FINANCIAL & PROFITABILITY ANALYSIS

OF

BARNES & NOBLE, INC.

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Executive Summary

This paper provides an analysis and evaluation of the current and prospective profitability and financial stability of Barnes and Noble Inc., the largest book retailer in the United States. The bookseller operates several bookstores nationwide in addition to college bookstores serving about 4.6 million students around the United States.

Several Financial models including Trend Analysis, Pro Forma Statements and Financial ratios have been used to analyze the financial health / position of Barnes and Noble Inc. The results of the financial statements and data analyzed shows very poor ratios in comparison with the industry average.

With these findings, we have been able to identify and recommend strategic steps for the company to follow in order for it to improve and boost its current financial performance by increasing revenues and reducing operational costs and expenses.

Identify Financial Problem and Supporting Financial Data

Barnes & Noble, Inc. (BKS) is the largest book retailer in the United States. The company operates as a content, commerce, and technology company, providing access to books, magazines, newspapers, and other content through its multi-channel distribution platform. Its three segments: B&N Retail, B&N College, and NOOK, sell trade books, text books and eBooks and other digital content. The NOOK segment also sells its eBook reader products comprising of NOOK HD, NOOK HD+, NOOK Simple Touch, and NOOK Simple Touch with GlowLight and related accessories. In addition, the company provides new and used textbooks, as well as textbook rental services; and electronic textbooks and other course materials through NOOK Study, a proprietary digital platform and a software solution for higher education. Barnes & Noble, Inc. sells its products directly to customers through its bookstores and online through its website barnesandnoble.com. (Yahoo! Finance, 2013)

As of October 14, 2013, the company operated 674 Barnes & Noble stores, as well as 692 college stores serving students and faculty members at colleges and universities (Yahoo!Finance, 2013). The company was founded in 1986 and is based in New York, New York (Yahoo!Finance, 2013). The company's stock price has grown a miniscule $13.46 to $15.84 in the past 5 years and has remained on the BusinessInsider.com Financial Distressed Company's List for the past 3 due to the net losses experienced since 2011, totaling $(157.8)M, $(68.9)M and $(73.9)M for the 2013, 2012 and 2011 fiscal years, respectively.

The company's struggle for financial stability in the past years is due mainly to the fundamental shift in the book business to electronic media and the failure of the NOOK product lines to prove to be formidable competitors to the iPad and Kindle (Misonzhnik, 2013). In addition, the company is recovering from and still faces several lawsuits regarding infringement on several technology patents regarding its NOOK product line. The company faces intense competitive pressure across its markets from non-traditional sources for physical and digital books and eReaders, like Wal-Mart and Amazon.com, resulting in intense price wars further limiting the company's growth potential (MarketLine, 2013). For example, the company significantly cut its price on its Nook Simple Touch with GlowLight to compete with Amazon's Kindle Paperwhite and announced in June 2013 that it would no longer manufacture its own color tablets amidst touch competitive conditions (MarketLine, 2013).

In this paper, we have performed financial analysis on BKS to examine its ability to continue as a going concern, using a combination of financial modeling methodologies to assess the forecasts based on current (poor) performance. To accomplish this, we:

- Retrieved and analyzed financial data from the previous five years and estimated future revenue and direct costs (cost of goods) using trend and regression analyses.
- Developed five year pro-forma income statement and balance sheet in order to determine the overall health of the firm.
- Calculated the company's financial ratios for the past five years and benchmarked current year results against prior year performance and industry standards, calculated the financial distress prediction score, and calculated the economic profit.
- Performed sensitivity analysis
- Performed a Scenario analysis using the Excel scenario manager feature.

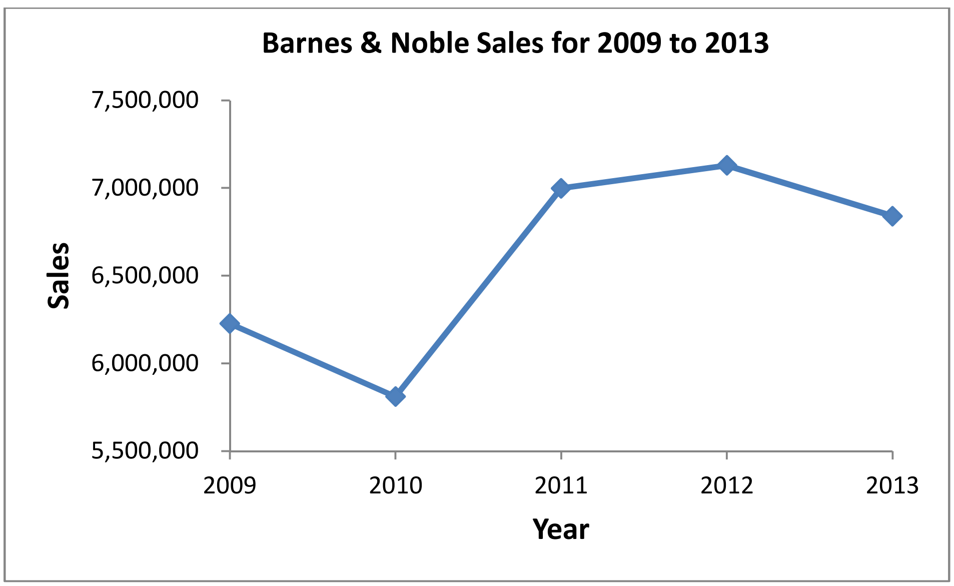
Financial Models

Forecast Methods

As forecasting methods, we have used trend function and regression analysis techniques to forecast sales of BKS and to determine the relationship between sales and direct costs.

Trend Function

Charting the Barnes & Noble's sales for the most recent five years reveals fluctuations in sales, despite an overall increase of $612 million. Sales declined from $6.2 billion in 2009 to $5.8 billion in 2010, but rallied in 2011 to $7.0 billion. We see a small increase in 2012 to $7.1 billion, but a reverse occurs in 2013 when sales declines to $6.8 billion.

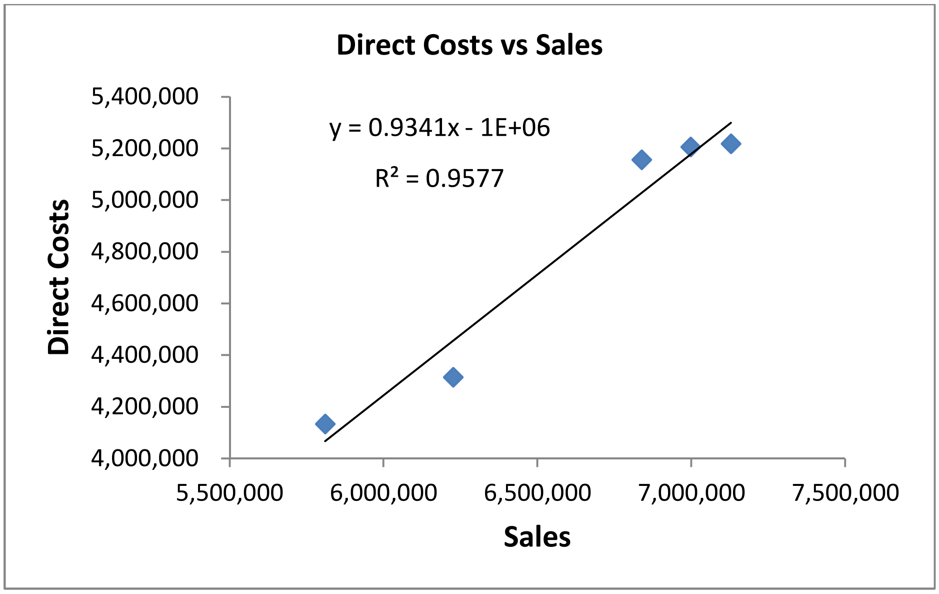


To generate a forecast based on the past five years' performance for sales, we used the built in Excel trend function, since it is generally used to forecast a time-based trend. We chose the trend function due to the fact that there was a discernible trend in sales and it would be impractical to hold the number constant over the forecast period. Based on the trend function, Sales for 2014 to 2018 are forecasted based on actual 2009 to 2013 sales as follows:

Year	Sales
2009	6,226,956
2010	5,810,564
2011	6,998,565
2012	7,129,199
2013	6,839,005
2014*	7,363,678
2015*	7,617,951
2016*	7,872,224
2017*	8,126,498
2018*	8,380,771
*Forecasted	

Regression Analysis

Regression analysis is a more sophisticated means of forecasting data as it allows a relationship to be determined between two variables (Mayes, 2012). We used regression analysis to determine the relationship between sales and direct costs on the income statement. As we can see in the chart below, there is a derived linear relationship between sales and direct costs, despite fluctuations in sales.



R square in the chart is 95.77%, implying that changes in sales are able to explain nearly 100% of the variability in direct costs. This is very positive strong relationship, and it indicates that this equation (regression model) is likely to work. However, R square does not indicate statistical significance. Therefore, the relationship between sales and direct costs is further examined using the regression analysis output summary from Excel below.

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.9786
R Square	0.9577
Adjusted R Square	0.9436
Standard Error	127,128.1928
Observations	5

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	1.098E+12	1.098E+12	67.9389	0.0037
Residual	3	48484732189	16161577396		
Total	4	1.14648E+12			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	-1360146.6	750212.35	-1.8130	0.1675	-3747657.13	1027363.93
Sales	0.9341	0.1133	8.2425	0.0037	0.5734	1.2948

We generally need to determine whether a coefficient is statistically distinguishable from zero. If the coefficient for sales is significantly different from zero, then we know that Sales is useful in predicting direct costs. The *t*-statistic tells us how many standard errors the coefficient is away from zero. The higher this number, the more confidence we have that the coefficient is different from zero. In this case, the *t*-statistic is 8.24.

High F statistic indicates that the entire model is statistically significant. F statistic is high enough in this case, and Significance F is 0.0037 which is less than 0.05. Generally, the closer the Significant F is, the better the significance of the model. The *F*-statistic provides same information as the *T* -statistic, since there is only a single variable.

We are very confident that the coefficient for sales is not zero, and to be sure if 0.9341 is correct value we look at the numbers labeled “Lower 95%” and “Upper 95%”. We can be 95% confident that the true change in direct cost per dollar change in sales is between $0.57 and $1.29. Since the upper and lower ranges does not contain zero, we can statistically distinguish the intercept coefficient from zero.

Now that we are confident that our model is useful for forecasting direct costs, we use the regression model to forecast direct costs based on the expected sales previously determined using the Trend function. The table below shows the calculated forecast for 2014 to 2018 using the regression model from the regression analysis output.

Year	Forecasted Sales	Estimated Direct Costs
2014	7,363,678	5,518,249
2015	7,617,951	5,755,764
2016	7,872,224	5,993,280
2017	8,126,498	6,230,797
2018	8,380,771	6,468,313

Pro-Forma Statements- Income Statement

Pro Forma Statements are used as accounting tools and provide relevant information of the company's overall financial position, excluding unusual and non-recurring transactions. We created a Five -Year Pro Forma income Statement and Balance Sheet for Barnes & Noble using the percentage of sales method, based on the forecasted sales and estimated direct costs. The five-year actuals between 2009 and 2013 for the income statement can be found in the Appendices.

Gross Profit and operating earnings for BKS are a significant issue, primarily because sales are not increasing quickly enough to offset expenses. From our first forecasted year, overall expenditures are above sales.

The company has very little debt which is expected to be constant in the coming years, and such the income statement pro-forma includes interest expenses related to the obligations existing as of 2013. Interest expenses are anticipated to remain fluctuate along with sales over the forecast period of five years as the firm already has low levels of long term debt and we do not anticipate repayment of the long-term debt obligation in the near future.

The net impact of operating losses combined with interest expenses results in Net losses in years 2014 through 2018. The firm has income tax benefits as opposed to expenses as a result of the negative earnings. After accounting for income taxes, net earnings have decreased by 4.35% from 2013 to 2014, despite the expected increase in net income by 7.67% in the same period. From this we can imply that BKS management is not efficiently managing its costs so as to improve operations and the bottom line income for stockholders. The forecasted Pro Forma Income Statements for Barnes and Noble are shown below:

Barnes and Noble
Pro Forma Income Statement
(Amount in thousands)

	2018F	***2017F***	***2016F***	***2015F***	***2014F***

Sales	8,380,771	8,126,498	7,872,224	7,617,951	7,363,678
Cost of Goods Sold	6,468,313	6,230,797	5,993,280	5,755,764	5,518,249
Gross Profit	***1,912,458***	***1,895,701***	***1,878,944***	***1,862,187***	***1,845,429***
Selling and G&A Expenses	2,045,746	1,983,678	1,921,610	1,859,542	1,797,474
Fixed Expenses	-	-	-	-	-
Depreciation Expense	-	-	57,556	268,152	259,201
EBIT	***(133,288)***	***(87,977)***	***(100,222)***	***(265,507)***	***(211,246)***
Interest Expense	(39,390)	(38,195)	(36,999)	(35,804)	(34,609)
Earnings Before Taxes	***(172,678)***	***(126,172)***	***(137,221)***	***(301,311)***	***(245,856)***
Taxes	(57,018)	(41,662)	(45,310)	(99,493)	(81,182)
Net Income (Loss)	***(115,660)***	***(84,510)***	***(91,911)***	***(201,818)***	***(164,674)***

Pro Forma Statements – Balance Sheet

The forecasted Pro Forma Balance Sheet estimates cash increases based on past history at 3.5% annually. In addition, no fixed asset additions are anticipated in the model. Since the company purchases its stock in the open market, the model anticipates that discretionary funds needed would be obtained by buying or selling Treasury Stock as needed.

Total current assets increased by 14.1% between years 2014 and 2018 in the pro-forma. This is due to increases in cash and cash equivalents, receivables, and inventories. Net property plant and equipment declined due to depreciation expense until 2016, where assets were fully depreciated thereafter. After accounting for other assets, total assets decreased by 0.5% between 2014 and 2018.

Total current liabilities increase by 13.4% between 2014 and 2018 . The increase is a result of higher in accounts payable, accrued expense, and other current liabilities.

Balance due on long-term debt, which includes capital leases, in 2013 is estimated to be $77 million based on the historical balance sheet schedule in the Appendix. Over the forecast period, long-term debt is expected to remain constant. Other long-term liabilities, which are primarily comprised of deferred long term liabilities, are forecasted to increase by 20.6% throughout the pro-forma period. The net effect on total liabilities is an increase of 15.7% between 2014 and 2018.

Total Stockholders' equity decreases by 88.8% over the forecast period. With the exception of retained earnings and Treasury Stock, all other line items are held constant throughout the forecast. These line items have not had dramatic increases or decreases, and seem to be representative of future outcomes based on available information. Retained earnings decline in each year of the forecast due to net losses on the income statement.

Barnes and Noble
Pro Forma Balance Sheet
(Amount in thousands)

Assets	***2018F***	***2017F***	***2016F***	***2015F***	***2014F***
Cash and Equivalents	190,588	184,143	177,916	171,899	166,086
Accounts Receivable	184,827	179,062	173,764	167,561	163,109
Inventory	1,765,666	1,708,847	1,661,673	1,595,818	1,566,105
Other Current assets	352,027	345,588	326,558	331,913	290,090
Total Current Assets	2,493,108	2,417,640	2,339,910	2,267,191	2,185,391
Plant & Equipment	3,110,429	3,110,429	3,110,429	3,110,429	3,110,429
Accumulated Depreciation	3,110,429	3,110,429	3,110,429	3,052,873	2,784,721
Net Property and Plant	0	0	0	57,556	325,708
Other Assets	1,100,492	1,100,492	1,100,492	1,100,492	1,100,492
Total Assets	***3,593,600***	***3,518,132***	***3,440,402***	***3,425,239***	***3,611,590***
Liabilities and Owner's Equity					
Accounts Payable	1,035,232	999,546	976,557	928,977	928,973
Accrued Expense	678,616	659,697	635,819	621,546	588,690
Other Current Liabilities	404,120	393,076	378,420	370,758	349,566
Total Current Liabilities	2,117,968	2,052,319	1,990,796	1,921,281	1,867,228
Long-term Debt	77,000	77,000	77,000	77,000	77,000
Other Long-term Liabilities	1,336,194	1,310,339	1,240,888	1,255,871	1,107,501
Total Liabilities	3,531,162	3,439,658	3,308,684	3,254,152	3,051,729
Common Stock	93	93	93	93	93
Additional Paid in Capital	1,383,848	1,383,848	1,383,848	1,383,848	1,383,848
Treasury Stock	-1,056,587	-1,156,211	-1,187,476	-1,240,019	-1,053,063
Accumulated Other Comprehensive Income	-16,692	-16,692	-16,692	-16,692	-16,692
Retained Earnings	-248,223	-132,564	-48,054	43,857	245,675
Other Equity				0	0
Total Shareholder's Equity	62,438	78,474	131,718	171,087	559,861
Total Liabilities and Owner's Equity	***3,593,600***	***3,518,132***	***3,440,402***	***3,425,239***	***3,611,590***

Ratios Analysis

Liquidity Ratios

The ***current*** and ***liquidity ratios*** for BKS have improved from the prior year, although both remain below the industry average of 2.30 and 0.70, respectively (**Error! Reference source not found.**). The low quick ratio is due to the fact BKS has to maintain high inventory levels. This results in a large portion of funds being tied to inventory. The ratios indicate BKS has more difficulty turning assets into cash than does its competitors although it is improving in this area.

Ratio	2013	2012	Industry 2013	Expert Analysis
Current Ratio	1.19 x	1.09 x	2.30 x	OK
Quick Ratio	0.37 x	0.24 x	0.70 x	OK

Efficiency Ratios

BKS has four efficiency ratios that are positive based on the fact they have improved from the prior year, although the fifth ratio declined from the prior year (**Error! Reference source not found.**). All ratios are below industry standards.

Inventory turnover is 3.66, compared to 3.34 in 2012. This indicates that the firm has gotten better at generating sales through its inventory, but is not as efficient as competitors, which have a ratio of 4.60. ***Accounts receivable turnover*** is 45.79, an increase from the prior year and worse than the industry average. ***Average collection period*** has decreased to 7.86 days, and is worse than the industry average of 7.69 days. This indicates it takes longer for BKS to collect monies owed the firm than its competitors. ***Fixed assets turnover*** of 11.69 increased from the prior year and is significantly less than the industry average of 37.20. This indicates the firm generates fewer sales than competitors when investing in fixed assets. ***Total asset turnover*** declined to 1.83 from 1.89.

This indicates BKS has gotten less efficient in using assets to generate sales, and still lags the industry, which has a ratio of 3.30.

Ratio	2013	2012	Industry 2013	Expert Analysis
Inventory Turnover	3.66 x	3.34 x	4.60 x	OK
A/R Turnover	45.79 x	44.52 x	513.40 x	OK
Average Collection Period	7.86 days	8.09 days	7.69 days	OK
Fixed Assets Turnover	11.69 x	11.45 x	37.20 x	OK
Total Asset Turnover	1.83 x	1.89 x	3.30 x	Unacceptable

Leverage Ratios

Total debt ratio indicates that the firm is highly leveraged at 80.88%, an increase since 2011, and is greater than the industry average of 79.20%. The ***Long-term debt ratio*** for the firm, on the other hand, is 2.06%, decreased from the prior year, and is less than the industry average (12.00%). This implies that the firm's debt repayment is more immediate and that BKS has less long-term debt than does its competitors. ***LTD to total capitalization*** is 9.74% and has decreased significantly from the prior year, and is less than the industry average of 36.59%. This indicates BKS obtains much less of its long-term sources of capital from long-term debt when compared to competitors. ***Debt to equity ratio*** is 4.23 and has increased from the prior year and is greater than the industry average of 0.70. The ***LTD to equity ratio*** also indicates that BKS carries a much lower long-term debt load than does its competitors, which means the firm relies less on long-term debt than equity for financing operations. The ratio for BKS is 10.79% compared to 57.69% for the industry. Maintaining this ratio at such a low level is very conservative policy and can impact the firm's ability to meet its short term obligations. The variations of the long-term Debt to Equity ratio can be mainly explained by the significant decrease of long-term debts over the period.

Ratio	2013	2012	Industry 2013	Expert Analysis
Total Debt Ratio	80.88%	80.14%	79.20%	Unacceptable

Long-term Debt Ratio	2.06%	8.61%	12.00%	Good
LTD to Total Capitalization	9.74%	30.25%	36.59%	Good
Debt to Equity	4.23 x	4.04 x	0.70 x	Unacceptable
LTD to Equity	10.79%	43.36%	57.69%	Good
Total Debt Ratio	80.88%	80.14%	79.20%	Unacceptable

Coverage Ratios

Times interest earned and ***cash coverage ratios*** for BKS are both negative, indicating that the firm will have difficulty meeting interest expense on its debt obligations. This is of particular concern given BKS's high degree of short-term leverage. Overall, the industry has a times interest earned ratio of 20.50.

Ratio	2013	2012	Industry 2013	Expert Analysis
Times Interest Earned	-6.22 x	-1.74 x	20.50 x	Unacceptable
Cash Coverage Ratio	-0.20 x	-4.85 x		

Profitability Ratios

All profitability ratios for the firm have either declined from the prior year and are worse than the industry average due to the fact that the company has made losses in the past three years. ***Gross profit margin*** fell to 24.61% from 26.80%, and is less than the industry average of 46.10%. This indicates the firm generates fewer dollars to pay expenses other than cost of sales. ***Operating profit ratio*** for BKS is negative at -3.22%, declined from -0.86% in the prior year. This contrasts with the industry, which is 3.80%. The firm has a negative ***net profit margin*** for both 2012 and 2011. Hence, BKS does not have profits to return to shareholders (industry average is 2.04%). ***Return on total assets*** is -4.23%, a decline from -1.83% in the prior year, especially when compared to the industry has a ratio of 10.38%. ***Return on Equity***, ***common equity***, and the ***Du Pont ROE*** are all worse than the prior year. The ratio for all three is -22.11%, which is a significant decline from -9.21% in prior year and dramatically trails the industry at 39.12%. These ratios indicate a shareholder in the firm experienced large losses on their investment.

Ratio	2013	2012	Industry 2013	Expert Analysis
Gross Profit Margin	24.60%	26.80%	46.10%	Unacceptable
Operating Profit Margin	-3.22%	-0.86%	3.80%	Unacceptable
Net Profit Margin	-2.31%	-0.97%	2.04%	Unacceptable
Return on Total Assets	-4.23%	-1.83%	10.38%	Unacceptable
Return on Equity	-22.11%	-9.21%	39.12%	Unacceptable
Return on Common Equity	-22.11%	-9.21%	39.12%	Unacceptable
Du Pont ROE	-22.11%	-9.21%	39.12%	Unacceptable

Financial Distress Prediction

The financial distress prediction model uses a Z-score to determine the financial risk of a firm. According to Mayes (2012) there are three ranges for Z-scores: less than 1.81, indicating bankruptcy likely within one year; less than 2.675 but greater than 1.81, indicating financial distress and possible bankruptcy; and scores greater than 2.675, indicating no financial distress.

BKS has a Z-score of 2.11 in 2013, which has decreased since 2012. This is a decline indicates a high level of financial distress for the firm, especially when compared to the industry Z-score, which is 2.68.

Ratio	2013	2012	Industry 2013	Expert Analysis
Z-score	2.11	2.23	2.68	Unacceptable

Economic Profit

The Economic Profit of a company shows the difference between its total revenues and its explicit in addition to the implicit costs of production. This information is necessary because the accounting profit usually does not take into consideration the implicit costs, which are important operational costs and so does not present an accurate picture of the company's profit. The economic profit is usually lower than the accounting profit and this holds true for Barnes and Noble. The table below shows the estimated economic profit performed in Excel for Barnes & Noble and it shows even lower income, which supports the fact that the company is in Financial Distress.

Economic Profit Calculation

	2018	2017	2016	2015	2014
Tax rate	33.02%	33.02%	33.02%	33.02%	33%
NOPAT	(89,276)	(58,927)	(67,129)	(177,836)	(141,493)
Total Operating Capital	2,510,864	2,465,359	2,426,163	2,490,490	2,999,042
After-tax Cost of Capital	11.50%	11.50%	11.50%	11.50%	11.50%
Dollar Cost of Capital	288,749	283,516	279,009	286,406	344,890
Economic Profit (Loss)	(378,026)	(342,443)	(346,137)	(464,243)	(486,383)

The table shows declining profits (Net Operating Profit After Tax) for Barnes and Noble for the past seven years.

Sensitivity Analysis Using Scenario Summary

We have created three simple scenarios by using scenario manager based on forecasted BKS sales and direct costs data to see the effects of different assumptions on gross profit.

In the best case scenario, the percentage of sales is increased to 12%, and percent of direct costs is decreased to 4%. In worst case scenario, sales percentage is decreased 4% and percent for direct costs is increased to 10%. And expected case scenario is remained as the current value.

	2014*	2013	2012
Sales	7,363,557	6,839,005	7,129,199
Direct Costs	5,518,485	5,156,499	5,218,383
Gross Profit	1,845,071	1,682,506	1,910,816

	Best Case	Expected Case	Worst Case
Sales	12.00%	7.67%	4.00%
Direct Costs	4.00%	7.02%	10.00%
Gross Profit	2,296,927	1,845,071	1,440,416

As a result in scenario summary, gross profit in best case is $2,296,927 and in worst case it is $1,440,416. And expected gross profit is $1,845,071.

Scenario Summary	Current Values:	Best Case	Expected Case	Worst Case
Changing Cells:				
Sales Revenue	7.67%	12.00%	7.67%	4.00%
Direct Costs	7.02%	4.00%	7.02%	10.00%
Result Cells:				
Gross Profit	1,845,071	2,296,927	1,845,071	1,440,416

Limitations and Conclusions (Recommendations)

Limitations

The Excel trend function was used to calculate a number of line items on both the income statement and balance sheet. This method of forecasting is simplistic in its approach and assumes that the trend will be linear. However, given limited data, this method and the consistent decline in net income each year, this method was judged sufficient for calculating net sales and direct costs (cost of sales).

Also notable is that a limited data set is available for the purposes of analysis. The primary sources of financial data for BKS were Form 10-K and the Mergent Online database. Although these sources provide raw financial data, strategic decisions made by the firm on how to account for certain transactions, specifically goodwill and impairment charges, result in the need to speculate as to how future trends will occur. Having a clear understanding of the firm's strategic objectives would result in a more accurate forecast.

Conclusion and/or Recommendations

Over the forecast period, BKS shows a consistent decline in net income, despite expected sales increases. This trend has occurred even as the firm has closed underperforming stores and pulled out of further manufacturing of its unprofitable NOOK products. The consistent decline in net income, along with negative financial ratios, indicates a strong weakness in Barnes & Noble's overall financial strength. With intense competition in the market, BKS has had persistent financial problems as illustrated in the pro-formas, key financial ratios, the financial distress prediction score and economic profit calculations. Furthermore, the historic financials contained in the appendices illustrate a consistently worsening financial condition. This indicates that the firm's has not returned value to shareholders.

In order to remain competitive, it is recommended that BKS adopt a new strategy. A primary option is to spin-off the Nook device sector of the company to provide relief to customers and have the Nook adaptable to any book source. The limitations of the product to formats specific to Barnes & Noble and its website bn.com limits the reach of the device, and without being able to compete on content, sales for the devices are expected to remain dismal. Changing or updating the NOOK devices to a multi-format device could very well change that. In addition, the company can also focus on content, luring self-published authors and established publishing houses to its doors similar to its competitors.

Part of the strategy would be evaluating the amount of debt it carries. In 2012, the company succeeded in paying down the amount of debt it held, putting it in a good position for leverage in the pro forma years. Currently BKS is less leveraged relative to its peers, which increases its ability to take on new debt and likely broadens access to borrowing from creditors.

Most importantly, the company will need to lower general and administrative expenses in order to make a profit in the coming years. Managing its costs will prove beneficial, while strengthening its position in the device market which is currently weak. If the firm is unable to do so, the Z-score calculated will likely decrease and the firm will be required to reorganize or liquidate under bankruptcy proceedings.

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Exhibits

Barnes & Noble, Inc. Financial Ratios (2009~2013)

Ratio	2013	2012	2011	2010	2009	Industry 2013	Expert Analysis
Liquidity Ratios							
Current Ratio	1.19 x	1.09 x	1.01 x	1.00 x	1.18 x	2.30 x	OK
Quick Ratio	0.37 x	0.24 x	0.21 x	0.20 x	0.22 x	0.70 x	OK
Efficiency Ratios							
Inventory Turnover	3.66 x	3.34 x	3.78 x	3.02 x	0.63 x	4.60 x	OK
A/R Turnover	45.79 x	44.52 x	46.84 x	56.21 x	15.63 x	513.40 x	OK
Average Collection Period	7.86 days	8.09 day	7.69 days	6.40 days	23.04 days	0.70 days	OK
Fixed Assets Turnover	11.69 x	11.45 x	9.93 x	7.16 x	1.38 x	37.20 x	OK
Total Asset Turnover	1.83 x	1.89 x	1.95 x	1.57 x	0.40 x	3.30 x	Unacceptable
Leverage Ratios							
Total Debt Ratio	80.88%	80.14%	77.20%	75.66%	67.26%	79.20%	Unacceptable
Long-term Debt Ratio	2.06%	8.61%	8.71%	7.03%	0.00%	12.00%	Good
LTD to Total Capitalization	9.74%	30.25%	27.63%	22.41%	0.00%	36.59%	Good
Debt to Equity	4.23 x	4.04 x	3.39 x	3.11 x	2.05 x	0.70 x	Unacceptable
LTD to Equity	10.79%	43.36%	38.19%	28.88%	0.00%	57.69%	Good
Coverage Ratios							
Times Interest Earned	-6.22 x	-1.74 x	-1.14 x	2.59 x	-16.30 x	20.50 x	Unacceptable
Cash Coverage Ratio	-0.20 x	-4.85 x	-2.85 x	-9.95 x	-214.25 x		
Profitability Ratios							
Gross Profit Margin	24.60%	26.80%	25.62%	28.86%	30.01%	46.10%	Unacceptable
Operating Profit Margin	-3.22%	-0.86%	-0.93%	1.26%	-0.29%	3.80%	Unacceptable
Net Profit Margin	-2.31%	-0.97%	-1.06%	0.63%	-0.24%	2.04%	Unacceptable
Return on Total Assets	-4.23%	-1.83%	-2.06%	0.99%	-0.10%	10.38%	Unacceptable
Return on Equity	-22.11%	-9.21%	-9.02%	4.07%	-0.30%	39.12%	Unacceptable
Return on Common Equity	-22.11%	-9.21%	-9.02%	4.07%	-0.30%	39.12%	Unacceptable
Du Pont ROE	-22.11%	-9.21%	-9.02%	4.07%	-0.30%	39.12%	Unacceptable
Financial Distress Prediction							
Market Value of Equity	1,065,514	788,707	627,034	1,227,804	1,409,420		
Z-score	2.11	2.23	2.24	2.15	1.29	2.68	Unacceptable

Barnes and Noble, Inc.
Income Statement
(Amount in thousands)

	2013	***2012***	***2011***	***2010***	***2009***
Sales	6,839,005	7,129,199	6,998,565	5,807,754	1,105,152
Cost of Goods Sold	5,156,499	5,218,383	5,205,712	4,131,009	***773,491***
Gross Profit	***1,682,506***	***1,910,816***	***1,792,853***	***1,676,745***	***331,661***
Selling and G&A Expenses	1,675,376	1,739,452	1,629,465	1,392,207	286,554
Fixed Expenses	-	-	81	3,518	2,472
Depreciation Expense	227,134	232,667	228,647	207,774	45,879
EBIT	***(220,004)***	***(61,303)***	***(65,340)***	***73,246***	***(3,244)***
Interest Expense	(35,345)	(35,304)	(57,350)	(28,237)	(199)
Earnings Before Taxes	***(255,349)***	***(96,607)***	***(122,690)***	***45,009***	***(3,443)***
Taxes	(97,543)	(27,740)	(48,652)	8,365	(1,374)
Net Income	***(157,806)***	***(68,867)***	***(74,038)***	***36,644***	***(2,069)***

Barnes and Noble, Inc.
Balance Sheet
(Amount in thousands)

Assets	***2013***	***2012***	***2011***	***2010***	***2009***
Cash and Equivalents	160,470	54,131	59,429	60,965	86,594
Accounts Receivable	149,369	160,123	149,427	103,370	70,721
Inventory	1,410,769	1,561,841	1,375,362	1,370,111	1,233,756
Other Current assets	326,527	221,324	161,936	181,825	127,490
Total Current Assets	2,047,135	1,997,419	1,746,154	1,716,271	1,518,561
Plant & Equipment	3,110,429	2,983,797	2,883,213	2,815,233	2,443,261
Accumulated Depreciation	2,525,520	2,361,142	2,178,562	2,003,199	1,642,517
Net Property and Plant	584,909	622,655	704,651	812,034	800,744
Other Assets	1,100,492	1,144,801	1,144,794	1,174,175	350,901
Total Assets	***3,732,536***	***3,765,249***	***3,596,466***	***3,705,686***	***2,780,105***
Liabilities and Owner's Equity					
Accounts Payable	805,194	959,423	949,010	868,976	698,315
Accrued Expense	569,240	546,495	785,667	755,432	593,381
Other Current Liabilities	341,036	321,362	0	100,000	0
Total Current Liabilities	1,715,470	1,827,280	1,734,677	1,724,408	1,291,696
Long-term Debt	77,000	324,200	313,100	260,400	0
Other Long-term Liabilities	1,226,323	866,112	728,779	819,060	578,168
Total Liabilities	3,018,793	3,017,592	2,776,556	2,803,868	1,869,864
Common Stock	93	91	90	89	88
Additional Paid in Capital	1,383,848	1,340,909	1,323,263	1,286,215	1,274,454
Treasury Stock	-1,063,855	-1,058,282	-1,054,192	-1,052,356	-1,049,328
Accumulated Other Comprehensive Income	-16,692	-16,635	-11,630	-13,212	-12,015
Retained Earnings	410,349	481,574	562,379	681,082	697,042
Other Equity	0	0	0	0	0
Total Shareholder's Equity	713,743	747,657	819,910	901,818	910,241
Total Liabilities and Owner's Equity	***3,732,536***	***3,765,249***	***3,596,466***	***3,705,686***	***2,780,105***