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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

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

For the fiscal year ended January 31, 2004

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

For the transition period from _____ to ____

Commission File No. 1-12302

Barnes & Noble, Inc.

(Exact name of registrant as specified in its Charter)

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

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [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. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [X] No [ ]

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant was approximately $1,201,229,202 based upon the closing market price of $23.43 per share of Common Stock on the New York Stock Exchange as of August 1, 2003.

Number of shares of $.001 par value Common Stock outstanding as of March 31, 2004: 69,052,130

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2004 Annual Meeting of Shareholders are incorporated by reference into Part III.

Portions of the Registrant's Annual Report to Shareholders for the fiscal year ended January 31, 2004 are incorporated by reference into Parts II and IV.

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PART I

ITEM 1. BUSINESS

General

Barnes & Noble, Inc. (Barnes & Noble or the Company), the nation's largest bookseller[1], as of January 31, 2004 operates 842 bookstores and 1,514 video-game and entertainment-software stores. Of the 842 bookstores, 647 operate primarily under the Barnes & Noble Booksellers trade name (31 of which were opened in fiscal 2003) and 195 operate primarily under the B. Dalton Bookseller trade name. Through its approximate 73 percent economic interest in barnesandnoble.com llc (Barnes & Noble.com), the Company is one of the largest sellers of books on the Internet. Through its acquisition of Sterling Publishing Co., Inc. (Sterling), the Company is one of the top 25 publishers in the nation and the industry's leading publisher of how-to books. The Company, as of January 31, 2004, has an approximate 64 percent economic interest in GameStop Corp., the nation's largest video-game and PC-entertainment software specialty retailer[2], which operates 1,514 video-game and entertainment-software stores primarily under the GameStop trade name, a Web site (www.gamestop.com), and publishes *Game Informer*, the industry's largest circulated multi-platform video-game magazine, with circulation of more than 1.5 million paid subscriptions (collectively, GameStop).

The Company's principal business is the retail sale of trade books (generally hardcover and paperback consumer titles, excluding educational textbooks and specialized religious titles), mass market paperbacks (such as mystery, romance, science fiction and other popular fiction), children's books, bargain books, magazines and music. These collectively account for substantially all of the Company's bookstore sales. During fiscal 2003, the Company's share of the consumer book market was approximately 16 percent. Bestsellers typically represent between three and five percent of Barnes & Noble store sales.

The Company's fiscal year is comprised of 52 or 53 weeks, ending on the Saturday closest to the last day of January. The fiscal years ended January 31, 2004 (fiscal 2003) and February 1, 2003 (fiscal 2002) were comprised of 52 weeks.

Barnes & Noble stores

General

Barnes & Noble is the nation's largest operator of bookstores[1] with 647 Barnes & Noble stores located in 49 states and the District of Columbia as of January 31, 2004. With more than 35 years of bookselling experience, management has a strong sense of customers' changing needs and the Company leads book retailing with a "community store" concept. Barnes & Noble's typical store offers a comprehensive title base, a café, a children's section, a music department, a magazine section and a calendar of ongoing events, including author appearances and children's activities, that make each Barnes & Noble store an active part of its community.

Barnes & Noble stores range in size from 10,000 to 60,000 square feet depending upon market size. Barnes & Noble stores opened during fiscal 2003 added 0.6 million square feet to

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

2 Based upon the number of United States stores operated by GameStop and its total United States revenues.

the Barnes & Noble store base, bringing the total square footage to 15.8 million square feet, a four percent increase over the prior fiscal year. The Company plans to open between 30 and 35 Barnes & Noble stores in the fiscal year ending January 29, 2005 (fiscal 2004), which are expected to average 26,000 square feet in size. The Company believes that the key elements contributing to the success of the Barnes & Noble 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 bookstore roll-out, the Company has employed a market clustering strategy. As of January 31, 2004, Barnes & Noble had stores in 157 of the total 210 DMA (Designated Market Area) markets. In 69 of the 157 markets, the Company has only one Barnes & Noble store. The Company believes its bookstores' proximity to their customers strengthen its market position and increase its franchise value. Most Barnes & Noble 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 from 60,000 to 200,000 titles, and has access to one million titles for immediate delivery. The comprehensive title selection is diverse and reflects local interests. In addition, Barnes & Noble emphasizes books published by small and independent publishers and university presses. Bestsellers typically represent between three and five percent of Barnes & Noble store sales. Complementing this extensive on-site selection, all Barnes & Noble stores provide customers with access to the millions of books available to online shoppers while offering an option to have the book sent to the store or shipped directly to the customer. The Company believes that its tremendous selection, including many otherwise hard-to-find titles, builds customer loyalty.

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

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

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

The Company also offers the Barnes & Noble Membership Program which entitles the customer to receive a 10 percent discount in the Company's stores and a five percent discount on the Barnes & Noble.com Web site. The Barnes & Noble Membership Program also offers other benefits to its members.

Marketing and Community Relations. Barnes & Noble stores are launched with a major grand opening campaign involving extensive print and radio advertising, direct-mail marketing and community events. Each store plans its own community-based calendar of events, including author appearances, children's storytelling hours, poetry readings and discussion groups. The Company believes its community focus encourages customer loyalty, word-of-mouth publicity and media coverage. The Company also supports communities through efforts on behalf of local non-profit organizations that focus on literacy, the arts or education (K-12).

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 200,000 titles, of which approximately 50,000 titles are common to all stores; the balance is crafted to reflect the lifestyles and interests of each store's customers. Before a store opens, the Company's buyers study the community and customize the title selection with offerings from the store's local publishers and authors. After the store opens, each Barnes & Noble store manager is responsible for adjusting the buyers' selection to the interests, lifestyles and demands of the store's local customers. BookMaster, the Company's proprietary inventory management database, has more than three million titles. It includes catalogued sales rankings of over one million titles in over 150 subjects and provides each store with comprehensive title selections in those subjects in which it seeks to expand. By enhancing the Company's existing merchandise replenishment systems, BookMaster allows the Company to achieve high in-stock positions and productivity at the store level through efficiencies in receiving, cashiering and returns processing.

Store Locations and Properties

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

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The number of Barnes & Noble stores located in each state and the District of Columbia as of January 31, 2004 are listed below:

STATE	NUMBER OF STORES
Alabama	6
Alaska	1
Arizona	15
Arkansas	3
California	85
Colorado	14
Connecticut	12
Delaware	1
Dist. Of Columbia	2
Florida	42
Georgia	18
Hawaii	1
Idaho	3
Illinois	29
Indiana	11
Iowa	6
Kansas	4
Kentucky	7
Louisiana	6
Maine	1
Maryland	12
Massachusetts	19
Michigan	20
Minnesota	20
Mississippi	2
Missouri	10
Montana	4
Nebraska	4
Nevada	5
New Hampshire	4
New Jersey	24
New Mexico	3
New York	41
North Carolina	18
North Dakota	2
Ohio	19
Oklahoma	5
Oregon	8
Pennsylvania	24
Rhode Island	3
South Carolina	9
South Dakota	1
Tennessee	8
Texas	56
Utah	9
Vermont	1
Virginia	21
Washington	17
Wisconsin	10
Wyoming	1

Expansion

According to Veronis, Suhler & Associates Communications Industry Forecast (Veronis Suhler), total U.S. consumer spending on books is expected to increase at a compound annual growth rate of 2.8%, from approximately $18.8 billion in 2002 to approximately $21.6 billion in 2007. The Company believes Barnes & Noble stores offer the greatest opportunity to increase the Company’s share of the expanding consumer book market. The Company expects to open approximately 30 to 35 new Barnes & Noble stores during fiscal 2004. Management positions in those stores are expected to be filled mostly by employees from existing stores.

B. Dalton Bookstores

General

At the end of fiscal 2003, the Company operated 195 B. Dalton bookstores. Most of the B. Dalton stores range in size from 2,000 to 6,000 square feet. These stores stock between 20,000 and 25,000 titles. B. Dalton generally discounts between 15 percent and 30 percent off publishers' suggested retail prices for hardcover bestsellers. B. Dalton also offers the Barnes & Noble Membership Program which gives members additional discounts and other benefits.

The Company is continuing to execute a strategy to maximize returns from its B. Dalton stores in response to declining sales attributable primarily to superstore competition. Part of the Company's strategy has been to close underperforming stores, which has resulted in the closing of 772 (63 in fiscal 2003) B. Dalton bookstores since 1989.

Merchandising and Marketing

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

Store Locations and Properties

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

The number of B. Dalton stores located in each state and the District of Columbia as of January 31, 2004 are listed below:

STATE	NUMBER OF STORES
Alabama	1
Arizona	5
Arkansas	1
California	27
Colorado	2
Connecticut	1
Dist. Of Columbia	1
Florida	9
Georgia	5
Idaho	1
Illinois	9
Indiana	4
Iowa	5
Kansas	2
Kentucky	1
Louisiana	4
Maine	2
Maryland	4
Massachusetts	3
Michigan	9
Minnesota	8
Mississippi	1
Missouri	4
Nebraska	1
Nevada	3
New Hampshire	2
New Jersey	5
New Mexico	2
New York	7
North Carolina	3
North Dakota	3
Ohio	11
Oklahoma	1
Oregon	3
Pennsylvania	9
South Carolina	2
South Dakota	1
Tennessee	1
Texas	13
Utah	1
Virginia	9
Washington	5
West Virginia	1
Wisconsin	1
Wyoming	2

Barnes & Noble.com

General

On September 15, 2003, the Company completed its acquisition of all of Bertelsmann AG's (Bertelsmann) interest in Barnes & Noble.com. As a result of the acquisition, the Company increased its economic interest in Barnes & Noble.com from approximately 38 percent to approximately 75 percent. As of January 31, 2004, the Company's economic interest in Barnes & Noble.com was reduced to approximately 73 percent as a result of option exercises by Barnes & Noble.com employees. On January 8, 2004, the Company entered into a merger agreement with barnesandnoble.com inc. (bn.com), the holding company whose sole asset is its approximate 30 percent interest in Barnes & Noble.com and whose sole business is acting as sole manager of Barnes & Noble.com. Upon consummation of the merger, Barnes & Noble.com will become a wholly owned subsidiary of the Company. The closing of the merger is expected to occur during the second quarter of fiscal 2004.

Barnes & Noble.com is a leading Internet-based retailer of books, music, DVD/video and online courses. Since opening its online store (www.bn.com) in March 1997, Barnes & Noble.com has attracted more than 17 million customers in 230 countries. Barnes &

Noble.com's bookstore includes the largest in-stock selection of in-print book titles with access to approximately one million titles for immediate delivery, supplemented by more than 30 million listings from its nationwide network of out-of-print, rare and used book dealers. Barnes & Noble.com offers its customers fast delivery, easy and secure ordering and rich editorial content.

According to comScore Media Metrix, in December 2003, Barnes & Noble.com's Web site was the eleventh most-trafficked shopping site and was among the top 65 largest Web properties on the Internet. Co-marketing agreements with major Web portals such as America Online (AOL), Google™ and Microsoft Network (MSN) as well as content sites have extended Barnes & Noble.com's brand recognition and increased consumer exposure to its site. Barnes & Noble.com has also established a network of remote virtual storefronts across the Internet by creating direct links with more than 189,000 affiliate Web sites.

Barnes & Noble.com believes that its relationship with the Company provides Barnes & Noble.com with meaningful advantages relative to other online retailers in its category, including:

- The superior brand recognition of the Barnes & Noble Booksellers trade name, which is a strong factor in attracting customers;
- The use of the Company's distribution center as its primary product supplier, which enables Barnes & Noble.com to offer approximately one million in-stock book titles for immediate delivery, representing the largest standing inventory of any online bookseller;
- The use of the Company's book database as the primary source of bibliographic data, which enables Barnes & Noble.com to provide its customers with the most authoritative and accurate book data available;
- The Company's enterprise value, including its network of 842 retail bookstores nationwide, provides significant advantages in attracting strategic partnerships;
- Ongoing access to the substantial book selling and direct marketing knowledge and experience of the management of the Company; and
- Participation with the Company to create and maintain a book buyers' membership loyalty program, the Barnes & Noble Membership Program, which entitles the customer to receive a 10 percent discount at the Company's stores and a five percent discount at Barnes & Noble.com.

Industry Background

E-Commerce. The arena of e-commerce provides retailers with the opportunity to serve a rapidly growing market, fueled by increased consumer acceptance of the Internet as an alternative shopping channel. According to the January 2004 Forrester US eCommerce report, online shopping for 2003 was $107.0 billion. Online shopping is expected to reach $176.8 billion in the year 2006 (Forrester July 2003 US eCommerce report).

Online Shopping Forecast. Forrester Research forecasts accelerating acceptance of the Internet as a channel that consumers will use to purchase a wide range of products. Within the categories of Barnes & Noble.com's focus of books, music and DVD/video, Forrester Research forecasts significant growth in online sales for all the categories. Forrester Research estimates that North American online sales of books will grow from $2.8 billion in 2003 to $5.5 billion by

2008. In addition, Forrester Research estimates online sales in 2008 for music and DVD/video to be $2.5 billion, up from $1.2 billion in 2003, and $5.6 billion, up from $1.8 billion in 2003, respectively.

Products that are Well Suited for E-Commerce. The book, music and video businesses are particularly well suited for e-commerce because an online store has virtually unlimited shelf space and can offer consumers anywhere the convenience of browsing through large product information databases. The use of sophisticated search and browse engines enables users to find books and music with convenience and speed and to get advance notice about new titles in their areas of personal interest. Editorial content, such as synopses, excerpts, reviews and recommendations, downloadable music sound samples and over 10,000 movie trailers, make for a more educated and entertaining purchasing decision. In addition, Barnes & Noble.com's core categories, books, music and DVD/video, are popular and economical gift items. According to the December 2003 eSpending Report from Goldman Sachs & Co., Harris Interactive, and Nielsen/NetRatings, during the holiday 2003 season (November 1, 2003 to December 12, 2003) the books category increased by 33% over holiday 2002 to comprise $1.0 billion in sales or 7.7 percent of U.S. online spending; and DVD/video sales increased by 89% over holiday 2002 to comprise $1.2 billion in sales or 9.2% of U.S. online spending.

Marketing and Promotion

Since inception, Barnes & Noble.com has aggressively pursued strategic alliances with premier online companies and high-traffic Web sites to drive traffic to its own site. Barnes & Noble.com has major affiliations with Google™ as well as with AOL's proprietary service and MSN which are among the world's largest online shopping destinations.

In addition to securing alliances with the nation's three highest-trafficked Internet properties, Barnes & Noble.com has established an affiliate network of more than 189,000 Web sites operated by third parties, whereby Web site operators can earn referral fees by linking users from their sites to the Barnes & Noble.com site.

GameStop Stores

General

The Company acquired Babbage's Etc. and Funco, Inc. in October 1999 and June 2000, respectively. Through a corporate restructuring, Babbage's Etc. became a wholly owned subsidiary of Funco, Inc. and the name of Funco, Inc. was changed to GameStop, Inc. In February 2002, the Company completed an initial public offering for its GameStop subsidiary. The Company retained an approximate 63 percent interest in GameStop. GameStop is the nation's largest video-game and PC-entertainment software specialty retailer, based on the number of U.S. stores operated by GameStop and its total U.S. revenues. As of January 31, 2004, GameStop operates 1,514 video-game and entertainment-software stores located in 49 states, the District of Columbia, Ireland, Puerto Rico and Guam, primarily under the GameStop trade name. The video-game and entertainment-software stores range in size from 500 to 5,000 square feet (averaging 1,500 square feet) depending upon market demographics. Stores feature video-game hardware and software, PC-entertainment software and a multitude of accessories. GameStop also operates a Web site (www.gamestop.com), and publishes *Game Informer* magazine.

Of the 1,514 stores, 982 stores are located in strip centers and 532 stores are located in shopping malls and other locations. Strip center stores carry a balanced mix of new and used video-game products and, in selected stores, PC-entertainment software. Mall stores carry primarily new video-game products and PC-entertainment software, as well as a limited selection of used video game products. GameStop is the largest retailer of used video games in the nation and provides customers with the opportunity to trade in their used video game products in exchange for store credits which can be applied towards the purchase of other products, including new merchandise. The trade-in program provides a unique value proposition to customers which is unavailable at mass merchants, toy stores and consumer electronics retailers.

Merchandising and Marketing

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

Store Locations and Properties

GameStop has a dedicated staff of real estate personnel experienced in selecting store locations. Site selections for new stores are made after an extensive review of demographic data and other information relating to market potential, competitor access and visibility, compatible nearby tenants, accessible parking, location visibility, lease terms and the location of other GameStop stores. Most GameStop stores are located in highly visible locations within malls and strip centers.

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The number of video-game and entertainment-software stores located in each state, the District of Columbia, Ireland, Puerto Rico and Guam as of January 31, 2004 are listed below:

STATE	NUMBER OF STORES
Alabama	15
Alaska	3
Arizona	27
Arkansas	5
California	185
Colorado	23
Connecticut	20
Delaware	7
District of Columbia	1
Florida	68
Georgia	35
Guam	1
Hawaii	11
Idaho	2
Illinois	79
Indiana	19
Iowa	12
Ireland	16
Kansas	7
Kentucky	17
Louisiana	13
Maine	2
Maryland	43
Massachusetts	32
Michigan	60
Minnesota	30
Mississippi	7
Missouri	28
Montana	4
Nebraska	3
Nevada	17
New Hampshire	7
New Jersey	68
New Mexico	7
New York	83
North Carolina	24
North Dakota	5
Ohio	70
Oklahoma	12
Oregon	10
Pennsylvania	77
Puerto Rico	11
Rhode Island	5
South Carolina	13
South Dakota	3
Tennessee	20
Texas	176
Utah	17
Vermont	1
Virginia	46
Washington	38
West Virginia	9
Wisconsin	20

Expansion

GameStop intends to continue to open new strip center stores in targeted markets and new mall stores in selected mall locations. GameStop opened 300 new stores in fiscal 2003 and 210 new stores in fiscal 2002. GameStop plans on opening approximately 300 to 330 new stores in fiscal 2004. The primary growth vehicle will be the expansion of the strip center store base, which is believed could grow to over 2,000 stores in the United States. GameStop's strategy is to open clusters of strip center stores in targeted major metropolitan markets under the GameStop brand name. GameStop analyzes each market relative to target population and other demographic indices, real estate availability, competitive factors and past operating history, if available.

During fiscal 2003, GameStop successfully capitalized on the growth in demand for video game software and accessories that followed the fiscal 2002 launch of four new video game platforms. Over the next few years, GameStop expects to continue to capitalize on the increasing installed base for these platforms and the related growth in video game software and accessories sales.

Other Strategies

Proprietary Publishing. Barnes & Noble differentiates its product offerings from those of its competitors by publishing books under its own imprints. As part of this activity, Barnes & Noble licenses titles directly from domestic and international publishers as well as from literary agents, commissions books directly from authors, reprints classic titles in the public domain and creates collections of fiction and non-fiction using in-house editors. The Company, through its January 2003 acquisition of Sterling Publishing Co., Inc. (Sterling), is one of the top 25 publishers in the nation and the industry's leading publisher of how-to books. Sterling has an active list of more than 4,500 owned and distributed titles, and publishes and distributes more than 1,000 new titles annually. As the leading publisher of how-to books, Sterling has particular strength in art technique, gardening, cooking, health, crafts, puzzle and game, woodworking and house and home. With the addition of the Sterling titles, the Company has publishing or distribution rights to nearly 10,000 titles and offers customers high quality books at exceptional values, while generating attractive gross margins. By self-publishing books, the Company is able to significantly lower its merchandise costs and pass on a portion of the savings to its customers. While the prices of these books represent significant value to the customers, they also generate substantially higher gross profit margins than those realized on sales of non-proprietary books.

Strategic Investments

The Company owns a 74 percent interest in Calendar Club L.L.C., an operator of seasonal kiosks.

Store Operations

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

Each Barnes & Noble store generally employs a manager, two assistant managers and approximately 50 full- and part-time booksellers. Many Barnes & Noble stores also employ a full-time community relations manager. Each GameStop store employs, on average, one manager, one assistant manager and between two and 10 sales associates, many of whom are part-time employees. Each B. Dalton store generally employs a manager, an assistant manager and approximately seven full- and part-time booksellers. The large employee base provides the Company with experienced booksellers and interactive gaming experts to fill positions in the Company's new Barnes & Noble and GameStop stores. The Company anticipates that a significant percentage of the personnel required to manage its expanding business will continue to come from within its existing operations.

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

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

Purchasing

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

The Company purchases books on a regular basis from over 1,700 publishers and approximately 45 wholesale distributors. Purchases from the top five suppliers (including publishers and wholesale distributors) accounted for approximately 46 percent of the Company's book purchases during fiscal 2003, and no single supplier accounted for more than 15 percent of the Company's purchases during this period. Consistent with retail book industry practice, substantially all of the Company's book purchases are returnable for full credit, a practice which substantially reduces the Company's risk of inventory obsolescence.

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

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

GameStop purchases substantially all of its new products from approximately 85 manufacturers and software publishers and approximately five distributors. Purchases from the top 10 vendors accounted for approximately 69% of GameStop's new product purchases in fiscal 2003. Only Nintendo, Electronic Arts and Sony (which accounted for 14%, 14% and 12%, respectively) accounted for more than 10% of GameStop's new product purchases during fiscal 2003. GameStop has established price protections and return privileges with its primary vendors in order to reduce the risk of inventory obsolescence. In addition, GameStop has no purchase contracts with trade vendors and conducts business on an order-by-order basis, a practice that is typical throughout the industry. GameStop believes that maintaining and strengthening its long-term relationships with its vendors is essential to its operations and continued expansion. GameStop believes it has very good relations with its vendors.

Distribution

The Company has invested significant capital in its systems and technology by building new platforms, implementing new software applications and maintaining efficient distribution centers. As of January 31, 2004, the Company's book distribution centers had over one and a half million square feet. In fiscal 2002, the Company added 600,000 square feet when its distribution center in Reno, Nevada became fully operational. The Company is using the Reno facility to facilitate distribution to its West Coast stores. Historically, the Company had replenished through its distribution network some of its fast-moving frontlist titles and bargain and self-published books and had the remaining inventory drop-shipped directly to the stores from wholesalers and publishers. The Company now sources more of its inventory through the distribution centers, which has increased direct buying from publishers rather than wholesalers. This has also led to improved just-in-time deliveries to stores. Barnes & Noble.com uses the Company's distribution center as its primary product supplier. The Company has signed an agreement to build a new 1,145,000 square foot distribution center in Monroe Township, New Jersey. The new facility will provide adequate space to handle the Company's growth over the next decade. The Company expects the new facility to be fully operational by fall 2005.

GameStop operates a 210,000 square foot state-of-the-art distribution center in Grapevine, Texas. By operating with a centralized distribution facility, GameStop effectively controls and minimizes inventory levels. A technologically-advanced conveyor system and flow-through racks control costs and improve speed of fulfillment. The technology used in the distribution center allows for high-volume receiving, distributions to stores and returns to vendors. Inventory is shipped to each store at least twice a week, or daily, if necessary, in order to keep stores in supply of products. In order to support its first-to-market distribution network, GameStop utilizes the services of eight off-site, third-party operated distribution centers that pick up products from suppliers, repackage the products for each of the stores and ship products to the stores by package carriers. GameStop's ability to rapidly process incoming shipments of new release titles and distribute them to all of the stores, either that day or by the next morning, enables GameStop to meet peak demand and replenish stores at least twice a week. GameStop has purchased a new 420,000 square foot headquarters and distribution center in Grapevine, Texas and intends to move its distribution center operations to that facility by early 2005.

Management Information and Control Systems

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

Barnes & Noble.com believes that it has built a leading interactive e-commerce platform, and plans to continue to invest in technologies that will enable it to offer its customers the most convenient and user-friendly online shopping experience. Barnes & Noble.com has licensed existing commercial technology when available and has focused its internal development efforts on those proprietary systems necessary to provide the highest level of value and service to its customers. The overall mix of technologies and applications in use by Barnes & Noble.com allows it to support a distributed, scalable and secure e-commerce environment.

Barnes & Noble.com uses Intel-based server technology in a fully redundant configuration to power its Web site, which is hosted in two locations. At these locations, Barnes & Noble.com maintains computers that store its Web pages in electronic form and transmits them to requesting users. Such storage and transmittal is called hosting. Barnes & Noble.com operates two hosting locations. Each of the hosting locations is "co-located" within leading edge hosting facilities that are maintained by two different hosting vendors. Either site has sufficient capacity to support the volume of traffic directed toward Barnes & Noble.com during peak periods. Both hosting locations are configured with excess Internet telecommunications capacity to ensure quick response time and three separate Internet service providers are used. By maintaining redundant host locations, Barnes & Noble.com has significantly reduced its exposure to downtime and service outages. Additionally, bn.com believes its technology investments are scalable.

GameStop's proprietary inventory management system enables it to maximize sales of new release titles and avoid markdowns as titles mature and utilizes electronic point-of-sale equipment that provides corporate headquarters with daily information regarding store-level sales and available inventory levels to automatically generate replenishment shipments to each store at least twice a week. In addition, GameStop's highly-customized inventory management system allows it to actively manage the pricing and product availability of its used video game products across its store base and to reallocate its inventory as necessary. GameStop's systems enable each store to carry a merchandise assortment uniquely tailored to its own sales mix and customer needs. GameStop's ability to react quickly to consumer purchasing trends has resulted in a target mix of inventory, reduced shipping and handling costs for overstocks and reduced its need to discount products.

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

Competition

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

The online bookselling business is highly competitive. The nature of the Internet as an electronic marketplace (which may, among other things, facilitate competitive entry and comparison-shopping) may render it inherently more competitive than traditional retailing formats. Barnes & Noble.com currently competes with numerous booksellers including other Internet-based companies such as Amazon.com and traditional book retailers. With respect to the sale of music and DVD/video, Barnes & Noble.com competes with numerous merchants including other Internet-based companies, such as Amazon.com and traditional retailers. Barnes & Noble.com's main online competitor, Amazon.com, has a longer online operating history and a larger existing customer base than Barnes & Noble.com.

The electronic game industry is intensely competitive and subject to rapid changes in consumer preferences and frequent new product introductions. GameStop competes with mass merchants and regional chains, including Wal-Mart, Target and Kmart; other video game and PC software specialty stores located in malls and other locations, including Electronics Boutique; toy retail chains, including Toys "R" Us and KB Toys; mail-order businesses; catalogs; direct sales by software publishers; online retailers; and computer product and consumer electronics superstores, including Best Buy and Circuit City. In addition, video games are available for rental from many video stores, some of whom have increased the availability of video game products for sale. Video game products may also be distributed through other methods which may emerge in the future. GameStop also competes with sellers of used video game products. Additionally, GameStop competes with other forms of entertainment activities, including movies, television, theater, sporting events and family entertainment centers.

Trademarks and Servicemarks

B. Dalton Bookseller, Bookstar, Readers' Advantage, Book$avers, GameStop, *Game Informer*, Babbage's and FuncoLand are Company-owned service marks registered with the United States Patent and Trademark Office. Barnes & Noble is a federally registered service mark which has been licensed to the Company under a long-term royalty-free license agreement.

Seasonality

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

Employees

The Company's bookstores cultivate a culture of outgoing, helpful and knowledgeable employees. GameStop's stores cultivate a work environment that attracts knowledgeable employees who are actively interested in video games and entertainment software. As of January 31, 2004, the Company had approximately 43,000 full- and part-time booksellers. As of January 31, 2004, GameStop employed approximately 13,000 full- and part-time employees in its stores. The Company's employees are not represented by unions, with the exception of 34 Sterling employees, and the Company believes that its relationship with its employees is excellent.

Available Information

The Company makes available on its Web site (http://www.barnesandnobleinc.com) under "Financials" — "SEC Documents", free of charge, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after the Company electronically files or furnishes such material with the Securities and Exchange Commission.

The Company has adopted Corporate Governance Guidelines, a Code of Business Conduct and Ethics, a Code of Ethics for Senior Financial Officers, and written charters for the Company's Audit Committee, Compensation Committee and Nominating & Corporate Governance Committee. Each of the foregoing will be available on the Company's Web site at www.barnesandnobleinc.com and in print to any stockholder who requests it, in writing to the Company's Secretary, Barnes & Noble, Inc., 122 Fifth Avenue, New York, New York 10011. In accordance with SEC rules, the Company intends to disclose any amendment (other than any technical, administrative, or other non-substantive amendment) to, or any waiver from, a provision of the Code of Ethics for Senior Financial Officers on the Company's Web site within five business days following such amendment or waiver.

ITEM 2. PROPERTIES

All but two of the Barnes & Noble stores are leased. The leases typically provide for an initial term of 10 or 15 years with one or more renewal options. The terms of the Barnes & Noble store leases for its 645 leased stores open as of January 31, 2004 expire as follows:

Lease Terms to Expire During (12 months ending on or about January 31)	Number of Stores
2005	17
2006	35
2007	23
2008	34
2009	35
2010 and later	501

All B. Dalton stores are leased. The leases generally provide for an initial 10-year term with no renewal option. The terms of the 195 B. Dalton leases as of January 31, 2004 expire as follows:

Lease Terms to Expire During (12 months ending on or about January 31)	Number of Stores
2005	97
2006	50
2007	17
2008	16
2009	9
2010 and later	6

In addition to the bookstores, the Company leases five distribution centers in New Jersey totaling 1,600,000 square feet. One lease expires in 2005, three leases expire in 2006 and one lease expires in 2011.

The Company has signed an agreement to build a new 1,145,000 square foot distribution center in Monroe Township, New Jersey. The new facility will provide adequate space to handle the Company's growth over the next decade. The Company expects the new facility to be fully operational by fall 2005.

The Company leases a 600,000 square foot distribution center in Reno, Nevada which lease expires in 2010.

Barnes & Noble.com's principal administrative, marketing and technical facilities are situated in New York, New York, and are covered by one lease which is for approximately 90,000 square feet of office space and expires in 2015. Additionally, Barnes & Noble.com has 64,750 square feet of vacant office space under a lease agreement that expires in 2006.

Barnes & Noble.com leases a 380,000 square foot building in Memphis, Tennessee for distribution purposes. This lease expires in January 2005.

All GameStop stores are leased. The leases generally provide for an initial term of three to 10 years with renewal options. This arrangement gives GameStop the flexibility to pursue extension or relocation opportunities that arise from changing market conditions. GameStop believes that, as current leases expire, it will be able to obtain either renewals at present locations or leases for equivalent locations in the same area. The terms of the 1,514 GameStop leases as of January 31, 2004 expire as follows:

Lease Terms to Expire During (12 months ending on or about January 31)	Number of Stores
Expired and in negotiations	183
2005	195
2006	217
2007	151
2008	249
2009 and later	519

In addition to the GameStop stores, GameStop leases a 250,000 square foot headquarters and distribution center in Grapevine, Texas. This lease expires on January 31, 2006.

In March 2004, GameStop purchased a 420,000 square foot facility in Grapevine, Texas. GameStop will be relocating certain distribution operations to this facility in fiscal 2004 and will be relocating its headquarters and remaining distribution center operations to this facility in early 2005. GameStop's management believes this facility will support its long-term growth.

GameStop leases a 7,300 square foot office facility in Minneapolis, Minnesota which houses the operations of *Game Informer* magazine. This lease expires in January 2013.

ITEM 3. LEGAL PROCEEDINGS

There have been no material developments with respect to previously reported legal proceedings, except as follows:

In August 1998, The Intimate Bookshop, Inc. and its owner, Wallace Kuralt, filed a lawsuit in the United States District Court for the Southern District of New York against the Company, Borders Group, Inc. and others, alleging violation of the Robinson-Patman Act and other federal law, New York statutes governing trade practices and common law. In March 2000, a Second Amended Complaint was served on the Company and other defendants alleging a single cause of action for violations of the Robinson-Patman Act. The Second Amended Complaint claims that The Intimate Bookshop, Inc. has suffered damages of $11,250,000 or more and requests treble damages, costs, attorneys' fees and interest, as well as declaratory and injunctive relief prohibiting the defendants from violating the Robinson-Patman Act. The Company served an Answer in April 2000 denying the material allegations of the Second Amended Complaint and asserting various affirmative defenses. On January 11, 2002, the Company and the other defendants filed a motion for summary judgment. A hearing on that motion was held on March 22, 2002. On September 30, 2003, the court granted defendants' motion and dismissed all of plaintiff's claims. Plaintiff filed a notice of appeal of that decision, which was withdrawn on February 10, 2004.

On March 14, 2003, a Company employee filed a class action lawsuit in the Superior Court of California, Orange County against the Company. The complaint alleges that the Company improperly classified the assistant store managers, department managers and receiving managers working in its California stores as salaried exempt employees. The complaint alleges that these employees spent more than 50 percent of their time performing non-exempt work and should have been classified as non-exempt employees. The complaint alleges violations of the California Labor Code and California Business and Professions Code and seeks relief, including overtime compensation, prejudgment interest, penalties, attorneys' fees and costs. The Company intends to vigorously defend this action, including contesting its certification of a class action.

Following the November 7, 2003 announcement of the Company's proposal to purchase all of the outstanding shares of barnesandnoble.com inc.'s (bn.com) common stock at a price of $2.50 per share in cash, fifteen substantially similar putative class action lawsuits were filed by individual stockholders of bn.com against bn.com, bn.com's directors and the Company in the Delaware Court of Chancery. The complaints in these actions, which purported to be brought on behalf of all of bn.com's stockholders excluding the defendants and their affiliates, generally alleged (i) breaches of fiduciary duty by the Company and bn.com's directors, (ii) that the consideration offered by the Company was inadequate and constituted unfair dealing and (iii) that the Company, as controlling stockholder, breached its duty to bn.com's remaining stockholders by acting to further its own interests at the expense of bn.com's remaining stockholders. The complaints sought to enjoin the proposal or, in the alternative, damages in an unspecified amount and rescission in the event a merger occurred pursuant to the proposal. The complaints were eventually consolidated under the caption In re BarnesandNoble.com, Inc. Shareholders Litigation, Consolidated Civil Action No. 042-N. On January 8, 2004, the parties executed a Memorandum of Understanding reflecting the parties' agreement to settle the action. Pursuant to the terms of the Memorandum of Understanding, the parties agreed in good faith to execute as soon as practicable a Stipulation of Settlement providing for, among other things, the release of all claims of the plaintiffs and other members of the class against defendants that were or could have been asserted in the action or in any way arise out of or in connection with the merger. The Stipulation of Settlement also is to expressly provide that the defendants in the action deny that they have committed any violation of law whatsoever and are entering into the Stipulation of Settlement solely to eliminate the burden, expense and distraction of further litigation and to permit the merger to proceed as scheduled. The parties subsequently agreed that plaintiffs' counsel will apply to the court for an award of attorney's fees and costs in the amount of $600,000 and that defendants will not object to a fee award up to that amount. It was further agreed that defendants would pay or reimburse the costs of mailing. The settlement is contingent upon, among other things, court approval, the merger consideration being $3.05 per share in cash and consummation of the merger.

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

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

There were no matters submitted to a vote of security holders during the 13 weeks ended January 31, 2004.

PART II

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

Price Range of Common Stock

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

	Fiscal 2003		Fiscal 2002	
	High	Low	High	Low
First Quarter	$20.37	15.89	$33.90	28.36
Second Quarter	25.75	19.64	34.43	18.01
Third Quarter	29.90	22.62	24.50	18.40
Fourth Quarter	35.12	29.70	24.79	16.77

Approximate Number of Holders of Common Equity

Title of Class	Approximate Number of Record Holders as of March 31, 2004
Common stock, $0.001 par value	2,068

Dividends

The terms of the Company's revolving credit agreement limit payment of cash dividends. During fiscal 2003 and 2002, 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 January 31, 2004 (the Annual Report) under the section entitled "Selected Financial Data" is incorporated herein by reference.

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company limits its interest rate risks by investing certain of its excess cash balances in short-term, highly-liquid instruments with an original maturity of one year or less. The Company does not expect any material losses from its invested cash balances and the Company believes that its interest rate exposure is modest. As of January 31, 2004, the Company's cash and cash equivalents totaled approximately $487,200,000.

Additionally, the Company may from time to time borrow money under its revolving credit facility at various interest-rate options based on the prime rate or the London Interbank Offer Rate (LIBOR) depending upon certain financial tests. Accordingly, the Company may be exposed to interest rate risk on money that it borrows under its credit facility. The Company did not have any amounts outstanding under the facility at January 31, 2004 and February 1, 2003.

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

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.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company’s management conducted an evaluation, under the supervision and with the participation of the principal executive officer and principal financial officer, of the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company’s disclosure controls and procedures are effective. Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in the Company’s periodic reports.

(b) Changes in Internal Controls

There was no change in the Company’s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the Company’s most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

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 2004 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission within 120 days of the Company’s fiscal year ended January 31, 2004 (the Proxy Statement).

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

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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

Equity Compensation Plan Information

The following table sets forth equity compensation plan information as of January 31, 2004:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	8,899,000	$ 21.12	1,131,239
Equity compensation plans not approved by security holders	—	—	—
Total	8,899,000	$ 21.12	1,131,239

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.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information with respect to principle accountant fees and services is incorporated herein by reference to the Proxy Statement.

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PART IV

ITEM 15. 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:

Valuation and Qualifying Accounts.

As of January 31, 2004, February 1, 2003 and February 2, 2002 (in thousands):

	Balance at beginning of period	Charged to costs and expenses	Businesses acquired	Charged to other accounts	Write-offs	Balance at end of period
January 31, 2004						
Books	$ 2,318	$ 1,145	$ 1,892	$ 187	$ 199	$ 5,343
Video Games	11,797	12,901	—	10,899	23,323	12,274
Total	$ 14,115	$ 14,046	$ 1,892	$11,086	$23,522	$ 17,617
February 1, 2003						
Books	$ 2,376	$ 216	—	$ (353)	$ (79)	$ 2,318
Video Games	10,400	14,071	—	10,214	22,888	11,797
Total	$ 12,776	$ 14,287	—	$ 9,861	$22,809	$ 14,115
February 2, 2002						
Books	$ 1,716	$ 1,252	—	—	$ 592	$ 2,376
Video Games	8,398	16,578	—	7,878	22,454	10,400
Total	$ 10,114	$ 17,830	—	$ 7,878	$23,046	$ 12,776

3. Exhibits:

The following are filed as Exhibits to this form:

Exhibit No.	Description
2.1	Agreement and Plan of Merger by and among the Company, B&N.com Holding Corp., B&N.com Acquisition Corp., and barnesandnoble.com inc., dated as of January 8, 2004. (1)
3.1	Amended and Restated Certificate of Incorporation of the Company, as amended. (2)

Exhibit No.	Description
3.2	Amendment to the Amended and Restated Certificate of Incorporation of the Company filed May 30, 1996. (3)
3.3	Amended and Restated By-laws of the Company. (2)
3.4	Amendment to the Company's By-laws adopted May 31, 1995. (4)
3.5	Certificate of Designation of Preferences and Rights of Preferred Stock, Series H of Barnes & Noble, Inc. (5)
3.6	Amendment of the Amended and Restated Certificate of Incorporation of the Company, dated July 17, 1998 and filed July 17, 1998. (5)
4.1	Specimen Common Stock certificate. (2)
4.2	Rights Agreement, dated as of July 10, 1998, between the Company and The Bank of New York, as Rights Agent. (5)
10.1	Supplemental Compensation Plan. (7)
10.2	License Agreement for "Barnes & Noble" service mark, dated as of February 11, 1987. (2)
10.3	Consents to "Barnes & Noble" License Agreement Assignments, dated as of November 18, 1988 and November 16, 1992, respectively. (6)
10.4	Employment Agreement between the Company and Mitchell S. Klipper dated as of February 18, 2002. (16)
10.5	Employment Agreement between the Company and Stephen Riggio, dated as of February 18, 2002. (20)
10.6	Amended and Restated Limited Liability Company Agreement of barnesandnoble.com llc (the "LLC Agreement") among Barnes & Noble, Inc., B&N.com Holding Corp., Bertelsmann AG and BOL.US Online, Inc. (8)
10.7	Amendment No. 1 to the LLC Agreement. (10)
10.8	Supply Agreement, dated as of October 31, 1998, between Barnes & Noble, Inc. and barnesandnoble.com llc. (9)
10.9	Indenture, dated as of March 14, 2001, between Barnes & Noble, Inc. and United States Trust Company of New York, as Trustee. (13)
10.10	Registration Rights Agreement, dated as of March 8, 2001, between Barnes & Noble, Inc. and Credit Suisse First Boston Corporation and Merrill Lynch, Pierce, Fenner & Smith Incorporated. (13)

Exhibit No.	Description
10.11	Revolving Credit Agreement, dated as of May 22, 2002, among Barnes & Noble, Inc., Fleet National Bank, as Administrative Agent, and the Banks party thereto (the “Banks”). (17)
10.12	Security Agreement, dated as of May 22, 2002, between Barnes & Noble, Inc. and its wholly owned subsidiaries (the “Subsidiaries”) and Fleet National Bank, as secured party and as administrative agent for itself and the Banks. (17)
10.13	Securities Collateral Pledge Agreement, dated as of May 22, 2002, between Barnes & Noble, Inc. and its Subsidiaries and Fleet National Bank, as secured party and as administrative agent for itself and the Banks. (17)
10.14	Patent and Trademark Security Agreement, dated as of May 22, 2002, between Barnes & Noble, Inc. and its Subsidiaries and Fleet National Bank, as secured party and as administrative agent for itself and the Banks. (17)
10.15	Subsidiary Guaranty, dated as of May 22, 2002, between each of the Subsidiaries and Fleet National Bank, as secured party and as administrative agent for itself and the Banks. (17)
10.16	Barnes & Noble, Inc. Amended and Restated 1996 Incentive Plan, incorporated by reference to Exhibit 4.1 of Form S-8 filed with the Securities and Exchange Commission on June 14, 2002. (18)
10.17	Amendment No. 1, dated August 29, 2002, to Revolving Credit Agreement, dated as of May 22, 2002, among Barnes & Noble, Inc., Fleet National Bank, as Administrative Agent, and the Banks party thereto. (19)
10.18	Amendment No. 2, dated May 30, 2003, to Revolving Credit Agreement, dated as of May 22, 2002, among Barnes & Noble, Inc., Fleet National Bank, as Administrative Agent, and the Banks party thereto. (20)
10.19	Amendment No. 3, dated December 4, 2003, to Revolving Credit Agreement, dated as of May 22, 2002, among Barnes & Noble, Inc., Fleet National Bank, as Administrative Agent, and the Banks party thereto. (21)
10.20	Barnes & Noble, Inc. Deferred Compensation Plan. (21)
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”. (21)
14.1	Code of Ethics for Senior Financial Officers. (21)
21.1	List of subsidiaries. (21)

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Exhibit No.	Description
23.1	Consent of BDO Seidman, LLP. (21)
23.2	Report of BDO Seidman, LLP. (21)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (21)
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (21)
32.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b) under the Securities and Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (21)
32.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) under the Securities and Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (21)

(1) Previously filed as an exhibit to the Company's Form 8-K filed with the Securities and Exchange Commission on January 9, 2004.

(2) 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.

(3) Previously filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended April 27, 1996.

(4) Previously filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended April 29, 1995.

(5) Previously filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended August 1, 1998.

(6) Previously filed as an exhibit to the Company's Form 10-K for the fiscal year ended January 27, 1996.

(7) Previously filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended July 29, 1995.

(8) Previously filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended October 31, 1998.

(9) Previously filed as an exhibit to the Company's Form 10-K for the fiscal year ended January 30, 1999.

(10) Previously filed as an exhibit to the Company's Form 10-K for the fiscal year ended January 29, 2000.

(11) Previously filed as an exhibit to the Company's Form 8-K filed with the Securities and Exchange Commission on May 10, 2000.

(12) Previously filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended October 28, 2000.

(13) Previously filed as an exhibit to the Company's Form 8-K filed with the Securities and Exchange Commission on March 22, 2001.

(14) Previously filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended May 5, 2001.

(15) Previously filed as an exhibit to the Company's Form 10-K for the fiscal year ended February 3, 2001.

(16) Previously filed as an exhibit to the Company's Form 10-K for the fiscal year ended February 2, 2002.

(17) Previously filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended May 4, 2002.

(18) Previously filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended August 3, 2002.

(19) Previously filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended November 2, 2002.

(20) Previously filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended August 2, 2003.

(21) Filed herewith.

(b) Reports filed on Form 8-K during the Company's quarter ended January 31, 2004.

On November 7, 2003, the Company filed a Report on Form 8-K pursuant to Items 5 and 7 of such Form announcing the Company's proposal to take bn.com private.

On November 21, 2003, the Company furnished a Report on Form 8-K pursuant to Items 7 and 12 of such Form announcing third quarter 2003 financial results.

On January 8, 2004, the Company filed a Report on Form 8-K pursuant to Items 5 and 7 of such Form announcing a definitive merger agreement between the Company and bn.com for $3.05 in cash per share for bn.com common stock that the Company does not currently own and the subsequent dismissal of lawsuits filed with respect to the proposed merger, subject to customary conditions.

On February 19, 2004, the Company furnished a Report on Form 8-K pursuant to Items 7 and 12 of such Form announcing its sales results for the fiscal quarter and fiscal year ended January 31, 2004.

Subsequent to the end of the fourth quarter, on March 18, 2004, the Company furnished a Report on Form 8-K pursuant to Items 7 and 12 of such Form announcing fiscal quarter and fiscal year ended January 31, 2004 financial results.

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SIGNATURES

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

BARNES & NOBLE, INC.

(Registrant)

By: /s/ Stephen Riggio

Stephen Riggio
Chief Executive Officer
April 15, 2004

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	April 15, 2004
/s/ Stephen Riggio Stephen Riggio	Vice Chairman and Chief Executive Officer (principal executive officer)	April 15, 2004
/s/ Joseph J. Lombardi Joseph J. Lombardi	Chief Financial Officer (principal financial and accounting officer)	April 15, 2004
/s/ Michael N. Rosen Michael N. Rosen	Secretary and Director	April 15, 2004
/s/ Matthew A. Berdon Matthew A. Berdon	Director	April 15, 2004
/s/ Michael J. Del Giudice Michael J. Del Giudice	Director	April 15, 2004
/s/ William Dillard II William Dillard II	Director	April 15, 2004
/s/ Irene R. Miller Irene R. Miller	Director	April 15, 2004
/s/ Margaret T. Monaco Margaret T. Monaco	Director	April 15, 2004
/s/ William Sheluck, Jr. William Sheluck, Jr.	Director	April 15, 2004

Exhibit 10.19

AMENDMENT NO. 3
TO REVOLVING CREDIT AGREEMENT

This Amendment No. 3 to Revolving Credit Agreement, dated as of December 4, 2003 (this “Amendment”), amends that certain Revolving Credit Agreement, dated as of May 22, 2002, as amended by that certain Amendment No. 1 dated as of August 29, 2002, and that certain Amendment No. 2 dated as of May 30, 2003 (as amended, the “Credit Agreement”), among Barnes & Noble, Inc., a Delaware corporation, (the “Borrower”), the lending institutions listed on Schedule 1 to the Credit Agreement (the “Banks”), Fleet National Bank, as administrative agent for itself and each other Bank (in such capacity, the “Administrative Agent”), ING Capital LLC, as documentation agent, Wachovia Bank, National Association, as syndication agent, and Fleet Securities, Inc. and First Union Securities, Inc. (d/b/a Wachovia Securities), as co-arrangers.

WHEREAS, the Borrower has requested certain amendments to the Credit Agreement and the Bank parties hereto are willing to agree to such amendments.

NOW, THEREFORE, in consideration of these premises, the promises, mutual covenants and agreements contained in this Amendment and fully intending to be legally bound hereby, the parties hereby agree as follows:

1. Capitalized Terms. Terms used in this Amendment which are not defined herein, but which are defined in the Credit Agreement, shall have the same respective meanings herein as therein.

2. Amendments to Credit Agreement.

2.1 Amendment of Section 1.1. The definition of “Affiliated Subsidiaries” contained in Section 1.1 of the Loan Agreement is amended by adding the following proviso thereto (prior to the period at the end thereof):

> “, provided that any Subsidiary set forth in the preceding clause (i) or (ii) shall no longer be considered an Affiliated Subsidiary from and after the date upon which it becomes a wholly-owned Subsidiary of the Borrower”.

2.2 Amendment of Section 1.1. The definition of “Cumulative Excess Cash Flow” contained in Section 1.1 of the Credit Agreement is amended (i) by deleting the reference to “February 3, 2002” contained therein; and (ii) by inserting in place thereof the following: “November 2, 2003”.

2.3 Amendment of Section 1.1. The definition of “Qualified Investments” contained in Section 1.1 of the Credit Agreement is amended to read in its entirety as follows:

> “Qualified Investments. As applied to any member of the Borrower Affiliated Group, investments in (i) notes, bonds or other obligations of the United States of America or any agency thereof that as to principal and interest constitute direct obligations of or are guaranteed by the United States of America, (ii) certificates of deposit or other deposit instruments or accounts of banks or trust companies organized under the laws of the United States or any state thereof that have capital and surplus of at least $100,000,000, (iii) commercial paper that is rated not less than prime-one or A-1 or their equivalents by Moody’s Investors Service, Inc. or Standard & Poor’s Corporation, respectively, or their successors, (iv) any repurchase agreement secured by any one or more of the foregoing, (v) Investments in wholly-owned Subsidiaries (other than any Affiliated Subsidiary); provided, however, that the aggregate amount of Investments in Foreign Subsidiaries may not at any time exceed 10% of the Borrower’s Consolidated Tangible Net Worth determined as of the end of the most recently completed fiscal quarter of the Borrower, (vi) loans permitted by Section

6.13, (vii) from and after November 2, 2003, Investments described in clause (i) of the definition of Investments in B&N.com in an aggregate amount outstanding not to exceed $115,000,000, (viii) in addition to all of the foregoing, from and after November 2, 2003, Investments described in clause (i) of the definition of Investments in connection with Permitted Acquisitions; provided, however, that the aggregate consideration (including all cash and non-cash consideration and any assumption of Indebtedness, but excluding any Equity Securities of the Borrower) for such Investments, together with all such consideration paid in connection with Permitted Acquisitions not constituting Investments, shall not exceed, when made, the sum of $105,000,000 plus 50% of the Borrower's Cumulative Excess Cash Flow, and provided, further, that, with respect to Investments in B&N.com only, (a) Investments described in clause (i) of the definition of Investments shall first be applied to the basket referred to in clause (vii) above and, after such basket has been fully utilized, to the basket under this clause (viii), (b) Investments described in clause (ii) of the definition of Investments shall also be permitted to be made under this clause (viii) in B&N.com, and (c) the aggregate Investments made in B&N.com pursuant to this clause (viii) shall not exceed when made $100,000,000 (the "B&N.com Sub-Limit"), (ix) Investments in Affiliated Subsidiaries and Investments in other minority-owned Persons made prior to the date hereof and disclosed on Exhibit D hereto, and (x) Interest Rate Protection Agreements for an aggregate notional amount not to exceed $300,000,000 at any time outstanding. Notwithstanding the foregoing, (a) in the event that the Borrower makes Investments in B&N.com under clause (viii) of the foregoing provision and, subsequent to such Investments, B&N.com becomes a wholly-owned Subsidiary of the Borrower, the aggregate amount of all such Investments shall be deemed to be available again under such clause (viii) from the date upon which B&N.com became a wholly-owned Subsidiary (other than any amounts in excess of the Investments permitted under clause (vii) above made on or after November 2, 2003 which were used to acquire any capital stock of B&N.com except in connection with an offering of rights to all shareholders of B&N.com), and (b) prior to B&N.com becoming a wholly-owned Subsidiary of the Borrower, the Borrower may, without such Investments being double-counted, convert any Investment it has made in B&N.com under clause (viii) of the foregoing provision to an Investment made under clause (vii) thereof (subject to the limitations contained in such clause (vii)), and any such amount converted shall then no longer count against utilization of the B&N.com Sub-Limit."

It is understood and agreed by the Borrower that, for purposes of determining the Borrower's compliance with Qualified Investments, the permitted baskets in effect prior to the Amendment Effective Date shall continue to govern such compliance for all periods ending on or prior to November 1, 2003.

2.4 Amendment of Section 1.1. The definition of "Security Agreements" contained in Section 1.1 of the Loan Agreement is amended to read in its entirety as follows:

"Security Agreements. (a) The Security Agreements dated as of the date hereof and executed and delivered by the Borrower and each Domestic Subsidiary who is a member of the Borrower Affiliated Group to the Administrative Agent, for the ratable benefit of the Banks and the Administrative Agent, and (b) any other Security Agreements dated after the date hereof and executed and delivered by a Domestic Subsidiary who is a member of the Borrower Affiliated Group to the Administrative Agent, for the ratable benefit of the Banks and the Administrative Agent."

2.5 Amendment of Section 1.1. The definition of "Pledge Agreements" contained in Section 1.1 of the Loan Agreement is amended to read in its entirety as follows:

"Pledge Agreements. (a) The Pledge Agreements dated as of the date hereof and executed and delivered by each of the Borrower and certain of its Subsidiaries to the Administrative Agent, for the ratable benefit of the Banks and the Administrative Agent, pursuant to which, without limitation, (i) all of the issued and outstanding capital stock of all Subsidiaries (or, in the case of Foreign Subsidiaries, 65%), other than Affiliated Subsidiaries, is pledged to the Administrative Agent, and (ii) all of the issued and outstanding capital stock of the Affiliated Subsidiaries and the capital stock or other equity of minority-owned Persons, in each case which is directly owned by the Borrower or any other member of the Borrower Affiliated Group, is pledged to the Administrative Agent, (b) all Pledge Agreements to be delivered by the Borrower from time to time in accordance with Section 5.2(d) and the definition of Permitted Acquisitions, and (c) any other Pledge Agreements dated after the date hereof and executed and delivered by any Domestic Subsidiary who is a member of the Borrower Affiliated Group to the Administrative Agent, for the ratable benefit of the Banks and the Administrative Agent."

2.6 Amendment of Section 1.1. The definition of "Patent and Trademark Security Agreements" contained in Section 1.1 of the Loan Agreement is amended to read in its entirety as follows:

"Patent and Trademark Security Agreements. (a) The Patent and Trademark Security Agreements dated as of the date hereof and executed and delivered by the Borrower and each Domestic Subsidiary who is a member of the Borrower Affiliated Group to the Administrative Agent for the ratable benefit of the Banks, and (b) any other Patent and Trademark Security Agreements dated after the date hereof and executed and delivered by a Domestic Subsidiary who is a member of the Borrower Affiliated Group to the Administrative Agent, for the ratable benefit of the Banks and the Administrative Agent."

2.7 Amendment of Section 1.1. Clause (viii) of the definition of "Permitted Acquisition" contained in Section 1.1 of the Loan Agreement is amended to read in its entirety as follows:

"(viii) the aggregate consideration (including all cash and non-cash consideration and any assumption of Indebtedness, but excluding any Equity Securities of the Borrower) for such acquisitions which do not constitute Investments, together with all Investments made pursuant to clause (viii) of the definition of Qualified Investments (but not any other provision of such definition), from and after November 2, 2003, shall not exceed, when made, the sum of $105,000,000 plus 50% of the Borrower's Cumulative Excess Cash Flow."

It is understood and agreed by the Borrower that, for purposes of determining the Borrower's compliance with clause (viii) of the definition of Permitted Acquisition, the permitted basket in effect prior to the Amendment Effective Date shall continue to govern such compliance for all periods ending on or prior to November 1, 2003.

2.8. Amendment of Section 6.9(b). Section 6.9(b) is hereby amended and restated in its entirety as follows:

"(b) the Borrower may effect redemptions and repurchases of its stock and pay dividends to its stockholders, provided that, with respect to this clause (b), (x) no Default or Event of Default has occurred or is continuing, both before and after giving effect to any such distributions, dividends, redemptions, repurchases and payments, and (y) the cumulative aggregate amount of redemptions and repurchases made from and after November 2, 2003, shall not exceed, when made, an aggregate amount equal to the sum of $105,000,000 plus 15% of the Borrower's Cumulative Excess Cash Flow."

It is understood and agreed by the Borrower that, for purposes of determining the Borrower's compliance with Section 6.9(b), the permitted basket in effect prior to the Amendment Effective Date shall continue to govern such compliance for all periods ending on or prior to November 1, 2003.

3. Effectiveness. This Amendment shall become effective on the first date when the following conditions are met (the "Amendment Effective Date"):

(a) the Administrative Agent shall have received counterparts hereof signed by the Required Banks, all of the Guarantors and the Borrower (or, in the case of any party as to which an executed counterpart shall not have been received, the Administrative Agent shall have received in form satisfactory to it a telecopy or other written confirmation from such party of execution of a counterpart hereof by such party);

(b) the Administrative Agent shall have received stock certificates and stock transfer powers executed in blank for all B&N.com capital stock owned by the Borrower as of the Amendment Effective Date (except for stock certificates representing shares of Class A common stock of B&N.com), along with an updated Schedule 1 to the B&N.com Holding Corp. Securities Collateral Pledge Agreement;

(c) the Administrative Agent shall have received payment of an amendment fee for each Bank which shall have executed and delivered a counterpart hereof as contemplated by clause (a), such amendment fee to be in an amount equal to 0.10% of such Bank's Commitment; and

(d) each of the Administrative Agent and the Arranger shall have received payment of all other costs, fees and expenses (including, without limitation, reasonable legal fees and expenses for which invoices shall have been submitted to the Borrower) and other compensation payable to any of the foregoing on or prior to the Amendment Effective Date in connection with the Loan Documents.

Promptly after the Amendment Effective Date occurs, the Administrative Agent shall notify the Borrower and the Banks thereof, and such notice shall be conclusive and binding on all parties hereto.

4. Ratification; Miscellaneous. Except as amended hereby, all other provisions, terms and conditions of the Credit Agreement and the other Loan Documents are hereby ratified and confirmed and shall continue in full force and effect. Each of the representations and warranties made by the Borrower or any other member of the Borrower Affiliated Group in any of the Loan Documents was true and correct when made and is true and correct in all material respects on and as of the date hereof (except to the extent that such representations and warranties relate expressly to an earlier date), and no Default or Event of Default exists on the date hereof. This Amendment shall not be deemed a waiver of any defaults that may exist under any of the Loan Documents. This Amendment may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which when so executed and delivered shall be an original, but all of which shall constitute one and the same instrument. This Amendment and the rights and obligations of the parties hereunder shall be construed in accordance with and governed by the law of the State of New York without giving effect to the conflict of law principles thereof.

IN WITNESS WHEREOF, the parties have executed this Amendment No. 3 to Revolving Credit Agreement as of this 4th day of December, 2003.

BARNES & NOBLE, INC., Borrower

By: / s / John C. Weisenseel

Name: John Weisenseel
Title: Vice President and Treasurer

FLEET NATIONAL BANK,
as a Bank and as Administrative Agent

By: / s / Alexis MacElhiney

Name: Alexis MacElhiney
Title: Vice President

ING CAPITAL LLC, as a Bank and as
Documentation Agent

By: / s / William B. Redmond

Name: William B. Redmond
Title: Managing Director

(Signatures continued on next page)

WACHOVIA BANK, NATIONAL ASSOCIATION,
as a Bank and as Syndication Agent

By: / s / Denis Waltrich

Name: Denis Waltrich
Title: Associate

CITICORP USA, INC., as a Bank

By: / s / John Frezoulis

Name: John Frezoulis
Title: Vice President

SUNTRUST BANK, as a Bank

By: / s / Heidi M. Khambatta

Name: Heidi M. Khambatta
Title: Vice President

THE BANK OF NEW YORK, as a Bank

By: / s / Johna M. Fidanza

Name: Johna M. Fidanza
Title: Vice President

WELLS FARGO BANK NA, as a Bank

By: / s / Kathleen Rosof

Name: Kathleen Rosof
Title: Vice President

(Signatures continued on next page)

JPMORGAN CHASE BANK, as a Bank

By: / s / Rebecca Vogel

Name: Rebecca Vogel
Title: Vice President

SOVEREIGN BANK, as a Bank

By: / s / Jesse Wong

Name: Jesse Wong
Title: Vice President

NATIONAL CITY BANK, as a Bank

By: / s / Thomas J. McDonnell

Name: Thomas J. McDonnell
Title: Senior Vice President

BANK OF AMERICA, N.A., as a Bank

By: / s / Temple H. Abney

Name: Temple H. Abney
Title: Vice President

(Signatures continued on next page)

COMERICA BANK, as a Bank

By: / s / Joel S. Gordon

Name: Joel S. Gordon
Title: Assistant Vice President

FIFTH THIRD BANK, as a Bank

By: / s / Anne Pierson

Name: Anne Pierson
Title: Assistant Vice President

MELLON BANK, N.A. , as a Bank

By: / s / Mark F. Johnston

Name: Mark F. Johnston
Title: First Vice President

U.S. BANK NATIONAL ASSOCIATION, as a Bank

By: / s / Gregory L. Dryden
Name: Gregory L. Dryden
Title: Vice President

MANUFACTURERS AND TRADERS TRUST COMPANY, as a Bank

By: / s / Timothy S. Avendt

Name: Timothy S. Avendt
Title: Vice President

(Signatures continued on next page)

FIRST HAWAIIAN BANK, as a Bank

By: ***/ s / Charles L. Jenkins***

Name: Charles L. Jenkins
Title: Vice President, Manager

HIBERNIA NATIONAL BANK, as a Bank

By: ***/ s / Michael R. Geissler***

Name: Michael R. Geissler
Title: Vice President

(Signatures continued on next page)

Acknowledged and Agreed:

BARNES & NOBLE BOOKSELLERS, INC., Guarantor

By: / s / John Weisenseel
Name: John Weisenseel
Title: Vice President and Treasurer
Hereunto Duly Authorized

B. DALTON BOOKSELLER, INC., Guarantor

By: / s / John Weisenseel
Name: John Weisenseel
Title: Vice President and Treasurer
Hereunto Duly Authorized

DOUBLEDAY BOOK SHOPS, INC., Guarantor

By: / s / John Weisenseel
Name: John Weisenseel
Title: Vice President and Treasurer
Hereunto Duly Authorized

B&N.COM HOLDING CORP., Guarantor

By: / s / John Weisenseel
Name: John Weisenseel
Title: Vice President and Treasurer
Hereunto Duly Authorized

CCI HOLDINGS, INC., Guarantor

By: / s / John Weisenseel
Name: John Weisenseel
Title: Vice President and Treasurer
Hereunto Duly Authorized

(Signatures continued on next page)

STERLING PUBLISHING CO., INC., Guarantor

By: / s / John Weisenseel
Name: John Weisenseel
Title: Vice President and Treasurer
Hereunto Duly Authorized

ALTAMONT PRESS, INC., Guarantor

By: / s / John Weisenseel
Name: John Weisenseel
Title: Vice President and Treasurer
Hereunto Duly Authorized

Exhibit 10.20

BARNES & NOBLE, INC.

DEFERRED COMPENSATION PLAN

Effective as of April 1, 1997
Including amendments through
September 1, 1998

BARNES & NOBLE, INC. DEFERRED COMPENSATION PLAN

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ARTICLE I. DEFINITIONS

1.01 **"Administrative Committee"** shall mean the person or persons appointed by the Compensation Committee of the Board of Directors to administer the Plan as provided in Section 8.01.

1.02 **"Associated Company"** shall mean (a) any corporation that is a member of a controlled group of corporations (as defined in Code Section 414(b)) that includes the Company, (b) any trade or business (whether or not incorporated) that is under common control (as defined in Code Section 414(c)) with the Company, (c) any member of an affiliated service group (as defined in Code Section 414(m)) that includes the Company; and (d) any other entity required to be aggregated with the Company pursuant to final or temporary regulations under Code Section 414(o).

1.03 **"Base Salary"** shall mean the annual base fixed compensation paid periodically during the calendar year, determined prior to any pre-tax contributions under a "qualified cash or deferred arrangement" (as defined under Code Section 401(k) and its applicable regulations) or under a "cafeteria plan" (as defined under Code Section 125 and its applicable regulations) and any deferrals under Article 3, but excluding any overtime, bonuses, or any other form of compensation; except to the extent otherwise deemed "Base Salary" for purposes of the Plan under rules as are adopted by the Compensation Committee.

1.04 **"Beneficiary"** shall mean the person or persons designated by a Participant pursuant to the provisions of Section 5.07 in a time and manner determined by the Administrative Committee to receive the amounts, if any, payable under the Plan upon the death of the Participant.

1.05 **"Bonus"** shall mean the cash amount, if any, awarded to an employee of the Company under the Company's executive bonus program, or other compensation program approved by the Compensation Committee as a bonus hereunder.

1.06 **"Board of Directors" or "Board"** shall mean the Board of Directors of the Corporation.

1.07 **"Change of Control"** shall mean an event which shall occur if:

(a) a report on Schedule 13D shall be filed with the Securities and Exchange Commission pursuant to Section 13(d) of the Securities Exchange Act of 1934 (the "Act") disclosing that any person (within the meaning of Section 13(d) of the Act), other than the Corporation or a subsidiary of the Corporation or any employee benefit plan sponsored by the Corporation or a subsidiary of the Corporation or any member of the Riggio Group, is the beneficial owner directly or indirectly of twenty percent or more of the outstanding common stock of the Corporation; (and such person did not have such twenty percent or more beneficial ownership on April 1, 1997).

(b) the stockholders of the Corporation shall approve (i) any consolidation or merger of the Corporation in which the Corporation is not the continuing or surviving corporation or pursuant to which shares of common stock of the Corporation would be converted into cash, securities or other property, other than a merger of the Corporation (1) in which holders of common stock of the Corporation immediately prior to the merger have substantially the same proportionate ownership of common stock of the surviving corporation immediately after the merger as immediately before or (2) with or into any Corporation which is directly or indirectly controlled by one or more members of the Riggio Group, or (ii) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all the assets of the Corporation; or

(c) there shall have been a change in a majority of the members of the Board of Directors within a 12-month period, unless the election or nomination for election by the Corporation's stockholders of each new director during such 12-month period was approved by the vote of two-thirds of the directors then still in office who were directors at the beginning of such 12-month period.

1.08 **"Code"** shall mean the Internal Revenue Code of 1986, as amended from time to time.

1.09 **"Company"** shall mean the Corporation, and any successor thereto, with respect to its employees and any Associated Company authorized by the Compensation Committee to participate in the Plan, with respect to their employees.

1.10 **"Compensation Committee"** shall mean the Compensation Committee of the Board of Directors.

1.11 **"Corporation"** shall mean Barnes & Noble, Inc., a Delaware corporation, or any successor by merger, purchase or otherwise.

1.12 **"Deferral Account"** shall mean the bookkeeping account maintained for each Participant to record the amount of Base Salary and/or Bonus such Participant has elected to defer in accordance with Article 3, adjusted pursuant to Article 4.

1.13 **"Deferral Agreement"** shall mean the completed agreement, including any amendments, attachments and appendices thereto, in such form approved by the Administrative Committee, between an Eligible Executive and the Company, under which the Eligible Executive agrees to defer a portion of his Base Salary and/or Bonus under the Plan.

1.14 **"Deferrals"** shall mean the amount of deferrals credited to a Participant pursuant to Section 3.02.

1.15 **"Effective Date"** shall mean April 1, 1997.

1.16 **“Employee”** shall mean any person who is employed by the Company.

1.17 **“Eligible Executive”** shall mean an Employee of the Company who is eligible to participate in the Plan as provided in Section 2.01.

1.18 **“ERISA”** shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time.

1.19 **“Participant”** shall mean, except as otherwise provided in Article 2, each Eligible Executive who has executed a Deferral Agreement pursuant to the requirements of Section 2.02 and is credited with an amount under Section 3.03.

1.20 **“Plan”** shall mean the Barnes & Noble, Inc. Deferred Compensation Plan as set forth in this document and the appendices thereto, as it may be amended from time to time.

1.21 **“Plan Year”** shall mean the 12-month period commencing on any January 1; provided, however, that the first Plan Year shall commence on April 1, 1997 and end on December 31, 1997.

1.22 **“Reporting Date”** shall mean any day on which the New York Stock Exchange is open.

1.23 **“Retirement”** shall mean any termination of employment by an Eligible Executive (i) after the date the Eligible Executive has attained age 55 and has completed five “Years of Service” (as such term is defined under the Barnes & Noble, Inc. Retirement Plan as in effect on the date of such termination) or (ii) as a result of his “Total and Permanent Disability” (as such term is defined under the Barnes & Noble, Inc. 401(k) Savings Plan as in effect on the date of such termination).

1.24 **“Riggio Group”** shall mean Leonard Riggio, his spouse, his siblings and any lineal descendants or ancestors of Leonard Riggio or any of his siblings, any trusts for the benefit of any of the foregoing, and any corporation or other entity directly or indirectly controlled by any of the foregoing.

ARTICLE 2. PARTICIPATION

2.01 **Eligibility**

(a) An Employee whose Base Salary as of October 1 of a calendar year exceeds $130,000, shall be an Eligible Executive with respect to the Plan Year following such calendar year and thereby eligible to participate in this Plan and execute a Deferral Agreement authorizing Deferrals under this Plan with respect to his Base Salary or Bonus which would otherwise be payable in the Plan Year following such October 1.

(b) An Employee who is first employed or reemployed after October 1 of a calendar year, and whose Base Salary on such employment or reemployment date, whichever is applicable, exceeds $130,000 shall be an Eligible Executive with respect to the following Plan Year and thereby eligible to participate in the Plan with respect to his Base Salary or Bonus which is otherwise paid in the Plan Year following his date of employment or reemployment, whichever is applicable.

(c) Notwithstanding the foregoing, an Employee who is first employed or reemployed on or after January 1, 1997 and whose Base Salary on such date of employment or reemployment, whichever is applicable, exceeds $130,000 shall be an Eligible Executive with respect to the Plan Year in which his date of employment or reemployment occurs and thereby eligible to participate in the Plan with respect to such Plan Year, subject to the provisions of Section 3.01(a)(v).

2.02 **In General**

(a) An individual who is determined to be an Eligible Executive with respect to a Plan Year and who desires to have deferrals credited on his behalf pursuant to Article 3 for such Plan Year must execute a Deferral Agreement with the Administrative Committee authorizing Deferrals under this Plan for such year in accordance with the provisions of Sections 3.01 and 3.02.

(b) The Deferral Agreement shall be in writing and be properly completed upon a form approved by the Administrative Committee, which shall be the sole judge of the proper completion thereof. Such Deferral Agreement shall provide, subject to the provisions of Section 3.02, for the deferral of a portion of the Eligible Executive's Base Salary and/or Bonus earned after the effective date of the election and shall include such other provisions as the Administrative Committee deems appropriate.

2.03 **Termination of Participation**

(a) Participation shall cease when all benefits to which a Participant is entitled to hereunder are distributed to him.

(b) If a former Participant who has terminated employment with the Company and whose participation in the Plan ceased under Section 2.03(a) is reemployed as an Eligible Executive, the former Participant may again become a Participant in accordance with the provisions of Section 2.01.

ARTICLE 3. DEFERRALS

3.01 **Filing Requirements**

(a) (i) An Employee who is determined to be an Eligible Executive on the basis of his Base Salary on October 1, 1996 in accordance with Section 2.01(a) may elect, subject to Section 3.02(a), to defer a portion of his Base Salary that is otherwise earned and payable in the 1997 Plan Year by filing a Deferral Agreement with the Administrative Committee prior to the close of business on the fifth business day following the Effective Date. Notwithstanding any other provision to the contrary, an election to defer any part of Base Salary payable in the 1997 Plan Year filed with the Administrative Committee on or before the Effective Date shall be effective only with respect to Base Salary earned and payable on and after the Effective Date.

(ii) Prior to the close of business on October 1 of any Plan Year commencing on or after the Effective Date, an Employee who is determined to be an Eligible Executive on the basis of his Base Salary on such October 1 in accordance with Section 2.01(b) may elect, subject to Section 3.02(a), to defer a portion of his Base Salary that is otherwise earned and payable in the Plan Year following such October 1 and/or a portion of his Bonus otherwise payable in the Plan Year following such October 1 by filing a Deferral Agreement with the Administrative Committee.

(iii) In the event October 1 does not fall on a business day, such filing must be made by the close of business on the next business day.

(iv) Notwithstanding the foregoing, if an Employee becomes an Eligible Executive with respect to a Plan Year pursuant to the provisions of Section 2.01(b) he may elect, subject to Section 3.02(a), to defer a portion of his Base Salary or Bonus which would otherwise be payable in the Plan Year next following his date of employment or reemployment, by filing a Deferral Agreement with the Administrative Committee prior to the close of business on the tenth business day following the date of his employment or reemployment, whichever is applicable; provided, however that the Bonus may be deferred only if the amount otherwise payable in that year has not already been determined by appropriate action of the Company.

(v) Notwithstanding the foregoing, if an Employee becomes an Eligible Executive with respect to a Plan Year pursuant to the provisions of Section 2.01(c) he may elect, subject to Section 3.02(a), to defer a portion of his Base Salary or Bonus otherwise payable in that Plan Year by filing a Deferral Agreement with the Administrative Committee prior to the close of business on the tenth business day following the date of his employment or reemployment, whichever is applicable. Such Deferral Agreement shall be effective only with respect to Base Salary and Bonus otherwise payable to the Eligible Executive commencing with the first practicable payroll period following the Administrative Committee's receipt of the Deferral Agreement; provided however, Bonus may only be deferred if the Bonus otherwise payable in that Plan Year has not already been determined by appropriate action of the Company.

(b) A Participant's election to defer a portion of Base Salary or Bonus for any Plan Year shall become irrevocable on the last day the deferral of such Base Salary or Bonus may be elected under Section 3.01(a). A Participant may revoke or change his election to defer a portion of Base Salary or Bonus at any time prior to the date the election becomes irrevocable. Any such revocation or change shall be made in a form and manner determined by the Administrative Committee.

(c) Except as otherwise provided in Section 3.01(a)(v), a Participant's Deferral Agreement shall apply only with respect to Base Salary earned in the calendar year following the calendar year in which the Deferral Agreement is filed with the Administrative Committee under Section 3.01(a). A Participant's Deferral Agreement shall only apply to a Bonus determined after the Deferral Agreement is filed with the Administrative Committee under Section 3.01(a). Subject to the provisions of Section 3.02, an Eligible Executive must file, in accordance with the provisions of Section 3.01(a), a new Deferral Agreement for each Plan Year the Eligible Executive is eligible for and elects to defer a portion of Bonus or Base Salary.

(d) If a Participant ceases to be an Eligible Executive on the basis of his Base Salary as of October 1 of a calendar year but continues to be employed by the Company, he shall continue to be a Participant and his Deferral Agreement currently in effect for the Plan Year in which such October 1 occurs shall remain in force for the remainder of such Plan Year, but such Participant shall not be eligible to defer any portion of his Base Salary or Bonus earned in a subsequent Plan Year until such time as he shall once again become an Eligible Executive.

3.02 **Amount of Deferral**

(a) (i) An Eligible Executive may defer for any Plan Year a specified dollar amount of his Base Salary otherwise earned and payable in that Plan Year, provided such amount is not less than $5,000 and does not exceed 50% of his Base Salary payable in that Plan Year.

(ii) An Eligible Executive may defer for any Plan Year commencing on and after January 1, 1998 a specified dollar amount of his Bonus otherwise payable in that Plan Year, provided such amount is not less than $2,500 and does not exceed 100% of his Bonus payable in that Plan Year.

(b) The Administrative Committee may establish other maximum or minimum limits on the amount of Base Salary or Bonus which may be deferred and/or the timing of such deferral.

Eligible Executives shall be given written notice of any such limits at least ten business days prior to the date they take effect.

(c) Notwithstanding anything in this Plan to the contrary, if an Eligible Executive:

(i) receives a withdrawal of deferred cash contributions on account of hardship from any plan which is maintained by the Company and which meets the requirements of Code Section 401(k) (or any successor thereto); and

(ii) is precluded from making contributions to such 401(k) plan for at least 12 months after receipt of the hardship withdrawal;

no amounts shall be deferred under this Plan under the Eligible Executive's Deferral Agreement with respect to Base Salary or Bonus until such time as the Eligible Executive is again permitted to contribute to such 401(k) plan. Any Base Salary or Bonus payment which would have been deferred pursuant to a Deferral Agreement but for the application of this Section 3.02(c) shall be paid to the Eligible Executive as if he had not entered into the Deferral Agreement.

3.03 **Crediting to Deferral Account**

The amount of Deferrals shall be credited to such Participant's Deferral Account no later than the first business day of the first calendar month following the date the Base Salary or Bonus would have been paid to the Participant in the absence of a Deferral Agreement.

3.04 **Vesting**

A Participant shall at all times be 100% vested in his Deferral Account.

ARTICLE 4. MAINTENANCE OF ACCOUNTS

4.01 **Adjustment of Account**

(a) As of each Reporting Date, each Deferral Account shall be credited or debited with the amount of earnings or losses with which such Deferral Account would have been credited or debited, assuming it had been invested in one or more investment funds, or earned the rate of return of one or more indices of investment performance, designated by the Administrative Committee and elected by the Participant pursuant to Section 4.02 for purposes of measuring the investment performance of his Deferral Account.

(b) The Administrative Committee shall designate at least one investment fund or index of investment performance and may designate other investment funds or investment indices to be used to measure the investment performance of a Participant's Deferral Account. The designation of any such investment funds or indices shall not require the Company to invest or earmark their general assets in any specific manner. The Administrative Committee may change the designation of investment funds or indices from time to time, in its sole discretion, and any such change shall not be deemed to be an amendment affecting Participants' rights under Section 6.02. The Administrative Committee shall provide Participants with an advance notice of any changes in the designation of investment funds or indices.

4.02 **Investment Performance Elections**

In the event the Administrative Committee designates more than one investment fund or index of investment performance under Section 4.01, each Participant shall file an investment election with the Administrative Committee with respect to the investment of his Deferral Account within such time period and on such form as the Administrative Committee may prescribe. The election shall designate the investment fund or funds or index or indices of investment performance which shall be used to measure the investment performance of the Participant's Deferral Account.

4.03 **Changing Investment Elections**

(a) A Participant may change his election of the investment fund or funds or index or indices of investment performance used to measure the future investment performance of his future Deferrals within such time periods and in such manner prescribed by the Administrative Committee. The election shall be effective as soon as administratively practicable after the date on which the notice is timely filed.

(b) A Participant may change his election of investment funds or index or indices of investment performance used to measure the future investment performance of his existing account balance within such time periods and in such manner prescribed by the Administrative Committee. The election shall be effective as soon as administratively practicable after the date on which the notice is timely filed.

4.04 **Individual Accounts**

The Administrative Committee shall maintain, or cause to be maintained on its books, records showing the individual balance of each Participant's Deferral Account. At least once a calendar quarter each Participant shall be furnished with a statement setting forth the value of his Deferral Account.

4.05 **Valuation of Accounts**

(a) The Administrative Committee shall value or cause to be valued each Participant's Deferral Account on each Reporting Date. On each Reporting Date there shall be allocated to the Deferral Account of each Participant the appropriate amount determined in accordance with Section 4.01.

(b) Whenever an event requires a determination of the value of Participant's Deferral Account, the value shall be computed as of the Reporting Date coincident with, or immediately following, the date of the event.

ARTICLE 5. PAYMENT OF BENEFITS

5.01 **Commencement of Payment**

(a) The distribution of the portion of Participant's Deferral Account attributable to deferrals of Base Salary or Bonus for each Plan Year made pursuant to the Deferral Agreement applicable to such Plan Year shall commence, pursuant to Section 5.02, on or as soon as practicable after the occurrence of one of the following events, as designated by the Participant on such Deferral Agreement:

(i) the month following the Participant's Retirement;

(ii) the month following the Participant's termination of employment; or

(iii) the beginning of a designated year not later than the year in which the Participant would attain age 70-1/2.

In the event a Participant elects (iii) above, he may not elect a year that commences less than three (3) full calendar years subsequent to the calendar year in which the amount is first treated as being credited to the Participant's Deferral Account.

(b) Notwithstanding the foregoing, in the event a Participant terminates employment or retires prior to the designated distribution event date elected pursuant to paragraph (a)(iii) above, the distribution of his entire Deferral Account shall commence, pursuant to Section 5.02, as soon as practicable after the month following his termination of employment or Retirement.

(c) A Participant shall not change his designation of the event which entitles him to distribution of any portion of his Deferral Account, except as otherwise provided in Section 5.03 below.

5.02 **Method of Payment**

(a) Except as otherwise provided in the second and third sentences of this paragraph (a) and paragraph (b) below, the distribution of the portion of the Participant's Deferral Account attributable to deferrals of Base Salary or Bonus made pursuant to a particular Deferral Agreement shall be made in cash in a single lump sum. However, with respect to a Participant who elects payments to commence pursuant to Section 5.01(a)(i), at the time such Participant makes an election of a distribution event date under Section 5.01 the Participant may also elect that the portion of his Deferral Account attributable to deferrals of Base Salary or Bonus made pursuant to Deferral Agreements for Plan Years commencing prior to January 1, 1999 shall be made payable as of such distribution event date in ratable annual cash installments for a period of years, not to exceed 15 years, designated by the Participant on his Deferral Agreement instead of in a single lump sum cash payment. Effective as of September 1, 1998, if a Participant elects to commence payments of the portion of his Deferral Account attributable to deferrals of Base Salary or Bonus applicable to a Plan Year commencing on or after January 1, 1999 pursuant to Section 5.01(a)(i), such Participant may also elect at the time he makes an election of a distribution event date under Section 5.01 regarding a deferral of Base Salary or Bonus made pursuant to a Deferral Agreement applicable to a Plan Year commencing on or after January 1, 1999 to have the portion of his Deferral Account attributable to such deferral payable as of such distribution event date in ratable annual installments for a period of years, not to exceed 15 years, as designated by the Participant on his Deferral Agreement, instead of in a single lump sum cash payment.

During an installment payment period, the Participant's Deferral Account shall continue to be credited with earnings or losses as described in Section 4.01. The first installment or lump sum payment shall be made as soon as administratively practicable following the Reporting Date coincident with or preceding the applicable distribution event date designated pursuant to Section 5.01 or 5.03. However, in the event payment is to be made pursuant to Section 5.01(b), the lump sum payment shall be made as soon as administratively practicable following the Reporting Date coincident with or next following the Participant's termination of employment or date of Retirement, if earlier. Subsequent installments, if any, shall be paid as soon as practicable following the beginning of the following calendar year and each subsequent year of the installment period. The amount of each installment shall equal the balance of the portion of the Participant's Deferral Account subject to such installment payment option as of each Reporting Date of determination divided by the number of remaining installments (including the installment being determined).

(b) If a Participant dies before payment of the entire balance of his Deferral Account, an amount equal to the unpaid portion thereof as of the date of his death shall be payable in one lump sum to his Beneficiary as soon as practicable after the Reporting Date coincident with or next following the Participant's date of death.

(c) A Participant shall not change his method of payment, except as otherwise provided in Section 5.03 below.

5.03 **Change of Distribution Election**

A Participant may change his elections under Section 5.01 or Section 5.02 at any time by duly completing, executing, and filing with the Administrative Committee a new election on an appropriate form designated by the Administrative Committee**;** *provided however,* that for any such change of election to be effective, a full calendar year must pass between the calendar year during which the Participant duly makes the change of election and the calendar year during which any portion of the Participant's Deferral Account is first to become payable after taking the change of election into account.

5.04 **Withdrawals**

(a) Subject to approval by the Administrative Committee and the provisions of paragraph (b) below, at any time before the total amount of a Participant's Deferral Account is distributed from the Plan in accordance with the foregoing provisions of this Article 5, a Participant who is in active service may elect to withdraw all or any fixed dollar portion of the amount of his Deferral Account by duly completing, executing, and filing with the Administrative Committee the appropriate form designated by the Administrative Committee. The withdrawal payment to the Participant shall be made in a lump sum as soon as practicable after the Reporting Date coincident with or next following the date the corresponding withdrawal request is duly approved by the Administrative Committee.

(b) In the event the Administrative Committee approves a Participant's withdrawal request, then the Participant shall be subject to a forfeiture penalty of 10 percent of the amount of the withdrawal, unless the Participant proves to the Compensation Committee with such evidence as the Compensation Committee may deem appropriate that the withdrawal request is occasioned by severe financial hardship. In the event such Participant incurs a forfeiture penalty under this Section 5.04(b), such amount shall be permanently forfeited and debited from the Participant's Deferral Account by the Company at the time the withdrawal payment is made to the Participant, and any such amounts forfeited and debited from the Participant's Deferral Account shall, in no event and in no manner, be ever again credited to the individual under this Plan.

5.05 **Payment upon the Occurrence of a Change of Control**

Notwithstanding the foregoing provisions of this Article 5, upon the occurrence of a Change of Control or at the direction of the Compensation Committee, upon the approval by the Board of Directors of a corporate event leading to a Change of Control, all Participants shall automatically receive the balance of their Deferral Accounts in a single lump sum payment. Such lump sum payment shall be made as soon as practicable on or after the Change of Control. If the Participant dies after such Change of Control, but before receiving such payment, it shall be made to his Beneficiary.

5.06 **Tax Increases**

Notwithstanding the provisions of Sections 5.01 and 5.03, in the event a Participant's Deferral Account is being paid in installment payments under Section 5.02, and during said payout period Federal personal income tax rates for the highest marginal tax rate are scheduled to increase by 5 or more percentage points, at the direction of the Compensation Committee, any remaining installment payments to be paid after the effective date of such increase shall be paid in one lump sum prior to said effective date.

5.07 **Designation of Beneficiary**

Each Participant shall file with the Administrative Committee a written designation of one or more persons as the Beneficiary who shall be entitled to receive the amount, if any, payable under the Plan upon his death pursuant to Section 5.02(b) or 5.05. A Participant may, from time to time, revoke or change his Beneficiary designation without the consent of any prior Beneficiary by filing a new designation with the Administrative Committee. The last such designation received by the Administrative Committee shall be controlling; provided, however, that no designation, or change or revocation thereof, shall be effective unless received by the Administrative Committee prior to the Participant's death, and in no event shall it be effective as of a date prior to such receipt. If no such Beneficiary designation is in effect at the time of a Participant's death, or if no designated Beneficiary survives the Participant, the Participant's surviving spouse, if any, shall be deemed to have been designated his Beneficiary, otherwise the Participant's estate shall be deemed to have been designated as his Beneficiary, and shall receive the payment of the amount, if any, payable under the Plan upon his death.

5.08 **Debiting Accounts**

Any amounts debited from a Participant's Deferral Account by reason of a distribution, withdrawal, or otherwise under this Article 5, shall be debited from the Participant's Deferral Account and the investment options under which such amount is credited, and such other accounts, subaccounts, options, or other allocations in the same proportion that the Participant's entire Deferral Account is credited at the time such debit is made, as determined by the Administrative Committee.

ARTICLE 6. AMENDMENT OR TERMINATION

6.01 **Right to Terminate**

The Corporation may, by action of the Board of Directors, terminate this Plan and the related Deferral Agreements at any time. In the event the Plan and related Deferral Agreements are terminated, each Participant or Beneficiary shall receive a single sum payment in cash equal to the balance of the Participant's Deferral Account. The single sum payment shall be made as soon as practicable following the date the Plan is terminated and shall be in lieu of any other benefit which may be payable to the Participant or Beneficiary under this Plan.

6.02 **Right to Amend**

The Compensation Committee may amend or modify this Plan and the related Deferral Agreements in any way either retroactively or prospectively; provided, however, no amendment or modification shall reduce the balance of a Participant's Deferral Account as of the date of such amendment or modification, as adjusted pursuant to Article 4. Notwithstanding the foregoing, a change in any investment fund or index under Section 4.01 shall not be deemed to adversely affect any Participant's rights to his Deferral Account.

ARTICLE 7. GENERAL PROVISIONS

7.01 **Funding**

(a) All amounts payable in accordance with this Plan shall constitute a general unsecured obligation of the Company. Such amounts, as well as any administrative costs relating to the Plan, shall be paid out of the general assets of the Company, to the extent not paid by a grantor trust established pursuant to paragraph (b) below. The Administrative Committee may decide that a Participant's Account may be reduced to reflect allocable administrative expense.

(b) The Corporation may, for administrative reasons, establish a grantor trust for the benefit of Participants participating in the Plan. The assets of said trust will be held separate and apart from other Corporation funds, and shall be used exclusively for the purposes set forth in the Plan and the applicable trust agreement, subject to the following conditions:

(i) the creation of said trust shall not cause the Plan to be other than "unfunded" for purposes of Title I of ERISA;

(ii) the Corporation shall be treated as "grantor" of said trust for purposes of Code Section 677; and

(iii) said trust agreement shall provide that its assets may be used to satisfy claims of the Corporation's general creditors, and the rights of such general creditors are enforceable by them under federal and state law.

7.02 **No Contract of Employment**

The Plan is not a contract of employment and the terms of employment of any Participant shall not be affected in any way by this Plan or related instruments, except as specifically provided therein. The establishment of the Plan shall not be construed as conferring any legal rights upon any person for a continuation of employment, nor shall it interfere with the rights of the Company to discharge any person and to treat him without regard to the effect which such treatment might have upon him under this Plan. Each Participant and all persons who may have or claim any right by reason of his participation shall be bound by the terms of this Plan and all Deferral Agreements entered into pursuant thereto.

7.03 **Unsecured Interest**

Neither the Company nor the Compensation Committee nor the Administrative Committee in any way guarantees the performance of the investment funds or indices a Participant may designate under Article 4. No special or separate fund shall be established, and no segregation of assets shall be made, to assure the payments thereunder. No Participant hereunder shall have any right, title, or interest whatsoever in any specific assets of the Company. Nothing contained in this Plan and no action taken pursuant to its provisions shall create or be construed to create a trust of any kind or a fiduciary relationship between the Company and a Participant or any other person. To the extent that any person acquires a right to receive payments under this Plan, such right shall be no greater than the right of any unsecured creditor of the Company.

7.04 **Facility of Payment**

In the event that the Administrative Committee shall find that a Participant or Beneficiary is unable to care for his affairs because of illness or accident or is a minor or has died, the Administrative Committee may direct that any benefit payment due him, unless claim shall have been made therefor by a duly appointed legal representative, be paid on his behalf to his spouse, a child, a parent or other blood relative, and any such payment so made shall thereby be a complete discharge of the liability of the Plan for that payment.

7.05 **Withholding Taxes**

The Company shall have the right to deduct from each payment to be made under the Plan any required withholding taxes.

7.06 **Nonalienation**

Subject to any applicable law, no benefit under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any attempt to do so shall be void, nor shall any such benefit be in any manner liable for or subject to garnishment, attachment, execution or levy, or liable for or subject to the debts, contracts, liabilities, engagements or torts of a person entitled to such benefits.

7.07 **Mergers/Transfers**

This Plan shall be binding upon and inure to the benefit of the Company and its successors and assignees and the Participant, his designees and his estate. Nothing in this Plan shall preclude the Company from consolidating or merging into or with, or transferring all or substantially all of its assets to, another corporation which assumes this Plan and all obligations of the Company hereunder. Upon such a consolidation, merger or transfer of assets and assumption, the term “Company” shall refer to such other corporation and this Plan shall continue in full force and effect.

7.08 **Limitation of Liability**

The Company, the members of the Compensation Committee and of the Administrative Committee, and any officer, employee or agent of the Company shall not incur any liability individually or on behalf of any other individuals or on behalf of the Company for any act or failure to act, made in good faith in relation to this Plan.

7.09 **Indemnification**

The Company, the members of the Compensation Committee and of the Administrative Committee, and the officers, employees and agents of the Company shall, unless prohibited by any applicable law, be indemnified against any and all liabilities arising by reason of any act or failure to act in relation to the Plan including, without limitation, expenses reasonably incurred in the defense of any claim relating to the Plan, amounts paid in any compromise or settlement relating to the Plan and any civil penalty or excise tax imposed by any applicable statute, if:

(a) the act or failure to act shall have occurred

(i) in the course of the person's service as an officer, employee or agent of the Company or as a member of the Compensation Committee or of the Administrative Committee,

(ii) in connection with a service provided with or without charge to the Plan or to the Participants or Beneficiaries of the Plan, if such service was requested by the Compensation Committee or the Administrative Committee; and

(b) the act or failure to act is in good faith and in, or not opposed to, the best interests of the Company.

This determination shall be made by the Corporation and, if such determination is made in good faith and not arbitrarily or capriciously, shall be conclusive.

The foregoing indemnification shall be from the assets of the Company. However, the Company's obligation hereunder shall be offset to the extent of any otherwise applicable insurance coverage under a policy maintained by the Company or any other person, or other source of indemnification.

7.10 **Claims Procedure**

(a) **Submission of Claims**

Claims for benefits under the Plan shall be submitted in writing to the Administrative Committee or to an individual designated by the Administrative Committee for this purpose.

(b) **Denial of Claim**

If any claim for benefits is wholly or partially denied, the claimant shall be given written notice within 90 days following the date on which the claim is filed, which notice shall set forth the following:

(i) the specific reason or reasons for the denial;

(ii) specific reference to pertinent Plan provisions on which the denial is based;

(iii) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and

(iv) an explanation of the Plan's claim review procedure.

If special circumstances require an extension of time for processing the claim, written notice of an extension shall be furnished to the claimant prior to the end of the initial period of 90 days following the date on which the claim is filed. Such an extension may not exceed a period of 90 days beyond the end of said initial period.

If the claim has not been granted and written notice of the denial of the claim is not furnished within 90 days following the date on which the claim is filed, the claim shall be deemed denied for the purpose of proceeding to the claim review procedure.

(c) **Claim Review Procedure**

The claimant or his authorized representative shall have 60 days after the earlier of (i) receipt of written notification of denial of a claim or (ii) expiration of the 90-day period (or any extended period up to 180 days pursuant to Section 7.10(b)) following the date on which the claim is filed, to request a review of the denial by making written request to the Administrative Committee, and may review pertinent documents and submit issues and comments in writing within such 60-day period.

Not later than 60 days after receipt of the request for review, the Administrative Committee shall render and furnish to the claimant a written decision, which shall include specific reasons for the decision and shall make specific references to pertinent Plan provisions on which it is based. If special circumstances require an extension of time for processing, the decision shall be rendered as soon as possible, but not later than 120 days after receipt of the request for review, provided that written notice and explanation of the delay are given to the claimant prior to commencement of the extension. Such decision by the Administrative Committee shall not be subject to further review. If a decision on review is not furnished to a claimant within the specified time period, the claim shall be deemed to have been denied on review.

(d) **Exhaustion of Remedy**

No claimant shall institute any action or proceeding in any state or federal court of law or equity or before any administrative tribunal or arbitrator for a claim for benefits under the Plan until the claimant has first exhausted the procedures set forth in this Section.

7.11 **Acceleration of Payment**

Notwithstanding any other provision of the Plan to the contrary, the Company shall make payments hereunder to a Participant before such payments are otherwise due if it determines, based on a change in the tax or revenue laws of the United States of America, a published ruling or similar announcement issued by the Internal Revenue Service, a regulation issued by the Secretary of the Treasury or his delegate, a decision by a court of competent jurisdiction involving a Participant or Beneficiary, or a closing agreement made under Code Section 7121 that is approved by the Internal Revenue Service and involves a Participant or Beneficiary, that a Participant or Beneficiary has recognized or will recognize income for federal income tax purposes with respect to amounts that are or will be payable to him under the Plan before they are paid to him.

7.12 **Payment of Expenses**

All administrative expenses of the Plan and all benefits under the Plan shall be paid from the general assets of the Company, except as otherwise may be provided herein.

7.13 **Construction**

(a) The Plan is intended to constitute an unfunded deferred compensation arrangement for a select group of management or highly compensated employees and therefore exempt from the requirements of parts 2, 3 and 4 of Subtitle B of Title I of ERISA (pursuant to Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA), and all rights hereunder shall be governed by ERISA. Subject to the preceding sentence, the Plan shall be construed, regulated and administered in accordance with the laws of the State of New York, subject to the provisions of applicable federal laws.

(b) The masculine pronoun shall mean the feminine wherever appropriate.

(c) The illegality of any particular provision of this document shall not affect the other provisions, and the document shall be construed in all respects as if such invalid provision were omitted.

(d) Article or Section references herein shall mean references to such Articles or Sections as contained herein, unless otherwise indicated.

ARTICLE 8. ADMINISTRATION

8.01

(a) The Administrative Committee shall have the exclusive responsibility and complete discretionary authority to control the operation, management and administration of the Plan, with all powers necessary to enable it to properly carry out such responsibilities, including, but not limited to, the power to interpret the Plan and any related documents, to establish procedures for making any elections called for under the Plan, to make factual determinations regarding any and all matters arising hereunder, including, but not limited to, the right to determine eligibility for benefits, the right to construe the terms of the Plan, the right to remedy possible ambiguities, inequities, inconsistencies or omissions, and the right to resolve all interpretive, equitable or other questions arising under the Plan. The decisions of the Administrative Committee on all matters shall be final, binding and conclusive on all persons to the extent permitted by law. The Administrative Committee may appoint one or more individuals and delegate such of its power and duties described herein as it deems desirable to any such individuals as to any matter within the jurisdiction of such delegations.

(b) To the extent permitted by law, all agents and representatives of the Administrative Committee shall be indemnified by the Company and saved harmless against any claims and the expenses of defending against such claims, resulting from any action or conduct relating to the administration of the Plan, except claims arising from gross negligence, willful neglect or willful misconduct.

ARTICLE 9. SIGNATURE AND VERIFICATION

IN WITNESS WHEREOF, the Corporation has caused this Plan to be executed this 1st day of September, 1998.

/s/ Michelle Smith

Michelle Smith
Vice President,
HR Administration

Attest: ____________________

Exhibit 13.1

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data of Barnes & Noble, Inc. and its subsidiaries (collectively, the Company) set forth on the following pages should be read in conjunction with the consolidated financial statements and notes included elsewhere in this report. The Company's fiscal year is comprised of 52 or 53 weeks, ending on the Saturday closest to the last day of January. The Statement of Operations Data for the 52 weeks ended January 31, 2004 (fiscal 2003), 52 weeks ended February 1, 2003 (fiscal 2002) and 52 weeks ended February 2, 2002 (fiscal 2001) and the Balance Sheet Data as of January 31, 2004 and February 1, 2003 are derived from, and are qualified by reference to, audited consolidated financial statements which are included elsewhere in this report. The Statement of Operations Data for the 53 weeks ended February 3, 2001 (fiscal 2000) and 52 weeks ended January 29, 2000 (fiscal 1999) and the Balance Sheet Data as of February 2, 2002, February 3, 2001 and January 29, 2000 are derived from audited consolidated financial statements not included in this report. Certain prior-period amounts have been reclassified for comparative purposes.

Fiscal Year (Thousands of dollars, except per share data)	2003 (1)	2002	2001	2000(2)	1999(3)
STATEMENT OF OPERATIONS DATA:					
Sales					
Barnes & Noble stores	$3,860,347	3,574,909	3,359,464	3,169,591	2,821,549
B. Dalton stores	221,020	260,024	310,303	372,230	426,018
Barnes & Noble.com(1)	151,229	—	—	—	—
Other(4)	139,581	81,611	79,225	76,419	14,728
Total book sales	4,372,177	3,916,544	3,748,992	3,618,240	3,262,295
GameStop	1,578,838	1,352,791	1,121,398	757,564	223,748
Total sales	5,951,015	5,269,335	4,870,390	4,375,804	3,486,043
Cost of sales and occupancy	4,323,767	3,847,482	3,559,201	3,172,484	2,496,737
Gross profit	1,627,248	1,421,853	1,311,189	1,203,320	989,306
Selling and administrative expenses	1,124,551	973,495	905,117	810,232	638,091
Legal settlement expense(5)	—	—	4,500	—	—
Depreciation and amortization	163,629	148,691	147,826	144,760	112,304
Pre-opening expenses	8,778	10,227	7,959	7,669	6,801
Impairment charge(6)	—	25,328	—	106,833	—
Operating profit	330,290	264,112	245,787	133,826	232,110
Interest expense, net and amortization of deferred financing fees(7)	(20,140)	(21,506)	(36,334)	(53,541)	(23,765)
Equity in net loss of Barnes & Noble.com(1)	(14,311)	(26,795)	(88,378)	(103,936)	(42,047)
Gain on formation of Barnes & Noble.com(8)	—	—	—	—	25,000
Other income (expense)(9)	—	(16,498)	(11,730)	(9,346)	27,337
Earnings (loss) before taxes, cumulative effect of a change in accounting principle and minority interest	295,839	199,313	109,345	(32,997)	218,635
Income taxes	120,554	80,223	45,378	18,969	89,637
Earnings (loss) before cumulative effect of a change in accounting principle and minority interest	175,285	119,090	63,967	(51,966)	128,998
Cumulative effect of a change in accounting principle	—	—	—	—	(4,500)
Earnings (loss) before minority interest	175,285	119,090	63,967	(51,966)	124,498
Minority interest (10)	(23,432)	(19,142)	—	—	—
Net earnings (loss)	$ 151,853	99,948	63,967	(51,966)	124,498
Earnings (loss) per common share					
Basic					
Earnings (loss) before cumulative effect of a change in accounting principle	$ 2.30	1.51	0.96	(0.81)	1.87

Fiscal Year (Thousands of dollars, except per share data)	2003 (1)	2002	2001	2000(2)	1999(3)
Cumulative effect of a change in accounting principle	$ —	—	—	—	(0.07)
Net earnings (loss)	$ 2.30	1.51	0.96	(0.81)	1.80
Diluted					
Earnings (loss) before cumulative effect of a change in accounting principle	$ 2.07	1.39	0.94	(0.81)	1.81
Cumulative effect of a change in accounting principle	$ —	—	—	—	(0.06)
Net earnings (loss)	$ 2.07	1.39	0.94	(0.81)	1.75
Weighted average common shares outstanding					
Basic	65,989,000	66,362,000	66,393,000	64,341,000	69,005,000
Diluted	77,105,000	77,680,000	77,839,000	64,341,000	71,354,000
OTHER OPERATING DATA:					
Number of stores					
Barnes & Noble stores	647	628	591	569	542
B. Dalton stores	195	258	305	339	400
GameStop stores	1,514	1,231	1,038	978	526
Total	2,356	2,117	1,934	1,886	1,468
Comparable store sales increase (decrease)(11)					
Barnes & Noble stores	3.2%	0.0%	2.7%	4.9%	6.1%
B. Dalton stores	(2.0)	(6.4)	(3.7)	(1.7)	0.1
GameStop stores	0.8	11.4	32.0	(6.7)	12.5
Capital expenditures	$ 163,387	179,545	168,833	134,292	146,294
BALANCE SHEET DATA:					
Working capital	$ 751,648	655,420	450,766	520,178	318,668
Total assets	$ 3,507,294	2,995,427	2,623,220	2,557,476	2,413,791
Long-term debt	$ 300,000	300,000	449,000	666,900	431,600
Long-term debt, net of cash	$ (187,200)	32,358	340,782	640,897	407,353
Shareholders' equity	$ 1,259,659	1,027,790	888,110	777,677	846,360

(1) Fiscal 2003 includes the results of operations of barnesandnoble.com llc (Barnes & Noble.com) from September 15, 2003, the date the Company acquired a controlling interest in Barnes & Noble.com. Prior to the acquisition date, the Company accounted for the results of Barnes & Noble.com under the equity method of accounting. See footnote 8 to the Notes to Consolidated Financial Statements.

(2) Fiscal 2000 includes the results of operations of Funco, Inc. from June 14, 2000, the date of acquisition. In fiscal 2000, the Company acquired a controlling interest in Calendar Club L.L.C. (Calendar Club). The Company's consolidated statement of operations includes the results of operations of Calendar Club. Prior to fiscal 2000, the Company included its equity in the results of operations of Calendar Club as a component of other income (expense).

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

(4) Includes primarily Sterling Publishing Co., Inc. and Calendar Club.

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

(6) In fiscal 2002, the Company recorded a non-cash charge to operating earnings to write down its investments in Gemstar-TV Guide International, Inc. (Gemstar) and Indigo Books & Music Inc. (Indigo) to their fair market value. In fiscal 2000, the Company recorded a non-cash charge to adjust the carrying value of certain assets, primarily goodwill relating to the purchase of B. Dalton and other mall-bookstore assets.

(7) Interest expense for fiscal 2003, 2002, 2001, 2000 and 1999 is net of interest income of $2,193, $3,499, $1,319, $939 and $1,449, respectively.

(8) In fiscal 1999, the Company recognized a gain on the formation of Barnes & Noble.com in connection with the joint venture agreement with Bertelsmann AG. See footnote 8 to the Notes to Consolidated Financial Statements.

(9) In fiscal 2002, the Company determined that a decrease in value in certain of its equity investments occurred which was other than temporary. As a result, other expense of $16,498 in fiscal 2002 includes the recognition of losses of $11,485 in excess of what would otherwise have been recognized by application of the equity method in accordance with Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock". The $16,498 loss in other expense was primarily comprised of $8,489 attributable to iUniverse.com, $5,081 attributable to *BOOK*® magazine and $2,351 attributable to enews, inc. Included in other expense in fiscal 2001 are losses of $12,066 from the Company's equity investments. Included in other expense in fiscal 2000 are losses of $9,730 from the Company's equity investments. Included in other income in fiscal 1999 are pre-tax gains of $22,356 and $10,975 recognized in connection with the Company's investments in Gemstar and Indigo, respectively, as well as a charge of $5,000 attributable to the termination of the Ingram Book Group acquisition and losses from equity investments of $994.

(10) During fiscal 2002, the Company completed an IPO for its GameStop subsidiary which resulted in the Company retaining an approximate 63 percent economic interest in GameStop. At the end of fiscal 2003, the Company's economic interest in GameStop was approximately 64 percent.

(11) Comparable store sales increase (decrease) is calculated on a 52-week basis, and includes sales of stores that have been open for 15 months for Barnes & Noble stores (due to the high sales volume associated with grand openings) and 12 months for B. Dalton and GameStop stores.

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 2004" represents the 52 weeks ending January 29, 2005, "fiscal 2003" represents the 52 weeks ended January 31, 2004, "fiscal 2002" represents the 52 weeks ended February 1, 2003 and "fiscal 2001" represents the 52 weeks ended February 2, 2002.

General

Barnes & Noble, Inc. (Barnes & Noble or the Company), the nation's largest bookseller[1], as of January 31, 2004 operates 842 bookstores and 1,514 video-game and entertainment-software stores. Of the 842 bookstores, 647 operate primarily under the Barnes & Noble Booksellers trade name (31 of which were opened in fiscal 2003) and 195 operate primarily under the B. Dalton Bookseller trade name. Through its approximate 73 percent economic interest in barnesandnoble.com llc (Barnes & Noble.com), the Company is one of the largest sellers of books on the Internet. Through its acquisition of Sterling Publishing Co., Inc. (Sterling), the Company is one of the top 25 publishers in the nation and the industry's leading publisher of how-to books. The Company, as of January 31, 2004, has an approximate 64 percent economic interest in GameStop Corp., the nation's largest video-game and PC-entertainment software specialty retailer[2], operating 1,514 video-game and entertainment-software stores primarily under the GameStop trade name, a Web site (www.gamestop.com), and publishes *Game Informer*, the industry's largest circulated multi-platform video-game magazine, with circulation of more than 1.5 million paid subscriptions. The Company employed approximately 56,000 full- and part-time employees as of January 31, 2004.

Barnes & Noble is the nation's largest operator of bookstores[1] with 647 Barnes & Noble stores located in 49 states and the District of Columbia as of January 31, 2004. With more than 35 years of bookselling experience, management has a strong sense of customers' changing needs and the Company leads book retailing with a "community store" concept. Barnes & Noble's typical store offers a comprehensive title base, a café, a children's section, a music department, a magazine section and a calendar of ongoing events, including author appearances and children's activities, that make each Barnes & Noble store an active part of its community.

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 from 60,000 to 200,000 titles. The comprehensive title selection is diverse and reflects local interests. In addition, Barnes & Noble emphasizes books published by small and independent publishers and university presses. Bestsellers typically represent between three and five percent of Barnes & Noble store sales. Complementing this extensive on-site selection, all Barnes & Noble stores provide customers with access to the millions of books available to online shoppers while offering an option to have the book sent to the store or shipped directly to the customer. All Barnes & Noble stores are equipped with its proprietary BookMaster in-store operating system, which enhances the Company's merchandise-replenishment system, resulting in high in-stock positions and productivity at the store level through efficiencies in receiving, cashiering and returns processing.

During fiscal 2003, the Company added 0.6 million square feet to the Barnes & Noble store base, bringing the total square footage to 15.8 million square feet, a four percent increase over the prior year. Barnes & Noble stores contributed approximately 88 percent of the Company's total book sales in fiscal

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

2 Based on the number of United States stores operated by GameStop and its total United States revenues.

2003. The Company plans to open between 30 and 35 Barnes & Noble stores in fiscal 2004, which are expected to average 26,000 square feet in size.

At the end of fiscal 2003, the Company operated 195 B. Dalton bookstores in 44 states and the District of Columbia. B. Dalton bookstores employ merchandising strategies that target the mainstream consumer book market, offering a wide range of bestsellers and general-interest titles. Most B. Dalton bookstores range in size from 2,000 to 6,000 square feet, and while they are appropriate to the size of adjacent mall tenants, the opening of book superstores in nearby locations continues to have a significant adverse impact on B. Dalton bookstores.

The Company is continuing to execute a strategy to maximize returns from its B. Dalton bookstores in response to declining sales attributable primarily to book superstore competition. Part of the Company's strategy has been to close underperforming stores, which has resulted in the closing of 772 B. Dalton bookstores since 1989.

On September 15, 2003, the Company completed its acquisition of all of Bertelsmann AG's (Bertelsmann) interest in Barnes & Noble.com. As a result of the acquisition, the Company increased its economic interest in Barnes & Noble.com from approximately 38 percent to approximately 75 percent. Subsequent to the purchase, Barnes & Noble.com employees exercised 3.9 million stock options thereby reducing the Company's economic interest in Barnes & Noble.com to approximately 73 percent. On January 8, 2004, the Company entered into a merger agreement with barnesandnoble.com inc. (bn.com), the holding company whose sole asset is its approximate 30 percent interest in Barnes & Noble.com and whose sole business is acting as sole manager of Barnes & Noble.com. Upon consummation of the merger, Barnes & Noble.com will become a wholly owned subsidiary of the Company. The closing of the merger is expected to occur during the second quarter of fiscal 2004.

Barnes & Noble.com is a leading Internet-based retailer of books, music, DVD/video and online courses. Since opening its online store (www.bn.com) in March 1997, Barnes & Noble.com has attracted more than 17 million customers in 230 countries. Barnes & Noble.com's bookstore includes the largest in-stock selection of in-print book titles with access to approximately one million titles for immediate delivery, supplemented by more than 30 million listings from its nationwide network of out-of-print, rare and used book dealers. Barnes & Noble.com offers its customers fast delivery, easy and secure ordering and rich editorial content.

According to comScore Media Metrix, in December 2003, Barnes & Noble.com's Web site was the eleventh most-trafficked shopping site and was among the top 65 largest Web properties on the Internet. Co-marketing agreements with major Web portals such as America Online, Google™ and Microsoft Network as well as content sites have extended Barnes & Noble.com's brand recognition and increased consumer exposure to its site. Barnes & Noble.com has also established a network of remote virtual storefronts across the Internet by creating direct links with more than 189,000 affiliate Web sites.

Barnes & Noble further differentiates its product offerings from those of its competitors by publishing books under its own imprints. The Company, through its January 2003 acquisition of Sterling, is one of the top 25 publishers in the nation and the industry's leading publisher of how-to books. Sterling has an active list of more than 4,500 owned and distributed titles, and publishes and distributes more than 1,000 new titles annually. As the leading publisher of how-to books, Sterling has particular strength in art technique, gardening, cooking, health, crafts, puzzle and game, woodworking, and house and home. With the addition of the Sterling titles, the Company has publishing or distribution rights to nearly 10,000 titles and offers customers high quality books at exceptional values, while generating attractive gross margins.

The Company acquired Babbage's Etc. and Funco, Inc. in October 1999 and June 2000, respectively. Through a corporate restructuring, Babbage's Etc. became a wholly owned subsidiary of Funco, Inc. and the name of Funco, Inc. was changed to GameStop, Inc. In February 2002, the Company completed an initial public offering (IPO) for its GameStop subsidiary. The Company retained an approximate 63 percent interest in GameStop. GameStop is the nation's largest video-game and PC-entertainment software specialty retailer, based on the number of United States (U.S.) stores operated by GameStop and its total U.S. revenues. As of January 31, 2004, GameStop operates 1,514 video-game and entertainment-software stores located in 49 states, the District of Columbia, Ireland, Puerto Rico and Guam, primarily under the GameStop trade name. The video-game and entertainment-software stores range in size from 500 to 5,000 square feet (averaging 1,500 square feet) depending upon market demographics. Stores feature video-game hardware and software, PC-entertainment software and a multitude of accessories. GameStop also operates a Web site (www.gamestop.com), and publishes *Game Informer* magazine (collectively, GameStop).

Critical Accounting Policies

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

Other Long-Lived Assets

The Company's other long-lived assets include property and equipment and amortizable intangibles. At January 31, 2004, the Company had $686.6 million of property and equipment, net of accumulated depreciation, and $20.2 million of amortizable intangible assets, net of amortization, accounting for approximately 20.2% of the Company's total assets. The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Recoverability of assets held and used are measured by a comparison of the carrying amount of an asset to undiscounted pre-tax future net cash flows. Future events could cause the Company to conclude that impairment indicators exist and that long-lived assets may be impaired. Any resulting impairment loss could have a material adverse impact on the Company's financial condition and results of operations.

Goodwill and Unamortizable Intangible Assets

At January 31, 2004, the Company had $509.2 million of goodwill and $74.4 million of unamortizable intangible assets (i.e. those with an indefinite useful life), accounting for approximately

16.6% of the Company's total assets. SFAS No. 142, "Goodwill and Other Intangible Assets", requires that goodwill and other unamortizable intangible assets no longer be amortized, but instead be tested for impairment at least annually or earlier if there are impairment indicators. The Company performs a two-step process for impairment testing of goodwill as required by SFAS No. 142. The first step of this test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount. The second step (if necessary) measures the amount of the impairment. The Company completed its annual impairment test on the goodwill in November 2003 and deemed that no impairment charge was necessary. The Company has noted no subsequent indicators of impairment. The Company tests unamortizable intangible assets by comparing the fair value and the carrying value of such assets. Changes in market conditions, among other factors, could have a material impact on these estimates.

Closed Store Expenses

When the Company closes or relocates a store, the Company charges unrecoverable costs to expense. Such costs include the net book value of abandoned fixtures and leasehold improvements and, when a store is closed, a provision for future lease obligations, net of expected sublease recoveries. Costs associated with store closings of $6.0 million, $10.1 million and $9.8 million during fiscal 2003, 2002 and 2001, respectively, are included in selling and administrative expenses in the accompanying consolidated statements of operations.

Results of Operations

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

Fiscal Year (Thousands of dollars)	2003	2002	2001
Sales			
Books	$4,372,177	3,916,544	3,748,992
Video Games	1,578,838	1,352,791	1,121,398
Total	$5,951,015	5,269,335	4,870,390
Operating Profit			
Books (1)	$ 225,906	177,041	211,700
Video Games	104,384	87,071	34,087
Total	$ 330,290	264,112	245,787
Comparable Store Sales Increase (Decrease) (2)			
Barnes & Noble stores	3.2%	0.0%	2.7%
B. Dalton stores	(2.0)	(6.4)	(3.7)
GameStop stores	0.8	11.4	32.0
Stores Opened			
Barnes & Noble stores	31	47	40
B. Dalton stores	—	—	1
GameStop stores	300	210	74
Total	331	257	115
Stores Closed			
Barnes & Noble stores	12	10	18
B. Dalton stores	63	47	35
GameStop stores	17	17	14
Total	92	74	67
Number of Stores Open at Year End			
Barnes & Noble stores	647	628	591
B. Dalton stores	195	258	305
GameStop stores	1,514	1,231	1,038
Total	2,356	2,117	1,934
Square Feet of Selling Space at **Year End (in millions)**			
Barnes & Noble stores	15.8	15.2	14.2
B. Dalton stores	0.8	1.0	1.2
GameStop stores	2.3	1.9	1.6
Total	18.9	18.1	17.0

(1) Fiscal 2002 operating profit is net of a non-cash impairment charge of $25,328. Fiscal 2001 operating profit is net of legal and settlement expenses of $4,500.

(2) Comparable store sales for Barnes & Noble stores are determined using stores open at least 15 months, due to the high sales volume associated with grand openings. Comparable store sales for B. Dalton and GameStop stores are determined using stores open at least 12 months.

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

Fiscal Year	2003	2002	2001
Sales	100.0%	100.0%	100.0%
Cost of sales and occupancy	72.7	73.0	73.1
Gross margin	27.3	27.0	26.9
Selling and administrative expenses	18.9	18.5	18.6
Legal settlement expense	—	—	0.1
Depreciation and amortization	2.7	2.8	3.0
Pre-opening expenses	0.1	0.2	0.2
Impairment charge	—	0.5	—
Operating margin	5.6	5.0	5.0
Interest expense, net and amortization of deferred financing fees	(0.4)	(0.4)	(0.8)
Equity in net loss of Barnes & Noble.com	(0.2)	(0.5)	(1.8)
Other expense	—	(0.3)	(0.2)
Earnings before income taxes and minority interest	5.0	3.8	2.2
Income taxes	2.0	1.5	0.9
Income before minority interest	3.0	2.3	1.3
Minority interest	(0.4)	(0.4)	—
Net earnings	2.6%	1.9%	1.3%

52 Weeks Ended January 31, 2004 Compared with 52 Weeks Ended February 1, 2003

Sales

The Company’s sales increased $681.7 million, or 12.9%, during fiscal 2003 to $5.951 billion from $5.269 billion during fiscal 2002. This increase was attributable to a $455.7 million increase in book operating segment sales and an increase of $226.0 million from the video game operating segment sales.

The increase in book operating segment sales was primarily attributable to a $285.4 million increase in sales at Barnes & Noble stores and the inclusion of $151.2 million in sales due to the consolidation of Barnes & Noble.com’s results from September 15, 2003, the date the Company acquired a controlling interest in Barnes & Noble.com. Barnes & Noble store sales increased $285.4 million, or 8.0%, during 2003 to $3.860 billion from $3.575 billion during fiscal 2002 and accounted for 64.9% of total Company sales or 88.3% of total book sales. The 8.0% increase in Barnes & Noble store sales was attributable to an increase in comparable store sales of 3.2% coupled with the opening of 31 new stores during fiscal 2003, which contributed to a 4.0% increase in square footage. This increase was partially offset by declining sales of B. Dalton, due to 63 store closings and a comparable store sales decline of (2.0%) in fiscal 2003.

Video game operating segment sales during fiscal 2003 increased 16.7% to $1.579 billion from $1.353 billion during fiscal 2002. This increase in sales was primarily attributable to the 300 new GameStop stores opened during fiscal 2003.

Cost of Sales and Occupancy

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

Cost of sales and occupancy increased $476.3 million, or 12.4%, to $4.324 billion in fiscal 2003 from $3.847 billion in fiscal 2002, partially due to the inclusion of Barnes & Noble.com's cost of sales and occupancy since September 15, 2003. As a percentage of sales, cost of sales and occupancy decreased to 72.7% in fiscal 2003 from 73.0% in fiscal 2002. This decrease was primarily attributable to higher gross margins in the video game operating segment.

Selling and Administrative Expenses

Selling and administrative expenses increased $151.1 million, or 15.5%, to $1,124.6 million in fiscal 2003 from $973.5 million in fiscal 2002. As a percentage of sales, selling and administrative expenses increased to 18.9% in fiscal 2003 from 18.5% in fiscal 2002. This increase was primarily attributable to the video game operating segment.

Depreciation and Amortization

Depreciation and amortization increased $14.9 million, or 10.0%, to $163.6 million in fiscal 2003 from $148.7 million in fiscal 2002. The increase was primarily the result of the increase in depreciation related to the 300 new GameStop stores opened during fiscal 2003 and the inclusion of Barnes & Noble.com's depreciation since September 15, 2003.

Pre-Opening Expenses

Pre-opening expenses decreased in fiscal 2003 to $8.8 million from $10.2 million in fiscal 2002. The decrease in pre-opening expenses was primarily the result of opening 31 new Barnes & Noble stores during fiscal 2003, compared with 47 new Barnes & Noble stores during fiscal 2002. This decrease was partially offset by the pre-opening expenses related to the opening of 300 new GameStop stores during fiscal 2003 compared with 210 new GameStop stores during fiscal 2002.

Impairment Charge

During the first quarter of fiscal 2002, the Company deemed the decline in value in its available-for-sale securities in Gemstar-TV Guide International, Inc. (Gemstar) and Indigo Books & Music Inc. (Indigo) to be other than temporary. The investments had been carried at fair market value with unrealized gains and losses included in shareholders' equity. The Company recorded a non-cash impairment charge to operating earnings of $25.3 million ($14.9 million after taxes) to reclassify the accumulated unrealized losses and to write down the investments to their current fair market value at the close of business on May 4, 2002. The investment in Gemstar was sold in the second quarter of fiscal 2002.

Operating Profit

The Company's consolidated operating profit increased $66.2 million, or 25.1%, to $330.3

million in fiscal 2003 from $264.1 million in fiscal 2002. Operating profit increased $40.9 million, or 14.1%, in fiscal 2003 before the effect of the $25.3 million impairment charge during fiscal 2002.

Interest Expense, Net and Amortization of Deferred Financing Fees

Interest expense, net of interest income, and amortization of deferred financing fees, decreased $1.4 million, or 6.4%, to $20.1 million in fiscal 2003 from $21.5 million in fiscal 2002. The decrease was primarily the result of reduced average borrowings under the Company's senior credit facility due to effective working capital management.

Equity in Net Loss of Barnes & Noble.com

The Company accounted for its approximate 38 percent economic interest in Barnes & Noble.com under the equity method through September 15, 2003. Equity losses in Barnes & Noble.com were $14.3 million and $26.8 million in fiscal 2003 and 2002, respectively.

Other Expense

In fiscal 2002, the Company determined that a decrease in value in certain of its equity investments occurred which was other than temporary. As a result, other expense of $16.5 million during fiscal 2002 included the recognition of losses of $11.5 million in excess of what would otherwise have been recognized by application of the equity method in accordance with Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock". The $16.5 million loss in other expense was primarily comprised of $8.5 million attributable to iUniverse.com, $5.1 million attributable to *BOOK®* magazine and $2.4 million attributable to enews, inc.

Income Taxes

Barnes & Noble's effective tax rate in fiscal 2003 increased to 40.75 percent compared with 40.25 percent during fiscal 2002.

Minority Interest

Minority interest was $23.4 million in fiscal 2003 compared with $19.1 million in fiscal 2002, and relates primarily to GameStop.

Earnings

As a result of the factors discussed above, the Company reported consolidated net earnings of $151.9 million (or $2.07 per share) during fiscal 2003 compared with net earnings of $99.9 million (or $1.39 per share) during fiscal 2002. Components of diluted earnings per share are as follows:

Fiscal Year	2003	2002
Barnes & Noble Bookstores	$ 1.75	1.52
Barnes & Noble.com	(0.18)	(0.21)
Total book operating segment	1.57	1.31
Video game operating segment	0.50	0.40
Impairment charge	—	(0.19)
Other investments	—	(0.13)
Consolidated EPS	$ 2.07	1.39

52 Weeks Ended February 1, 2003 Compared with 52 Weeks Ended February 2, 2002

Sales

The Company's sales increased $398.9 million, or 8.2%, during fiscal 2002 to $5.269 billion from $4.870 billion during fiscal 2001. Contributing to this improvement was an increase of $231.4 million from video game operating segment sales. Fiscal 2002 sales from Barnes & Noble stores, which contributed 67.8% of total sales or 91.3% of total bookstore sales, increased 6.4% to $3.575 billion from $3.359 billion in fiscal 2001.

The increase in book operating segment sales was primarily attributable to the 47 new Barnes & Noble stores opened during fiscal 2002. This increase was partially offset by declining sales of B. Dalton, due to 47 store closings and a comparable store sales decline of (6.4%) in fiscal 2002.

GameStop sales during fiscal 2002 increased to $1.353 billion from $1.121 billion during fiscal 2001. This increase in sales was primarily attributable to the 11.4% growth in GameStop comparable store sales and sales from the 210 new GameStop stores opened during fiscal 2002.

Cost of Sales and Occupancy

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

Cost of sales and occupancy increased $288.3 million, or 8.1%, to $3.847 billion in fiscal 2002 from $3.559 billion in fiscal 2001, primarily due to growth in the video game operating segment. The Company's gross margin rate decreased slightly to 27.0% in fiscal 2002 from 26.9% in fiscal 2001.

Selling and Administrative Expenses

Selling and administrative expenses increased $68.4 million, or 7.6%, to $973.5 million in fiscal 2002 from $905.1 million in fiscal 2001, primarily due to the increase in bookstore expenses from the opening of 47 Barnes & Noble stores in fiscal 2002 and to the growth in the video game operating segment. Selling and administrative expenses decreased to 18.5% of sales in fiscal 2002 from 18.6% in fiscal 2001. This decrease was primarily attributable to the lower selling and administrative expenses as a percentage of sales in the video game operating segment.

Legal Settlement Expense

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

Depreciation and Amortization

Depreciation and amortization increased $0.9 million, or 0.6%, to $148.7 million in fiscal 2002 from $147.8 million in fiscal 2001. The increase was primarily the result of the increase in depreciation related to the 47 new Barnes & Noble stores opened during fiscal 2002. This increase was partially offset by the result of the implementation of SFAS No. 142 in fiscal 2002, whereby goodwill is no longer amortized but is reviewed for impairment at least annually.

Pre-Opening Expenses

Pre-opening expenses increased in fiscal 2002 to $10.2 million from $8.0 million in fiscal 2001. The increase in pre-opening expenses was primarily the result of opening 47 new Barnes & Noble stores and 210 new GameStop stores during fiscal 2002, compared with 40 new Barnes & Noble stores and 74 new GameStop stores during fiscal 2001.

Impairment Charge

During the first quarter of fiscal 2002, the Company deemed the decline in value in its available-for-sale securities in Gemstar and Indigo to be other than temporary. The investments had been carried at fair market value with unrealized gains and losses included in shareholders' equity. Events such as Gemstar's largest shareholder taking an impairment charge for its investment, the precipitous decline in the stock price subsequent to the abrupt resignation of one of its senior executives, the questioning of aggressive revenue recognition policies and the filing of a class action lawsuit against Gemstar, were among the items which led to management's decision to record an impairment for its investment in Gemstar of nearly $24.0 million (before taxes). The Company's decision to record an impairment charge for its investment in Indigo was based on a review of Indigo's financial condition and historical share trading data. As a result of these decisions, the Company recorded a non-cash impairment charge to operating earnings of $25.3 million ($14.9 million after taxes) to reclassify the accumulated unrealized losses and to write down the investments to their current fair market value at the close of business on May 4, 2002. The investment in Gemstar was sold in the second quarter of fiscal 2002.

Operating Profit

Operating profit increased to $264.1 million in fiscal 2002 from $245.8 million in fiscal 2001. Operating profit increased to $289.4 million, before the effect of the $25.3 million impairment charge during fiscal 2002, from $250.3 million, before the effect of the $4.5 million legal settlement expense during fiscal 2001. Bookstore operating profit decreased 6.4% to $202.4 million, before the effect of the $25.3 million impairment charge from $216.2 million, before the effect of the $4.5 million legal settlement expense, primarily attributable to lower comparable store sales. Bookstore operating margin decreased to 5.2% of sales during fiscal 2002, before the effect of the impairment charge, from 5.8% of sales during fiscal 2001, before the effect of the legal settlement expense.

Interest Expense, Net and Amortization of Deferred Financing Fees

Interest expense, net of interest income, and amortization of deferred financing fees, decreased $14.8 million to $21.5 million in fiscal 2002 from $36.3 million in fiscal 2001. The decrease was primarily the result of reduced borrowings under the Company's senior credit facility due to the pay down of debt with proceeds from the GameStop IPO.

Equity in Net Loss of Barnes & Noble.com

The Company's share in the net loss of Barnes & Noble.com, based on an approximate 36 percent equity interest, was $26.8 million and $88.4 million in fiscal 2002 and 2001, respectively.

Other Expense

In fiscal 2002, the Company determined that a decrease in value in certain of its equity investments occurred which was other than temporary. As a result, other expense of $16.5 million during fiscal 2002 included the recognition of losses of $11.5 million in excess of what would otherwise have been recognized by application of the equity method in accordance with Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock". The $16.5 million loss in other expense was primarily comprised of $8.5 million attributable to iUniverse.com, $5.1 million attributable to *BOOK®* magazine and $2.4 million attributable to enews, inc. Other expense of $11.7 million in fiscal 2001 was due to $4.0 million in equity losses in iUniverse.com, $2.5 million in equity losses in *BOOK®* magazine and $5.5 million in equity losses in enews, inc., partially offset by a one-time gain of $0.3 million from the partial sale of Indigo.

Income Taxes

Barnes & Noble's effective tax rate in fiscal 2002 decreased to 40.25 percent compared with 41.50 percent during fiscal 2001.

Minority Interest

During fiscal 2002, minority interest for GameStop was $19.1 million based on a 36.5% basic weighted average ownership interest.

Earnings

As a result of the factors discussed above, the Company reported consolidated net earnings of $99.9 million (or $1.39 per share) during fiscal 2002 compared with net earnings of $64.0 million (or $0.94 per share) during fiscal 2001. Components of diluted earnings per share are as follows:

Fiscal Year	2002	2001
Barnes & Noble Bookstores	$ 1.52	1.61
Barnes & Noble.com	(0.21)	(0.66)
Total book operating segment	1.31	0.95
Video game operating segment	0.40	0.11
Impairment charge	(0.19)	—
Other investments	(0.13)	(0.09)
Legal settlement expense	—	(0.03)
Consolidated EPS	$ 1.39	0.94

Seasonality

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

Liquidity and Capital Resources

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

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

In February 2002, the Company completed an IPO for its GameStop subsidiary, raising $250.0 million in cash for the Company (which was used to pay down debt) and $98.0 million in net proceeds for GameStop. As a result of the IPO, the Company retained an approximate 63 percent interest in GameStop.

Cash Flow

Cash flows provided from operating activities were $509.0 million, $329.0 million and $457.4 million during fiscal 2003, 2002 and 2001, respectively. In fiscal 2003, the increase in cash flows from operating activities was primarily attributable to improved working capital management and an increase in net earnings. In fiscal 2002, the decrease in cash flows from operating activities was primarily attributable to a weaker-than-expected holiday season, as well as the increase in inventory due to the Reno distribution center becoming fully operational. In fiscal 2001, the increase in cash flows from operating activities was primarily attributable to increased accounts payable leverage and improvement in net earnings.

The weighted-average age per square foot of the Company's 647 Barnes & Noble stores was 6.5 years as of January 31, 2004 and is expected to increase to approximately 7.1 years by January 29, 2005. As the Barnes & Noble stores continue to mature, and as the number of new stores opened during the fiscal year decreases as a percentage of the existing store base, the increasing operating profits of Barnes & Noble stores are expected to generate a greater portion of the cash flows required for working capital, including new store inventories, capital expenditures and other initiatives.

Capital Structure

Strong cash flows from operations and a continued emphasis on working capital management strengthened the Company's balance sheet in fiscal 2003. Shareholders' equity increased 22.6% to $1.260 billion as of January 31, 2004, from $1.028 billion as of February 1, 2003.

In fiscal 2002, the Company obtained a $500.0 million three-year senior revolving credit facility (the Facility) with a syndicate of banks led by Fleet National Bank as administrative agent. The Facility, which was to expire in May 2005, replaced the Company's $850.0 million senior credit facility. In fiscal 2003, the Company exercised its option to extend $490.0 million of its $500.0 million Facility for one additional year, through May 2006. The Facility permits borrowings at various interest-rate options based on the prime rate or London Interbank Offer Rate (LIBOR) plus applicable margin depending upon the level of the Company's fixed charge coverage ratio. The Company's fixed charge coverage is calculated as the ratio of earnings before interest, taxes, depreciation, amortization and rents to interest plus rents. In addition, the Facility requires the Company to pay a commitment fee of 0.25 percent, which varies based upon the Company's fixed charge coverage ratio, calculated as a percentage of the unused portion. The Company is required to pay utilization fees of 0.125 percent or 0.25 percent on all outstanding loans under the Facility if the aggregate outstanding loans are greater than 33 percent and 66 percent, respectively, of the aggregate amount of the Facility.

A portion of the Facility, not to exceed $100.0 million, is available for the issuance of letters of credit. Also, under certain circumstances, the Company may be permitted to increase the size of the Facility to an amount not to exceed $600.0 million.

In fiscal 2001, the Company issued $300.0 million of 5.25 percent convertible subordinated notes due March 15, 2009. The notes are convertible into the Company's common stock at a conversion price of $32.512 per share. At the Company's option, it may redeem the notes at a premium to par beginning on March 20, 2004.

Borrowings under the Company's convertible subordinated notes and senior credit facilities averaged $342.5 million, $377.3 million and $689.3 million and peaked at $474.2 million, $490.3 million and $870.0 million during fiscal 2003, 2002 and 2001, respectively. The ratio of debt to equity improved to 0.24:1.00 as of January 31, 2004 from 0.29:1.00 as of February 1, 2003, primarily due to the increase in net earnings and stock option exercise proceeds.

Capital Investment

Capital expenditures totaled $163.4 million, $179.5 million and $168.8 million during fiscal 2003, 2002 and 2001, respectively. Capital expenditures in fiscal 2004, primarily for the opening of between 30 and 35 new Barnes & Noble stores, between 300 and 330 GameStop stores and the opening of a new distribution center scheduled for 2006 are expected to be between $225 million and $250 million, although commitment to many of such expenditures has not yet been made.

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

In fiscal 1999, the Board of Directors authorized a common stock repurchase program for the purchase of up to $250.0 million of the Company's common shares. As of January 31, 2004, the Company has repurchased 8,807,700 shares at a cost of approximately $189.7 million under this program. The repurchased shares are held in treasury.

In fiscal 2002, the Company announced its intent to purchase up to $10.0 million of Barnes & Noble.com Class A Common Stock in the open market or through privately negotiated transactions. The Company purchased approximately 3.0 million shares of Barnes & Noble.com Class A Common Stock for $3.3 million.

On September 15, 2003, the Company completed its acquisition of all of Bertelsmann's interest in Barnes & Noble.com. The purchase price paid by the Company was $165.4 million (including acquisition related costs) in a combination of cash and a note, equivalent to $2.80 per share or membership unit in Barnes & Noble.com. The note issued to Bertelsmann in the amount of $82.0 million was paid off in the fourth quarter of fiscal 2003. As a result of the acquisition, the Company increased its economic interest in Barnes & Noble.com to approximately 75 percent. Subsequent to the purchase, Barnes & Noble.com employees exercised 3.9 million stock options thereby reducing the Company's economic interest in Barnes & Noble.com to approximately 73 percent. On January 8, 2004, the Company and bn.com entered into a definitive merger agreement. Under the terms of the merger, the holders of bn.com's outstanding common stock, other than that owned by the Company and its subsidiaries, will be entitled to receive $3.05 in cash for each share that they own. As a result of this transaction, bn.com will become wholly owned by the Company. The closing of the merger is expected to occur during the second quarter of fiscal 2004.

Contractual Obligations

The following table sets forth the Company's contractual obligations as of January 31, 2004 (in millions):

Contractual Obligations	Payments Due by Period Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Long-term debt	$ 300.0	$ —	$ —	$ —	$ 300.0
Capital lease obligations	—	—	—	—	—
Operating leases	2,936.4	383.9	706.9	618.4	1,227.2
Purchase obligations	51.8	22.9	28.5	0.4	—
Other Long-Term Liabilities Reflected on the Registrant's Balance Sheet under GAAP	6.8	1.6	1.8	—	3.4
Total	$3,295.0	$ 408.4	$ 737.2	$ 618.8	$ 1,530.6

Off-Balance Sheet Arrangements

As of January 31, 2004, the Company had no off-balance sheet arrangements as defined in Item 303 of the Regulation S-K.

Impact of Inflation

The Company does not believe that inflation has had a material effect on its net sales or results of operations.

Certain Relationships and Related Transactions

See footnote 21 to the Notes to Consolidated Financial Statements.

Newly Issued Accounting Pronouncements

In December 2003, the Financial Accounting Standards Board issued SFAS No. 132 (Revised 2003), “Employers’ Disclosures about Pensions and Other Post-retirement Benefits and amendment of FASB Statements No. 87, 88 and 106”. This Statement revises employers’ disclosures about pension plans and other post-retirement benefit plans. The disclosures required by this Statement are effective for fiscal years ending after December 15, 2003. The Company has incorporated these expanded disclosures into the footnotes to the Company’s financial statements included herein.

Disclosure Regarding Forward-Looking Statements

This report may contain certain forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934) and information relating to the Company that are based on the beliefs of the management of the Company as well as assumptions made by and information currently available to the management of the Company. When used in this report, the words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan” and similar expressions, as they relate to the Company or the management of the Company, identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events, the outcome of which is subject to certain risks, including among others general economic and market conditions, decreased consumer demand for the Company’s products, possible disruptions in the Company’s computer or telephone systems, possible work stoppages or increases in labor costs, possible increases in shipping rates or interruptions in shipping service, effects of competition, possible disruptions or delays in the opening of new stores or the inability to obtain suitable sites for new stores, higher-than-anticipated store closing or relocation costs, higher interest rates, the performance of the Company’s online initiatives such as Barnes & Noble.com, the performance and successful integration of acquired businesses, the success of the Company’s strategic investments, unanticipated increases in merchandise or occupancy costs, unanticipated adverse litigation results or effects, and other factors which may be outside of the Company’s control. In addition, the video-game market has historically been cyclical in nature and dependent upon the introduction of new generation systems and related interactive software. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described as anticipated, believed, estimated, expected, intended or planned. Subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements in this paragraph.

CONSOLIDATED STATEMENTS OF OPERATIONS

Fiscal Year (Thousands of dollars, except per share data)	2003	2002	2001
Sales	$ 5,951,015	5,269,335	4,870,390
Cost of sales and occupancy	4,323,767	3,847,482	3,559,201
Gross profit	1,627,248	1,421,853	1,311,189
Selling and administrative expenses	1,124,551	973,495	905,117
Legal settlement expense	—	—	4,500
Depreciation and amortization	163,629	148,691	147,826
Pre-opening expenses	8,778	10,227	7,959
Impairment charge	—	25,328	—
Operating profit	330,290	264,112	245,787
Interest (net of interest income of $2,193, $3,499 and $1,319, respectively) and amortization of deferred financing fees	(20,140)	(21,506)	(36,334)
Equity in net loss of Barnes & Noble.com	(14,311)	(26,795)	(88,378)
Other expense	—	(16,498)	(11,730)
Earnings before taxes and minority interest	295,839	199,313	109,345
Income taxes	120,554	80,223	45,378
Earnings before minority interest	175,285	119,090	63,967
Minority interest	(23,432)	(19,142)	—
Net earnings	$ 151,853	99,948	63,967
Earnings per common share			
Basic	$ 2.30	1.51	0.96
Diluted	$ 2.07	1.39	0.94
Weighted average common shares outstanding			
Basic	65,989,000	66,362,000	66,393,000
Diluted	77,105,000	77,680,000	77,839,000

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(Thousands of dollars, except per share data)	January 31, 2004	February 1, 2003
Assets		
Current assets:		
Cash and cash equivalents	$ 487,200	267,642
Receivables, net	60,529	66,948
Barnes & Noble.com receivable	—	55,174
Merchandise inventories	1,526,156	1,395,872
Prepaid expenses and other current assets	119,604	101,232
Total current assets	2,193,489	1,886,868
Property and equipment:		
Land and land improvements	3,247	3,247
Buildings and leasehold improvements	533,272	495,499
Fixtures and equipment	1,141,317	936,136
	1,677,836	1,434,882
Less accumulated depreciation and amortization	991,187	812,579
Net property and equipment	686,649	622,303
Goodwill	509,244	390,396
Intangible assets, net	94,574	48,176
Investment in Barnes & Noble.com	—	23,280
Other noncurrent assets	23,338	24,404
Total assets	$ 3,507,294	2,995,427
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 858,068	710,907
Accrued liabilities	583,773	520,541
Total current liabilities	1,441,841	1,231,448
Long-term debt	300,000	300,000
Deferred income taxes	170,066	119,823
Other long-term liabilities	108,441	115,415
Minority interest	227,287	200,951
Shareholders' equity:		
Common stock; $.001 par value; 300,000,000 shares authorized; 76,854,856 and 73,110,740 shares issued, respectively	77	73
Additional paid-in capital	914,319	828,522
Accumulated other comprehensive loss	(8,579)	(11,064)
Retained earnings	543,503	391,650
Treasury stock, at cost, 8,807,700 and 8,502,700 shares, respectively	(189,661)	(181,391)
Total shareholders' equity	1,259,659	1,027,790
Commitments and contingencies	—	—
Total liabilities and shareholders' equity	$ 3,507,294	2,995,427

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Thousands of dollars)	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock at Cost	Total
Balance at February 3, 2001	$ 71	673,122	(5,874)	227,735	(117,377)	777,677
Comprehensive earnings:						
Net earnings	—	—	—	63,967	—	
Other comprehensive loss, net of tax (See Note 14):						
Unrealized loss on available-for-sale securities net of reclassification adjustment	—	—	(7,109)	—	—	
Unrealized loss on derivative instrument	—	—	(1,320)	—	—	
Total comprehensive earnings						55,538
Exercise of 2,163,893 common stock options, including tax benefits of $15,769	2	54,893	—	—	—	54,895
Balance at February 2, 2002	73	728,015	(14,303)	291,702	(117,377)	888,110
Comprehensive earnings:						
Net earnings	—	—	—	99,948	—	
Other comprehensive loss, net of tax (See Note 14):						
Unrealized loss on available-for-sale securities net of reclassification adjustment	—	—	12,950	—	—	
Unrealized gain on derivative instrument	—	—	1,316	—	—	
Minimum pension liability	—	—	(11,027)	—	—	
Total comprehensive earnings						103,187
GameStop Corp. IPO (net of deferred income tax of $65,306)	—	90,184	—	—	—	90,184
Exercise of 397,671 common stock options, including tax benefits of $1,359	—	8,482	—	—	—	8,482
Exercise of common stock options of subsidiary, including tax benefits of $1,201	—	1,841	—	—	—	1,841
Treasury stock acquired, 2,998,000 shares	—	—	—	—	(64,014)	(64,014)
Balance at February 1, 2003	73	828,522	(11,064)	391,650	(181,391)	1,027,790
Comprehensive earnings:						
Net earnings	—	—	—	151,853	—	
Other comprehensive loss, net of tax (See Note 14):						
Foreign currency translation	—	—	296	—	—	
Unrealized loss on available-for-sale securities	—	—	128	—	—	
Unrealized gain on derivative instrument	—	—	3	—	—	
Minimum pension liability	—	—	2,058	—	—	
Total comprehensive earnings						154,338
Exercise of 5,062,866 common stock options, including tax benefits of $18,724	4	71,816	—	—	(2,556)	69,264
Exercise of common stock options of subsidiaries, including tax benefits of $6,202	—	13,981	—	—	—	13,981
Treasury stock acquired, 305,000 shares	—	—	—	—	(5,714)	(5,714)
Balance at January 31, 2004	$ 77	914,319	(8,579)	543,503	(189,661)	1,259,659

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal Year (Thousands of dollars)	2003	2002	2001
Cash flows from operating activities:			
Net earnings	$ 151,853	99,948	63,967
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Depreciation and amortization (including amortization of deferred financing fees)	166,545	151,586	150,118
Deferred taxes	40,921	7,122	(32,131)
Minority interest	23,432	19,142	—
Equity in net loss of Barnes & Noble.com	14,311	26,795	88,378
Increase in other long-term liabilities for scheduled rent increases in long-term leases	690	2,822	5,829
Loss on disposal of property and equipment	232	6,690	4,019
Other expense, net	—	16,498	11,730
Impairment charge	—	25,328	—
Changes in operating assets and liabilities, net	111,054	(26,932)	165,481
Net cash flows from operating activities	509,038	328,999	457,391
Cash flows from investing activities:			
Acquisition of consolidated subsidiaries, net of cash acquired	(144,208)	(122,593)	(13,412)
Purchases of property and equipment	(163,387)	(179,545)	(168,833)
Purchase of investments	(1,474)	(4,209)	(5,581)
Net increase in other noncurrent assets	(1,576)	(4,459)	(14,648)
Proceeds from the partial sale of investments	—	—	6,072
Net cash flows from investing activities	(310,645)	(310,806)	(196,402)
Cash flows from financing activities:			
Proceeds from exercise of common stock options	61,884	8,133	39,126
Proceeds from GameStop initial public offering	—	346,112	—
Net decrease in revolving credit facility	—	(149,000)	(517,900)
Proceeds from issuance of long-term debt	—	—	300,000
Purchase of treasury stock	(5,714)	(64,014)	—
Acquisition of minority interest	(35,005)	—	—
Net cash flows from financing activities	21,165	141,231	(178,774)
Net increase in cash and cash equivalents	219,558	159,424	82,215
Cash and cash equivalents at beginning of year	267,642	108,218	26,003
Cash and cash equivalents at end of year	$ 487,200	267,642	108,218
Changes in operating assets and liabilities, net:			
Receivables, net	$ 29,929	(7,403)	(14,065)
Merchandise inventories	(80,122)	(94,281)	(46,387)
Prepaid expenses and other current assets	(6,054)	(4,914)	6,926
Accounts payable and accrued liabilities	167,301	79,666	219,007
Changes in operating assets and liabilities, net	$ 111,054	(26,932)	165,481
Supplemental cash flow information:			
Cash paid during the period for:			
Interest	$ 18,806	20,377	29,867
Income taxes	$ 112,804	78,525	43,646
Supplemental disclosure of subsidiaries acquired:			
Assets acquired, net of cash acquired	$ 228,459	133,855	13,412
Liabilities assumed	84,251	11,262	—
Cash paid	$ 144,208	122,593	13,412

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of dollars, except per share data)
For the 52 weeks ended January 31, 2004 (fiscal 2003), 52 weeks ended February 1, 2003 (fiscal 2002) and 52 weeks ended February 2, 2002 (fiscal 2001).

1. Summary of Significant Accounting Policies

Business

Barnes & Noble, Inc. (Barnes & Noble), through its subsidiaries (collectively, the Company), is primarily engaged in the sale of books, video games and entertainment-software products. The Company employs two principal bookselling strategies: its superstore strategy through its wholly owned subsidiary Barnes & Noble Booksellers, Inc., primarily under its Barnes & Noble Booksellers trade name (hereafter collectively referred to as Barnes & Noble stores) and its mall strategy through its wholly owned subsidiary B. Dalton Bookseller, Inc. primarily under its B. Dalton store trade name (hereafter collectively referred to as B. Dalton stores). The Company publishes books under its own imprints which, since January 2003, also include Sterling Publishing Co., Inc. (Sterling Publishing) and its various imprints. The Company is also engaged in the online retailing of books and other products through an approximate 73 percent interest in barnesandnoble.com llc (Barnes & Noble.com), as more fully described in Note 8. The Company currently has an approximate 64 percent economic interest in GameStop Corp., the operator of video-game and entertainment-software stores primarily under the GameStop trade name, and a Web site (www.gamestop.com), and publisher of *Game Informer* magazine (hereafter collectively referred to as GameStop stores). Additionally, the Company owns an approximate 74 percent interest in Calendar Club L.L.C. (Calendar Club), an operator of seasonal kiosks.

Consolidation

The consolidated financial statements include the accounts of Barnes & Noble and its wholly and majority-owned subsidiaries. Barnes & Noble.com reports its results based on a calendar year, and accordingly their financial statements are consolidated on that basis. Investments in affiliates in which ownership interests range from 20 percent to 50 percent, are accounted for under the equity method. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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

Cash and Cash Equivalents

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

Merchandise Inventories

Merchandise inventories are stated at the lower of cost or market. Cost is determined primarily by the retail inventory method on the first-in, first-out (FIFO) basis for 77 percent and 82 percent of the Company's merchandise inventories as of January 31, 2004 and February 1, 2003, respectively. Merchandise inventories of GameStop, Barnes & Noble.com, and Calendar Club represent 19 percent and 12 percent of merchandise inventories as of January 31, 2004 and February 1, 2003, respectively, and are recorded based on the average cost method. The remaining merchandise inventories are valued on the last-in, first-out (LIFO) method.

If substantially all of the merchandise inventories currently valued at LIFO costs were valued at current costs, merchandise inventories would remain unchanged as of January 31, 2004 and February 1, 2003.

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 improvements and major remodeling costs are capitalized. Leasehold improvements are capitalized and amortized over the shorter of their estimated useful lives or the terms of the respective leases. Capitalized lease acquisition costs are being amortized over the lease terms of the underlying leases. Costs incurred in purchasing management information systems are capitalized and included in property and equipment. These costs are amortized over their estimated useful lives from the date the systems become operational. Internally developed software is expensed as incurred.

Other Long-Lived Assets

The Company's other long-lived assets include property and equipment and amortizable intangibles. At January 31, 2004, the Company had $686,649 of property and equipment, net of accumulated depreciation, and $20,156 of amortizable intangible assets, net of amortization, accounting for approximately 20.2% of the Company's total assets. The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Recoverability of assets held and used are measured by a comparison of the carrying amount of an asset to undiscounted pre-tax future net cash flows. Future events could cause the Company to conclude that impairment indicators exist and that long-lived assets may be impaired. Any resulting impairment loss could have a material adverse impact on the Company's financial condition and results of operations.

Goodwill and Unamortizable Intangible Assets

The costs in excess of net assets of businesses acquired are carried as goodwill in the accompanying consolidated balance sheets.

At January 31, 2004, the Company had $509,244 of goodwill and $74,418 of unamortizable intangible assets (i.e. those with an indefinite life), accounting for approximately 16.6% of the Company's total assets. SFAS No. 142, "Goodwill and Other Intangible Assets", requires that goodwill and other unamortizable intangible assets no longer be amortized, but instead be tested for impairment at least annually or earlier if there are impairment indicators. The Company performs a two-step process for impairment testing of goodwill as required by SFAS No. 142. The first step of this test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount. The second step (if necessary) measures the amount of the impairment. The Company completed its annual impairment test on the goodwill in November 2003 and deemed that no impairment charge was necessary. The Company has noted no subsequent indicators of impairment. The Company tests unamortizable intangible assets by comparing the fair value and the carrying value of such assets. Changes in market conditions, among other factors, could have a material impact on these estimates.

The effect of adoption of SFAS No. 142 on the reported net income (loss) is as follows:

Fiscal Year	2003	2002	2001
Reported net income	$151,853	99,948	63,967
Add back: Amortization of goodwill, net of tax	—	—	7,419
Net income, as adjusted	$151,853	99,948	71,386
Basic earnings per share:			
Reported net income	$ 2.30	1.51	0.96
Add back: Amortization of goodwill, net of tax	—	—	0.11
Net income, as adjusted	$ 2.30	1.51	1.07
Diluted earnings per share:			
Reported net income	$ 2.07	1.39	0.94
Add back: Amortization of goodwill, net of tax	—	—	0.10
Net income, as adjusted	$ 2.07	1.39	1.04

Deferred Charges

Costs incurred to obtain long-term financing are amortized over the terms of the respective debt agreements using the straight-line method, which approximates the interest method. Unamortized costs included in other noncurrent assets as of January 31, 2004 and February 1, 2003 were $9,732 and $11,130, respectively. Amortization expense included in interest and amortization of deferred financing fees were $2,916, $2,894 and $2,292 during fiscal 2003, 2002 and 2001, respectively.

Derivative Instruments

Under an agreement which expired February 3, 2003, the Company used an interest-rate swap as a derivative to modify the interest characteristics of its outstanding floating rate debt, thereby reducing its exposure to fluctuations in interest rates. The Company's accounting policy was based on its designation of such instruments as cash flow hedges whereby changes in the fair value in the derivative have been included in other comprehensive income. The Company did not enter into the contract for speculative purposes.

Revenue Recognition

Revenue from sales of the Company's products is recognized at the time of sale. Sales returns (which are not significant) are recognized at the time returns are made.

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

Subscription revenue is recognized on a straight-line basis as magazine issues are delivered.

Advertising Costs

The costs of advertising are expensed as incurred during the year pursuant to Statement of Position 93-7, "Reporting on Advertising Costs". In addition, consideration received from vendors in conjunction with the Company's cooperative advertising program is netted against the related expenses. Advertising costs are charged to selling and administrative expenses. As a result of the adoption of requirements set forth in Emerging Issues Task Force (EITF) Issue 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor", which are effective for arrangements entered into after December 31, 2002, the Company has reclassified some of its co-op advertising from an offset to selling and administrative expenses to a reduction in costs of sales and occupancy. The implementation of EITF Issue 02-16 did not have a material effect on the Company's annual results of operations.

Closed Store Expenses

When the Company closes or relocates a store, the Company charges unrecoverable costs to expense. Such costs include the net book value of abandoned fixtures and leasehold improvements and, when a store is closed, a provision for future lease obligations, net of expected sublease recoveries. Costs associated with store closings of $5,952, $10,111 and $9,831 during fiscal 2003, 2002 and 2001, respectively, are included in selling and administrative expenses in the accompanying consolidated statements of operations.

Net Earnings Per Common Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding. Diluted earnings per share reflect, in periods in which they have a dilutive effect, the impact of common shares issuable upon exercise of the Company's and GameStop's outstanding stock options and with respect to the Company's deferred compensation plan, and assumes the conversion of the Company's 5.25% convertible subordinated notes for the period outstanding since their issuance in March 2001.

Income Taxes

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

Stock Options

The Company grants options to purchase Barnes & Noble, Inc. (BKS), GameStop Corp. (GME) and barnesandnoble.com inc. (BNBN) common shares under stock-based incentive plans. The Company accounts for all transactions under which employees receive such options based on the price of the underlying stock in accordance with the provisions of Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees”. The following table illustrates the effect on net income (loss) and income (loss) per share as if the Company had applied the fair value-recognition provisions of SFAS No. 123, “Accounting for Stock-Based Compensation”, as amended by SFAS No. 148, “Accounting for Stock-Based Compensation - Transition and Disclosure”, to stock-based incentive plans:

Fiscal Year	2003	2002	2001
Net earnings – as reported	$151,853	99,948	63,967
Compensation expense, net of tax			
BKS stock options	12,513	15,985	9,972
GME stock options, net of minority interest	4,778	4,676	8,300
BNBN stock options (a)	10	—	—
Pro forma net earnings – pro forma for SFAS No. 123	$134,552	79,287	45,695
Basic earnings per share:			
As reported	$ 2.30	1.51	0.96
Pro forma for SFAS No. 123	$ 2.04	1.19	0.69
Diluted earnings per share:			
As reported	$ 2.07	1.39	0.94
Pro forma for SFAS No. 123	$ 1.85	1.12	0.70

(a) Subsequent to the Company acquiring a controlling interest in Barnes & Noble.com (see footnote 8).

Reclassifications

Certain prior-period amounts have been reclassified for comparative purposes to conform with the fiscal 2003 presentation.

Reporting Period

The Company’s fiscal year is comprised of 52 or 53 weeks, ending on the Saturday closest to the last day of January. The reporting periods ended January 31, 2004, February 1, 2003 and February 2, 2002 contained 52 weeks.

Newly Issued Accounting Pronouncements

In December 2003, the Financial Accounting Standards Board (FASB) issued SFAS No. 132 (Revised 2003), “Employers’ Disclosures about Pensions and Other Post-retirement Benefits and amendment of FASB Statements No. 87, 88 and 106”. This Statement revises employers’ disclosures about pension plans and other post-retirement benefit plans. The disclosures required by this Statement are effective for fiscal years ending after December 15, 2003. The Company has incorporated these expanded disclosures into these footnotes.

2. Receivables, Net

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

	January 31, 2004	February 1, 2003
Trade accounts	$ 12,927	20,534
Credit/Debit card receivables (a)	32,955	27,382
Advertising	5,202	4,288
Receivables from landlords for leasehold improvements	2,508	9,800
Other receivables	6,937	4,944
Total receivables, net	$ 60,529	66,948

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

3. Debt

On May 22, 2002, the Company obtained a $500,000 three-year senior revolving credit facility (the Facility) with a syndicate of banks led by Fleet National Bank as administrative agent. The Facility, which was to expire in May 2005, replaced the Company’s $850,000 five-year senior revolving credit facility obtained on November 18, 1997. In fiscal 2003, the Company exercised its option to extend $490,000 of its $500,000 Facility for one additional year, through May 2006. The Facility permits borrowings at various interest-rate options based on the prime rate or London Interbank Offer Rate (LIBOR) plus applicable margin depending upon the level of the Company’s fixed charge coverage ratio. The Company’s fixed charge coverage is calculated as the ratio of earnings before interest, taxes, depreciation, amortization and rents to interest plus rents. In addition, the Facility requires the Company to pay a commitment fee of 0.25 percent, which varies based upon the Company’s fixed charge coverage ratio, calculated as a percentage of the unused portion. The Company is required to pay utilization fees of 0.125 percent or 0.25 percent on all outstanding loans under the Facility if the aggregate outstanding loans are greater than 33 percent and 66 percent, respectively, of the aggregate amount of the Facility.

A portion of the Facility, not to exceed $100,000, is available for the issuance of letters of credit. Also, under certain circumstances, the Company may increase the size of the Facility to an amount not to exceed $600,000.

Mandatory prepayments include the requirement that loans outstanding under the Facility be reduced by 100 percent of the net cash proceeds from (i) the disposition of the Company’s stock in certain entities, (ii) any equity issuance, and (iii) the disposition of certain other material assets, other than those assets disposed of during the ordinary course of business. Under certain circumstances, mandatory commitment reductions may include the requirement that the aggregate size of the Facility be reduced upon the disposition by the Company of its stock in GameStop.

The Facility contains covenants, limitations and events of default typical of credit facilities of this size and nature, including financial covenants, which require the Company to meet, among other things, leverage and fixed charge coverage ratios and which limit capital expenditures. Negative covenants include limitations on other indebtedness, liens, investments, mergers, consolidations, sales or leases of assets, acquisitions, distributions and dividends and other payments in respect of capital stock, transactions with affiliates, and sale/leaseback transactions. In the event the Company defaults on these financial covenants, all outstanding borrowings under the Facility may become immediately payable and no further borrowings may be available. The Facility is secured by the Company's capital stock in its subsidiaries, and by the accounts receivable and certain general intangibles of the Company and its subsidiaries. Net proceeds from the Facility are available for general corporate purposes.

In fiscal 2001, the Company issued $300,000, 5.25 percent convertible subordinated notes due March 15, 2009. The notes are convertible into the Company's common stock at a conversion price of $32.512 per share. At the Company's option, it may redeem the notes at a premium to par beginning on March 20, 2004.

The Company from time to time enters into interest rate swap agreements to manage interest-costs and risk associated with changes in interest rates. These agreements effectively convert underlying variable-rate debt based on prime rate or LIBOR to fixed-rate debt through the exchange of fixed and floating interest payment obligations without the exchange of underlying principal amounts. For each of the years ended January 31, 2004 and February 1, 2003, the Company had a notional amount outstanding of $0 and $55,000, respectively.

Selected information related to the Company's convertible subordinated notes and revolving credit facility:

Fiscal Year	2003	2002	2001
Balance at end of year	$300,000	300,000	449,000
Average balance outstanding during the year	$342,469	377,297	689,326
Maximum borrowings outstanding during the year	$474,150	490,300	870,000
Weighted average interest rate during the year	5.88%	5.70%	5.27%
Interest rate at end of year	5.25%	5.25%	4.33%

Fees expensed with respect to the unused portion of the Facility were $1,170, $999 and $516, during fiscal 2003, 2002 and 2001, respectively.

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

The Company has no agreements to maintain compensating balances.

4. Fair Values of Financial Instruments

The carrying values of cash and cash equivalents reported in the accompanying consolidated balance sheets approximate fair value due to the short-term maturities of these assets. The aggregate fair value of the Facility approximates its carrying amount because of its recent and frequent repricing based upon market conditions.

Interest-rate swap agreements are valued based on market quotes obtained from dealers. There were no interest rate swap agreements outstanding at January 31, 2004. The estimated fair value of the interest-rate swaps liability was $6 at February 1, 2003. The interest-rate swaps are included as a component of other long-term liabilities.

5. Other Expense

The following table sets forth the components of other expense:

Fiscal Year	2003	2002	2001
iUniverse.com (1) (2)	$ —	(8,489)	(3,985)
Equity in net losses of *BOOK*® magazine (2) (3)	—	(5,081)	(2,500)
Equity in net losses of enews, inc. (2) (4)	—	(2,351)	(5,581)
Other	—	(577)	336
Total other expense	$ —	(16,498)	(11,730)

(1) The Company has a 22 percent ownership interest in iUniverse.com. This investment is being accounted for under the equity method.

(2) During fiscal 2002, the Company determined that a decrease in value of its investment occurred which is other than temporary. This resulted in the recognition of losses in excess of what would otherwise be recognized by application of the equity method in accordance with Accounting Principles Board Opinion No. 18, “The Equity Method of Accounting for Investments in Common Stock”. The Company did not record any equity activity in fiscal 2003 as the investment balance was $0 at February 1, 2003.

(3) The Company has a 50 percent interest in *BOOK*® magazine. This investment is being accounted for under the equity method.

(4) The Company had an investment in enews, inc. which was accounted for under the equity method.

6. Marketable Equity Securities

Marketable equity securities are carried on the balance sheet at their fair market value as a component of other noncurrent assets. The following marketable equity securities as of January 31, 2004 and February 1, 2003 have been classified as available-for-sale securities:

	Fiscal 2003		
	Gemstar-TV Guide International Inc.	Indigo Books & Music Inc.	Total
Carrying value	$ —	718	718
Unrealized gain	—	213	213
Market value at January 31, 2004	$ —	931	931

	Fiscal 2002		
	Gemstar-TV Guide International Inc.	Indigo Books & Music Inc.	Total
Carrying value	$ 27,137	2,558	29,695
Impairment charge	(23,828)	(1,500)	(25,328)
Realized loss on sale of investment	(3,309)	(279)	(3,588)
Unrealized loss	—	(61)	(61)
Market value at February 1, 2003	$ —	718	718

7. Net Earnings Per Share

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

Fiscal Year		2003				2002		
		Income (Numerator)	Shares (Denominator)	Per Share Amount		Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS								
Net income		$151,853	65,989	$ 2.30		$ 99,948	66,362	$ 1.51
Effect of dilutive securities								
Options		—	1,889			—	2,091	
Convertible debt		10,151(a)	9,227			10,249(a)	9,227	
		162,004				110,197		
Effect of GameStop dilutive EPS								
GameStop net income less minority interest		40,571				33,262		
		121,433				76,935		
GameStop diluted EPS	$ 1.06				$ 0.87			
GameStop shares owned by Barnes & Noble	36,009	38,240			36,009	31,328		
		$159,673	77,105	$ 2.07		$108,263	77,680	$ 1.39

(a) Represents interest on convertible subordinated notes, net of taxes.

8. Barnes & Noble.com Acquisition

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

On May 25, 1999, bn.com completed an IPO of 28.75 million shares of Class A Common Stock and used the proceeds to purchase a 20 percent interest in Barnes & Noble.com. As a result, the Company and Bertelsmann each retained a 40 percent interest in Barnes & Noble.com. The Company recorded an increase in additional paid-in capital of $116,158 after taxes representing the Company's incremental share in the equity of Barnes & Noble.com. Under the terms of the November 12, 1998 joint venture agreement between the Company and Bertelsmann, the Company received a $25,000 payment from Bertelsmann in connection with the IPO. The Company recognized the $25,000 pre-tax gain in fiscal 1999.

In November 2000, Barnes & Noble.com acquired Fatbrain.com, Inc. (Fatbrain) through a merger with bn.com. Bn.com issued shares of its common stock to Fatbrain shareholders as partial consideration for the merger. As a result of this acquisition, the Company and Bertelsmann each retained an approximate 36 percent interest in Barnes & Noble.com. In October 2002, the Company announced its intent to purchase up to $10,000 of bn.com Class A Common Stock in the open market or through privately negotiated transactions. The Company purchased approximately 3.0 million shares of bn.com Class A Common Stock, bringing its economic ownership of Barnes & Noble.com to approximately 38 percent.

On September 15, 2003, the Company completed its acquisition of all of Bertelsmann's interest in Barnes & Noble.com. The purchase price paid by the Company was $165,406 (including acquisition related costs) in a combination of cash and a note, equivalent to $2.80 per share or membership unit in bn.com. The note issued to Bertelsmann in the amount of $82,000 was paid in the fourth quarter of fiscal 2003. As a result of the acquisition, the Company increased its economic interest in Barnes & Noble.com to approximately 75 percent. Subsequent to the purchase, Barnes & Noble.com employees exercised 3.9 million options to acquire stock in bn.com, with the resulting proceeds being used to acquire membership units in Barnes & Noble.com, thereby reducing the Company's economic interest in Barnes & Noble.com to approximately 73 percent. The acquisition was accounted for by the purchase method of accounting and, accordingly, the results of operations for the period subsequent to the acquisition are included in the consolidated financial statements.

Based upon a preliminary assessment of the fair values, the allocation of the purchase price to the proportionate amount of assets acquired and liabilities assumed was as follows:

Current assets	$ 35,370
Hardware and software	23,600
Other tangible assets	6,973
Customer list and relationships	4,800
Trade name	44,700
Goodwill	93,372
Total assets acquired	208,815
Liabilities assumed	43,409
Total purchase price	$165,406

Hardware and software have been assigned a preliminary estimated useful life of four years. The customer list and relationships intangible asset has been assigned a preliminary estimated useful life of four years to be amortized on an accelerated basis based on estimated usage where a substantial portion of the asset will be amortized in the first year. The above preliminary purchase price allocation is subject to revision as more detailed analysis is completed and additional information on the fair value of assets and liabilities of Barnes & Noble.com becomes available. The final allocation to goodwill and the trade name (which is considered to have an indefinite life and will not be amortized) will be tested at least annually for impairment in accordance with SFAS No. 142.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

The following table summarizes pro forma results as if the Company had acquired Bertelsmann's interest in Barnes & Noble.com (resulting in a 75 percent economic interest) and recorded the above noted preliminary allocations of purchase price on the first day of fiscal 2002:

Fiscal Year	2003	2002
Sales	$6,224,601	5,692,162
Net income	$ 144,300	80,620
Income per common share		
Basic	$ 2.19	1.21
Diluted	$ 1.97	1.14

The information has been prepared for comparative purposes only and does not purport to be indicative of the results of operations which actually would have occurred had the acquisition taken place on the date indicated, or which may result in the future.

On January 8, 2004, the Company and bn.com entered into a definitive merger agreement. Under the terms of the merger, the holders of bn.com's outstanding common stock, other than that owned by the Company and its subsidiaries, will be entitled to receive $3.05 in cash for each share that they own. As a result of this transaction, bn.com will become wholly owned by the Company. The closing of the merger is expected to occur during the second quarter of fiscal 2004.

9. Other Acquisitions

During fiscal 2003, the Company, through its approximate 64 percent owned subsidiary GameStop Corp. (GameStop), acquired a controlling interest in Gamesworld Group Limited (Gamesworld), an Ireland-based electronic games retailer, for $3,279 in cash. The acquisition was accounted for by the purchase method of accounting and, accordingly, the results of operations for the period subsequent to the acquisition are included in the consolidated financial statements. The excess of purchase price over the fair value of the net assets acquired, in the amount of $2,869, has been recorded as goodwill and will be tested annually for impairment in accordance with SFAS No. 142. The pro forma effect assuming the acquisition of Gamesworld at the beginning of fiscal 2002 is not material.

In fiscal 2002, the Company acquired Sterling Publishing, one of the top 25 publishers in the nation and the industry's leading publisher of how-to books. The acquisition was accounted for by the purchase method of accounting and, accordingly, the results of operations for the period subsequent to the acquisition are included in the consolidated financial statements. The excess of purchase price over the fair value of the net assets acquired has been recorded as goodwill and other intangible assets and will be tested annually for impairment in accordance with SFAS No. 142. The pro forma effect assuming the acquisition of Sterling Publishing at the beginning of fiscal 2002 is not material.

10. Employees' Retirement and Defined Contribution Plans

As of December 31, 1999, substantially all employees of the Company were covered under a noncontributory defined benefit pension plan (the Pension Plan). As of January 1, 2000, the Pension

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Plan was amended so that employees no longer earn benefits for subsequent service. Subsequent service continues to be the basis for vesting of benefits not yet vested at December 31, 1999 and the Pension Plan will continue to hold assets and pay benefits.

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

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

	Pension Plan			Postretirement Plan		
Fiscal Year	**2003**	**2002**	**2001**	**2003**	**2002**	**2001**
Service cost	$ —	—	—	—	—	—
Interest cost	2,028	1,951	1,869	282	251	175
Expected return on plan assets	(2,187)	(2,726)	(3,030)	—	—	—
Net amortization and deferral	1,159	536	43	51	6	(73)
Net periodic expense (income)	1,000	(239)	(1,118)	333	257	102
FAS 88 curtailment income (a)	—	—	831	—	—	—
Total expense (income)	$ 1,000	(239)	(287)	333	257	102

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

Total Company contributions charged to employee benefit expenses for the Savings Plans were $7,433, $6,709 and $5,929 during fiscal 2003, 2002 and 2001, respectively.

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

	Pension Plan			Postretirement Plan		
Fiscal Year	**2003**	**2002**	**2001**	**2003**	**2002**	**2001**
Discount rate	6.3%	6.5%	7.3%	6.5%	7.3%	7.3%
Expected return on plan assets	8.8%	9.0%	9.5%	—	—	—

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

	Pension Plan		Postretirement Plan	
Fiscal Year	**2003**	**2002**	**2003**	**2002**
Change in benefit obligation:				
Benefit obligation at beginning of year	$31,648	26,499	3,901	2,541
Interest cost	2,028	1,951	282	251
Actuarial loss	1,311	4,643	995	1,438
Benefits paid	(1,695)	(1,445)	(500)	(329)
Benefit obligation at end of year	$33,292	31,648	4,678	3,901
Change in plan assets:				
Fair value of plan assets at beginning of year	$25,306	28,973	—	—
Actual gain (loss) on assets	6,273	(2,221)	—	—
Employer contributions	—	—	—	—
Benefits paid	(1,695)	(1,446)	—	—
Fair value of plan assets at end of year	$29,884	25,306	—	—
Funded status	$ (3,408)	(6,342)	(4,678)	(3,901)
Unrecognized net actuarial loss	14,522	18,456	1,435	491
Net amount recognized	$11,114	12,114	(3,243)	(3,410)
Amounts recognized in the statement of financial position consist of:				
Prepaid (accrued) benefit cost	$ —	—	(3,243)	(3,410)
Accrued benefit liability	(3,408)	(6,342)	—	—
Accumulated other comprehensive income	14,522	18,456	—	—
Net amount recognized	$11,114	12,114	(3,243)	(3,410)

The health-care cost trend rate used to measure the expected cost of the Postretirement Plan benefits is assumed to be nine percent in 2004 declining at one percent decrements each year through 2007 and one-half percent decrements through 2009 to five percent in 2009 and each year thereafter. The health-care cost trend assumption has a significant effect on the amounts reported. For example, a one percent increase or decrease in the health-care cost trend rate would change the accumulated postretirement benefit obligation by approximately $401 and ($354), respectively, as of January 31, 2004, and would change the net periodic cost by approximately $25 and ($22), respectively, during fiscal 2003.

The Company's Retirement Plan allocation at January 31, 2004 and February 1, 2003, target allocation for fiscal 2004 and expected long-term rate of return by asset category are as follows:

	Target Allocation	Percentage of Plan Assets		Weighted-Average Expected Long-Term Rate of Return
Fiscal Year	**2003**	**2003**	**2002**	**2004**
Asset Category				
Large Capitalization Equities	25.0%	25.1%	22.7%	2.9%
Mid Capitalization Equities	15.0	15.0	14.0	1.7
Small Capitalization	15.0	15.3	14.8	1.7
International Equities	5.0	5.2	4.9	0.6
Fixed Income Core Bonds	35.0	34.4	37.5	1.9
Global Bonds	5.0	4.9	5.9	0.3
Cash	—	0.1	0.2	—
	100.0%	100.0%	100.0%	9.1%

The Company's investment strategy is to obtain the highest possible return commensurate with the level of assumed risk. Investments are well diversified within each of the major asset categories.

The expected long-term rate of return is figured by using the target allocation and expected returns for each asset class as in the table above. The actual historical returns are also relevant. Annualized returns for periods ending December 31, 2003 have been as follows: 23.7% for one year and 6.7% for five years.

The Company expects that there will be no minimum regulatory funding requirements that will need to be made during the fiscal year ending January 29, 2005 but that voluntary tax deductible contributions of up to about $3,000 will be allowed under Internal Revenue Service (IRS) rules. No decision has been made at this time on Company contributions.

Expected benefit payments are as follows over future years:

Fiscal Year	Pension Plan	Postretirement Plan
2004	$ 705	$ 356
2005	805	378
2006	927	395
2007	1,022	412
2008	1,161	420
2009-2013	7,460	2,029

On December 8, 2003, the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act) was signed into law. Following the guidance of the FASB, the Company has elected to defer recognition of this Act at this time. The accumulated postretirement benefit obligation and net periodic postretirement benefit cost do not reflect the effect of the Act on the Postretirement Plan.

Specific authoritative guidance on the accounting for the federal subsidy is pending and guidance, when issued, could require a change to previously reported information.

Barnes & Noble.com

As of June 30, 2000, substantially all employees of Barnes & Noble.com were covered under Barnes & Noble.com's Employees' Retirement Plan (the B&N.com Retirement Plan). The B&N.com Retirement Plan is a defined benefit pension plan. As of July 1, 2000, the B&N.com Retirement Plan was amended so that employees no longer earn benefits for subsequent service. Subsequent service continues to be the basis for vesting of benefits not yet vested at June 30, 2000 and the B&N.com Retirement Plan will continue to hold assets and pay benefits.

Actuarial assumptions used in determining the funded status of the B&N.com Retirement Plan are as follows:

	December 31,	
	2003	2002
Discount rate (beginning of year)	6.5%	7.3%
Discount rate (end of year)	6.3%	6.5%
Expected long-term rate of return on plan assets	8.8%	8.8%
Assumed rate of compensation increase	N/A	N/A

The following table sets forth the funded status of the B&N.com Retirement Plan and the pension liability recognized for the B&N.com Retirement Plan in the accompanying balance sheet:

	December 31, 2003
Actuarial present value of benefit obligation:	
Vested benefits	$ (845)
Non-vested benefits	(94)
Accumulated benefit obligation	(939)
Effect of projected future compensation increases	—
Projected benefit obligation	(939)
Plan assets at market value	988
Excess of plan assets over projected benefit obligation	49
Unrecognized net actuarial loss	339
Unrecognized net obligation remaining	—
Unrecognized prior service cost	—
Pension asset	$ 388

B&N.com's Retirement Plan allocation at December 31, 2003 and 2002, target allocation for 2004 and expected long-term rate of return by asset category are as follows:

	Target Allocation	Percentage of Plan Assets at December 31,		Weighted-Average Expected Long-Term Rate of Return
Fiscal Year	**2003**	**2003**	**2002**	**2004**
Asset Category				
Large Capitalization Equities	25.0%	24.9%	21.5%	2.9%
Mid Capitalization Equities	15.0	14.9	15.0	1.7
Small Capitalization Equities	15.0	15.1	15.2	1.7
International Equities	5.0	5.5	5.1	0.6
Fixed Income Core Bonds	35.0	33.1	34.4	1.9
Global Bonds	5.0	4.4	5.6	0.3
Cash	—	2.1	3.2	—
Total	100.0%	100.0%	100.0%	9.1%

Barnes & Noble.com's investment strategy is to obtain the highest possible return commensurate with the level of assumed risk. Investments are very well diversified within each of the major asset categories.

The expected long-term rate of return is figured by using the target allocation and expected returns for each class as in the table stated above. The actual historical returns are also relevant. Annualized returns for periods ending December 31, 2003 have been as follows: 23.7% for one year and 6.7% for five years.

Barnes & Noble.com expects that there will be no regulatory funding requirements that will need to be made during the fiscal year ending December 31, 2004. It is also expected that the maximum tax-deductible contributions will be $0 under IRS rules.

Expected benefit payments for the B&N.com Retirement Plan are as follows over future years:

Fiscal Year Ending December 31,	
2004	$ 6
2005	8
2006	10
2007	12
2008	22
2009-2013	144

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

11. Income Taxes

The Company files a consolidated federal return with all 80 percent or more owned subsidiaries. Federal and state income tax provisions (benefits) for fiscal 2003, 2002 and 2001 are as follows:

Fiscal Year	2003	2002	2001
Current:			
Federal	$ 66,788	59,598	62,141
State	12,845	13,503	13,891
	79,633	73,101	76,032
Deferred:			
Federal	33,202	6,311	(25,790)
State	7,719	811	(4,864)
	40,921	7,122	(30,654)
Total	$120,554	80,223	45,378

A reconciliation between the effective income tax rate and the federal statutory income tax rate during fiscal 2003, 2002 and 2001, is as follows:

Fiscal Year	2003	2002	2001
Federal statutory income tax rate	35.00%	35.00%	35.00%
State income taxes, net of federal income tax benefit	4.52	4.67	5.37
Amortization of non-deductible goodwill and trade names and write-down of goodwill	—	—	1.82
GameStop undistributed earnings	1.09	1.17	—
Other, net	0.14	(0.59)	(0.69)
Effective income tax rate	40.75%	40.25%	41.50%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

The tax effects of temporary differences that give rise to significant components of the Company's deferred tax assets and liabilities as of January 31, 2004 and February 1, 2003 are as follows:

	January 31, 2004	February 1, 2003
Deferred tax liabilities:		
Operating expenses	$ (9,680)	(23,175)
Depreciation	(60,717)	(32,437)
Gain on equity increase in GameStop	(62,507)	(65,306)
Investment in Barnes & Noble.com	(77,135)	(41,253)
Goodwill amortization	(15,100)	(11,241)
GameStop undistributed earnings	(5,545)	(2,332)
Total deferred tax liabilities	(230,684)	(175,744)
Deferred tax assets:		
Lease transactions	27,576	26,260
Investments in equity securities	15,095	15,182
Estimated accruals	20,221	24,491
Inventory	25,935	19,116
Pension	5,626	2,296
Insurance liability	7,821	6,824
Loss carryover	5,339	1,155
Other	465	215
Total deferred tax assets	108,078	95,539
Net deferred tax liabilities	$ (122,606)	(80,205)

Deferred income taxes are classified on the Company's balance sheet as follows:

	January 31, 2004	February 1, 2003
Short-term deferred tax assets (a)	$ 47,460	39,618
Long-term deferred tax liabilities	(170,066)	(119,823)
	$ (122,606)	(80,205)

(a) Reflected as a component of prepaid expenses and other current assets on the accompanying balance sheet.

At December 31, 2003, bn.com, which files separate tax returns, had net operating loss carryforwards of approximately $137,028 related to U.S. federal and state jurisdictions. These amounts begin to expire in 2010 and are subject to certain limitations under the Internal Revenue Code. Due to the current uncertainty regarding the realization of the related deferred tax asset of approximately $51,424, a full valuation allowance has been provided. Assuming the Company completes the acquisition of bn.com in fiscal 2004, it will be included in the Company's federal income tax return and a portion of this deferred tax asset may become realizable.

12. GameStop Initial Public Offering

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

On June 14, 2000, the Company acquired all of the outstanding shares of Funco, Inc., a Minneapolis-based electronic games retailer for approximately $167,560. The acquisition was accounted for by the purchase method of accounting. The excess of purchase price over the net assets acquired, in the amount of approximately $131,400, has been recorded as goodwill and is tested for impairment at least annually, in conformity with SFAS No. 142.

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

In February 2002, GameStop completed an initial public offering of shares of its Class A common stock at a price of $18.00 per share, raising net proceeds of approximately $348,000. A portion of the net proceeds was used to repay $250,000 of indebtedness to the Company, with the Company contributing the remaining $150,000 of indebtedness to GameStop as additional paid-in capital. The balance of the net proceeds (approximately $98,000) was used for working capital and general corporate purposes for GameStop. The Company currently owns approximately 64 percent of the outstanding shares of GameStop’s capital stock through its ownership of 100 percent of GameStop’s Class B common stock, which represents 94.5 percent of the combined voting power of all classes of GameStop voting stock. The Company recorded an increase in additional paid-in capital of $155,490 ($90,184 after taxes), representing the Company’s incremental share in the equity of GameStop.

13. Segment Information

The Company operates under two strategic groups that offer different products. These groups have been aggregated into two reportable operating segments: book operating segment and video game operating segment.

Book Operating Segment

This segment includes bookstores primarily under the Barnes & Noble Booksellers and B. Dalton Bookseller trade names. The 647 Barnes & Noble stores generally offer a comprehensive title base, a café, a children’s section, a music department, a magazine section and a calendar of ongoing events, including author appearances and children’s activities. The 195 B. Dalton stores are typically small format mall-based stores. In addition, this segment includes Barnes & Noble.com (an online retailer of books, music and DVDs/videos), the Company’s publishing operation (which includes Sterling Publishing) and Calendar Club (a majority-owned subsidiary of the Company that operates seasonal kiosks and seasonal stores). The book operating segment employs a merchandising strategy that targets the mainstream consumer book market.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Video Game Operating Segment

This segment includes 1,514 video game and PC-entertainment stores primarily under the GameStop trade name, a Web site (www.gamestop.com) and *Game Informer* magazine. The principal products of these stores are comprised of video-game hardware and software and PC-entertainment software.

The accounting policies of the segments are the same as those for the Company as a whole. Segment operating profit includes corporate expenses in each operating segment. The Company evaluates the performance of its segments based on operating profit.

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

	Sales			Depreciation and Amortization		
Fiscal Year	**2003**	**2002**	**2001**	**2003**	**2002**	**2001**
Book operating segment	$4,372,177	3,916,544	3,748,992	$134,682	126,138	117,529
Video game operating segment	1,578,838	1,352,791	1,121,398	28,947	22,553	30,297
Total	$5,951,015	5,269,335	4,870,390	$163,629	148,691	147,826

	Operating Profit			Equity Investment in Barnes & Noble.com (1)		
Fiscal Year	**2003**	**2002**	**2001**	**2003**	**2002**	**2001**
Book operating segment (2)	$225,906	177,041	211,700	$ —	23,280	48,217
Operating margin	*5.17%*	*4.52%*	*5.65%*			
Video game operating segment	104,384	87,071	34,087	—	—	—
Operating margin	*6.61%*	*6.44%*	*3.04%*			
Total	$330,290	264,112	245,787	$ —	23,280	48,217

	Capital Expenditures			Total Assets		
Fiscal Year	**2003**	**2002**	**2001**	**2003**	**2002**	**2001**
Book operating segment	$100,380	140,016	148,371	$2,608,358	2,191,533	2,026,123
Video game operating segment	63,007	39,529	20,462	898,936	803,894	597,097
Total	$163,387	179,545	168,833	$3,507,294	2,995,427	2,623,220

(1) On September 15, 2003, the Company acquired a controlling interest in Barnes & Noble.com. As a result, the Company no longer records its investment in Barnes & Noble.com under the equity method of accounting.

(2) Fiscal 2002 operating profit is net of an impairment charge of $25,328. Excluding the impairment charge, fiscal 2002 operating profit would have been $202,369. Fiscal 2001 operating profit is net of legal settlement expense of $4,500. Excluding the legal settlement expense, fiscal 2001 operating profit would have been $216,200.

A reconciliation of operating profit from reportable segments to earnings before taxes and minority interest in the consolidated financial statements is as follows:

Fiscal Year	2003	2002	2001
Reportable segments operating profit	$330,290	264,112	245,787
Interest, net	(20,140)	(21,506)	(36,334)
Equity in net loss of Barnes & Noble.com	(14,311)	(26,795)	(88,378)
Other expense	—	(16,498)	(11,730)
Consolidated earnings before income taxes and minority interest	$295,839	199,313	109,345

14. Comprehensive Earnings (Loss)

Comprehensive earnings are net earnings, plus certain other items that are recorded directly to shareholders' equity, as follows:

Fiscal Year	2003	2002	2001
Net earnings	$151,853	99,948	63,967
Other comprehensive earnings (loss):			
Foreign currency translation adjustments	296	—	—
Unrealized gain (loss) on available-for-sale securities (net of deferred tax expense (benefit) of $88, ($1,292) and ($5,437), respectively)	128	(1,859)	(7,665)
Less: reclassification adjustment (net of deferred income tax expense of $0, $10,465 and $395, respectively)	—	14,809	556
	128	12,950	(7,109)
Unrealized loss on derivative instrument (net of deferred tax of $2, $931 and $936, respectively)	3	1,316	(1,320)
Minimum pension liability (net of deferred tax expense (benefit) of $1,416 and ($7,429), respectively)	2,058	(11,027)	—
Total comprehensive earnings	$154,338	103,187	55,538

15. Changes in Intangible Assets and Goodwill

The following intangible assets were acquired by the Company primarily in connection with the purchase of Sterling Publishing in the fourth quarter of fiscal 2002 and the purchase of Bertelsmann's interest in Barnes & Noble.com in fiscal 2003:

	As of January 31, 2004		
	Gross Carrying Amount	Accumulated Amortization	Total
Amortizable intangible assets	$ 23,288	(3,132)	$20,156
Unamortizable intangible assets	74,418	—	74,418
	$ 97,706	(3,132)	$94,574

Amortizable intangible assets consist primarily of author contracts which are being amortized on a straight-line basis over a period of 10 years. Unamortizable intangible assets consist primarily of a trade name.

Aggregate Amortization Expense:	
For the 52 weeks ended January 31, 2004	$3,132
Estimated Amortization Expense:	
(12 months ending on or about January 31)	
2005	$4,684
2006	$2,322
2007	$1,991
2008	$1,899
2009	$1,849

The changes in the carrying amount of goodwill for the 52 weeks ended January 31, 2004 are as follows:

	Video Game Operating Segment	Book Operating Segment	Total
Balance as of February 1, 2003	$ 317,957	72,439	$390,396
Goodwill acquired (See footnotes 8 and 9)	2,869	102,075(a)	104,944
Acquisition of minority interest	12,642	—	12,642
Acquisition adjustment	—	1,262	1,262
Balance as of January 31, 2004	$ 333,468	175,776	$509,244

(a) Relates primarily to the acquisition of an approximate 37 percent economic interest in Barnes & Noble.com and is based on a preliminary assessment that is subject to revision as more detailed analysis is completed.

During the first quarter of fiscal 2003, the purchase price related to the acquisition of Sterling Publishing was allocated based on the valuation performed by an independent firm. As a result, $48,176 was reallocated from goodwill to the intangible assets noted above retroactive to February 1, 2003.

16. Shareholders' Equity

In fiscal 1999, the Board of Directors authorized a common stock repurchase program for the purchase of up to $250,000 of the Company's common shares. As of January 31, 2004, the Company has repurchased 8,807,700 shares at a cost of approximately $189,661 under this program. The repurchased shares are held in treasury.

Each share of the Company's Common Stock also entitles the holder to the right (the Right) to purchase one four-hundredth of a share of the Company's Series H Preferred Stock for $225. The Right is only exercisable if a person or group acquires 15 percent or more of the Company's outstanding Common Stock or announces a tender offer or exchange offer, the consummation of which would result in such person or group owning 15 percent or more of the Company's outstanding Common Stock.

17. Impairment Charge

During the first quarter of fiscal 2002, the Company deemed the decline in value in its available-for-sale securities in Gemstar-TV Guide International, Inc. (Gemstar) and Indigo Books & Music Inc. (Indigo) to be other than temporary. The investments had been carried at fair market value with unrealized gains and losses included in shareholders' equity. Events such as Gemstar's largest shareholder taking an impairment charge for its investment, the precipitous decline in the stock price subsequent to the abrupt resignation of one of its senior executives, the questioning of aggressive revenue recognition policies and the filing of a class action lawsuit against Gemstar, were among the items which led to management's decision to record an impairment for its investment in Gemstar of nearly $24,000 (before taxes). The Company's decision to record an impairment charge for its investment in Indigo was based on a review of Indigo's financial condition and historical share trading data. As a result, the Company recorded a non-cash impairment charge to operating earnings of $25,328 ($14,944 after taxes) to reclassify the accumulated unrealized losses and to write down the investments to their fair market value at the close of business on May 4, 2002. In the second quarter of fiscal 2002, the Company sold its investment in Gemstar resulting in a loss of $297.

18. Stock Option Plans

The Company grants options to purchase Barnes & Noble, Inc. (BKS), GameStop Corp. (GME) and barnesandnoble.com inc. (BNBN) common shares under the incentive plans discussed below. In accordance with SFAS No. 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 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 the companies' stock options. The pro forma effect on net income and earnings per share, had the Company applied the fair-value-recognition provisions of SFAS No. 123, is shown in Note 1.

BKS Stock Option Plans

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

The 1996 Plan and the 1991 Plan allow the Company to grant options to purchase up to 14,500,000 and 4,732,704 shares of common stock, respectively.

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

Leonard Riggio, the Company's chairman, exercised 1,318,750 stock options in September 2003, by tendering in payment of the exercise price of the stock options 606,277 shares that he held in the Company's stock. Mr. Riggio elected to defer receipt of the balance of the shares (712,473) due from the exercise pursuant to the Company's Executive Deferred Compensation Plan. In accordance therewith, the Company established a rabbi trust for the benefit of Mr. Riggio which holds 712,473 shares of the Company's common stock. The shares held by the rabbi trust are treated as treasury stock. Due to the deferred compensation arrangement these shares are included in the denominator of the EPS calculation in accordance with SFAS No. 128, "Earnings per share" when the impact is not antidilutive.

The weighted-average fair value of the options granted during fiscal 2003, 2002 and 2001 were estimated at $8.02, $8.96 and $10.13, respectively, using the Black-Scholes option-pricing model with the following assumptions:

Fiscal Year	2003	2002	2001
Volatility	40%	40%	35%
Risk-free interest rate	2.71%	3.51%	4.86%
Expected life	6 years	6 years	6 years

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

(Thousands of shares)	Shares	Weighted-Average Exercise Price
Balance, February 3, 2001	12,016	$ 17.15
Granted	2,204	18.24
Exercised	(2,163)	21.81
Forfeited	(362)	23.76
Balance, February 2, 2002	11,695	18.04
Granted	2,182	20.09
Exercised	(385)	18.52
Forfeited	(924)	20.22
Balance, February 1, 2003	12,568	18.22
Granted	1,967	18.78
Exercised	(5,063)	13.04
Forfeited	(573)	20.98
Balance, January 31, 2004	8,899	$ 21.12

The following table summarizes information as of January 31, 2004 concerning outstanding and exercisable options:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding (000s)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable (000s)	Weighted-Average Exercise Price
$10.00 - $16.80	2,329	6.59	$ 15.55	818	$ 14.30
$17.13 - $24.43	5,087	7.01	$ 20.98	2,324	$ 21.22
$26.50 - $34.75	1,483	5.96	$ 30.35	1,052	$ 30.85
$10.00 - $34.75	8,899	6.73	$ 21.12	4,194	$ 22.29

GME Stock Option Plans

In August 2001, the Company approved the 2001 Incentive Plan of GameStop (the 2001 Plan). The 2001 Plan assumed (by the issuance of replacement options) all stock options outstanding as of the effective date under the 2000 Incentive Plan of GameStop, Inc. (the 2000 Plan) under the same terms.

Effective September 13, 2000, the Company approved the 2000 Plan. The 2000 and 2001 Plans, as amended, provide a maximum aggregate amount of 20,000,000 shares of common stock with respect to which options may be granted and provide for the granting of incentive stock options, non-qualified stock options, and restricted stock, which may include, without limitation, restrictions on the right to vote such shares and restrictions on the right to receive dividends on such shares. The options to purchase common shares generally are issued at fair market value on the date of grant. Generally, the options vest and become exercisable ratably over a three-year period, commencing one year after the grant date, and expire ten years from issuance.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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

(Thousands of shares)	Shares	Weighted-Average Exercise Price
Balance, February 3, 2001	4,470	$ 3.53
Granted	4,500	4.51
Exercised	—	—
Forfeited	(159)	3.53
Balance, February 2, 2002	8,811	4.03
Granted	4,545	18.02
Exercised	(287)	3.53
Forfeited	(309)	12.10
Balance, February 1, 2003	12,760	8.83
Granted	1,119	12.19
Exercised	(1,943)	3.55
Forfeited	(629)	16.55
Balance, January 31, 2004	11,307	$ 9.63

The following table summarizes information as of January 31, 2004 concerning outstanding and exercisable options:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding (000s)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable (000s)	Weighted-Average Exercise Price
\$3.53 - \$4.51	6,436(1)	7.21	$ 4.21	6,436	$ 4.21
\$11.80 - \$12.71	925	9.17	$ 11.90	—	$ 11.90
\$15.25 - \$16.48	115	9.60	$ 15.41	5	$ 15.41
\$18.00 - \$21.25	3,831	8.31	$ 18.03	1,355	$ 18.03
\$3.53 - \$21.25	11,307	7.68	$ 9.63	7,796	$ 6.62

(1) 4,500 of these options, at a $4.51 exercise price, are held by Leonard Riggio, the Company's Chairman of the Board and principal stockholder.

The weighted-average fair value of the options granted during the 52 weeks ended January 31, 2004, February 1, 2003 and February 2, 2002 were estimated at $5.30, $8.08 and $2.75, respectively, using the Black-Scholes option pricing model with the following assumptions:

Fiscal Year	2003	2002	2001
Volatility	62%	62%	61%
Risk-free interest rate	3.19%	4.60%	4.97%
Expected life	6 years	6 years	6 years

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

BNBN Stock Option Plans

As of December 31, 1998, bn.com had one incentive plan (the 1998 Plan) under which stock options were granted to key officers, employees, consultants, advisors, and managers of bn.com and its subsidiaries and affiliates. Bn.com's Compensation Committee of the Board of Managers was responsible for the administration of the 1998 Plan. Generally, options were granted at fair market value, began vesting one year after grant in 25 percent increments, were to expire 10 years from issuance and were conditioned upon continual employment during the vesting period. Options granted under the 1998 Plan were replaced with options to purchase shares of Class A Common Stock of bn.com under its 1999 Incentive Plan (the 1999 Plan). The 1999 Plan is substantially the same as the 1998 Plan, and is administered by the Compensation Committee of bn.com's Board of Directors. The 1999 Plan allows bn.com to grant options to purchase 25,500,000 shares of bn.com's Class A Common Stock.

A summary of the status of the Company's BNBN stock options as of bn.com's fiscal year-ends is presented below:

(Thousands of shares)	Shares	Weighted-Average Exercise Price
Balance, December 31, 2000	18,890	$ 4.93
Granted	9,283	1.29
Exercised	—	—
Forfeited	(9,033)	4.34
Balance, December 31, 2001	19,140	3.44
Granted	3,638	1.19
Exercised	(15)	1.05
Forfeited	(4,591)	2.97
Balance, December 31, 2002	18,172	3.11
Granted	2,421	1.48
Exercised	(4,478)	1.29
Forfeited	(1,173)	4.46
Balance, December 31, 2003	14,942	$ 3.29

The following table summarizes information as of December 31, 2003 (bn.com's fiscal year-end) concerning outstanding and exercisable options:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding (000s)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable (000s)	Weighted-Average Exercise Price
$0.80 - $2.43	8,439	7.74	$ 1.25	8,292	$ 1.22
$2.50 - $4.91	3,385	4.55	$ 3.79	3,385	$ 3.79
$5.13 - $8.00	2,563	5.61	$ 7.93	2,563	$ 7.93
$8.13 - $18.38	555	6.33	$ 9.43	555	$ 9.43
$0.80 - $18.38	14,942	6.60	$ 3.29	14,795	$ 3.28

The weighted-average fair value of the options granted during bn.com's fiscal years ended December 31, 2003, 2002 and 2001 were estimated at $1.03, $1.06 and $1.06, respectively, using the Black-Scholes option pricing model with the following assumptions:

Fiscal Year Ended December 31,	2003	2002	2001
Volatility	102%	140%	113%
Risk-free interest rate	3.65%	4.00%	5.25%
Expected life	4 years	5 years	5 years

19. Commitments and Contingencies

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

Rental expense under operating leases are as follows:

Fiscal Year	2003	2002	2001
Minimum rentals	$391,676	370,746	358,522
Percentage rentals	12,600	15,404	14,274
	$404,276	386,150	372,796

Future minimum annual rentals, excluding percentage rentals, required under leases that had initial, noncancelable lease terms greater than one year, as of January 31, 2004 are:

Fiscal Year	
2004	$ 383,889
2005	366,072
2006	340,826
2007	321,760
2008	296,666
After 2008	1,227,150
	$2,936,363

The Company provides for minimum rent expense over the lease terms on a straight-line basis. The excess of such rent expense over actual lease payments is reflected primarily in other long-term liabilities in the accompanying balance sheets.

The Company leases one of its distribution facilities located in South Brunswick, New Jersey from the New Jersey Economic Development Authority (NJEDA) under the terms of an operating lease expiring in June 2011. Under the terms of this lease, the Company provides a residual value guarantee to the NJEDA, in an amount not to exceed $5,000, relating to the fair market value of this distribution facility calculated at the conclusion of the lease term. The Company believes that the possibility that any such payment would be required under this guarantee is remote.

20. Legal Proceedings

There have been no material developments with respect to previously reported legal proceedings, except as follows:

In August 1998, The Intimate Bookshop, Inc. and its owner, Wallace Kuralt, filed a lawsuit in the United States District Court for the Southern District of New York against the Company, Borders Group, Inc. and others, alleging violation of the Robinson-Patman Act and other federal law, New York statutes governing trade practices and common law. In March 2000, a Second Amended Complaint was served on the Company and other defendants alleging a single cause of action for violations of the Robinson-Patman Act. The Second Amended Complaint claims that The Intimate Bookshop, Inc. has suffered damages of $11,250 or more and requests treble damages, costs, attorneys' fees and interest, as well as declaratory and injunctive relief prohibiting the defendants from violating the Robinson-Patman Act. The Company served an Answer in April 2000 denying the material allegations of the Second Amended Complaint and asserting various affirmative defenses. On January 11, 2002, the Company and the other defendants filed a motion for summary judgment. A hearing on that motion was held on March 22, 2002. On September 30, 2003, the court granted defendants' motion and dismissed all of plaintiff's claims. Plaintiff filed a notice of appeal of that decision, which was withdrawn on February 10, 2004.

On March 14, 2003, a Company employee filed a class action lawsuit in the Superior Court of California, Orange County against the Company. The complaint alleges that the Company improperly classified the assistant store managers, department managers and receiving managers working in its California stores as salaried exempt employees. The complaint alleges that these employees spent more than 50 percent of their time performing non-exempt work and should have been classified as non-exempt employees. The complaint alleges violations of the California Labor Code and California Business and Professions Code and seeks relief, including overtime compensation, prejudgment interest, penalties, attorneys' fees and costs. The Company intends to vigorously defend this action, including contesting its certification of a class action.

Following the November 7, 2003 announcement of the Company's proposal to purchase all of the outstanding shares of bn.com's common stock at a price of $2.50 per share in cash, fifteen substantially similar putative class action lawsuits were filed by individual stockholders of bn.com against bn.com, bn.com's directors and the Company in the Delaware Court of Chancery. The complaints in these actions, which purported to be brought on behalf of all of bn.com's stockholders excluding the defendants and their affiliates, generally alleged (i) breaches of fiduciary duty by the Company and bn.com's directors, (ii) that the consideration offered by the Company was inadequate and constituted unfair dealing and (iii) that the Company, as controlling stockholder, breached its duty to bn.com's remaining stockholders by acting to further its own interests at the expense of bn.com's remaining stockholders. The complaints sought to enjoin the proposal or, in the alternative, damages in an unspecified amount and rescission in the event a merger occurred pursuant to the proposal. The complaints were eventually consolidated under the caption In re BarnesandNoble.com, Inc. Shareholders Litigation, Consolidated Civil Action No. 042-N. On January 8, 2004, the parties executed a Memorandum of Understanding reflecting the parties' agreement to settle the action. Pursuant to the terms of the Memorandum of Understanding, the parties agreed in good faith to execute as soon as practicable a Stipulation of Settlement providing for, among other things, the release of all claims of the plaintiffs and other members of the class against defendants that were or could have been asserted in the action or in any way arise out of or in connection with the merger. The Stipulation of Settlement also is to expressly provide that the defendants in the action deny that they have committed any violation of law whatsoever and are entering into the Stipulation of Settlement solely to eliminate the burden, expense and distraction of further litigation and to permit the merger to proceed as scheduled. The parties subsequently agreed that plaintiffs' counsel will apply to the court for an award of attorney's fees and costs in the amount of $600 and that defendants will not object to a fee award up to that amount. It was further agreed that defendants would pay or reimburse the costs of mailing. The settlement is contingent upon, among other things, court approval, the merger consideration being $3.05 per share in cash and consummation of the merger.

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

21. Certain Relationships and Related Transactions

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

The Company leases space for its executive offices in properties in which Leonard Riggio has a minority interest. The space was rented at an aggregate annual rent including real estate taxes of approximately $4,275, $4,043 and $3,966 in fiscal years 2003, 2002 and 2001, respectively. Rent per square foot is approximately $28.00, which is currently below market.

The Company leases a 75,000 square-foot office/warehouse from a partnership in which Leonard Riggio has a 50 percent interest, pursuant to a lease expiring in 2023. Pursuant to such lease, the Company paid $638, $752 and $490 in fiscal years 2003, 2002 and 2001, respectively.

The Company leases retail space in a building in which Barnes & Noble College Bookstores, Inc. (B&N College), a company owned by Leonard Riggio, subleases space from the Company. Occupancy costs allocated by the Company to B&N College for this space totaled $823, $771 and $748 for fiscal years 2003, 2002 and 2001, respectively. The amount paid by B&N College to the Company approximates the cost per square foot paid by the Company to its unaffiliated third-party landlord.

The Company subleased warehouse space from Barnes & Noble.com in Reno, Nevada. The Company paid Barnes & Noble.com $279 and $1,838 for such subleased space during fiscal 2002 and 2001, respectively. Additionally, in January 2001, the Company purchased $6,186 of warehouse equipment (valued at original cost) from bn.com's Reno warehouse. In January 2002, bn.com determined it could not effectively utilize the full capacity of the Reno, Nevada distribution center. As a result, bn.com's Board of Directors approved the transfer of the Reno warehouse lease and the sale of inventory located in Reno to the Company. The Company purchased the inventory from Barnes & Noble.com at cost for $9,877. In addition, the Company spent $1,755 to refurbish the facility. The Company's Board of Directors also approved the Company's assumption of the lease, which expires in 2010, and the hiring of all of the employees at the Reno facility. The Reno lease assignment and the transfer of the Reno facility to the Company was completed in April 2002. The Company uses the Reno facility to facilitate distribution to its current and future West Coast stores. In connection with the transition, Barnes & Noble.com agreed to pay one-half of the rent for the Reno facility through December 31, 2002. Barnes & Noble.com paid $905 in relation to these expenses for fiscal year 2002.

The Company subleases to Barnes & Noble.com approximately one-third of a 300,000 square-foot warehouse facility located in New Jersey. The Company has received from Barnes & Noble.com $558, $498 and $479 for such subleased space during fiscal 2003, 2002 and 2001, respectively. The amount paid by Barnes & Noble.com to the Company approximates the cost per square foot paid by the Company as a tenant pursuant to the lease of the space from an unaffiliated third party.

The Company has an agreement (the Supply Agreement) with Barnes & Noble.com whereby the Company charges Barnes & Noble.com the costs associated with such purchases plus incremental overhead incurred by the Company in connection with providing such inventory. The Supply Agreement is subject to certain termination provisions. Barnes & Noble.com purchased $113,758, $108,269 and $119,290 of merchandise from the Company during fiscal 2003, 2002 and 2001, respectively. The Company charged Barnes & Noble.com incremental fees of $3,303, $2,391 and $2,057 during fiscal 2003, 2002 and 2001. Barnes & Noble.com expects to source purchases through the Company in the future.

The Company has entered into agreements whereby Barnes & Noble.com receives various services from the Company, including, among others, services for payroll processing, benefits administration, insurance (property, casualty, medical, dental, life, etc.), tax, traffic, fulfillment and telecommunications. In accordance with the terms of such agreements, the Company has received, and expects to continue to receive, fees in an amount equal to the direct costs plus incremental expenses associated with providing such services. The Company received $2,025, $3,453 and $5,465 for such services during fiscal 2003, 2002 and 2001, respectively.

The aggregate receivable (which is historically settled within 60 days) from Barnes & Noble.com, prior to the Company acquiring a majority interest, in connection with the agreements described above was $55,174 and $47,204 as of February 1, 2003 and February 2, 2002, respectively.

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

In 2002, the Company through its wholly owned subsidiary, Marketing Services (Minnesota) Corp., entered into an agreement with Barnes & Noble.com for marketing services, which includes the issuance of gift cards. Under this agreement, the Company paid Barnes & Noble.com $18,153 and $5,273 during fiscal 2003 and 2002, respectively, which represents reimbursement for gift cards purchased in a Barnes & Noble store and redeemed on the Barnes & Noble.com Web site.

Barnes & Noble.com, through its fulfillment centers, ships various customer orders for the Company to its retail stores as well as to the Company's customers' homes. Barnes & Noble.com charges the Company the costs associated with such shipments plus any incremental overhead incurred by Barnes & Noble.com to process these orders. The Company paid Barnes & Noble.com $2,662, $1,746 and $1,030 for shipping and handling during fiscal 2003, 2002 and 2001, respectively. In addition, during fiscal 2001, the Company and Barnes & Noble.com reached an agreement whereby the Company pays a commission on all items ordered by customers at the Company's stores and shipped directly to customers' homes by Barnes & Noble.com. Commissions paid for these sales were $1,505, $1,547 and $359 during fiscal 2003, 2002 and 2001, respectively.

The Company paid B&N College certain operating costs B&N College incurred on the Company's behalf. These charges are included in the accompanying consolidated statements of operations and approximated $237, $219 and $188 for fiscal 2003, 2002 and 2001, respectively. B&N College purchased inventory, at cost plus an incremental fee, of $43,403, $44,944 and $41,452 from the Company during fiscal 2003, 2002 and 2001, respectively. The Company charged B&N College $2,198, $2,064 and $1,517 for fiscal years 2003, 2002 and 2001, respectively, for capital expenditures, business insurance and other operating costs incurred on its behalf.

The Company uses a jet aircraft owned by B&N College and pays for the costs and expenses of operating the aircraft based upon the Company's usage. Such costs which include fuel, insurance, personnel and other costs approximated $2,373, $1,872 and $2,228 during fiscal 2003, 2002 and 2001, respectively, and are included in the accompanying consolidated statements of operations.

In fiscal 1999, the Company acquired Babbage's Etc., one of the nation's largest video-game and entertainment-software specialty retailers, a company majority owned by Leonard Riggio. An independent Special Committee of the Board of Directors negotiated and approved the acquisition on behalf of the Company. The Company made an additional payment in fiscal 2002 due to certain financial performance targets having been met during fiscal 2001. In fiscal 2000, the Company acquired Funco, Inc. Through a corporate restructuring, Babbage's Etc. became a wholly owned subsidiary of Funco, Inc. and the name of Funco, Inc. was changed to GameStop, Inc. In fiscal 2002, the Company completed an initial public offering of its GameStop subsidiary which resulted in the Company retaining an approximate 63 percent interest in GameStop. The Company's total investment in GameStop amounted to approximately $400,000, of which $250,000 was repaid out of GameStop's IPO proceeds and $150,000 was converted into a capital contribution.

GameStop operates departments within some of the Company's bookstores. GameStop pays a license fee to the Company in an amount equal to 7 percent of the gross sales of such departments. The Company charged GameStop a license fee of $974 and $1,103 during fiscal 2003 and 2002.

GameStop participates in the Company's worker's compensation, property and general liability insurance programs. The costs incurred by the Company under these programs are allocated to GameStop based upon GameStop's total payroll expense, property and equipment, and insurance claim history. The Company charged GameStop for these services $2,363 and $1,726 during fiscal 2003 and 2002, respectively.

In fiscal 2003, GameStop purchased an airplane from B&N College. The purchase price was $9,500 and was negotiated through an independent third party following an independent appraisal.

The Company is provided with national freight distribution, including trucking services by the Argix Direct Inc. (Argix) (formerly the LTA Group, Inc.), a company in which a brother of Leonard and Stephen Riggio owns a 20 percent interest. The Company paid Argix $19,430, $18,509 and $17,746 for such services during fiscal years 2003, 2002 and 2001, respectively. The Company believes the cost of freight delivered to the stores is comparable to the prices charged by publishers and other third-party freight distributors. Argix subleased warehouse space from the Company in Jamesburg, New Jersey. Argix paid the Company $1,822, $1,831 and $1,880 for such subleased space during fiscal 2003, 2002 and 2001, respectively.

Since 1993, the Company has used AEC One Stop Group, Inc. (AEC) as its primary music and DVD/video supplier and to provide a music and video database. AEC is one of the largest wholesale distributors of music and DVD/videos in the United States. In 1999, AEC's parent corporation was acquired by an investor group in which Leonard Riggio was a minority investor. The Company paid AEC $246,470, $246,409 and $169,879 for merchandise purchased during fiscal 2003, 2002 and 2001, respectively. In addition, the Company paid AEC $3,721, $7,736 and $2,554 for database equipment and services during fiscal 2003, 2002 and 2001, respectively. The Company believes the cost charged by AEC are comparable to other suppliers. Amounts payable to AEC for merchandise purchased were $20,897 and $21,967 as of January 31, 2004 and February 1, 2003, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

22. Selected Quarterly Financial Information (Unaudited)

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

Fiscal 2003 Quarter End On or About	April 2003	July 2003	October 2003	January 2004	Total Fiscal Year 2003
Sales	$1,185,605	1,283,243	1,270,072	2,212,095	5,951,015
Gross profit	$ 300,645	336,973	348,249	641,381	1,627,248
Equity in net loss of Barnes & Noble.com (a)	$ (4,972)	(5,404)	(3,935)	—	(14,311)
Net earnings (loss)	$ (2,026)	13,663	10,173	130,043	151,853
Earnings (loss) per common share					
Basic	$ (0.03)	0.21	0.15	1.92	2.30
Diluted	$ (0.03)	0.20	0.14	1.65	2.07

Fiscal 2002 Quarter End On or About	April 2002	July 2002	October 2002	January 2003	Total Fiscal Year 2002
Sales	$1,133,126	1,159,214	1,130,885	1,846,110	5,269,335
Gross profit	$ 283,633	302,055	293,917	533,888	1,413,493
Equity in net loss of Barnes & Noble.com (a)	$ (7,435)	(7,469)	(6,323)	(5,568)	(26,795)
Net earnings (loss)	$ (16,321)	1,429	3,829	111,011	99,948
Earnings (loss) per common share					
Basic	$ (0.25)	0.02	0.06	1.72	1.51
Diluted	$ (0.25)	0.02	0.05	1.49	1.39

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

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
Barnes & Noble, Inc.

We have audited the accompanying consolidated balance sheets of Barnes & Noble, Inc. and subsidiaries as of January 31, 2004 and February 1, 2003 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three fiscal years in the period ended January 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Barnes & Noble, Inc. and its subsidiaries as of January 31, 2004 and February 1, 2003 and the results of their operations and their cash flows for each of the three fiscal years in the period ended January 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the Consolidated Financial Statements, effective February 3, 2002, the Company adopted Statement of Financial Standards No. 142, *Goodwill and Other Intangible Assets*.

New York, New York
March 17, 2004

/s/ BDO Seidman, LLP

BDO Seidman, LLP

Exhibit 14.1

Barnes & Noble, Inc.

**CODE OF ETHICS FOR
SENIOR FINANCIAL OFFICERS**

Barnes & Noble, Inc. (the "Company") is committed to full and accurate financial disclosure in compliance with applicable laws, rules and regulations and to maintaining its books and records in accordance with applicable accounting policies, laws, rules and regulations. This Code of Ethics for Senior Financial Officers, applicable to the Company's Chairman of the Board, Chief Executive Officer, Chief Financial Officer, and Controller (together, "Senior Financial Officers"), sets forth specific policies to guide the Company's Senior Financial Officers in the performance of their duties. As Senior Financial Officers, you perform a task that is critical to the Company. This Code is designed to assist you in that task.

The Company's Code of Business Conduct and Ethics, which this Code of Ethics is intended to supplement, sets forth the fundamental principles and key policies and procedures that govern the conduct of all of us in our business. You are bound by the requirements and standards set forth in the Code of Business Conduct and Ethics, as well as those set forth in this Code of Ethics and other applicable policies and procedures.

Compliance with Rules and Regulations

The Company is committed to conducting our business in accordance with all applicable laws, rules and regulations and in accordance with the highest standards of business ethics. As a Senior Financial Officer, you must not only comply with applicable laws, however. You also have leadership responsibilities that include creating a culture of high ethical standards and commitment to compliance; maintaining a work environment that encourages employees to raise concerns; and promptly addressing employee compliance concerns.

Conflicts of Interest

In order to maintain the highest degree of integrity in the conduct of the Company's business and your independent judgment, you must avoid any activity or personal interest that creates or appears to create a conflict between your interests and the interests of the Company. A conflict of interest occurs when your private interests interfere in any way, or even appear to interfere, with the interests of the Company as a whole. You should conduct the Company's business in an honest and ethical manner, and never act in a manner that could cause you to lose your independence and objectivity.

Although we cannot list every conceivable conflict, following are some common examples that illustrate actual or apparent conflicts of interest that should be avoided:

Improper Personal Benefits from the Company

Conflicts of interest arise when an officer or a member of his or her family receives improper personal benefits as a result of his or her position in the Company. You may not accept any benefits from the Company that have not been duly authorized and approved pursuant to

Company policy and procedure, including any Company loans or guarantees of your personal obligations.

Financial Interests in Other Businesses

Neither you nor your immediate family members may have an ownership interest in any other enterprise if that interest compromises or appears to compromise your loyalty to the Company. For example, you may not own an interest in a company that competes with the Company. You may not own an interest in a company that does business with the Company (such as a Company customer/client or supplier) unless you obtain the written approval of the Audit Committee of the Board of Directors before making any such investment. However, it is not typically considered a conflict of interest (and therefore prior written approval of the Audit Committee of the Board of Directors is not required) to (i) make investments with a total value of no more than five percent (5%) of your annual compensation in competitors, customers/clients or suppliers that are listed on a national or international securities exchange, or (ii) make investments through any registered mutual fund or through a trust over which you do not exercise investment authority.

Business Arrangements with the Company and Corporate Opportunities

Without the prior written approval of the Audit Committee of the Board of Directors, you may not participate in a joint venture, partnership or other business arrangement with the Company. If you learn of a business or investment opportunity through the use of corporate property or information or your position at the Company, such as from a competitor or actual or potential client, supplier or business associate of the Company (including a principal, officer, director or employee of any of the above), you may not participate in the business or make the investment and must instead inform the Chief Executive Officer (or, with respect to the Chief Executive Officer, inform the Audit Committee of the Board of Directors). Such an opportunity is an investment opportunity for the Company, not for you individually.

Outside Employment or Activities With a Competitor

Simultaneous employment with or serving as a director of a competitor of the Company is strictly prohibited, as is any activity that is intended to or that you should reasonably expect to advance a competitor's interests. You may not market products or services in competition with Company's current or potential business activities. It is your responsibility to consult with the Chief Executive Officer (or, with respect to the Chief Executive Officer, consult with the Audit Committee of the Board of Directors) to determine whether a planned activity will compete with any of the Company's business activities before you pursue the activity in question.

Outside Employment With a Customer/Client or Supplier

Without the prior written approval of the Audit Committee of the Board of Directors, you may not be a customer/client or be employed by, serve as a director of or represent a customer/client of the Company. Similarly, without the prior written approval of the Audit Committee, you may not be a supplier or be employed by, serve as a director of or represent a supplier to the Company. Nor may you accept money or benefits of any kind from a third party as compensation or payment for any advice or services that you may provide to a client, supplier or anyone else in connection with its business with the Company.

Charitable, Government and Other Outside Activities

The Company encourages all employees to participate in projects and causes that further the welfare of our local communities. However, you must obtain the prior written approval of the Audit Committee of the Board of Directors before serving as a director or trustee of any charitable, not-for-profit, for-profit, or other entity. Similarly, you must obtain the prior written approval of the Audit Committee of the Board of Directors before running for election or seeking appointment to any government-related position.

Family Members Working In The Industry

If your spouse or significant other, your children, parents, or in-laws, or someone else with whom you have a familial relationship is a competitor, supplier or customer/client of the Company or is employed by one, you must disclose the situation to the Audit Committee of the Board of Directors so that the Company may assess the nature and extent of any concern and how it can be resolved. You must carefully guard against inadvertently disclosing Company confidential information and being involved in decisions on behalf of the Company that involve the other company.

Use Of The Company's Time And Assets

Except as specifically authorized by the Company, Company assets, including Company time, equipment, materials, resources and proprietary information, must be used for legitimate business purposes only. Incidental and occasional personal use of the Company's electronic mail and telephone systems is permitted. However, you should be aware that even personal messages on the Company's computer and telephone systems are Company property and you should therefore have no expectation of personal privacy in connection with your use of these resources.

Disclosures in Periodic Reports

As a public company, the Company is required to file various periodic reports with the Securities and Exchange Commission. It is Company policy to make full, fair, accurate, timely and understandable disclosure in compliance with all applicable laws and regulations in all required periodic reports.

Compliance with the Code of Ethics

If you have questions about this Code of Ethics, you should seek guidance from Michael Rosen at Bryan Cave LLP. If you know of or suspect a violation of applicable laws or regulations or the Code of Ethics, you must immediately report that information to the Chief Executive Officer (or, with respect to the Chief Executive Officer, the Audit Committee of the Board of Directors). *No one will be subject to retaliation because of a good faith report of suspected misconduct*.

Waivers of the Code

The Company will waive application of the policies set forth in this Code of Ethics only when circumstances warrant granting a waiver, and then only in conjunction with any appropriate monitoring of the particular situation. Changes in and waivers of this Code of Ethics may be made only by the Board of Directors or the Audit Committee of the Board of Directors and will be disclosed as required under applicable law and regulations.

No Rights Created

This Code is a statement of the fundamental principles and key policies and procedures that govern the Company's Senior Financial Officers in the conduct of the Company's business. It is not intended to and does not constitute an employment contract or assurance of continued employment, and does not create any rights in any employee, client, supplier, competitor, shareholder or any other person or entity.

ACKNOWLEDGMENT FORM

I have received and read the Code of Ethics for Senior Financial Officers, and I understand its contents. I agree to comply fully with the standards, policies and procedures contained in the Code of Ethics and the Company's related policies and procedures. I understand that I have an obligation to report to the Chief Executive Officer (or, with respect to the Chief Executive Officer, the Audit Committee of the Board of Directors) any suspected violations of the Code of Ethics that I am aware of. I certify that, except as fully disclosed in accordance with the terms of this Code of Ethics, I have not engaged in any transactions or activities that would constitute an actual or apparent conflict with the interests of the Company. I further certify that I am in full compliance with the Code of Ethics and any related policies and procedures:

Printed Name

Signature

Date

Exhibit 21.1

Subsidiaries of Barnes & Noble, Inc.

1. Barnes & Noble Booksellers, Inc., a Delaware corporation that operates its retail bookstores directly and through seven wholly owned United States subsidiaries.
2. B. Dalton Bookseller, Inc., a Minnesota corporation.
3. Doubleday Book Shops, Inc., a Delaware corporation.
4. B&N GameStop Holding Corp., a Delaware corporation.
5. GameStop Corp., a Delaware corporation.
6. GameStop, Inc., a Minnesota corporation.
7. GameStop.com, Inc., a Delaware corporation.
8. Marketing Control Services, Inc., a Virginia corporation.
9. Gamesworld Group Limited, an Irish company.
10. Babbage's Etc. LLC, a Delaware limited liability company.
11. Sunrise Publications, Inc., a Minnesota corporation.
12. B&N.com Holding Corp., a Delaware corporation.
13. barnesandnoble.com inc., a Delaware corporation.
14. barnesandnoble.com llc., a Delaware limited liability company.
15. Barnes & Noble Publishing, Inc., a Delaware corporation that operates its book publishing business directly and through two wholly owned United States subsidiaries.
16. CCI Holdings, Inc., a Texas corporation.
17. Calendar Club L.L.C., a Delaware limited liability company.
18. Sterling Publishing Co., Inc., a New York corporation.
19. Altamont Press, Inc., a North Carolina corporation.
20. Marketing Services (Minnesota) Corp., a Florida corporation.
21. Barnes & Noble Services, Inc., a New York corporation.

22. Marboro Books Corp., a New York corporation.

23. Chelsea Insurance Company LTD, a Bermuda corporation.

24. Barnes & Noble BookQuest, LLC, a Delaware limited liability company.

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 17, 2004 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 January 31, 2004, into the prospectuses constituting a part of the following registration statements: No. 33-84826 on Form S-3, No. 33-89258 on Form S-3, No. 33-270333 on Form S-8, No. 33-89260 on Form S-8, and No. 33-97410 on Form S-3.

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

BDO Seidman, LLP
New York, New York
April 15, 2004

Exhibit 23.2

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
Barnes & Noble, Inc.

The audits referred to in our report dated March 17, 2004 relating to the consolidated financial statements of Barnes & Noble, Inc. and subsidiaries which is incorporated in Item 8 of the Form 10-K by reference to the annual report to stockholders for the year ended January 31, 2004 included the audit of the financial statement schedules listed in the accompanying index. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement schedules based upon our audits.

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

BDO Seidman, LLP

New York, New York

April 15, 2004

Exhibit 31.1

**CERTIFICATION PURSUANT TO
17 CFR 240.13a-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Stephen Riggio, Chief Executive Officer of Barnes & Noble, Inc., certify that:

1. I have reviewed this report on Form 10-K of Barnes & Noble, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 15, 2004

By: /s/ Stephen Riggio
Stephen Riggio
Chief Executive Officer
Barnes & Noble, Inc.

Exhibit 31.2

CERTIFICATION PURSUANT TO
17 CFR 240.13a-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Joseph J. Lombardi, Chief Financial Officer of Barnes & Noble, Inc., certify that:

1. I have reviewed this report on Form 10-K of Barnes & Noble, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 15, 2004

By: /s/ Joseph J. Lombardi

Joseph J. Lombardi
Chief Financial Officer
Barnes & Noble, Inc.

Exhibit 32.1

CERTIFICATION PURSUANT TO
RULE 13a-14(b) UNDER THE SECURITIES EXCHANGE ACT OF 1934
AND 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Barnes & Noble, Inc. (the "Company") on Form 10-K for the period ended January 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen Riggio, Chief Executive Officer of the Company, certify, to the best of my knowledge, pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Stephen Riggio

Stephen Riggio
Chief Executive Officer
Barnes & Noble, Inc.
April 15, 2004

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
RULE 13a-14(b) UNDER THE SECURITIES EXCHANGE ACT OF 1934
AND 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Barnes & Noble, Inc. (the "Company") on Form 10-K for the period ended January 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph J. Lombardi, Chief Financial Officer of the Company, certify, to the best of my knowledge, pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Joseph J. Lombardi

Joseph J. Lombardi
Chief Financial Officer
Barnes & Noble, Inc.
April 15, 2004

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.