FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1999-09-10** | Period of Report: **1999-07-31**
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FILER

BARNES & NOBLE INC

CIK:**890491**| IRS No.: **061196501** | State of Incorp.:**DE** | Fiscal Year End: **0130**
Type: **10-Q** | Act: **34** | File No.: **001-12302** | Film No.: **99709490**
SIC: **5940** Miscellaneous shopping goods stores

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NEW YORK NY 10011

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122 FIFTH AVE
NEW YORK NY 10011
2126333300

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 31, 1999

OR

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

For the transition period from ______________ to _____________

Commission File Number: 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)

(212) 633-3300

(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 / /

Number of shares of $.001 par value common stock outstanding as of August 31, 1999: 69,403,345.

BARNES & NOBLE, INC. AND SUBSIDIARIES

July 31, 1999

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PART I - FINANCIAL INFORMATION

Item 1: Financial Statements

BARNES & NOBLE, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(thousands of dollars, except per share data)
(unaudited)

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	13 weeks ended		26 weeks ended	
	July 31, 1999	August 1, 1998	July 31, 1999	August 1, 1998
<S>	<C>	<C>	<C>	<C>
Sales	$ 727,165	662,507	1,445,501	1,319,483
Cost of sales and occupancy	527,890	482,663	1,053,855	967,252
Gross profit	199,275	179,844	391,646	352,231
Selling and administrative expenses	155,691	136,779	307,623	272,336
Depreciation and amortization	26,594	21,175	52,393	41,703
Pre-opening expenses	1,525	2,280	2,326	4,884
Operating profit	15,465	19,610	29,304	33,308
Interest (net of interest income of $293, $85, $1,005 and $190, respectively) and amortization of deferred financing fees	(5,005)	(6,289)	(9,747)	(12,039)
Equity in net loss of barnesandnoble.com llc	(6,532)	(23,003)	(18,076)	(36,606)
Gain on formation of barnesandnoble.com llc	25,000	--	25,000	--
Gain on the partial sale of Chapters Inc.	10,975	--	10,975	--
Earnings (loss) before income taxes and cumulative effect of change in accounting principle	39,903	(9,682)	37,456	(15,337)
Income tax provision (benefit)	16,360	(3,973)	15,357	(6,293)
Earnings (loss) before cumulative effect of change in accounting principle	23,543	(5,709)	22,099	(9,044)
Cumulative effect of change in accounting principle, net of tax benefits of $3,125	--	--	(4,500)	--
Net earnings (loss)	$ 23,543	(5,709)	17,599	(9,044)
Earnings (loss) per common share				
Basic				
Earnings (loss) before cumulative effect of change in accounting principle	$ 0.34	(0.08)	0.32	(0.13)

Cumulative effect of change in accounting principle, net of tax benefits	$ --	--	(0.07)	--
Net earnings (loss)	$ 0.34	(0.08)	0.25	(0.13)
Diluted				
Earnings (loss) before cumulative effect of change in accounting principle	$ 0.33	(0.08)	0.31	(0.13)
Cumulative effect of change in accounting principle, net of tax benefits	$ --	--	(0.06)	--
Net earnings (loss)	$ 0.33	(0.08)	0.25	(0.13)
Weighted average common shares outstanding				
Basic	69,356,000	68,354,000	69,143,000	68,227,000
Diluted	71,826,000	68,354,000	71,928,000	68,227,000

</TABLE>

See accompanying notes to consolidated financial statements.

BARNES & NOBLE, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(thousands of dollars, except per share data)

<TABLE>
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<S>	July 31, 1999 <C>	August 1, 1998 (unaudited) <C>	January 30, 1999 <C>
ASSETS			
Current assets:			
Cash and cash equivalents	$ 9,558	9,615	31,081
Receivables, net	54,069	38,738	57,523
Merchandise inventories	913,617	820,707	945,073
Prepaid expenses and other current assets	76,543	81,609	54,634
Total current assets	1,053,787	950,669	1,088,311
Property and equipment:			
Land and land improvements	3,247	3,197	3,197
Buildings and leasehold improvements	394,192	359,703	383,292
Fixtures and equipment	489,763	387,063	440,488
	887,202	749,963	826,977
Less accumulated depreciation and amortization	357,513	281,188	316,631
Net property and equipment	529,689	468,775	510,346
Intangible assets, net	85,364	88,609	86,980
Investment in barnesandnoble.com llc	264,502	35,213	82,307
Other noncurrent assets	48,791	42,235	39,653
Total assets	$ 1,982,133	1,585,501	1,807,597

</TABLE>

See accompanying notes to consolidated financial statements.

BARNES & NOBLE, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(thousands of dollars, except per share data)

<TABLE>
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	July 31, 1999	August 1, 1998	January 30, 1999
	(unaudited)		
<S>	<C>	<C>	<C>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 394,403	390,370	498,237
Accrued liabilities	210,376	194,220	274,085
Total current liabilities	604,779	584,590	772,322
Long-term debt	347,400	395,200	249,100
Deferred income taxes	119,898	--	32,449
Other long-term liabilities	80,662	68,666	74,937
Shareholders' equity:			
Common stock; $.001 par value; 300,000,000 shares authorized; 69,390,807, 68,578,373 and 68,759,111 shares issued and outstanding, respectively	69	69	69
Additional paid-in capital	651,918	483,193	523,517
Accumulated other comprehensive earnings	4,605	--	--
Retained earnings	172,802	53,783	155,203
Total shareholders' equity	829,394	537,045	678,789
Commitments and contingencies	--	--	--
Total liabilities and shareholders' equity	$ 1,982,133	1,585,501	1,807,597

</TABLE>

See accompanying notes to consolidated financial statements.

BARNES & NOBLE, INC. AND SUBSIDIARIES
Consolidated Statement of Shareholders' Equity
(thousands of dollars, except per share data)
(unaudited)

<TABLE>
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	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Earnings	Retained Earnings	Total
<S>	<C>	<C>	<C>	<C>	<C>
Balance at January 30, 1999	$ 69	$ 523,517	$ --	$ 155,203	$ 678,789
Net earnings	--	--	--	17,599	17,599
Other comprehensive earnings (net of deferred income taxes of $3,335)	--	--	4,605	--	4,605
barnesandnoble.com inc. IPO (net of deferred income taxes of $84,114)	--	116,158	--	--	116,158
Exercise of 631,696 common stock options	--	12,243	--	--	12,243
Balance at July 31, 1999	$ 69	$ 651,918	$ 4,605	$ 172,802	$ 829,394

</TABLE>

See accompanying notes to consolidated financial statements.

BARNES & NOBLE, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(thousands of dollars, except per share data)
(unaudited)

<TABLE>
<CAPTION>

	26 weeks ended	
	July 31, 1999	August 1, 1998
Cash flows from operating activities:		
Net earnings (loss)	$ 17,599	(9,044)
Adjustments to reconcile net earnings (loss) to net cash flows from operating activities:		
Depreciation and amortization	52,580	41,803
Loss on disposal of property and equipment	3,334	508
Increase in other long-term liabilities for scheduled rent increases in long-term leases	6,843	6,849
Cumulative effect of change in accounting principle, net of taxes	4,500	--
Gain on the partial sale of Chapters Inc.	(10,975)	--
Gain on the formation of barnesandnoble.com llc	(25,000)	--
Equity in net loss of barnesandnoble.com llc	18,076	36,606
Changes in operating assets and liabilities, net	(160,159)	(104,326)
Net cash flows from operating activities	(93,202)	(27,604)
Cash flows from investing activities:		
Purchases of property and equipment	(73,455)	(52,034)
Proceeds from sales of property and equipment	--	10
Proceeds from the partial sale of Chapters Inc.	21,558	--
Proceeds from the formation of barnesandnoble.com llc	25,000	--
Investment in barnesandnoble.com llc	--	(47,009)
Net increase in other noncurrent assets	(11,967)	(1,179)
Net cash flows from investing activities	(38,864)	(100,212)
Cash flows from financing activities:		
Net increase in revolving credit facility	98,300	110,400
Proceeds from exercise of common stock options, including related tax benefits	12,243	14,334
Net cash flows from financing activities	110,543	124,734
Net decrease in cash and cash equivalents	(21,523)	(3,082)
Cash and cash equivalents at beginning of period	31,081	12,697
Cash and cash equivalents at end of period	$ 9,558	9,615
Changes in operating assets and liabilities, net:		
Receivables, net	$ 3,454	4,773
Merchandise inventories	31,456	30,875
Prepaid expenses and other current assets	(29,534)	(24,032)
Accounts payable and accrued liabilities	(165,535)	(115,942)
Changes in operating assets and liabilities, net	$(160,159)	(104,326)
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	$ 9,758	11,366
Income taxes	$ 43,079	15,508

</TABLE>

See accompanying notes to consolidated financial statements.

The unaudited consolidated financial statements include the accounts of Barnes & Noble, Inc. and its wholly owned subsidiaries (collectively, the Company).

In the opinion of the Company's management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly its consolidated financial position as of July 31, 1999 and the results of its operations and its cash flows for the 26 weeks then ended. These consolidated financial statements are condensed and therefore do not include all of the information and footnotes required by generally accepted accounting principles. The consolidated financial statements should be read in conjunction with the Company's annual report on Form 10-K for the 52 weeks ended January 30, 1999 (fiscal 1998). The Company follows the same accounting policies in preparation of interim reports.

Due to the seasonal nature of the business, the results of operations for the 26 weeks ended July 31, 1999 are not indicative of the results to be expected for the 52 weeks ending January 29, 2000 (fiscal 1999).

(1) Merchandise Inventories

Merchandise inventories are stated at the lower of cost or market. Cost is determined using the retail inventory method on the first-in, first-out (FIFO) basis for 86%, 85% and 86% of the Company's merchandise inventories as of July 31, 1999, August 1, 1998, and January 30, 1999, respectively. The remaining merchandise inventories are valued on the last-in, first-out (LIFO) method.

If substantially all of the merchandise inventories currently valued at LIFO costs were valued at current costs, merchandise inventories would remain unchanged as of July 31, 1999 and January 30, 1999, and would have increased approximately $3,602 as of August 1, 1998.

(2) Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation, including the Company's investment in barnesandnoble.com llc (barnesandnoble.com) which has been presented in the accompanying consolidated financial statements under the equity method as of the beginning of fiscal 1998.

(3) Income Taxes

The tax provisions for the 26 weeks ended July 31, 1999 and August 1, 1998 are based upon management's estimate of the Company's annualized effective tax rate.

(4) Recent Accounting Pronouncements

In April 1998, the Accounting Standards Executive Committee issued Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities" (SOP 98-5). SOP 98-5 requires an entity to expense all start-up activities (as defined) as incurred. The Company historically amortized costs associated with the opening of new stores over the respective store's first 12 months of operations. In accordance with SOP 98-5, the Company recorded a one-time non-cash charge in the first quarter of 1999 reflecting the cumulative effect of a change in accounting principle, in the amount of $4,500 after taxes, representing such start-up costs capitalized as of the beginning of fiscal year 1999. The effect of the change on operating results for the 26 weeks ended July 31, 1999 was an increase in operating profit of $1.5 million and a decrease in net income of $3.6 million or $0.5 per diluted share.

(5) Comprehensive Earnings

In the second quarter of 1999, the Company sold a portion of its investment in Chapters Inc. (Chapters). The remaining investment is being recorded as an available-for-sale security. Accordingly, it will be carried at fair value with unrealized gains and losses (net of tax) reflected as a component of shareholders' equity classified as "accumulated other comprehensive earnings" in accordance with Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income". This statement establishes standards for reporting and display of comprehensive earnings and its components in the financial statements. Comprehensive earnings are net earnings, plus certain other items that are recorded directly to shareholders' equity. The only such item currently applicable to the Company is the unrealized gain on available-for-sale securities, as follows:

<TABLE>
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	13 weeks ended		26 weeks ended	
	July 31, 1999	August 1, 1998	July 31, 1999	August 1, 1998
<S>	<C>	<C>	<C>	<C>
Net earnings (loss)	$ 23,543	$ (5,709)	$ 17,599	$ (9,044)
Other comprehensive earnings:				
Unrealized gain on available-for-sale securities, net of deferred income taxes of $3,335	4,605	--	4,605	--
Comprehensive earnings (loss)	$ 28,148	$ (5,709)	$ 22,204	$ (9,044)

</TABLE>

(6) Investment in barnesandnoble.com

On May 28, 1999, barnesandnoble.com inc. (bn.com) completed an initial public offering (IPO) of 28.75 million shares of Class A Common Stock and used the proceeds to purchase a 20% interest in barnesandnoble.com. As a result, the Company and Bertelsmann AG (Bertelsmann) each retained a 40% interest in barnesandnoble.com. The Company recorded an increase in additional paid-in capital of $116.2 million after taxes representing the Company's incremental share in the equity of barnesandnoble.com. The Company will continue to account for its investment in barnesandnoble.com under the equity method.

Under the terms of the November 12, 1998 joint venture agreement between the Company and Bertelsmann, the Company received a $25 million payment from Bertelsmann in connection with the IPO. The Company recognized the $25 million pretax gain in the second quarter of 1999.

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

Recent Events

Termination of Ingram Book Group Acquisition

On June 2, 1999, the Company and the Ingram Book Group (Ingram) announced their agreement to terminate the Company's planned acquisition of Ingram. The Company's application before the Federal Trade Commission (FTC) for the purchase was formally withdrawn. As a result, the selling and administrative expenses for the 13 and 26 weeks ended July 31, 1999 reflect a one-time charge of $5 million ($3 million after taxes, or $0.04 per diluted share) for acquisition costs. These costs relate primarily to legal, accounting and other transaction related costs incurred in connection with the proposed acquisition of Ingram.

Partial Divestiture of Chapters Investment

During the second quarter of 1999, the Company sold 1,000,000 shares of its holdings in Chapters via a secondary offering. The Company retained a seven percent interest in Chapters. As a result of this transaction, the Company recorded a pretax gain of $11.0 million ($6.5 million after taxes or $0.09 per diluted share) in the second quarter. Prior to the above transaction, the investment in Chapters was accounted for under the equity method. The Company is now required to account for its remaining investment under the provisions of Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities". The investment is considered available-for-sale. Accordingly, the investment will be carried at fair value, with net unrealized holding gains and losses reflected as a component of comprehensive earnings within shareholders' equity until realized.

barnesandnoble.com inc. Initial Public Offering

On May 28, 1999, bn.com completed an initial public offering of 28.75 million shares of Class A Common Stock, raising a total of approximately $485 million after commissions and expenses and used the proceeds to purchase a 20% interest in barnesandnoble.com. As a result, the Company and Bertelsmann each retained a 40% interest in barnesandnoble.com. The Company recorded an increase of $116.2 million ($200.3 million, net of $84.1 million deferred tax) in additional paid-in capital representing the incremental share in the equity of barnesandnoble.com. Under the terms of the November 12, 1998 joint venture agreement (the "Agreement") between the Company and Bertelsmann, on May 28, 1999 Bertelsmann contributed an additional $50 million to barnesandnoble.com.

Also under the terms of the Agreement, the Company received a $25 million payment from Bertelsmann in connection with the IPO. The Company recognized the $25 million pretax gain ($14.8 million after taxes, or $0.20 per diluted share) in the second quarter. The Company will continue to account for its investment in barnesandnoble.com under the equity method. For the 13 weeks ended July 31, 1999, the Company reported its share of the results of bn.com's most recent fiscal quarter ended June 30, 1999.

Liquidity and Capital Resources

The primary sources of the Company's cash are net cash flows from operating activities, funds available under its senior credit facility and short-term vendor financing.

The Company's cash and cash equivalents as of July 31, 1999 were $9.6 million compared with $9.6 million as of August 1, 1998. During 1999's first half, excluding the $31.0 million of non-recurring items, consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) increased $30.2 million to $68.6 million from $38.4 million during the comparable prior year period. EBITDA in the retail business increased $11.7 million to $86.7 million during the first half of 1999 from $75.0 million during the comparable prior year period, reflecting higher gross margins and improving expense leverage (primarily in Barnes & Noble store operating, rental and pre-opening costs).

Merchandise inventories increased 11.3% to $913.6 million as of July 31, 1999 from $820.7 million as of August 1, 1998. The increased inventory levels supported the Company's 9.6% sales growth, the opening of 54 Barnes & Noble stores over the last twelve months and the strategic increase in the distribution center standing inventory to over 750,000 different titles available for shipping within 24 hours to both online customers and the retail store network.

The Company's investing activities consist principally of capital expenditures for new store construction, system enhancements and store relocations/remodels, partially offset by the proceeds received from the partial sale of Chapters and from the formation of bn.com. Capital expenditures totaled $73.5 million and $52.0 million during the 26 weeks ended July 31, 1999 and August 1, 1998, respectively. The increase was due primarily to the timing of the new store rollout, home office facility expansion and the rollout of the Company's proprietary point-of-sale system (BookMaster).

The ratio of debt to equity was 0.42:1.00 as of July 31, 1999, compared with 0.74:1.00 as of August 1, 1998. The significant improvement is primarily attributable to the $21 million in cash received from the partial sale of the investment in Chapters, $25 million in cash received from Bertelsmann as a result of the IPO of bn.com, as well as the Company's expanded gross margin and improved operating leverage.

Total debt decreased 12.1% to $347.4 million as of July 31, 1999 from $395.2 million as of August 1, 1998. Average borrowings decreased $28.5 million to $338.4 million during the first half of 1999 from $366.9 million in the last-year period, and peaked at $410.6 million and $418.9 million during the same periods, respectively. The reduced average borrowings were accomplished during a period of 9.6% sales growth and 11.3% increase in merchandise inventories.

Based upon the Company's current operating levels and expansion plans, management believes net cash flows from operating activities and the capacity under its $850.0 million senior credit facility will be sufficient to meet the Company's working capital and debt service requirements and support the development of its short- and long-term strategies for at least the next twelve months.

The Company did not declare or pay any cash dividends during the 26 week periods ended July 31, 1999 and August 1, 1998.

Year 2000

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. The Company's computer equipment, software and devices with embedded technology that are date-sensitive may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in other normal business activities.

In 1997 the Company began assessing how it may be impacted by the Year 2000 issue and has formulated and commenced implementation of a comprehensive plan to address all known aspects of the issue.

The Company's plan encompasses the following areas: (1) information systems that utilize date/time oriented software (IT systems), (2) computer chips, processors, and controllers, (non-IT systems) and (3) vendors and customers. The Company is in various stages of implementation which include remediation, testing and implementation.

To date, approximately 95% of the Company's administrative support IT systems have at least completed the remediation phase. Of this amount, approximately 80% have completed the testing and reimplementation phase and 20% have been replaced or upgraded. All remaining Year 2000 compliance efforts for administrative IT functions are expected to be completed by the third quarter of fiscal 1999.

Approximately 95% of non-IT systems have completed the remediation, testing and implementation phases with no material replacements necessary.

The Company has been obtaining information from major vendors, suppliers, and service providers to determine if their systems will be Year 2000 compliant. There has been no indication from these sources that their systems will not be sufficiently Year 2000 compliant or that their failure to be Year 2000 compliant will cause a significant disruption in the operations of the Company. The Company is developing contingency plans to identify alternative sources which are Year 2000 compliant in the event the current parties suffer significant disruption as a result of Year 2000 compliance failures.

The Company estimates that total costs to implement its Year 2000 plan will be between $4.0 and $6.0 million of which $2.8 million has already been incurred, including $1.4 million relating to the purchase of new software and hardware modifications, and $1.4 million relating to Year 2000 consultants. The estimated total includes direct costs for systems enhancements which would have been implemented in the ordinary course of business but whose acquisition has been accelerated to ensure compliance by the Year 2000. The estimate excludes costs for scheduled system upgrades which have not been accelerated due to Year 2000 issues.

The implementation of BookMaster, which began in 1996, is continuing and is expected to be completed in the third quarter of fiscal 1999. BookMaster, which is Year 2000 compliant, is an inventory management system with integrated point-of-sale features that utilizes a proprietary data-warehouse-based just-in-time replenishment system. It enhances communications and real-time access to the Company's network of stores, distribution center, and wholesalers. The BookMaster system has been installed in 100% of all Barnes & Noble stores. By the end of the third quarter of fiscal 1999, all existing B. Dalton stores will either be utilizing the BookMaster system or will receive Year 2000 upgrades to their existing point-of-sale systems.

Should some of the Company's systems not be available due to Year 2000 problems, in a reasonably likely worst case scenario, the Company may experience significant delays in its ability to perform certain functions. However, the Company does not expect an impairment in its ability to execute critical functions.

Results of Operations

13 weeks ended July 31, 1999 and August 1, 1998

Sales

During the 13 weeks ended July 31, 1999, the Company's total sales increased 9.8% to $727.2 million from $662.5 million during the 13 weeks ended August 1, 1998. During the second quarter, Barnes & Noble store sales rose 13.7% to $633.5 million from $557.1 million during the same period a year ago. As a percentage of total sales during the second quarter, Barnes & Noble store sales represented 87.1%, from 84.1% during the same period last year.

During the second quarter, the 13.7% increase in Barnes & Noble store sales primarily resulted from a comparable store sales gain of 6.6% coupled with 54 new stores opened since August 1, 1998 which contributed a 12.6% increase in square footage. Management attributed the comparable store sales performance to, among other things, strong sales across many categories including fiction, political science, religion, children's books, gift books, music and cafes. In addition, the number of stores eligible for inclusion in the comparable store sales base increased to 90.0% as of July 31, 1999 compared with 85.7% as of August 1, 1998.

During fiscal 1999's second quarter, B. Dalton sales, which represented 12.5% of total sales compared with 15.1% during fiscal 1998, declined (9.2%) primarily due to the closure of 66 B. Dalton stores since August 1, 1998. B. Dalton's comparable store sales decreased (0.5%) during fiscal 1999's second quarter.

During the 13 weeks ended July 31, 1999, the Company opened nine Barnes & Noble stores and nine were closed, keeping its total number of Barnes & Noble stores at 521 while increasing the square footage to 12.1 million. During the same period, B. Dalton closed 18 stores ending with 448. As of July 31, 1999, the Company operated 969 stores in all fifty states and the District of Columbia.

Cost of Sales and Occupancy

During the 13 weeks ended July 31, 1999, cost of sales and occupancy increased $45.2 million, or 9.4%, to $527.9 million from $482.7 million during the 13 weeks ended August 1, 1998. As a percentage of sales, cost of sales and occupancy decreased to 72.6% during fiscal 1999's second quarter from 72.9% during the same period one year ago reflecting improved leverage on occupancy costs, more favorable sales mix and better shrinkage control.

Selling and Administrative Expenses

Selling and administrative expenses increased $18.9 million to $155.7 million during the 13 weeks ended July 31, 1999 from $136.8 million during the 13 weeks ended August 1, 1998. During the second quarter, selling and administrative expenses increased as a percentage of sales to 21.4% from 20.6% during the prior year period. The increase was primarily attributable to the charge associated with the write-off of certain expenses in connection with the termination of the Ingram acquisition and Year 2000 consulting fees.

Depreciation and Amortization

During the second quarter, depreciation and amortization increased $5.4 million, or 25.6%, to $26.6 million from $21.2 million during the same period last year, as a result of depreciation on the 54 new Barnes & Noble stores opened since August 1, 1998, as well as the depreciation on the Company's BookMaster system.

Pre-opening Expenses

Pre-opening expenses decreased $0.8 million, or 33.1%, to $1.5 million during the 13 weeks ended July 31, 1999 from $2.3 million for the 13 weeks ended August 1, 1998, primarily as a result of the first quarter adoption of SOP

98-5. SOP 98-5 requires an entity to expense all start-up activities (as defined) as incurred. The Company historically amortized costs associated with the opening of new stores over the respective store's first 12 months of operations.

Operating Profit

The Company's consolidated operating profit decreased to $15.5 million during the 13 weeks ended July 31, 1999 from $19.6 million during the 13 weeks ended August 1, 1998. Excluding the $5 million charge to selling and administrative expenses for costs relating to the termination of the acquisition of Ingram, the Company's consolidated operating profit would have increased to $20.5 million during the 13 weeks ended July 31, 1999.

Interest Expense, Net and Amortization of Deferred Financing Fees

Net interest expense and amortization of deferred financing fees decreased to $5.0 million during the 13 weeks ended July 31, 1999 from $6.3 million during the 13 weeks ended August 1, 1998. Interest expense decreased due to a combination of both lower average borrowings and declining interest rates under the Company's senior credit facility.

Income Taxes

The provision for income taxes during the 13 weeks ended July 31, 1999 was $16.4 million compared with a benefit for income taxes of ($4.0) million during the 13 weeks ended August 1, 1998. Tax effects were based upon management's estimate of the Company's annualized effective tax rates.

Net Earnings (Loss)

As a result of the factors discussed above, the Company reported consolidated net earnings of $23.5 million during the 13 weeks ended July 31, 1999, compared with a net loss of ($5.7) million during the 13 weeks ended August 1, 1998. For the second quarter of 1999, net earnings was $0.33 per diluted share (based on 71.8 million shares) compared with a net loss of ($0.08) per diluted share (based on 68.4 million shares) for the corresponding prior-year period. The consolidated second quarter net earnings reflect the Company's 40% share in barnesandnoble.com's net losses of ($3.9) million (or ($0.05) per diluted share), compared with 100% of barnesandnoble.com's net losses of ($13.6) million (or ($0.20) per diluted share), in the second quarter of 1998. Also included in net earnings for the second quarter of 1999 is a pretax gain of $31 million (or $0.25 per diluted share after tax) comprised of the following non-recurring items: a $25 million pretax gain (or $0.20 per diluted share after tax), as a result of the barnesandnoble.com IPO, an $11 million pretax gain (or $0.09 per diluted share after tax) resulting from the partial sale of the Company's investment in Chapters and a pretax charge of

$5 million (or ($0.04) per diluted share after tax) associated with the write-off of certain expenses of the Company in connection with its termination of the Ingram acquisition. Excluding barnesandnoble.com and the non-recurring items, the retail business net earnings increased 16.1% to $9.1 million (or $0.13 per diluted share) for the 13 weeks ended July 31, 1999 compared to $7.9 million (or $0.12 per diluted share) during 13 weeks ended August 1, 1998.

Results of Operations

26 weeks ended July 31, 1999 and August 1, 1998

Sales

Sales totaled $1.446 billion during the 26 weeks ended July 31, 1999, a 9.6% increase over sales of $1.319 billion during the 26 weeks ended August 1, 1998. During the first half of 1999, total Company sales rose primarily due to a 13.2% increase in Barnes & Noble store sales to $1.254 billion from $1.108 billion during the same period a year ago. For the same respective periods, Barnes & Noble store sales, as a percentage of total sales, increased to 86.8% from 84.0%.

The year-to-date increase in Barnes & Noble comparable store sales of 6.0%, coupled with a 12.6% increase in store square footage, produced the 13.2% increase in Barnes & Noble store sales. Management attributed the comparable store sales performance to, among other things, strong sales across many categories including fiction, political science, religion, children's books, gift books, music and cafes. In addition, the number of stores eligible for inclusion in the comparable store sales base increased to 90.0% as of July 31, 1999 compared with 85.7% as of August 1, 1998.

B. Dalton stores contributed 12.8% of total sales year-to-date compared with 15.2% during the prior year period. Year-to-date B. Dalton sales declined (7.6%) as a result of 66 store closings since August 1, 1998 and a (0.2%) decrease in comparable store sales for the 26 weeks.

During the 26 weeks ended July 31, 1999, the Company opened twelve and closed eleven Barnes & Noble stores and closed 41 B. Dalton stores.

Cost of Sales and Occupancy

During the 26 weeks ended July 31, 1999, cost of sales and occupancy increased $86.6 million, or 9.0%, to $1,053.9 million from $967.3 million during the 26 weeks ended August 1, 1998. As a percentage of sales, cost of sales and occupancy decreased to 72.9% during fiscal 1999's first half from 73.3% during the same period last year reflecting improved leverage on occupancy costs, more favorable sales mix and better shrinkage control.

Selling and Administrative Expenses

Selling and administrative expenses increased $35.3 million, or 13.0%, to $307.6 million during the 26 weeks ended July 31, 1999 from $272.3 million during the 26 weeks ended August 1, 1998. As a percentage of sales, selling and administrative expenses increased to 21.3% during fiscal 1999's first half from 20.6% during the same period last year. The increase was primarily attributable to the charge associated with the write-off of certain expenses in connection with the termination of the Ingram acquisition and Year 2000 consulting fees.

Depreciation and Amortization

Depreciation and amortization increased $10.7 million, or 25.6%, to $52.4 million during the 26 weeks ended July 31, 1999 from $41.7 million during the 26 weeks ended August 1, 1998 as a result of the 54 Barnes & Noble stores opened since August 1, 1998, as well as the depreciation on the Company's BookMaster system.

Pre-opening Expenses

Pre-opening expenses decreased $2.6 million, or 52.4%, to $2.3 million during the 26 weeks ended July 31, 1999 from $4.9 million during the 26 weeks ended August 1, 1998 primarily as a result of the first quarter adoption of SOP 98-5. SOP 98-5 requires an entity to expense all start-up activities (as defined) as incurred. The Company historically amortized costs associated with the opening of new stores over the respective store's first 12 months of operations.

Operating Profit

The Company's consolidated operating profit decreased to $29.3 million during the 26 weeks ended July 31, 1999 from $33.3 million during the 26 weeks ended August 1, 1998. Excluding the $5 million charge to selling and administrative expenses for costs relating to the termination of the acquisition of Ingram, the Company's consolidated operating profit would have increased to $34.3 million during the 26 weeks ended July 31, 1999.

Interest Expense, Net and Amortization of Deferred Financing Fees

Net interest expense and amortization of deferred financing fees decreased to $9.7 million during the 26 weeks ended July 31, 1999 from $12.0 million during the 26 weeks ended August 1, 1998. Interest expense decreased due to a combination of both lower average borrowings and declining interest rates under the Company's senior credit facility.

Income Taxes

Income taxes during the 26 weeks ended July 31, 1999 was $15.4 million compared with a benefit for income taxes of ($6.3) million during the 26 weeks ended August 1, 1998. Tax effects were based upon management's estimate of the Company's annualized effective tax rates.

Net Earnings (Loss)

As a result of the factors discussed above, the Company reported consolidated net earnings of $17.6 million during the 26 weeks ended July 31, 1999, compared with a net loss of ($9.0) million during the 26 weeks ended August 1, 1998. For the first half of 1999, net earnings was $0.25 per diluted share (based on 71.9 million shares) compared with a net loss of ($0.13) per diluted share (based on 68.2 million shares) for the corresponding prior-year period. The consolidated first half net earnings reflect the Company's 40% share in barnesandnoble.com's net losses of ($10.7) million (or ($0.15) per diluted share), compared with 100% of barnesandnoble.com's net losses of ($21.6) million (or ($0.32) per diluted share), in the first half of 1998. The first half of 1999 also includes the cumulative effect of a change in accounting principle of ($4.5) million after tax (or ($0.07) per diluted share). Also included in net earnings for the first half of 1999 is a pretax gain of $31 million (or $0.25 per diluted share after tax), comprised of the following non-recurring items: a $25 million

pretax gain (or $0.20 per diluted share after tax), as a result of the barnesandnoble.com IPO, an $11 million pretax gain (or $0.09 per diluted share after tax) resulting from the partial sale of the Company's investment in Chapters and a pretax charge of $5 million (or ($0.04) per diluted share after tax) associated with the write-off of certain expenses of the Company in connection with its termination of the Ingram acquisition. Excluding barnesandnoble.com, the change in accounting principle and the non-recurring items, the retail business net earnings increased 15.1% to $14.5 million (or $0.20 per diluted share) for the 26 weeks ended July 31, 1999 compared to $12.6 million (or $0.19 per diluted share) during 26 weeks ended August 1, 1998.

Forward-Looking Statements

This report may contain certain forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) and information relating to the Company that are based on the beliefs of the management of the Company as well as assumptions made by and information currently available to the management of the Company. When used in this report, the words "anticipate," "believe," "estimate," "expect," "intend," "plan" and similar expressions, as they relate to the Company or the management of the Company, identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events, the outcome of which is subject to certain risks, including among others general economic and market conditions, decreased consumer demand for the Company's products, possible disruptions in the Company's computer or telephone systems, increased or unanticipated costs or effects associated with year 2000 compliance by the Company or its service or supply providers, possible work stoppages, or increases in labor costs, possible increases in shipping rates or interruptions in shipping service, effects of competition, possible disruptions or delays in the opening of new stores or the inability to obtain suitable sites for new stores, higher than anticipated store closing or relocation costs, higher interest rates, the performance of the Company's online initiatives such as barnesandnoble.com, unanticipated increases in merchandise or occupancy costs, and other factors which may be outside of the Company's control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described 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.

PART II - OTHER INFORMATION

Item 4: Submission of Matters to a Vote of Security Holders

The Company's Annual Meeting of Shareholders was held on June 9, 1999. At the close of business on the record date for the meeting (which was April 21, 1999), there were 69,092,730 shares of Common Stock issued and outstanding and entitled to vote at the meeting. Holders of 48,808,576 shares of Common Stock (representing a like number of votes) were present at the meeting, either in person or by proxy.

The following individuals were elected to the Company's Board of Directors to hold office for a term of three years and until their respective successors are duly elected and qualified.

Nominee	In Favor	Withheld
Stephen Riggio	48,270,050	538,526
Matthew A. Berdon	48,234,803	573,773
Margaret T. Monaco	48,278,893	529,683

The Shareholders ratified the appointment of BDO Seidman, LLP as independent certified public accountants for the fiscal year ending January 29, 2000 by a vote of:

In Favor	Against	Abstained
48,610,714	114,690	83,172

Item 5: Other Information

Shareholder Proposals

Any shareholder proposal submitted outside the processes of Rule 14a-8 under the Securities Exchange Act of 1934, as amended (the Exchange Act), for presentation at the Company's 2000 Annual Meeting will be considered untimely for purposes of Rules 14a-4 and 14a-5 under the Exchange Act if notice of such shareholder proposal is received by the Company after January 2, 2000.

Item 6: Exhibits and Reports on Form 8-K

(a) Exhibit filed with this Form 10-Q:

Exhibit 27 : Financial Data Schedule

(b) No report on Form 8-K was filed by the registrant during the fiscal quarter for which this report is filed.

SIGNATURES

Pursuant to the requirements 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)

Date: September 10, 1999

By: /s/ Michael Archbold
Michael Archbold
Vice President, Treasurer
(Chief Accounting Officer)

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