed to opening stores in new shopping mall projects which meet the Company's return on investment criteria and anticipates opening four new B. Dalton stores during the 52 weeks ending January 31, 1998. Given the declining rate of new mall development and the Company's continuing plans to close B. Dalton stores pursuant to its restructuring plan, the Company anticipates it will continue to realize a decline in the number of B. Dalton stores during 1997. During the 53 weeks ended February 1, 1997, the Company opened eight B. Dalton stores and closed 72 stores, primarily as a result of not renewing expiring leases.

Other Strategies

Proprietary Publishing. With publishing and distribution rights to over 1,500 titles covering a wide range of subject categories, the Company further differentiates its product offerings from those of its competitors by publishing books under its own Barnes & Noble Books imprint for exclusive sale in its retail stores and direct mail catalogs. As part of this activity, the Company 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. These books are published under the Barnes & Noble Books imprint. 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 customers, they also generate substantially higher gross profit margins than those realized on sales of non-proprietary books.

Books published by the Company are featured prominently in the Company's direct-mail catalogs and in the front of the Company's stores. The Company is continuing to expand the scope of its publishing program by increasing the number of titles it publishes, particularly dictionaries, reference books, children's books and classics. During the 53 weeks ended February 1, 1997, sales of the Company's proprietary books increased 40% over proprietary book sales during the 52 weeks ended January 27, 1996.

Mail-Order. Complementing its leadership position as the world's largest bookseller, Barnes & Noble is the world's largest supplier of books through direct-mail catalogs. The Company mails over 20 million catalogs each year to its in-house mailing list of over one million customers. The Company acquires new customers by mailing additional catalogs to potential customers on targeted mailing lists, as well as by placing catalog-request ads in national and local newspapers and upscale magazines. Through the direct-mail catalogs, the Company sells publishers' remainders and imported books at up to 80% off publishers' suggested retail prices, as well as the Company's self-published books under its Barnes & Noble Books imprint. The Company believes that its extensive catalog mailings over the past ten years have created substantial name recognition in the United States and internationally, and have facilitated the introduction of Barnes & Noble stores and the Company's online business.

Online Business. The Company believes the emergence of the World Wide Web as a viable marketplace for retail distribution poses substantial opportunities. During the 53 weeks ended February 1, 1997, the Company developed its online business including distribution, editorial, customer service and merchandising and marketing partnerships. In early 1997 Barnes & Noble launched an online business as the exclusive bookseller for America Online (AOL keyword: Barnes and Noble). The Company plans to launch its own World Wide Web site (BarnesandNoble.com) during the first half of 1997. The Company expects its existing asset base can be leveraged with significant competitive advantages which include: its distribution center, its 2.5 million title database, its special order capabilities, its direct marketing expertise, its franchise value and name recognition, its international presence and reputation and particularly its bookselling expertise.

Strategic Investments. During the 53 weeks ended February 1, 1997, the Company selectively pursued strategic alliances with Chapters Inc. ("Chapters") and Calendar Club LLC ("Calendar Club") to further leverage its invested capital with its extensive retailing experience. Chapters is the largest book retailer in Canada with 360 mall bookstores and the leading Canadian book superstore retailer with 12-15 book superstores. During September 1996 the Company purchased 20% of Chapters' common stock and, shortly thereafter, its ownership position was diluted to 13% when Chapters consummated an initial public offering during December 1996. The Company activated its one-year maintenance right during April 1997 and plans to increase its investment in Chapters to its original 20% during May 1997. Also during 1996, the Company acquired 50% of Calendar Club, an operator of seasonal calendar kiosks in the

United States and internationally. Based upon their financial performance during 1996, Barnes & Noble expects its return on investment in these companies to grow significantly in the future.

Store Operations

The Company has separate management teams for its Barnes & Noble and B. Dalton stores, including those for real estate, merchandising and store

operations. Field management includes regional store directors and district managers supervising multiple store locations. Each B. Dalton store generally employs a manager, an assistant manager and approximately seven full-time and part-time booksellers. By comparison, each Barnes & Noble store generally employs a manager, two assistant managers and approximately 40 full-time and part-time booksellers. Most Barnes & Noble stores also employ a full-time community relations manager. The Company's large employee base provides the Company with experienced booksellers to fill positions in the Company's new Barnes & Noble 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, including regional store 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.

The Company has a twelve-week manager training program in which existing store managers train new store managers in all areas of store operations. Store managers are generally responsible for training other booksellers in accordance with detailed procedures and guidelines prescribed by the Company, utilizing training aids available at each bookstore. In addition, district managers participate in semi-annual training and merchandising conferences.

Purchasing

Barnes & Noble's buyers negotiate terms, discounts and cooperative advertising allowances with publishers for all of the Company's bookstores. The Company's substantial purchasing power enables it to maximize available discounts and the Company's multiple strategies greatly enhance its ability to create customized 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 the 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 1,200 publishers and approximately 50 wholesale distributors. Purchases from the top five suppliers (including publishers and wholesale distributors) accounted for approximately 48% of the Company's book purchases during the 53 weeks ended February 1, 1997, and no single supplier accounted for more than 19% 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 (i) the substantial number of titles available (over 1.2 million), (ii) the Company's ability to maximize volume discounts, (iii) its positive relationships with publishers, which are enhanced by the Company's significant purchasing volume and (iv) its ability to obtain most titles from alternative wholesale distributors.

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

Distribution

Over the past two years, the Company has invested significant capital in its systems and technology, by building new platforms, implementing new software applications and opening a new distribution center. During September 1996 the Company opened a new state-of-the-art 344,000 square foot distribution facility in South Brunswick, New Jersey. Historically, the Company 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. Significantly more inventory will be replenished through its new distribution center which will provide increasing gross margins with more direct buying from publishers rather than wholesalers; improve store-level just-in-time deliveries to yield higher sales volumes; and increase inventory turnover.

The Company's distribution network will also provide a significant competitive advantage for its new online business. By stocking over 400,000 titles, the Company will be in a position to provide overnight delivery service to its online customers at gross margins which will allow the Company to offer very deep discounts.

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. The Company determined that an open-architecture distributed computing environment would provide the flexibility needed in the future and as a result a migration to a client server platform was initiated.

Building on the Company's previous proprietary inventory management system, during 1996 the Company introduced a new client server store system ("BookMaster"). BookMaster is an inventory management system with integrated point of sale features that utilizes a proprietary data-warehouse-based replenishment system. It enhances communications and real-time access to our network of stores, distribution center and wholesalers. In addition, implementation of just-in-time replenishment has provided for more rapid replenishment of books to all stores. The BookMaster system will replace

existing systems over the next two years.

As applications have been developed and placed into production, network expansion to support them has been essential. The Company has implemented a client server based payroll and human resource management system which has improved operational efficiencies in payroll processing and simplified the ability to manage payroll requirements and analysis.

An offsite business recovery capability has been developed and implemented to assure uninterrupted systems support.

Trademarks and Servicemarks

B. Dalton Bookseller, Bookstar and Book$avers 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.

Employees

The Company currently employs approximately 3,100 full-time salaried, 10,200 full-time hourly and between 10,500 and 10,700 part-time hourly employees. The fluctuation in the number of part-time hourly employees is due to the seasonality of the business. The Company's employees are not represented by unions, except in the case of one Doubleday store, and the Company believes that its relationship with its employees is excellent.

ITEM 2. PROPERTIES

All but one of the Barnes & Noble stores are leased. The leases typically provide for an initial term of ten or fifteen years with one or more renewal options. The terms of the Barnes & Noble store leases for its 430 leased stores open as of February 1, 1997 expire as follows:

Lease Terms to Expire During (twelve months ending on or about January 31)	Number of Stores
1998	3
1999	2
2000	4
2001	6
2002	7
2003 and later	408

All B. Dalton stores are leased. The leases generally provide for an initial ten-year term with no renewal option. The terms of the 577 B. Dalton leases as of February 1, 1997 expire as follows:

Lease Terms to Expire During (twelve months ending on or about January 31)	Number of Stores
1998	124
1999	72
2000	62
2001	76
2002	49
2003 and later	194

Stores scheduled for closing pursuant to the Company's restructuring plan are included in the preceding table. The Company has generally been able to renew expiring leases on favorable terms, and it believes that renewals of leases expiring in the next two fiscal years will not have a material adverse effect on the Company's financial condition or results of operations.

ITEM 3. LEGAL PROCEEDINGS

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

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

There were no matters submitted to a vote of security holders during the 14 weeks ended February 1, 1997.

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 periods indicated, the high and low sales prices of the common stock on the NYSE Composite Tape:

	Fiscal 1996		Fiscal 1995	
	High	Low	High	Low
First Quarter	$36 1/4	23 3/4	32 3/4	27 1/4
Second Quarter	37 3/4	28 3/4	38 7/8	26 5/8
Third Quarter	35 3/4	29 5/8	42 1/4	33 7/8
Fourth Quarter	34 3/8	25 3/4	39 3/4	23 1/4

Approximate Number of Holders of Common Equity

Title of Class	Approximate Number of Record Holders as of April 4, 1997
Common stock, $0.001 par value	885

Dividends

The terms of the Company's senior credit facility prohibit and the indenture governing the Company's senior subordinated notes due 2003 limit payment of cash dividends. During the 53 weeks ended February 1, 1997, 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 1, 1997 (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 1997 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission within 120 days of the Company's fiscal year ended February 1, 1997 (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.

2. Schedules:

All schedules are omitted because the information is either not applicable or is contained in the consolidated financial statements incorporated herein by reference.

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)

4.1	Specimen Common Stock certificate. (1)
10.1	Credit Agreement, dated as of March 28, 1996, among the Company, its subsidiaries, The Chase Manhattan Bank (National Association), as Administrative Agent (the "Agent") and the Banks party thereto.(4)
10.2	Amendment No. 1, dated as of December 28, 1996, to the Company's Credit Agreement. (5)
10.3	Pledge and Security Agreement dated as of March 29, 1996, among the Company, its subsidiaries and the Agent.(4)
10.4	Amended and Restated Indenture for the Subordinated Notes, between the Company and United States Trust Company of New York, as trustee.(6)
10.5	1996 Incentive Plan.(2)
10.6	1991 Employee Incentive Plan.(1)
10.7	Extended Savings Plan.(1)
10.8	Amendment to the Extended Savings Plan dated as of December 22, 1995.(4)
10.9	Employees' Retirement Plan.(1)
10.10	Supplemental Compensation Plan.(7)
10.11	License Agreement for "Barnes & Noble" service mark, dated as of February 11, 1987.(1)
10.12	Consents to "Barnes & Noble" License Agreement Assignments, dated as of November 18, 1988 and November 16, 1992, respectively.(4)
10.13	License Agreement for "Doubleday Book Shops" service mark, dated as of May 31, 1990. (1)
10.14	License Agreement for "Scribner's Bookstores" mark, dated as of February 21, 1989.(1)
10.15	Lease dated June 3, 1987 between B. Dalton, as tenant, and Bromley Rockleigh Associates, L.P., as landlord.(1)
10.16	Services Agreement, dated as of November 16, 1992, between Barnes & Noble Bookstores, Inc. and the Company.(1)
10.17	Aircraft Use Agreement, dated as of June 30, 1993, between the Company and B&N Aircraft Company, Inc.(6)

10.18	Asset Purchase Agreement dated as of July 29, 1996 among NeoStar Retail Group, Inc. (and its wholly-owned subsidiary, Software Etc. Stores, Inc.) and Barnes & Noble, Inc.(8)
10.19	Stock Option and Repurchase Agreements, dated as of August 1, 1988, between the Company and each of Mitchell S. Klipper and Stephen Riggio, as amended November 16, 1992.(6)
10.20	Stock Option Certificates, dated March 15, 1993, granting options to purchase Common Stock to each of Mitchell S. Klipper, Stephen Riggio and Irene R. Miller pursuant to the Company's 1991 Employee Incentive Plan.(6)
10.21	Employment Agreements between the Company and each of Mitchell S. Klipper and Stephen Riggio, dated as of April 1, 1993 and July 15, 1993, respectively.(6)
10.22	Stock Option Certificates, dated September 28, 1993, granting options to purchase Common Stock to Leonard Riggio, Mitchell S. Klipper and Stephen Riggio.(9)
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".(5)
21.1	List of Subsidiaries(4)
23.1	Consent of BDO Seidman, LLP.(5)

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(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-K for the

fiscal year ended January 27, 1996.

(5) Filed herewith.

(6) Previously filed as an exhibit to the Company's Registration Statement on Form S-1 (Commission File No. 33-50548) and incorporated herein by reference.

(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 July 27, 1996.

(9) Previously filed as an exhibit to the Company's Registration Statement on Form S-1 (Commission File No. 33-77484) and incorporated herein by reference.

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/ Leonard Riggio

Leonard Riggio, Chairman of the Board and Chief Executive Officer
April __, 1997

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 and Chief Executive Officer (Principal Executive Officer)	May 2, 1997
/s/ Irene R. Miller ------------------------ Irene R. Miller	Vice Chairman and Chief Financial Officer (Principal Financial and Accounting Officer)	May 2, 1997
/s/ Matthew A. Berdon ------------------------ Matthew A. Berdon	Director	May 2, 1997
/s/ William Dillard, II ------------------------ William Dillard, II	Director	May 2, 1997
/s/ Jan Michiel Hessels ------------------------ Jan Michiel Hessels	Director	May 2, 1997
/s/ Margaret T. Monaco ------------------------ Margaret T. Monaco	Director	May 2, 1997
/s/ Stephen Riggio ------------------------ Stephen Riggio	Director	May 2, 1997
/s/ Michael N. Rosen ------------------------ Michael N. Rosen	Director	May 2, 1997

/s/ William Sheluck, Jr. - ------------------------ William Sheluck, Jr.	Director	May 2, 1997

Exhibit 10.2

AMENDMENT No. 1

AMENDMENT NO. 1 dated as of December 28, 1996 between BARNES & NOBLE, INC., a corporation duly organized and validly existing under the laws of the State of Delaware (the "Company"); each of the Subsidiaries of the Company identified under the caption "SUBSIDIARY GUARANTORS" on the signature pages hereto (individually, a "Subsidiary Guarantor" and, collectively, the "Subsidiary Guarantors" and, together with the Company, the "Obligors"); each of the lenders named under the caption "Lenders" on the signature pages hereto (individually, a "Lender" and, collectively, the "Lenders"); THE CHASE MANHATTAN BANK, in its capacity as Swingline Bank under Section 2.01(c) of the Credit Agreement (in such capacity, together with its successors in such capacity, the "Swingline Bank"); and THE CHASE MANHATTAN BANK, as agent for the Lenders (in such capacity, together with its successors in such capacity, the "Administrative Agent").

The Company, the Subsidiary Guarantors, the Lenders and the Administrative Agent are parties to a Credit Agreement dated as of March 28, 1996 (as heretofore modified and supplemented and in effect on the date hereof, the "Credit Agreement"), providing, subject to the terms and conditions thereof, for extensions of credit (by making of loans and issuing letters of credit) to be made by said Lenders to the Company in an aggregate principal or face amount not exceeding $550,000,000. The Company, the Subsidiary Guarantors, the Lenders and the Administrative Agent wish to amend the Credit Agreement in certain respects and, accordingly, the parties hereto hereby agree as follows:

Section 1. Definitions. Except as otherwise defined in this Amendment No. 1, terms defined in the Credit Agreement are used herein as defined therein.

Section 2. Amendments. Subject to the satisfaction of the conditions precedent specified in Section 5 below, but effective as of the date hereof, the Credit Agreement shall be amended as follows:

2.01. Step-up in Revolving Credit Commitments.

(a) Section 2.01(a) of the Credit Agreement shall be amended by replacing clauses (ii), (iii) and (iv) thereof with the following:

"(ii) the aggregate principal amount of all Revolving Credit Loans, together with the aggregate amount of all Letter of Credit Liabilities and the aggregate amount of all Swingline Loans, shall not, without the prior consent of all of the Lenders, exceed $325,000,000 prior to the later of the following dates (the "1997 Step-up Date"):

(x) the date 15 days after the Lenders shall have received the financial information required pursuant to Section 9.01(b) hereof for the fiscal year ended on or about January 31, 1997, and

(y) April 1, 1997; and

(iii) the aggregate principal amount of all Revolving Credit Loans, together with the aggregate amount of all Letter of Credit Liabilities and the aggregate amount of all Swingline Loans, shall not exceed $325,000,000 on or after the 1997 Step-up Date, unless both of the following conditions are satisfied:

(x) EBITDA for the fiscal year ending on or about January 31, 1997 shall be at least equal to $175,000,000; and

(y) immediately prior to, and on, the 1997 Step-up Date, no Default shall be continuing."

(b) Section 2.05(a) of the Credit Agreement (Commitment Fees) shall be amended by deleting the reference therein to Section 2.01(a)(iv).

2.02. Investments in Unrestricted Subsidiaries. Clause (g) of Section 9.08 shall be amended by deleting the number "$15,000,000" and substituting in its place the number "$20,000,000".

2.03. Capital Expenditures. Section 9.11(a)(i) of the Credit Agreement shall be amended by replacing the table therein with the following table:

"Fiscal Year End	Amount
January 31, 1997	$175,000,000
January 31, 1998	$150,000,000
January 31, 1999	$125,000,000
January 31, 2000	$150,000,000
January 31, 2001	$150,000,000; plus"

Section 3. New Subsidiary Guarantor. Effective as of January 14, 1997 (the date of incorporation of Barnes and Noble Online, Inc. ("Online")), Online shall be a Subsidiary Guarantor and an Obligor under the Credit Agreement and each other Basic Document, and shall assume all obligations of a Subsidiary Guarantor and Obligor under the Credit Agreement and each other Basic Document.

Section 4. Representations and Warranties. The Company represents and warrants to the Lenders that the representations and warranties set forth in Section 8 of the Credit Agreement are true and complete on the date hereof as if made on and as of the date hereof (or, if such representation or warranty is expressly stated to have been made as of a specific date, as of such specific date) and as if each reference in said Section 8 to "this Agreement" included reference to this Amendment No. 1.

Section 5. Conditions Precedent. As provided in Section 2 above, the amendments to the Credit Agreement set forth in said Section 2 shall become effective, as of the date hereof, upon the satisfaction of the following conditions precedent:

5.01. Execution. This Amendment No. 1 shall have been duly executed and delivered by each Obligor, the Administrative Agent and the Majority Lenders, provided that the amendment set forth in Section 2.01 hereof shall not become effective unless this Amendment No. 1 shall have been executed and delivered by the Supermajority Lenders.

5.02. Online. The Administrative Agent shall have received the documents described in Section 7.01(a) of the Credit Agreement with respect to Online, together with the certificates evidencing the capital stock of Online, duly endorsed in pledge to the Administrative Agent, and such duly executed Uniform Commercial Code financing statements as the Administrative Agent shall have requested in order to perfect the security interests in Property of Online created pursuant to the Security Agreement.

Section 6. Miscellaneous. Except as herein provided, the Credit Agreement shall remain unchanged and in full force and effect (except that each reference in the Credit Agreement to "this Agreement" shall be deemed to be a reference to the Credit Agreement as amended by this Amendment No. 1). This Amendment No. 1 may be executed in any number of counterparts, all of which taken together shall constitute one and the same amendatory instrument and any of the parties hereto may execute this Amendment No. 1 by signing any such counterpart. This Amendment No. 1 shall be governed by, and construed in accordance with, the law of the State of New York.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment No. 1 to be duly executed and delivered as of the day and year first above written.

BARNES & NOBLE, INC.

By__________________________________
Title:

SUBSIDIARY GUARANTORS

B. DALTON BOOKSELLER, INC.

By___________________________________
Title:

BARNES & NOBLE SUPERSTORES, INC.

By___________________________________
Title:

MARBORO BOOKS CORP.

By___________________________________
Title:

DOUBLEDAY BOOK SHOPS, INC.

By___________________________________
Title:

CCI HOLDINGS, INC.

By___________________________________
Title:

SUBSIDIARY GUARANTOR

BARNES AND NOBLE ONLINE, INC.

By___________________________________
Title:

LENDERS

THE CHASE MANHATTAN BANK

By___________________________________
Title:

CIBC INC.

By___________________________________
Title:

ING (U.S.) CAPITAL CORPORATION

By___________________________________
Title:

THE BANK OF NOVA SCOTIA

By___________________________________
Title:

FIRST UNION NATIONAL BANK

By_________________________________
Title:

LENDERS

THE INDUSTRIAL BANK OF JAPAN, LIMITED

By_________________________________
Title:

COOPERATIEVE CENTRALE RAIFFEISEN-
BOERENLEENBANK B.A., "RABOBANK
NEDERLAND", New York Branch

By_________________________________
Title:

MELLON BANK, N.A.

By_________________________________
Title:

DEUTSCHE BANK AG, New York Branch
and/or Cayman Islands Branch

By_________________________________
Title:

CORESTATES BANK

By_________________________________
Title:

DG BANK DEUTSCHE GENOSSENSCHAFTSBANK

By_________________________________
Title:

LENDERS

HIBERNIA NATIONAL BANK

By_________________________________
Title:

MERITA BANK LTD., New York Branch

By_________________________________
Title:

CREDIT LYONNAIS, New York Branch

By_________________________________
Title:

THE BANK OF NEW YORK

By_________________________________
Title:

BHF-BANK AKTIENGESELLSCHAFT

By_________________________________
Title:

THE MITSUBISHI TRUST AND BANKING CORPORATION

By_________________________________
Title:

SOCIETE GENERALE, New York Branch

By_________________________________
Title:

LENDERS

THE SUMITOMO TRUST & BANKING CO., LTD., New York Branch

By_________________________________
Title:

SUMMIT BANK

By_________________________________
Title:

WELLS FARGO BANK N.A.

By_________________________________
Title:

BANK OF TOKYO-MITSUBISHI, LIMITED, New York Branch

By_________________________________
Title:

THE FUJI BANK, LIMITED, New York Branch

By_________________________________
Title:

THE TORONTO-DOMINION BANK

By_________________________________
Title:

LENDERS

ABN-AMRO BANK, N.V.

By_________________________________
  Title:

UNITED STATES NATIONAL BANK OF OREGON

By_________________________________
  Title:

FIRST HAWAIIAN BANK

By_________________________________
  Title:

THE SUMITOMO BANK, LIMITED,
New York Branch

By_________________________________
  Title:

IBJ SCHRODER BANK & TRUST COMPANY

By_________________________________
  Title:

GIRO CREDIT BANK
AKTIENGESELLSCHAFT DER SPARKASSEN

By_________________________________
  Title:

SWINGLINE BANK

THE CHASE MANHATTAN BANK

By_________________________________
  Title:

ADMINISTRATIVE AGENT

THE CHASE MANHATTAN BANK

By_________________________________
  Title:

Selected Consolidated Financial Data

The selected consolidated financial data of Barnes & Noble, Inc. and its wholly-owned subsidiaries (collectively, the Company) set forth on the following pages should be read in conjunction with the consolidated financial statements and notes included elsewhere in this report. The Company's fiscal year is comprised of 52 or 53 weeks, ending on the Saturday closest to the last day of January. The Statement of Operations Data for the 53 weeks ended February 1, 1997 (fiscal 1996) and for the 52 weeks ended January 27, 1996 (fiscal 1995) and January 28, 1995 (fiscal 1994) and the Balance Sheet Data as of February 1, 1997 and January 27, 1996 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 29, 1994 (fiscal 1993) and January 30, 1993 (fiscal 1992) and the Balance Sheet Data as of January 28, 1995, January 29, 1994 and January 30, 1993 are derived from audited consolidated financial statements not included in this report.

Fiscal Year (Thousands of dollars, except per share data)	1996	1995	1994	1993	1992
Statement of Operations Data:					
Revenues					
Barnes & Noble stores(9)	$ 1,861,177	1,349,830	952,697	614,646	328,766
B. Dalton Bookseller(10)	564,926	603,204	646,876	688,220	706,862
Other	22,021	23,866	23,158	34,520	51,075
Total revenues	2,448,124	1,976,900	1,622,731	1,337,386	1,086,703
Cost of sales, buying and occupancy	1,569,448	1,269,001	1,050,011	874,038	711,845
Gross profit	878,676	707,899	572,720	463,348	374,858
Selling and administrative expenses	456,181	376,773	311,344	262,861	221,266
Rental expense	225,450	182,473	147,225	120,326	91,792
Depreciation and amortization	59,806	47,881	36,617	29,077	25,082
Pre-opening expenses	17,571	12,160	9,021	8,940	6,004
Restructuring charge(8)	--	123,768	--	--	--
Operating profit (loss)	119,668	(35,156)	68,513	42,144	30,714
Interest expense, net and amortization of deferred financing fees(1)	38,286	28,142	22,955	25,807	26,858
Earnings (loss) before provision (benefit) for income taxes, extraordinary item and cumulative effect of a change in accounting principle	81,382	(63,298)	45,558	16,337	3,856
Provision (benefit) for income taxes	30,157	(10,322)	20,085	8,584	3,646
Earnings (loss) before extraordinary item and cumulative effect of a change in accounting principle	51,225	(52,976)	25,473	7,753	210
Extraordinary loss(2)	--	--	--	--	6,663
Cumulative effect of a change in accounting principle(3)	--	--	--	--	2,052
Net earnings (loss)(4)	$ 51,225	(52,976)	25,473	7,753	(8,505)
Net earnings (loss) per common share(7)	$ 1.48	(1.70)	0.81	0.30	0.01
Weighted average common shares outstanding(5)(7)	34,576,000	31,217,000	31,344,000	26,194,000	20,528,000
Store Operating Data:					
Stores open at end of period					
Barnes & Noble stores(9)	431	358	268	203	135
B. Dalton Bookseller(10)	577	639	698	734	781
Total	1,008	997	966	937	916

Selected Consolidated Financial Data (Continued)

Fiscal Year	1996	1995	1994	1993	1992

(Thousands of dollars, except per share data)

Comparable store sales increase (decrease)(6)					
Barnes & Noble stores(9)	7.3%	6.9%	12.6%	8.6%	5.2%
B. Dalton Bookseller(10)	(1.0)	(4.3)	(2.3)	(0.3)	2.5
Capital Expenditures	$ 171,885	154,913	88,763	81,116	64,987
Balance Sheet Data (at end of period):					
Working capital	$ 212,692	226,500	155,976	182,403	114,677
Total assets	$ 1,446,647	1,315,342	1,026,418	895,863	712,055
Long-term debt, less current portions	$ 290,000	262,400	190,000	190,000	190,000
Preferred stock subject to redemption, including cumulative dividends in arrears	$ --	--	--	--	66,248
Shareholders' equity	$ 455,989	400,235	358,173	328,841	146,754

(1) Interest expense for fiscal 1996, 1995, 1994, 1993 and 1992 is net of interest income of $2,288, $2,138, $3,008, $1,838 and $2,228, respectively.

(2) Reflects a net extraordinary charge during fiscal 1992 due to the early extinguishment of debt, consisting of: (i) a pre-tax charge of $6,509 associated with the redemption premiums on the Company's senior subordinated notes and debentures; (ii) the associated write-off of $5,179 of unamortized deferred finance costs related to the early extinguishment of the Company's senior subordinated notes and debentures; and (iii) the related tax benefits of $5,025 on the extraordinary charges.

(3) Reflects the cumulative effect of a change in accounting principle of $2,052 (net of tax benefits of $1,548) during fiscal 1992 related to the adoption of new accounting standards for post-retirement benefits.

(4) Net earnings (loss) does not give effect to preferred stock dividends. Holders of the Company's Series C Preferred Stock were entitled to dividends of $4,466 and $1,375 during fiscal 1993 and 1992, respectively. Such accumulated dividends were paid from the proceeds of the Company's initial public offering completed on October 4, 1993 (IPO). Accumulated dividends on all other series of preferred stock outstanding for all periods were converted into common stock or waived.

(5) The pro forma weighted average number of shares outstanding used in the computation of pro forma earnings before extraordinary item and cumulative effect of a change in accounting principle per common share gives effect to an approximate 2.058-for-1 stock split completed by the Company prior to the consummation of the IPO, the effect of certain employee stock options using the treasury stock method, the number of shares issued upon the conversions of preferred stock and the exercise of warrants in connection with the IPO and the number of shares issued which is equal in value to the redemption price of the Series C Preferred Stock, including accumulated and unpaid dividends.

(6) Comparable store sales increase (decrease) is calculated using sales of stores that have been open for 12 months for B. Dalton Bookseller and 15 months for Barnes & Noble stores (due to the high sales volume associated with grand openings). The comparable store sales increase (decrease) for fiscal 1996 has been adjusted to reflect the elimination of the fifty-third week. Comparable store sales for fiscal 1996 include relocated Barnes & Noble stores and exclude B. Dalton Bookseller stores which the Company closed in fiscal 1996 or has a formal plan to close during fiscal 1997.

(7) Computed on a pro forma basis for fiscal 1993 and 1992. Earnings per common share are before extraordinary item and cumulative effect of a change in accounting principle for fiscal 1992.

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

(9) Also includes Bookstop and Bookstar stores.

(10) Also includes Doubleday Book Shops, Scribner's Bookstores and discount bookstores operated under the Barnes & Noble tradename representing the Company's original retail strategy.

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 1996" represents the 53 weeks ended February 1, 1997, "fiscal 1995" represents the 52 weeks ended January 27, 1996 and "fiscal 1994" represents the 52 weeks ended January 28, 1995.

GENERAL

Barnes & Noble, Inc. (Barnes & Noble or the Company), the world's largest bookseller, operates 431 "super"stores, 91 of which were opened in fiscal 1996, under the Barnes & Noble Booksellers, Bookstop and Bookstar tradenames, and 577 mall bookstores under the B. Dalton Bookseller, Doubleday Book Shops and Scribner's Bookstore tradenames, as of February 1, 1997. Barnes & Noble publishes books under its own imprint for exclusive sale through its retail stores and mail-order catalogs. The Company is also the exclusive bookseller in America Online's Marketplace and has plans to launch a World Wide Web site, operating the "world's largest bookseller online," during 1997. The Company employed approximately 24,000 full and part-time booksellers and created nearly 2,600 new jobs nationwide during fiscal 1996 primarily in relation to its Barnes & Noble store expansion.

Barnes & Noble is the largest operator of book "super" stores in the United States with 431 Barnes & Noble stores located in 47 states and the District of Columbia as of February 1, 1997. With more than thirty 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 store offers a comprehensive title base, a cafe and a calendar of ongoing events - author appearances and children's activities - that make each Barnes & Noble store an active part of its community. Management estimates that as much as 80% of the sales generated by a new Barnes & Noble store is incremental to the community in which the store is located - representing a combination of previously unfulfilled and newly created demand.

Barnes & Noble stores 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 between 60,000 to 175,000 titles. The comprehensive title selection is diverse and customized to the local community's interests and demands. To further this diversity, Barnes & Noble funds the Discover Great New Writers program supporting the work of newly published authors, and emphasizes books published by small and independent publishers and university presses. In addition to the extensive on-site selection, each store will special order any book from the more than 1.2 million books in print.

The book "super" store concept originated in the mid-1970s when a predecessor to the Company joined together the Barnes & Noble "Main Store" and "Sale Annex" which became the "World's Largest Bookstore," with close to 100,000 square feet of total retail space. Based on the success of this retail format, several Barnes & Noble stores were opened in midtown Manhattan and downtown Boston. However, the Company did not begin to expand nationally until 1987 when several Barnes & Noble store prototypes were tested in suburban locations. In late 1989, with four Barnes & Noble stores already in operation, the Company acquired 23 stores from Bookstop, Inc. thereby gaining market penetration in Texas, Florida and Southern California. Subsequently, the Company accelerated its expansion adding eight new stores in fiscal 1990; 28 in fiscal 1991; 78 in fiscal 1992; 72 in fiscal 1993; 70 in fiscal 1994; 97 in fiscal 1995; and 91 in fiscal 1996.

Although the early prototypes of the Barnes & Noble and Bookstop stores were highly profitable, their smaller store size (roughly 10,000 square feet) limited sales potential and created opportunity for competition. As a result, 12 of the Company's original Barnes & Noble or Bookstop stores were relocated or expanded during fiscal 1996 to conform to the new prototype which has grown steadily in size since 1990, reaching an average of 27,000 square feet by 1995. The Company plans to complete its modernization program during fiscal 1997. Barnes & Noble stores opened during fiscal 1996 added 2.54 million square feet to the Barnes & Noble base, bringing the total square footage to 9.3 million square feet, a 33% increase over the prior year. The Company plans to open approximately 70 Barnes & Noble stores in 1997 which are expected to average 26,000 square feet in size.

At the end of fiscal 1996, the Company operated 577 B. Dalton stores in 46 states, and the District of Columbia. These mall-based stores employ merchandising strategies that target the "middle-American" consumer book market, offering a wide range of bestsellers and general-interest titles. Doubleday and Scribner's bookstores utilize a more upscale format aimed at the "carriage trade" in higher-end shopping malls and place a greater emphasis on hardcover and gift books. Most of the B. Dalton stores range in size from 2,800 to 6,000 square feet, and, while they are appropriate to the size of adjacent mall tenants, the stores continue to be significantly impacted by the opening of superstores in nearby locations.

During the past six years, the Company has pursued a two-pronged strategy to maximize returns from its B. Dalton division in response to declining sales attributable primarily to superstore competition and, to a lesser extent, weaker overall consumer traffic in shopping malls. The first part of the Company's strategy has been to rigorously identify and close underperforming stores. Since 1989, the Company has closed more than 50 B. Dalton stores per year. At the end of fiscal 1995, the Company accelerated its store closing strategy, and provided for these closing costs as part of the non-cash restructuring charge of $123.8 million ($87.3 million after tax or $2.65 per common share), with the aim of forming a core of more-profitable B. Dalton stores for the future. During fiscal 1996 the Company closed 72 underperforming B. Dalton stores identified during fiscal 1995 as part of the B. Dalton business restructuring. This two-pronged business strategy is beginning to stabilize B. Dalton's store operations. During fiscal 1996, same-store sales for the B. Dalton stores improved from a decline of 4.3% during fiscal 1995 to a decline of 1.0%.

Concurrent with the implementation of the store closing strategy, the Company has been expanding the size of some of its new B. Dalton stores and is seeking better locations within malls for increased visibility and higher traffic flow. A new B. Dalton prototype was developed for this purpose in 1993 and, since that time, more than 100 new or converted stores have been opened and are performing, on average, better than the remaining store base.

Complementing its leadership position as the world's largest bookseller, Barnes & Noble is the world's largest supplier of books through catalogs. The Company mails over 20 million catalogues each year and enjoys a list of over one million customers. Barnes & Noble's extensive catalog mailings over the past 13 years have created substantial name recognition in the U.S. and internationally, and have facilitated the introduction of Barnes & Noble stores and the Company's online business.

With publishing and distribution rights to over 1,500 book titles, the Company further differentiates its product offerings from those of its competitors by publishing books under its own Barnes & Noble Books imprint for exclusive sale in its Barnes & Noble stores, B. Dalton stores and direct mail catalogs. Through its proprietary publishing, Barnes & Noble offers customers high quality books at excellent values while generating higher gross profit margins.

During fiscal 1996, the Company selectively pursued opportunities to leverage its "know-how" through strategic alliances with Chapters Inc. (Chapters) and Calendar Club LLC (Calendar Club).

In 1996, the Company purchased 20% of Chapter's common stock. Chapters is the largest book retailer in Canada with 360 mall bookstores and the leading Canadian book superstore retailer with 12-15 book superstores. During December 1996, Chapters completed an initial public offering diluting the Company's ownership to 13%. The Company, however, has a one-year maintenance right which allows the Company to regain its 20% ownership position.

In 1996, the Company also acquired 50% of Calendar Club, an operator of seasonal calendar kiosks in the U.S. and internationally.

RESULTS OF OPERATIONS

The Company's revenues, comparable store sales, store openings, store closings and number of stores open at fiscal year end are set forth below for the Company's various retailing strategies for the periods indicated:

Fiscal Year (Thousands of dollars)	1996	1995	1994
Revenues(1)			
Barnes & Noble stores(3)	$ 1,861,177	1,349,830	952,697
B. Dalton Bookseller(4)	564,926	603,204	646,876
Other	22,021	23,866	23,158
Total revenues	$ 2,448,124	1,976,900	1,622,731
Comparable Store Sales Increase (Decrease)(2)			
Barnes & Noble stores(3)	7.3%	6.9%	12.6%
B. Dalton Bookseller(4)	(1.0)	(4.3)	(2.3)
Stores Opened			
Barnes & Noble stores(3)	91	97	70
B. Dalton Bookseller(4)	10	10	13
Total	101	107	83
Stores Closed			
Barnes & Noble stores(3)	18	7	5
B. Dalton Bookseller(4)	72	69	49
Total	90	76	54
Number of Stores Open at Year End			
Barnes & Noble stores(3)	431	358	268
B. Dalton Bookseller(4)	577	639	698
Total	1,008	997	966
Square Feet of Selling Space at Year End (in millions)			
Barnes & Noble stores(3)	9.3	7.0	4.5
B. Dalton Bookseller(4)	2.2	2.4	2.5

Total	11.5	9.4	7.0

(1) The Company's revenues include net sales from the Company's bookstores and other operations, income from the sale of the Company's B. Dalton Book$avers and Bookstop/Bookstar Reader's Choice discount cards, and other miscellaneous revenue items.

(2) Comparable store sales for B. Dalton Bookseller are determined using stores open at least twelve months. Comparable store sales for Barnes & Noble stores are determined using stores open at least 15 months, due to the high sales volume associated with grand openings. Comparable store sales increase (decrease) is computed on a 52-week basis for fiscal 1996.

(3) Also includes Bookstop and Bookstar stores.

(4) Also includes Doubleday Book Shops, Scribner's Bookstores and discount bookstores operated under the Barnes & Noble tradename representing the Company's original retail strategy.

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

Fiscal Year	1996	1995	1994
Revenues	100.0%	100.0%	100.0%
Cost of sales, buying and occupancy	64.1	64.2	64.7
Gross profit	35.9	35.8	35.3
Selling and administrative expenses	18.6	19.1	19.2
Rental expense	9.2	9.2	9.1
Depreciation and amortization	2.5	2.4	2.2
Pre-opening expenses	0.7	0.6	0.6
Restructuring charge	--	6.3	--
Operating profit (loss)(1)	4.9	(1.8)	4.2
Interest expense, net and amortization of deferred financing fees	1.6	1.4	1.4
Earnings (loss) before provision (benefit) for income taxes(1)	3.3	(3.2)	2.8
Provision (benefit) for income taxes(1)	1.2	(0.5)	1.2
Net earnings (loss)(1)	2.1%	(2.7)%	1.6%

(1) If operating profit (loss), earnings (loss) before provision (benefit) for income taxes, provision (benefit) for income taxes and net earnings (loss) were presented before the effects of the restructuring charge of $123,768 during fiscal 1995, the percentage relationship that these items would bear to total revenues of the Company would be 4.5%, 3.1%, 1.4% and 1.7%, respectively.

Management's Discussion and Analysis of Financial Condition and Results of Operations
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53 WEEKS ENDED FEBRUARY 1, 1997 COMPARED TO 52 WEEKS ENDED JANUARY 27, 1996

Revenues

The Company's revenues increased 23.8% during fiscal 1996 to $2.448 billion from $1.977 billion during fiscal 1995. Fiscal 1996 includes 53 weeks; excluding the impact of the fifty-third week, revenues increased 21.5%. During fiscal 1996, revenues from Barnes & Noble stores (which also includes Bookstop and Bookstar stores) rose 37.9% to $1.861 billion from $1.350 billion during fiscal 1995 and contributed 76.0% of total revenues, up from 68.3% during fiscal 1995. B. Dalton Bookseller (which also includes Doubleday Book Shops, Scribner's Bookstores and discount bookstores operated under the Barnes & Noble tradename representing the Company's original retail strategy) generated revenues of $564.9 million (or 23.1% of total revenues) during fiscal 1996, down from $603.2 million (or 30.5% of total revenues) during fiscal 1995.

The increase in revenues was primarily attributable to an increase in sales from Barnes & Noble stores. The Company opened 91 Barnes & Noble stores and closed 18 during fiscal 1996 (12 of which were relocated), increasing square footage by 33% in fiscal 1996. Comparable store sales for Barnes & Noble stores, which excludes the impact of the fifty-third week of sales, increased 7.3%

during fiscal 1996, in comparison to 6.9% during fiscal 1995. During fiscal 1996, revenues of B. Dalton Bookseller declined, primarily due to the 72 store closings and a comparable store sales decrease of 1.0%.

Cost of Sales, Buying and Occupancy

The Company's cost of sales, buying and occupancy includes occupancy costs (such as common area maintenance, merchant association dues and lease-required advertising, but excluding rental expense), certain overhead costs of the Company's buying departments and adjustments for LIFO.

Cost of sales, buying and occupancy increased 23.7% during fiscal 1996 to $1.569 billion from $1.269 billion during fiscal 1995, but decreased as a percentage of revenues to 64.1% during fiscal 1996 from 64.2% during fiscal 1995 due to improvements in merchandise mix, as well as increases in merchandise margins due to direct purchasing through the Company's new distribution center. Excluding the impact of LIFO, cost of sales, buying and occupancy as a percentage of revenues declined to 64.1% in fiscal 1996 from 64.5% in fiscal 1995.

Selling and Administrative Expenses

Selling and administrative expenses increased $79.4 million, or 21.1%, to $456.2 million during fiscal 1996 from $376.8 million during fiscal 1995. The Company's operating leverage continued to improve as selling and administrative expenses decreased as a percentage of revenues to 18.6% during fiscal 1996 from 19.1% during fiscal 1995.

Rental Expense, Depreciation and Amortization

Rental expense increased $43.0 million, or 23.6%, to $225.5 million during fiscal 1996 from $182.5 million during fiscal 1995. Depreciation and amortization increased $11.9 million, or 24.9%, to $59.8 million during fiscal 1996 from $47.9 million during fiscal 1995. The increases were primarily a result of the addition of 91 Barnes & Noble stores during fiscal 1996.

Pre-Opening Expenses

Pre-opening expenses increased $5.4 million, or 44.5%, to $17.6 million during fiscal 1996 from $12.2 million during fiscal 1995. As the Company amortizes pre-opening expenses over the respective store's first twelve months of operation, the increase reflects the opening of 109 new Barnes & Noble stores during the second half of fiscal 1995 and the first half of fiscal 1996 compared with 68 stores in the corresponding period of the previous year.

Operating Profit (Loss)

Operating profit, before the effects of the $123.8 million restructuring charge in fiscal 1995, increased $31.1 million, or 35.0%, to $119.7 million during fiscal 1996 from $88.6 million during fiscal 1995. As a percentage of revenues, operating profit increased to 4.9% during fiscal 1996 from 4.5% during fiscal 1995 (before the effects of the restructuring charge), reflecting improved operating leverage.

Interest Expense, Net and Amortization of Deferred Financing Fees

Interest expense, net of interest income, and amortization of deferred financing fees increased $10.2 million, or 36.0%, to $38.3 million during fiscal 1996 from $28.1 million during fiscal 1995. The increase resulted from a rise in borrowings under the Company's credit facility to finance working capital and capital expenditures. The impact of the increased borrowings was partially offset by a reduction in the Company's weighted average interest rate on its short-term borrowings.

Provision (Benefit) for Income Taxes

The Company's income tax provision during fiscal 1996 was $30.2 million compared with $26.1 million in fiscal 1995 (before the effects of the $123.8 million restructuring charge). Barnes & Noble's effective tax rate was 37.1% during fiscal 1996 and 43.2% during fiscal 1995 (before the effects of the restructuring charge). Such rates exceeded the Federal statutory rate primarily due to the combined effects of goodwill amortization and state and local taxes. The fiscal 1996 provision also reflects a non-recurring $3.0 million rehabilitation tax credit.

Net Earnings (Loss)

As a result of the factors discussed above, the Company's net earnings in fiscal 1996 increased to $51.2 million from $34.3 million in fiscal 1995 (before the effects of the $123.8 million restructuring charge). Fiscal 1996 earnings increased due to the continuing improvement in Barnes & Noble operating profits combined with accelerating revenues over which to spread overhead costs.

Net earnings per common share were $1.48 during fiscal 1996 compared with $1.05 during fiscal 1995 (before the effects of the restructuring charge). Net earnings increased 49.3% while earnings per share increased 41.0% due to an increase in the weighted average common shares outstanding to 34.6 million shares during fiscal 1996 from 32.8 million shares during fiscal 1995, reflecting the full-year impact of 2.5 million common shares issued in October of 1995.

52 WEEKS ENDED JANUARY 27, 1996 COMPARED TO 52 WEEKS ENDED JANUARY 28, 1995

Revenues

The Company's revenues increased 21.8% during fiscal 1995 to $1.977 billion from $1.623 billion during fiscal 1994. During fiscal 1995, revenues from Barnes & Noble stores rose 41.7% to $1.350 billion from $952.7 million during fiscal 1994 and contributed 68.3% of total revenues, up from 58.7% of total revenues during fiscal 1994. B. Dalton Bookseller generated revenues of $603.2 million (or 30.5% of total revenues) during fiscal 1995, down 6.8% from revenues of $646.9 million (or 39.9% of total revenues) during fiscal 1994.

The increase in revenues was primarily attributable to an increase in sales of Barnes & Noble stores. The Company opened 97 Barnes & Noble stores and closed seven during fiscal 1995. Comparable store sales for Barnes & Noble stores increased 6.9% during fiscal 1995, in comparison to 12.6% during fiscal 1994. During fiscal 1995, B. Dalton Bookseller revenues declined, primarily due to the

69 store closings and a comparable store sales decrease of 4.3% which reflected accelerating superstore competition and a continuing decline in mall traffic.

Cost of Sales, Buying and Occupancy

The Company's cost of sales, buying and occupancy includes occupancy costs (such as common area maintenance, merchant association dues and lease required advertising, but excluding rental expense), certain overhead costs of the Company's buying departments and adjustments for LIFO.

Cost of sales, buying and occupancy increased 20.9% during fiscal 1995 to $1.269 billion from $1.050 billion during fiscal 1994, but decreased as a percentage of revenues to 64.2% during fiscal 1995 from 64.7% during fiscal 1994 due to the effects of improvements in merchandise mix.

Selling and Administrative Expenses

Selling and administrative expenses increased $65.5 million, or 21.0%, to $376.8 million during fiscal 1995 from $311.3 million during fiscal 1994 on a revenue base which increased 21.8% during fiscal 1995. The Company's operating leverage continued to improve as selling and administrative expenses decreased as a percentage of revenues to 19.1% during fiscal 1995 from 19.2% during fiscal 1994.

Rental Expense, Depreciation and Amortization

Rental expense increased $35.3 million, or 23.9%, to $182.5 million during fiscal 1995 from $147.2 million during fiscal 1994. Depreciation and amortization increased $11.3 million, or 30.8%, to $47.9 million during fiscal 1995 from $36.6 million during fiscal 1994. The increases were primarily a result of the net addition of 90 Barnes & Noble stores during fiscal 1995 which were approximately 22% larger than the stores opened during fiscal 1994.

Pre-Opening Expenses

Pre-opening expenses increased $3.2 million, or 34.8%, to $12.2 million during fiscal 1995 from $9.0 million during fiscal 1994 primarily as a result of the increase in Barnes & Noble store openings to 97 stores during fiscal 1995 from 70 stores during fiscal 1994 and the 22% increase in average new store size during fiscal 1995.

Restructuring Charge

Concurrent with the establishment of its restructuring plan, Barnes & Noble evaluated its accounting policy for measuring the recoverability of its long-lived assets and

elected early adoption of Statement of Financial Accounting Standard No. 121, "Accounting for Impairment of Long-Lived Assets and Assets to be Disposed Of" (SFAS 121). During the fourth quarter of fiscal 1995, the Company recorded a non-cash charge to operating earnings approximating $123,768 ($87,303 after-tax or $2.65 per share) to reflect the aggregate impact of its restructuring plan and change in accounting policy.

The change in the Company's method of valuing long-lived assets resulted in a reduction in goodwill amortization expense of approximately $1,100 and $275 on an annual and quarterly basis, respectively.

Operating Profit (Loss)

Operating profit (loss) was (35.2) million in fiscal 1995 and $68.5 in fiscal 1994. Operating profit, before the effects of the $123.8 million restructuring charge, increased $20.1 million, or 29.3%, to $88.6 million during fiscal 1995 from $68.5 million during fiscal 1994 on a revenue base which expanded 21.8% during fiscal 1995. As a percentage of revenues, operating profit, before the effects of the restructuring charge, increased to 4.5% during fiscal 1995 from 4.2% during fiscal 1994.

Interest Expense, Net and Amortization of Deferred Financing Fees

Interest expense, net of interest income, and amortization of deferred financing fees increased $5.1 million, or 22.6%, to $28.1 million during fiscal 1995 from $23.0 million during fiscal 1994. The increase resulted from a rise in borrowings under the Company's revolving credit facility to fund the working capital requirements of the Company's new and existing stores. The impact of the increased borrowings was partially offset by a reduction in the Company's weighted average interest rate on its borrowings under the revolving credit facility that resulted from the Company's increased profitability which improved its interest coverage ratio on which the borrowing rates were based.

Provision for Income Taxes

During fiscal 1995, the provision for income taxes, before the effects of the $123.8 million restructuring charge, was $26.1 million compared with $20.1 million during fiscal 1994. The increase resulted from the Company's improving profitability. Barnes & Noble's effective tax rate of 43.2% and 44.1% during fiscal 1995 and fiscal 1994, respectively, exceeded the Federal statutory rate due primarily to the combined effects of goodwill amortization and state and local taxes.

Net Earnings (Loss)

As a result of the factors discussed above, the Company's net loss in fiscal 1995 was $53.0 million. The Company's net earnings, before the effects of the $123.8 million restructuring charge, were $34.3 million during fiscal 1995 compared with $25.5 million during fiscal 1994 - a 34.8% increase on a revenue base increase of 21.8%. Fiscal 1995 net earnings (before the effects of the $123.8 million restructuring charge) increased due to the continuing improvement in Barnes & Noble store operating profits combined with accelerating revenues which created a larger revenue base over which to spread overhead costs. Earnings per common share (before the effects of the $123.8 million restructuring charge) were $1.05 during fiscal 1995 compared with $0.81 during fiscal 1994.

SEASONALITY

The Company's business, like that of many retailers, is seasonal, with the major portion of sales and operating profit realized during the quarter which includes the Christmas selling season. The following table sets forth certain information with respect to the Company's revenues and operating profit (loss) for the last twelve fiscal quarters:

Revenues and Operating Profit (Loss) for the Fiscal Quarter Ended on or About
(Thousands of dollars)

	April 30	July 31	October 31	January 31
1996 Revenues(1)	$ 508,755	$ 524,321	$ 532,563	$ 882,485
Operating profit (loss)(1)	(141)	5,622	4,578	109,609
1995 Revenues	401,971	420,080	432,315	722,534
Operating profit (loss)(2)	(1,929)	3,478	2,537	84,526
1994 Revenues	320,301	350,584	359,009	592,837
Operating profit (loss)	(5,347)	576	1,301	71,983

(1) The fourth quarter of fiscal 1996 includes 14 weeks. All other periods presented include 13 weeks.

(2) Operating profit (loss) is presented before the effects of the restructuring charge of $123,768 during the fourth quarter of fiscal 1995.

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.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operations, 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 (used by) operations were $119.5 million, ($56.8) million and $17.9 million during fiscal 1996, 1995 and 1994, respectively. In addition to improved net earnings, the improvement in cash flows from operations in fiscal 1996 was the result of improved working capital management; revenues increased 23.8% while inventory levels declined 1.1% through faster inventory turns. The decline in cash flows from operations in fiscal 1995 is attributable to the increase in working capital required by Barnes & Noble's accelerated store expansion and declining B. Dalton Bookseller operating profits, which were partially offset by increasing operating profits of Barnes & Noble stores.

The weighted average age per square foot of the Company's 431 stores was 2.3 years as of February 1, 1997 and is expected to increase to approximately 2.8 years by January 31, 1998. As the relatively young Barnes & Noble stores mature, and as the number of new stores opened during the fiscal year becomes smaller 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 and capital expenditures. Earnings before interest, taxes, depreciation and amortization (EBITDA) increased $43.0 million or 31.5% to $179.5 million in fiscal 1996 from $136.5 million in fiscal 1995 (pre-restructuring).

Capital Structure. Strong cash flows from operations, coupled with improved working capital management, strengthened the Company's balance sheet during fiscal 1996. The Company's shareholders' equity increased 13.9% to $456.0 million as of February 1, 1997 from $400.2 million as of January 27, 1996, and return on equity increased to 12.8% in fiscal 1996 from 9.6% during fiscal 1995.

Although Barnes & Noble's growing business is somewhat mitigating the seasonality of the Company's operations, the Company continues to experience significant seasonal fluctuations in its financing needs, primarily during the holiday season in which there is a concentration of store openings as well as increases in inventory levels to support more than 35% of the Company's sales. To meet the seasonal demands of its growing inventory and sales base, the Company entered into a five-year senior credit facility in March 1996. The facility includes a $325.0 million revolving credit facility and a $100.0 million term loan facility and provides for an additional $125.0 million which will become available to the Company in fiscal 1997.

Borrowings under the Company's revolving credit facility averaged $101.7

million, $62.0 million and $3.1 million and peaked at $192.8 million, $152.2 million and $41.6 million during fiscal 1996, 1995 and 1994, respectively.

Capital Investment. Capital expenditures totaled $171.9 million, $154.9 million and $88.8 million during fiscal 1996, 1995 and 1994, respectively. Capital expenditures in fiscal 1997, primarily for an estimated 70 new Barnes & Noble stores as well as computer hardware and software associated with the rollout of the Company's new store point-of-sale system, are expected to be significantly less than fiscal 1996.

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

DISCLOSURE REGARDING
FORWARD-LOOKING STATEMENTS

This annual report contains 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 annual 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, possible disruptions in the Company's computer or telephone systems, possible increases in shipping rates or interruptions in shipping service, effects of competition, possible disruptions or delays in the opening of new stores, the level and volatility of interest rates, and other factors which may

be outside of the Company's control. 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 herein 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)	1996	1995	1994
Revenues	$ 2,448,124	1,976,900	1,622,731
Cost of sales, buying and occupancy	1,569,448	1,269,001	1,050,011
Gross profit	878,676	707,899	572,720
Selling and administrative expenses	456,181	376,773	311,344
Rental expense	225,450	182,473	147,225
Depreciation and amortization	59,806	47,881	36,617
Pre-opening expenses	17,571	12,160	9,021
Restructuring charge	--	123,768	--
Operating profit (loss)	119,668	(35,156)	68,513
Interest (net of interest income of $2,288, $2,138 and $3,008, respectively) and amortization of deferred financing fees	38,286	28,142	22,955
Earnings (loss) before provision (benefit) for income taxes	81,382	(63,298)	45,558
Provision (benefit) for income taxes	30,157	(10,322)	20,085
Net earnings (loss)	$ 51,225	(52,976)	25,473

Net earnings (loss) per common share	$ 1.48	(1.70)	0.81
Weighted average common shares outstanding	34,576,000	31,217,000	31,344,000

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

(Thousands of dollars, except per share data)	February 1, 1997	January 27, 1996
ASSETS		
Current assets:		
Cash and cash equivalents	$ 12,447	9,276
Receivables, net	45,558	49,019
Merchandise inventories	732,203	740,351
Prepaid expenses and other current assets	76,747	49,542
Total current assets	866,955	848,188
Property and equipment:		
Land and land improvements	681	681
Buildings and leasehold improvements	326,392	249,603
Fixtures and equipment	289,684	204,528
	616,757	454,812
Less accumulated depreciation and amortization	181,983	134,932
Net property and equipment	434,774	319,880
Intangible assets, net	93,494	96,799
Other noncurrent assets	51,424	50,475
Total assets	$1,446,647	1,315,342
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Revolving credit facility	$ 40,000	--
Accounts payable	373,340	415,698
Accrued liabilities	240,923	205,990
Total current liabilities	654,263	621,688
Long-term debt	290,000	262,400
Other long-term liabilities	46,395	31,019
Shareholders' equity:		
Common stock; $.001 par value; 100,000,000 shares authorized; 33,188,125 and 32,958,614 shares issued and outstanding, respectively	33	33
Additional paid-in capital	446,298	441,769
Retained earnings (deficit)	9,658	(41,567)
Total shareholders' equity	455,989	400,235
Commitments and contingencies		
Total liabilities and shareholders' equity	$1,446,647	1,315,342

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

(Thousands of dollars)	Common Stock	Additional paid-in capital	Retained earnings (deficit)	Total
Balance at January 29, 1994	$ 30	342,875	(14,064)	328,841
Exercise of 219,082 common stock options, including tax benefits of $2,221	--	3,859	--	3,859
Net earnings	--	--	25,473	25,473
Balance at January 28, 1995	30	346,734	11,409	358,173
Issuance of 2,500,000 shares of common stock	3	88,722	--	88,725
Exercise of 375,447 common stock options, including tax benefits of $3,470	--	6,313	--	6,313
Net loss	--	--	(52,976)	(52,976)
Balance at January 27, 1996	33	441,769	(41,567)	400,235
Exercise of 229,511 common stock options, including tax benefits of $2,272	--	4,529	--	4,529
Net earnings	--	--	51,225	51,225
Balance at February 1, 1997	$ 33	446,298	9,658	455,989

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Fiscal Year (Thousands of dollars)	1996	1995	1994
Cash flows from operating activities:			
Net earnings (loss)	$ 51,225	(52,976)	25,473
Adjustments to reconcile net earnings (loss) to net cash flows from operating activities:			
Depreciation and amortization	61,652	50,185	38,921
(Gain) loss on disposal of property and equipment	(130)	4,657	2,959
Deferred taxes	6,604	(32,110)	(5,394)
Restructuring charge	--	123,768	--
Increase in other long-term liabilities for scheduled rent increases in long-term leases	15,663	10,670	7,266
Changes in operating assets and liabilities, net	(15,477)	(161,038)	(51,342)
Net cash flows from operating activities	119,537	(56,844)	17,883
Cash flows from investing activities:			
Purchases of property and equipment	(171,885)	(154,913)	(88,763)
Proceeds from sales of property and equipment	177	551	3
Net increase in other noncurrent assets	(16,787)	(2,378)	(15,876)
Net cash flows from investing activities	(188,495)	(156,740)	(104,636)
Cash flows from financing activities:			
Net (decrease) increase in revolving credit facility	(32,400)	72,400	--
Proceeds from issuance of long-term debt	100,000	--	--
Proceeds from issuance of common stock, net	--	88,725	--
Proceeds from exercise of common stock options	4,529	6,313	3,859
Net cash flows from financing activities	72,129	167,438	3,859
Net increase (decrease) in cash and cash equivalents	3,171	(46,146)	(82,894)
Cash and cash equivalents at beginning of year	9,276	55,422	138,316
Cash and cash equivalents at end of year	$ 12,447	9,276	55,422

continued

Consolidated Statements of Cash Flows (continued)

Fiscal Year (Thousands of dollars)	1996	1995	1994
Changes in operating assets and liabilities, net:			
Receivables, net	$ 3,461	(19,191)	(9,474)
Merchandise inventories	8,148	(241,432)	(137,576)
Prepaid expenses and other current assets	(19,502)	(17,340)	1,751
Accounts payable and accrued liabilities	(7,584)	116,925	93,957
Changes in operating assets and liabilities, net	$ (15,477)	(161,038)	(51,342)
Supplemental cash flow information:			
Cash paid during the period for:			
Interest	$ 38,103	27,656	23,364
Income taxes	$ 24,574	19,937	20,740

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

For the 53 weeks ended February 1, 1997 (fiscal 1996) and the 52 weeks ended January 27, 1996 (fiscal 1995) and January 28, 1995 (fiscal 1994).

(Thousands of dollars, except per share data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

Barnes & Noble, Inc. (Barnes & Noble), through its wholly-owned subsidiaries (collectively, the Company), is primarily engaged in the sale of books through three principal bookselling strategies: its superstore strategy through its wholly-owned subsidiary, Barnes & Noble Superstores, Inc. under its Barnes & Noble Booksellers, Bookstop and Bookstar tradenames (hereafter collectively referred to as Barnes & Noble stores), its mall strategy through its wholly-owned subsidiaries, B. Dalton Bookseller, Inc. and Doubleday Book Shops, Inc. under its B. Dalton Bookseller, Doubleday Book Shops and Scribner's Bookstore tradenames (hereafter collectively referred to as B. Dalton Bookseller), and its publishing and mail-order business.

Consolidation

The consolidated financial statements include the accounts of Barnes & Noble and its wholly-owned subsidiaries. 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.

Supplemental Cash Flow Information

The Company considers all short-term, highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. The Company's cash and cash equivalents are carried at cost, which approximates market value, and consists primarily of Eurodollar and time deposits. Cash equivalents as of January 28, 1995 were $49,600.

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 79% and 73% of the Company's merchandise inventories as of February 1, 1997 and January 27, 1996, respectively. 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 increase approximately $8,800 and $8,326 as of February 1, 1997 and January 27, 1996, respectively.

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 average 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. Internal costs incurred in developing management information systems to support existing lines of business are expensed as incurred.

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 tradenames, of $63,604 and $29,890 as of February 1, 1997, and $65,771 and $31,028 as of January 27, 1996, are being amortized over 40 years using the straight-line method.

Amortization of goodwill and tradenames included in depreciation and amortization in the accompanying consolidated statements of operations is $3,305, $4,272 and $4,264 during fiscal 1996, 1995 and 1994, respectively. Accumulated amortization at February 1, 1997 and January 27, 1996 was $38,036 and $34,731, respectively.

Annually, the Company evaluates the recoverability of goodwill not allocable to acquired business assets and considers whether this goodwill should be completely or partially written off or the amortization periods accelerated. The Company assesses the recoverability of this goodwill based upon several factors, including management's intention with respect to the acquired operations and those operations' projected undiscounted cash flows.

Deferred Charges

Net unamortized costs incurred to obtain long-term financing of $9,789 and $5,964 as of February 1, 1997 and January 27, 1996, respectively, are being amortized over the terms of the respective debt agreements using the straight-line method, which approximates the interest method. Amortization expense is $1,846, $2,304 and $2,304 for fiscal 1996, 1995 and 1994, respectively. These amounts are included in interest and amortization of deferred financing fees in the accompanying consolidated statements of operations.

Revenue Recognition

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

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

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

Pre-opening Expenses

All costs associated with the opening of new stores are deferred and amortized over the respective store's first twelve months of operations.

Closed Store Expenses

Upon a formal decision to close or relocate a store, the Company charges unrecoverable costs to expense. Such costs include the net book value of abandoned fixtures and leasehold improvements and a provision for future lease obligations, net of expected sublease recoveries. Costs associated with store closings of $5,113 and $2,006 during fiscal 1995 and 1994, respectively, are included in selling and administrative expenses in the accompanying consolidated statements of operations.

Net Earnings (Loss) Per Common Share

Net earnings (loss) per common share is computed using the weighted average number of shares of common stock and common stock equivalents outstanding during the period.

Income Taxes

The provision (benefit) 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." The Company has not adopted the fair value method encouraged, but not required by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation."

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 period ended February 1, 1997 (fiscal 1996) includes 53 weeks. All other fiscal years presented include 52 weeks.

2. RESTRUCTURING CHARGE

From 1989 through 1995, the Company closed, on average, between 50 and 60 mall bookstores per year primarily due to increasing competition from superstores and declining mall traffic. During the fourth quarter of fiscal 1995, the Company

accelerated its mall bookstore closing program with the aim of forming a core of more-profitable B. Dalton Bookseller stores, and provided for these closing costs and asset valuation adjustments through a non-cash restructuring charge, and early adoption of Statement of Financial Accounting Standards No. 121 "Accounting for Impairment of Long-Lived Assets to be Disposed Of" (SFAS 121). In January 1996, the Company recorded a non-cash charge to operating earnings of $123,768 ($87,303 after tax or $2.65 per share) to reflect the aggregate impact of its restructuring plan and change in accounting policy. The charge to earnings included a $33,000 writedown of goodwill, and $45,862 related to the writedown of fixed assets and other long-term assets. The Company has completed a substantial portion of the planned store closings with the remainder to be completed in 1997 and 1998.

The following table sets forth the restructuring liability activity during fiscal 1996:

Fiscal 1996 Activity

	Beginning Balance	Fiscal 1996 Activity	Ending Balance
Provision for store closings	$ 5,974	4,442	1,532
Lease termination costs	32,833	2,371	30,462
Other	6,099	4,497	1,602
Total	$44,906	11,310	33,596

The remaining balance of $33,596, which is classified as a current liability, is expected to be adequate for all remaining obligations related to the restructuring.

3. RECEIVABLES, NET

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

	February 1, 1997	January 27, 1996
Trade accounts	$ 5,126	4,028
Bankcard receivables	12,800	10,968
Receivables for retail display allowances	663	1,821
Receivables from landlords	19,374	22,345
Other receivables	7,931	10,262
Allowance for doubtful accounts	(336)	(405)

Total receivables, net	$ 45,558	49,019

4. DEBT

Revolving Credit Facility and Term Loan Agreement

The Company's five-year, senior credit facility includes a $325,000 revolving credit facility and $100,000 term loan facility and provides for an additional commitment of $125,000 which will be available to the Company in 1997. Fees of up to 3/8 of 1% are assessed on the unused portion of the Company's commitment under the facility. The senior credit facility, which permits borrowings at various interest rate options based on the prime rate or London Interbank Offer Rate (LIBOR), contains covenants, representations and events of default typical of credit facility arrangements 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 and term loan facility are secured by the capital stock, accounts receivable and general intangibles of the Company's subsidiaries.

During fiscal 1996, the Company entered into three-year and four-year interest rate swap agreements for $70,000 and $30,000 respectively, involving the exchange of fixed and floating interest payment obligations without the exchange of underlying principal amounts. The Company 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. The Company recorded interest expense of $365 during fiscal 1996 associated with these agreements.

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

Fiscal Year	1996	1995	1994
Balance at end of year	$40,000	72,400	--
Average balance outstanding during the year	101,671	62,036	3,087
Maximum borrowings outstanding during the year	192,800	152,200	41,600
Weighted average interest rate during the year	7.56%	8.13%	9.45%
Interest rate at end of year	6.87%	8.21%	--

The average balance outstanding during the period was based on the number of days outstanding. The weighted average interest rate during the period was calculated as the result of dividing the related interest expense by average borrowings outstanding.

Fees expensed with respect to the unused portion of the Company's revolving credit commitment were $911, $454 and $760 during fiscal 1996, 1995 and 1994, respectively.

Long-Term Debt

In November 1992, the Company issued $190,000 senior subordinated notes, bearing interest at 11.875%, which are subject to redemption on or after January 15, 1998 at the option of the Company and are due on January 15, 2003. The indenture covering the senior subordinated notes contains various covenants which limit additional indebtedness, dividends and transactions with shareholders and affiliates.

The $72,400 outstanding as of January 27, 1996 under the Company's previous credit facility was refinanced pursuant to the consummation of Barnes & Noble's senior credit facility and has been classified as long-term debt as of January 27, 1996 in the accompanying consolidated balance sheets.

The $100,000 term loan is due in twelve installments due each quarter beginning on June 30, 1998. Each of the first eight installments are due in the amount of $7,500 and each of the ninth through twelfth installments are due in the amount of $10,000.

Long-term debt maturities are as follows:

Fiscal year	
1997	$ --
1998	22,500
1999	30,000
2000	37,500
2001	10,000
Thereafter	190,000

The Company has no agreements to maintain compensating balances.

5. 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. The fair value of long-term debt is based upon quoted market prices.

The carrying amounts and fair values of the Company's financial instruments as of February 1, 1997 and January 27, 1996 are as follows:

	February 1, 1997		January 27, 1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 12,447	12,447	9,276	9,276
Revolving credit facility	$ 40,000	40,000	72,400	72,400
Long-term debt	$290,000	307,575	190,000	208,810

6. EMPLOYEES' RETIREMENT AND DEFINED CONTRIBUTION PLANS

The Company maintains a noncontributory defined benefit pension plan (the Pension Plan) for the benefit of substantially all of its employees. Benefits provided by the Pension Plan are based on years of credited service, the employee's compensation for any of five consecutive years in the last ten years of service and the primary Social Security benefit. The Company's contributions to the Pension Plan are generally in amounts determined by independent consulting actuaries.

The Company also sponsors a defined contribution plan (the Savings Plan) for the benefit of substantially all of its employees who meet certain eligibility requirements, primarily age and length of service. The Savings Plan allows employees to invest up to 15% of their current gross cash compensation on a pre-tax or post-tax basis, at their option. The Company's contributions to the Savings Plan are generally in amounts based upon a certain percentage of the employees' pre-tax contributions.

A summary of the components of net periodic pension cost for the Pension Plan and the total contributions charged to employee benefit expenses for the Savings Plan follows:

Fiscal Year	1996	1995	1994
Defined benefit plans:			
Service cost	$ 2,542	1,475	1,702
Interest cost	1,354	1,011	981
Actual return on plan assets	(2,378)	(3,202)	184
Net amortization and deferral	914	2,047	(1,175)
Net periodic pension cost	$ 2,432	1,331	1,692
Defined contribution plan	$ 2,115	1,495	1,112

Actuarial assumptions used in determining the net periodic pension costs and the funded status of the Pension Plan are as follows:

	February 1, 1997	January 27, 1996	January 28, 1995
Discount rate (beginning of year)	7.5%	8.8%	7.5%
Discount rate (end of year)	7.5%	7.5%	8.8%
Expected long-term rate of return on Plan assets	9.5%	9.5%	9.8%
Assumed rate of compensation increase	4.0%	4.0%	4.0%

The following table sets forth the funded status of the Pension Plan and the pension liability recognized for the Pension Plan in the accompanying consolidated balance sheets:

	February 1, 1997	January 27, 1996
Actuarial present value of benefit obligation:		
Vested benefits	$(12,138)	(10,784)
Nonvested benefits	(2,114)	(1,962)
Accumulated benefit obligation	(14,252)	(12,746)
Effect of projected future compensation increases	(7,126)	(5,537)
Projected benefit obligation	(21,378)	(18,283)
Plan assets at market value	18,565	15,361
Projected benefit obligation in excess of Plan assets	(2,813)	(2,922)
Unrecognized net loss	100	1,086
Unrecognized net obligation remaining	274	328

Unrecognized prior service cost	(219)	(237)
Pension liability	$ (2,658)	(1,745)

In addition to providing pension benefits, the Company provides certain health care and life insurance benefits to retired employees (the Plan). Only those employees receiving benefits or retired as of April 1, 1993 are eligible to participate in the Plan and receive these benefits. The Plan is unfunded. The following table sets forth the status of the Plan and the post-retirement health care liability of the Plan, which is attributable solely to retirees, recognized in the accompanying consolidated balance sheets as of February 1, 1997 and January 27, 1996 using a discount rate of 7.5% at both dates:

	February 1, 1997	January 27, 1996
Projected benefit obligation	$ (4,349)	(4,474)
Unrecognized loss	137	393
Post-retirement health care liability	$ (4,212)	(4,081)

The net periodic cost for the post-retirement health care benefits under the Plan is related to interest costs of $326, $375 and $416 during fiscal 1996, 1995 and 1994, respectively. The unrecognized loss resulting from the impact of experience changes on current assumptions is recorded over the average remaining life expectancy of Plan participants.

The health care cost trend rate used to measure the expected cost of Plan benefits is assumed to be 8.5% in 1997, declining at one-half percent decrements each year through 2004 to 5.0% in 2004 and each year thereafter. The health care cost trend assumption has a significant effect on the amounts reported. For example, a 1% increase in the health care cost trend rate would increase the accumulated post-retirement benefit obligation by approximately $478 as of February 1, 1997 and the net periodic cost by approximately $36 during fiscal 1996.

7. INCOME TAXES

The Company files a consolidated Federal return. Federal and state income tax provisions (benefits) for fiscal 1996, 1995 and 1994 are as follows:

Fiscal Year	1996	1995	1994
Current:			
Federal	$18,413	17,317	18,106
State	5,140	4,471	7,373
	23,553	21,788	25,479
Deferred:			
Federal	5,300	(25,717)	(4,119)
State	1,304	(6,393)	(1,275)

	6,604	(32,110)	(5,394)
Total	$30,157	(10,322)	20,085

A reconciliation between the provision (benefit) for income taxes and the expected provision (benefit) for income taxes at the Federal statutory rate of 35% during fiscal 1996, 1995, and 1994 are as follows:

Fiscal Year	1996	1995	1994
Expected provision (benefit) for income taxes at Federal statutory rate	$28,484	(22,154)	15,945
Amortization of goodwill and tradenames and writedown of goodwill	1,157	12,978	1,428
State income taxes, net of Federal income tax benefit	3,341	2,906	4,792
Rehabilitation tax credit	(2,974)	--	--
Other, net	149	(4,052)	(2,080)
Provision (benefit) for income taxes	$30,157	(10,322)	20,085

The tax effects of temporary differences that give rise to significant components of the Company's deferred tax assets and liabilities as of February 1, 1997 and January 27, 1996 are as follows:

	February 1, 1997	January 27, 1996
Deferred tax liabilities:		
Operating expenses	$ (6,910)	(4,940)
Depreciation	(7,979)	(2,441)
Total deferred tax liabilities	(14,889)	(7,381)
Deferred tax assets:		
Inventory	4,828	4,087
Lease transactions	13,007	7,339
Reversal of estimated accruals	5,701	3,581
Restructuring charge	26,599	36,465
Insurance liability	2,769	1,711
Deferred income	4,296	3,281
Other	2,927	2,759
Total deferred tax assets	60,127	59,223
Net deferred tax assets	$ 45,238	51,842

8. PUBLIC OFFERING OF COMMON STOCK

On October 2, 1995, the Company completed a public offering of 2,500,000 shares of common stock which generated proceeds of $88,725 after deducting underwriting discounts and commissions and expenses. The net proceeds were used for general corporate purposes, including the financing of capital expenditures and inventory purchases in connection with the accelerated expansion of the Barnes & Noble store operations.

9. STOCK OPTION PLANS

The Company currently has two incentive plans under which stock options 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% or 25% increments per year, expire ten years from issuance and are conditioned upon continual employment during the vesting period.

Under the 1996 Plan, approved by the shareholders on May 29, 1996, and the 1991 Plan, the Company may grant options to purchase up to 3,000,000 and 2,366,352 shares of common stock, respectively.

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

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations for its stock option grants. Generally, compensation expense is not recognized for stock option grants.

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

Had compensation cost for the Company's stock option grants been determined based on the fair value at the stock option grant dates consistent with the method of SFAS 123, the Company's net earnings and earnings per share for fiscal 1996 and 1995, would have been reduced by approximately $5,305, or $0.15 per share, and $1,448, or $0.05 per share, respectively.

Because the application of the pro forma disclosure provisions 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 1996 and

1995 were estimated at $9.32 and $11.97 respectively, using the Black-Scholes option-pricing model with the following assumptions: volatility of 28%, risk-free interest rate of 6.63% in fiscal 1996, and 6.59% in fiscal 1995, and an expected life of six years.

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

(Shares in thousands)	Shares	Weighted-Average Exercise Price
Balance, January 29, 1994	3,753	$ 16.36
Granted	308	24.29
Exercised	(219)	7.48
Forfeited	(30)	22.65
Balance, January 28, 1995	3,812	17.46
Granted	590	28.62
Exercised	(375)	7.57
Forfeited	(76)	26.22
Balance, January 27, 1996	3,951	19.90
Granted	928	29.25
Exercised	(230)	9.90
Forfeited	(78)	29.94
Balance, February 1, 1997	4,571	$ 22.13

Options exercisable as of February 1, 1997, January 27, 1996 and January 28, 1995 were 3,535,000, 2,260,000 and 1,342,000, respectively.

The following table summarizes information as of February 1, 1997 concerning outstanding and exercisable options:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding (000's)	Weighted -Average Remaining Contractual Life	Weighted -Average Exercise Price	Number Exercisable (000's)	Weighted -Average Exercise Price
$ 6.42-$ 7.53	859	6.07	$7.16	859	$7.16
$20.00-$24.38	1,882	7.36	21.96	1,394	21.13
$27.00-$34.88	1,830	7.50	29.33	1,136	27.31
$ 6.42-$34.88	4,571	7.18	22.13	3,389	19.66

10. 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 2020 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	1996	1995	1994
Minimum rentals	$222,700	179,941	143,927
Percentage rentals	2,750	2,532	3,298
	$225,450	182,473	147,225

Notes to Consolidated Financial Statements (Continued)

Future minimum annual rentals, excluding percentage rentals, required under leases that had initial, noncancelable lease terms greater than one year, as of February 1, 1997 are:

Fiscal Year	
1997	$ 235,086
1998	228,378
1999	220,565
2000	210,953
2001	206,345
After 2001	1,385,078
	$2,486,405

Future minimum annual rentals for stores scheduled for closing pursuant to the Company's restructuring plan are included in the preceding table. Future rental payments representing the exit costs associated with these store closings were included in the Company's non-cash restructuring charge of $123,768 recorded during fiscal 1995 and, therefore, do not represent future operating expenses. Minimum rental obligations may decline in the future, as the leases for these stores subject to the restructuring plan are terminated or the restructuring plan is otherwise completed.

11. LITIGATION

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

12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company leases space for its executive offices in properties in which a principal shareholder/director/executive officer of the Company has a minority interest. The space was rented at an aggregate annual rent including real estate taxes of approximately $1,307 in fiscal year 1996 and $1,376 in fiscal year 1995. Such space is rented under leases expiring in 1997 and 1998, respectively.

Marboro Books Corp., the Company's mail-order subsidiary, leases a 76,000 square foot office/warehouse from a partnership in which a principal shareholder/director/executive officer of the Company has a 50% interest, pursuant to a 15-year lease dated August 1987 requiring an annual rent of $700.

The Company is provided with certain package shipping services by the LTA Group, Inc. ("LTA"), a company in which the brother of a principal shareholder/director/executive officer of the Company acquired a 20% interest during fiscal 1996. During fiscal 1996, the Company paid LTA $9,100 for such services.

Barnes & Noble College Bookstores, Inc. (B&N College), a company owned by a principal shareholder/director/executive officer of the Company, allocated certain expenses it incurred on behalf of the Company for salaries, employee benefit plan expenses and office support services. These charges are included in selling and administrative expenses in the accompanying consolidated statements of operations and approximated $115, $1,219 and $1,368 for fiscal 1996, fiscal 1995 and fiscal 1994, respectively.

Notes to Consolidated Financial Statements (Continued)

The Company uses a jet aircraft owned by B&N College and pays for the costs and expenses of operating the aircraft based upon the Company's usage. Such costs which include fuel, insurance, personnel and other costs approximate $1,685, $1,298 and $1,384 during fiscal 1996, fiscal 1995 and fiscal 1994, respectively, and are included in the accompanying consolidated statements of operations.

The Company leases retail space in a building in which B&N College subleases space for its executive offices. Occupancy costs allocated by the Company to B&N College for this space totaled $544 during fiscal 1996. In connection with the space, during fiscal 1996 the Company reimbursed B&N College for leasehold improvement costs totaling $2,200 which have been recorded as an addition to the Company's buildings and leasehold improvements in the accompanying consolidated balance sheets.

On February 1, 1988 the Company sold its retail software operations to Software Etc. Stores, Inc. (Software), a company owned by a principal shareholder/director/executive officer of the Company. Following the sale, the Company provided Software certain management and administrative services and continued benefits for Software's employees, subject to eligibility requirements, through fiscal 1995. Software, a wholly-owned subsidiary of NeoStar Retail Group, Inc. (NeoStar) since December 1994, operated retail software departments within the Company's Barnes & Noble and B. Dalton stores for which Software was required to pay the Company under license fee arrangements 6.5% or 7.0% of the department's gross sales or 50% of the department's operating earnings, subject to certain reimbursements. Software also continued to operate retail software stores for which B. Dalton was primarily liable for rent and other operating costs associated with leases for Software stores devoted exclusively to the retail software business prior to February 1, 1988. In addition, the Company subleased space to Software in a building under terms which were substantially identical to the obligation of the Company. On November 27, 1996, Babbage's Etc. LLC (Babbage's), a company owned by a principal shareholder/director/executive officer of the Company, acquired substantially all of Neostar's assets. Babbage's assumed the operations of 14 retail software departments located within Barnes & Noble stores and the remaining 27 stores devoted exclusively to the retail software business for which B. Dalton is primarily liable for rent and operating costs. As of November 27, 1996, the Company pays all rent related to these properties for which it receives a license fee from Babbage's equal to 7.0% or 8.0% of the gross sales of such departments and stores. The Company also provides real estate and construction services to Babbage's and purchases business insurance on its behalf for which the Company is reimbursed its incremental costs to provide such services. The Company charged Software and Babbage's, on a combined basis, $1,282, $4,992 and $4,924 during fiscal 1996, 1995 and 1994, respectively, for such services, license fees, rent, operating costs, insurance costs and benefits coverage.

Notes to Consolidated Financial Statements (Continued)

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13. SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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

Fiscal 1996 Quarter End On or About	April 1996	July 1996	October 1996	January 1997(1)	Total Fiscal 1996(2)
Revenues	$ 508,755	524,321	532,563	882,485	2,448,124
Operating profit (loss)	(141)	5,622	4,578	109,609	119,668
Earnings (loss) before provision (benefit) for income taxes	(8,485)	(4,547)	(5,014)	99,428	81,382
Net earnings (loss)	(5,393)	(2,721)	(2,622)	61,961	51,225
Net earnings (loss) per common share	(0.16)	(0.08)	(0.08)	1.80	1.48

Fiscal 1995 Quarter End On or About	April 1995	July 1995	October 1995	January 1996	Total Fiscal 1995
Revenues	$ 401,971	420,080	432,315	722,534	1,976,900
Restructuring charge	--	--	--	123,768	123,768
Operating profit (loss)	(1,929)	3,478	2,537	(39,242)	(35,156)
Loss before benefit for income taxes	(7,979)	(3,597)	(5,148)	(46,574)	(63,298)
Net loss	(5,286)	(2,579)	(3,545)	(41,566)	(52,976)
Net loss per common share	(0.17)	(0.08)	(0.11)	(1.26)	(1.70)

(1) The fourth quarter of 1996 includes 14 weeks.

(2) Fiscal 1996 includes 53 weeks.

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 1, 1997 and January 27, 1996 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the fiscal years ended February 1, 1997, January 27, 1996 and January 28, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Barnes & Noble, Inc. and subsidiaries as of February 1, 1997 and January 27, 1996 and the results of their operations and their cash flows for the fiscal years ended February 1, 1997, January 27, 1996, and January 28, 1995 in conformity with generally accepted accounting principles.

New York, New York
March 11, 1997

/s/BDO Seidman, LLP

BDO Seidman, LLP

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 11, 1997 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 1, 1997, 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. 33-89260 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
April 30, 1997

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