BARNES & NOBLE INC
Form DEFA14A
September 13, 2010

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# SCHEDULE 14A

**(RULE 14a-101)**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

**(Amendment No. )**

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

¨ Definitive Proxy Statement

x Definitive Additional Materials

¨ Soliciting Material Pursuant to § 240.14a-12

# Barnes & Noble, Inc.

**(Name of Registrant as Specified In Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if other than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

x No fee required

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

Investor
Investor
Presentation
Presentation
September, 2010
September, 2010

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Important Information and Certain Information Regarding Participants

On August 25, 2010, Barnes & Noble, Inc. ( Barnes & Noble ) filed with the Securities and Exchange Commission (the SE
in connection with its 2010 Annual Meeting and has mailed the definitive proxy statement to its stockholders. The definitive p
information regarding the names, affiliations and interests of Barnes & Noble s directors, director nominees and certain of its
deemed, along with Barnes & Noble, to be participants in the solicitation of Barnes & Noble s stockholders in connection wit
Security holders are urged to read the definitive proxy statement and any other relevant documents filed with the SEC when th
statement and other documents (when available) that Barnes & Noble files with the SEC at the SEC s website at www.sec.gov
at www.barnesandnobleinc.com and from Barnes & Noble by directing a request to Barnes & Noble, Inc., Attention: Investor
New York, New York 10011.

Safe Harbor

This communication contains forward-looking statements. Barnes & Noble is including this statement for the express purpo
protections of the safe harbor provided by the Private Securities Litigation Reform Act of 1995 with respect to all such forward
used in this communication, the words anticipate, believe, estimate, expect, intend, plan, will, projection
relate to Barnes & Noble or the management or Board of Directors of Barnes & Noble, identify forward-looking statements. T
statements are based on currently available information and represent the beliefs of the management of the company. These sta
risks and uncertainties that could cause actual results to differ materially. These risks include, but are not limited to, general ec
conditions, decreased consumer demand for the company s products, possible disruptions in the company s computer system
supply chain, possible risks associated with data privacy and information security, possible work stoppages or increases in lab
shipping rates or interruptions in shipping service, effects of competition, possible disruptions or delays in the opening of new
obtain suitable sites for new stores, higher than anticipated store closing or relocation costs, higher interest rates, the performan
online, digital and other initiatives, the performance and successful integration of acquired businesses, the success of the comp
investments, unanticipated increases in merchandise, component or occupancy costs, unanticipated adverse litigation results or
effects of any governmental review of the company s stock option practices, product and component shortages, effects of the
strategic alternatives and other factors which may be outside of the company s control. Please refer to the company s annual,
reports on file with the SEC for a more detailed discussion of these and other risks that could cause results to differ materially.
obligation to update or revise any forward-looking statements.

This communication includes projected financial performance information from Barnes & Noble s 2011 financial plan. These
based upon a variety of estimates and assumptions which, through currently considered reasonable by Barnes & Noble, may no
inherently subject, in addition to the specific risks identified above, to business, economic, competitive, industry, market and fi
contingencies, many of which are beyond Barnes & Noble s control. There can be no assurance that the assumptions made in
financial performance information will prove accurate. Accordingly, actual results may differ materially from the results proje

available,
because
they
contain
(or
will
contain)
important
information.
Security
holders
may
obtain
a
free
copy
of the definitive proxy

Why You Should Support Barnes & Noble

We're here to ask you to support the Barnes & Noble Board of Directors highly qualified Director nominees and to reject Yucaipa's proposed resolution and Board slate.

Our argument for supporting the Company and slate of nominees is six fold:

1) The book industry is undergoing dramatic transformation. We have the management team and strategy to capitalize on that transformation.

2) Mr. Burkle and his proposed slate have no demonstrated vision and do not have the requisite competencies to help guide the Company.

3) Mr. Burkle has a history of taking control of companies without paying shareholders a premium.

4) The Delaware court rejected all of Mr. Burkle s claims regarding the Company s Shareholder Rights Plan. In fact, the Company s Shareholder Rights Plan is doing exactly what

the Delaware courts say Rights Plans are designed to do - prevent creeping acquisitions and ensure that nobody acquires control of a company without paying an appropriate premium.

5) Moreover, Mr. Burkle has clouded the discussion with false accusations about the management team that need to be disputed. His inflammatory arguments aren't predicated on fact.

6) The Company's proposed slate provides competency, independence, and vision.

3

The Bookselling Industry is Transforming
4

We Are Confident Today  s Investments in Our Strategy
Will Lead to Significant Value Creation for Shareholders
5
$ in millions
$281
$235 -
$275
> $500
Total Comparable Sales
$3,000
$4,000
$5,000
$6,000
$7,000

$8,000
$9,000
$10,000
2010
2011P
2014P
$8,900
$7,100
$5,810
EBITDA
$0
$100
$200
$300
$400
$500
$600
2010
2011P
2014P

Barnes & Noble
The World s Largest Bookseller
Barnes & Noble is a leading retailer in large multi-billion dollar markets.
The
company
has
approximately
18%
market
share
of
the
$23
billion

consumer book industry and 15% share of the $12 billion collegiate book market. Additionally, Barnes & Noble is the #2 retailer in the $22 billion Newsstand (single copy) market. The company believes that digital content will grow all of these markets and offers incremental business opportunities for the company.

The company operates:

- 717 consumer bookstores in 50 states
-

633 college bookstores serving nearly 4 million students and faculty members
-
One
of
the
Web s
largest
eCommerce
sites
and
eBookstores
Given the dynamic nature of the book industry, the challenges faced by traditional booksellers, and the robust innovation pipeline fueling new opportunities in hardware, software and content creation and delivery, Barnes & Noble is utilizing the strength of its retail
footprint
to
bolster
its
leadership
and
fuel
sales
growth
across
multiple
channels.
1) Bowker, *2009 Book Consumer Annual Review*
2)
Market Share derived from National Association of College Store data
3)
Veronis
Suhler
Stevenson, *Communication Industry Forecast 2010-2014*
6
2
2
1
3

The Bookselling Industry is Transforming
7
Consumer spending on new physical books is expected to decline from $20.5 billion in 2009 to $19 billion in 2014
Spending on digital books is expected to grow at a CAGR of 56.4%, from $365 million in 2009 to $3.4 billion in 2014
eCommerce
and digital book sales are
expected to grow, while books sold at bookstores will continue to decline
Barnes & Noble is pursuing strategies to gain share in all three channels:

eCommerce, digital and bookstore sales
Source: Veronis Suhler Stevenson, *Communication Industry Forecast 2010-2014*
($ in millions)

| | | | CAGR |
|---|---|---|---|
| | 2009 | 2014 | 2009 - 2014 |
| New Books | $20,536 | $19,049 | (1.5%) |
| Used Books | 1,368 | 1,881 | 6.6% |
| Audio | 412 | 350 | (3.2%) |
| Digital | 365 | 3,419 | 56.4% |
| Total | $22,681 | $24,699 | 1.7% |

Well Positioned to Gain Physical Book Market Share
8
2013P BKS Market Share*
2013P BKS Market Share*
2010 BKS Market Share*
2010 BKS Market Share*
*Source: Bowker
2009 Book Consumer Annual Review and Veronis
Suhler
Stevenson, *Communications Industry Forecast 2010-2014*
and Company forecasts
B&N is by far the strongest bookstore
operator in the segment, having
consistently outperformed the competition
B&N has consistently gained bookstore

market share against the competition
Approximately 50% of books are sold at non-bookstore outlets; and as book sales continue to progress towards eBooks and books sold online, we believe these non-bookstore outlets will reduce their presence, if not eliminate their book departments altogether
B&N believes there will be industry consolidation in the form of fewer bookstores and bookstore chains and that the company will be the beneficiary of that consolidation

Superior Bookstore Execution Has Led to Market Share Gains
9
Source: Public Filings
Source: Public Filings

10
Transformative Digital Strategy Leads to Further Market Share Gains
B&N believes the eBook market will
be significantly less fragmented than
the physical book market.
Within 12 months of the launch of its
eBookstore, the company had 20%
market share and established itself as
the #2 player in this category.
There are significant barriers to entry,
including capital investments in
developing technology and
converting/amassing digital content,
that B&N believes will discourage
mass merchandisers from entering
the marketplace.
June
2009
June
2010
20%
20%
Barnes & Noble s eBooks Market Share
They are the best-kept secret in the e-book space.

-

David Shanks, CEO Penguin Group,
Crain s New York, June 13, 2010

B&N s
Multi-Faceted Digital Approach
11
Created
the
most
advanced
eReaders
in
the
marketplace
Multi-channel/Multi-reach strategy
differentiates Barnes & Noble from anyone
else in this space

Apps allow for support for over 400 devices
Established partnerships with Best Buy (NOOK fixtures in 1,070 Best Buy stores and featured on bestbuy.com) and HP (cobranded website and desktop app) to expand NOOK s presence

Digital Strategies are Driving Big Sales Increases
12
On a comparable sales basis
The
launch
of
the
eBookstore
served
as
a catalyst for comparable sales
increases at BN.com
and that has
further accelerated with the launch of

NOOK
the company expects fiscal
2011 comparable sales to increase 75%.
Members who have purchased a NOOK
have increased their digital and physical
spend by approximately 20% and on a
unit basis by 70%.
Additionally, NOOK devices and our
eReading
software has triggered a
significant expansion of the BN.com
customer base
25% of NOOK users
are new to BN.com.
Launched
eBookstore
4%
2%
-10%
-7%
9%
32%
50%
53%
75%
-20%
-10%
0%
10%
20%
30%
40%
50%
60%
70%
80%
2%

Bookstores are Driving NOOK Sales

The company reaches over 40 million customers and is leveraging its leading market position to educate its customers about its digital products offerings. Simply put, Barnes & Noble Bookstores attract the core NOOK customer.

Bookstores provide a distinct see, feel, touch advantage for customers to be able to experience NOOK.

The company s 45,000 booksellers are ambassadors for its digital products offerings.

The bookstores have played such an important

component
of
NOOK s
success
that B&N is expanding its commitment and
resources to its digital strategy through the
roll-out of NOOK Boutiques.
13
Point of Purchase (Mid-Feb. Bookstore Launch)
0%
20%
40%
60%
80%
100%
Dec
Jan
Feb
March
April
May
June
July
Aug
Bookstores
Online

And, Digital Programs Are Driving Traffic Back To The Bookstores
The company is also using NOOK to drive traffic back to the bookstores after customers purchase the device through innovative features such as:

Read In Store , where customers can browse and read complete eBooks for free while they are in a Barnes & Noble bookstore

More In Store , which provides free exclusive content from top authors only in our bookstores for NOOK users

Additional promotions such as free eBook offers for bookstore customers and free coffee offers to those who show our eReader software on their devices.

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Transforming the Bookstore Experience
15
As B&N reduces the amount of space
dedicated to shrinking categories such as
music, it intends to leverage its brand and
locations by selling additional
complementary products.
The company is in the process of rolling out
its Toys & Games department, which is
curated
with a unique selection of
educational toys and games and an
expansion of adult games and puzzles.
The introduction of educational toys and

games along with the expansion of adult games and puzzles is expected to increase department sales by more than 60% in fiscal 2011 (on an annualized basis).

The company is also building on its stellar reputation with educators and parents through its B&N @ School departments, further establishing Barnes & Noble as an education destination.

Accelerating eCommerce
Sales

B&N s
investments in its digital
platform, combined with recently
introduced new strategies, such as
every day low pricing and free
unlimited express shipping for
Members are translating into strong
business momentum and accelerated
revenue growth.

The company intends to capitalize on
these accelerating trends by adding
new categories and significantly

expanding the number of SKUs at
BN.com.
B&N has significantly expanded its
used
and
new
Marketplace

its
direct
seller network now has over 60 million
listings
of
new
and
used
products

up
50% from two years ago.
16
On a comparable sales basis
BN.com
Comparable Sales
9%
32%
50%
53%
75%
0%
10%
20%
30%
40%
50%
60%
70%
80%

Transforming the Campus Bookstore

Barnes & Noble is utilizing the strength of its digital platform and is at the forefront of transforming the college bookstore industry. The company offers college students and faculty the most comprehensive textbook offering in the marketplace. Since the College Booksellers acquisition, the company has significantly increased the amount of options available for students to acquire their required course materials. Barnes & Noble is the first and only major online retailer offering higher education students four textbook options -
new, used,
rental and digital.

The company is also revolutionizing the way students

study through the release of NOOKstudy , an integrated software solution for the higher education market. This feature rich, free software application is the ultimate study tool, enabling students to manage all their digital content
eTextbooks, class materials, and notes
on
their PC or Mac. This software enables students to study smarter, not harder.
B&N intends to gain further market share in the collegiate market as more and more schools look for a partner to outsource their campus bookstore management.
17

Digital Strategy Transforms Barnes & Noble
into a Technology and Growth Company
18
2010 Includes College results since acquisition date
$ in millions
69%
Retail
$0
$1,000
$2,000
$3,000
$4,000
$5,000
$6,000

$7,000
$8,000
$9,000
2010
2011P
2012P
2013P
2014P
Booksellers
College
bn.com

BKS s
Stock Performance Reflects Decline of
Traditional Retail Bookselling
Ron Burkle s
Ron Burkle s
attempt to blame BKS s
attempt to blame BKS s
stock performance
stock performance
on related party transactions is misleading
on related party transactions is misleading
19

Analysts Recognize Potential in eBooks

Barnes & Noble s digital strategy has begun to pay off, with a 50% increase in ecommerce sales in 4Q10 and a forecasted 75% increase in fiscal 2011.
(Bank of
America/Merrill Lynch, June 30, *2010*)

The firm s 20% market share of digital books (newly disclosed) is impressive, and
some
of
this
investment

most
notably
the

digitization
of
back-list
books

will
likely peak in the next year or two.
(Goldman Sachs, *June 30, 2010*)

BKS sees the business moving to e-books. BKS has two great competitive strengths in our view (1) long-standing relationships with publishers that give it a big seat at the e-book table and (b) best in class real estate that can somewhat offset BKS from the constant struggles in book demand through gains in market share.
(Stifel
Nicolaus, *June 30, 2010*)

We have no doubt that BKS has a winning management team, great brand, great real estate portfolio and substantial competitive advantages with a weakened primary sector competitor in Borders.
(Stifel
Nicolaus, *May 21, 2009*)

The migration to digital distribution may open up new opportunities for BKS.
(C.L.
King, *August 4, 2010*)
20

An Independent Special Committee is
Reviewing Strategic Alternatives to
Maximize Shareholder Value
21

Review of Strategic Alternatives
We believe the market is undervaluing the digital opportunity for B&N
On August 3, 2010, Barnes & Noble announced that its Board had formed a Special Committee to review strategic alternatives
The Special Committee consists of four independent board members
The Special Committee is being assisted by top independent financial and legal advisors (Lazard and Morris, Nichols)
Alternatives include soliciting offers for a potential sale of the Company
22
A
A
Process
Process
is

is
Underway
Underway
to
to
Deliver
Deliver
Full
Full
Value
Value
to
to
ALL
ALL
Shareholders
Shareholders

Review of Strategic Alternatives
The
Delaware
Chancery
Court
rejected
Ron
Burkle s
argument
that
the
Special Committee lacks independence

The strategic process is to be led by a special committee of four of the

company s independent directors, a group that does not include any director this decision has found to be non-independent.
(p. 86)
Mr. Burkle
can participate in sale process: if he wants control, he can
make an offer to all
shareholders
Instead, Burkle
seeks two
representatives on the Special Committee

Len Riggio
has no
representation on the Special Committee
The Board believes Mr. Burkle
is trying to influence the Special
Committee process to advance his
own interests
Weakening the Rights Plan While the Board Reviews Strategic
Weakening the Rights Plan While the Board Reviews Strategic
Alternatives Could Deny Shareholders a Control Premium
Alternatives Could Deny Shareholders a Control Premium
23

The Company s Related Party Transactions
Support The Business
24

25
Overview of Related Party Transactions
Related
party
transaction
preceded
BKS's
IPO
in
1993

when
all
companies

(B&N, B&N College, MBS) were privately owned
All have been disclosed in SEC filings since IPO
Independent Audit Committee reviews all related party transactions both when they occur and again each year
Company analyzes all related party transactions, both when they occur and again each year, to ensure the terms are at least as favorable to the Company as comparable, arms-length transactions available in the market
Board also forms independent special committees as appropriate (e.g., acquisition of Babbages, B&N College)

26

History of Related Party Transactions and the Barnes & Noble Brand

1965: B&N College founded by Len Riggio

1986: B&N College acquired B. Dalton Bookseller (754 stores) jointly with Vendex

B&N
College
and
Barnes
&
Noble
were
kept
as

two
separate
private
companies
to
provide
Vendex
with
50% ownership of Barnes & Noble without the well-established College business

B&N College focused on sale of textbooks

Barnes & Noble focused on sale of trade books

Related party transactions were established to share certain resources between the two companies
1993: IPO of Barnes & Noble after successful development of the superstore concept

B&N
College
remained
the
owner
of
the
Barnes
&
Noble
name
but
granted
the
right
to
BKS
to
use
it
in
perpetuity for trade books under a royalty-free license agreement
1998:
B&N
College
granted
Barnes
&
Noble.com
the
exclusive
license
to

the
Barnes
&
Noble
name and trademark from for the purpose of online sale of trade books (excluding textbooks)
2001:
B&N
College
granted
Barnes
&
Noble.com
the
right
to
sell
college
textbooks
online
for
royalty payments on such sales
2009: Barnes & Noble s acquisition of B&N College represents the logical reunification of the Barnes & Noble brand to enable the Company s digital transformation

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GameStop
Value Creation for Barnes & Noble Shareholders
Acquired Babbage's ($209m) from Len Riggio
in
1999 and publicly traded Funco
($159m) in 2000
and consolidated them under GameStop brand
Babbage's acquisition negotiated by
independent special committee
Expanded GME to become nation s largest video
game and PC entertainment software specialty
retailer
2002 GME IPO yielded $250m in cash plus a 63%

interest in GME for Barnes & Noble
2004 Barnes & Noble sold additional shares back to GME for ~ $112m in proceeds
In subsequent 2004 GME Spin-off, the company distributed remaining GME shares to Barnes & Noble shareholders, which achieved a peak value of $3.8 Bn*
Company itself recouped full original investment through IPO proceeds and 2004 share sale
GameStop Investment Return
($MM)
Funco
GME IPO Proceeds
GME Shares Sold
Babbage's
GME Peak Value
*GameStop shares reached a peak value of $63.30 in December 2007, which equates to a market value of nearly $3.8 billion for the 59.8 million s hares (adjusted for a 2 for 1 stock split in March 2007) spun off to Barnes & Noble shareholders in 2004. The closing price of Game
of September 8, 2010 was $18.57, which equates to a market value of $1.1 billion for the 59.8 million shares.

College Transaction: Reunited Brand and
Supports Digital Transformation

College owned Barnes & Noble trade name; reuniting the brand and reintegrating businesses was a top priority of the Board for many years

By reuniting the brand and owning College, BKS has been able to:

Integrate its Internet and digital products into a single, comprehensive brand and marketing offering

Become the only major online retailer offering textbooks
in

every
format

new,
used,
rental
and
digital
making BKS highly relevant to college
students

Make BKS the clear partner of choice for colleges and universities that need to modernize their offerings

Launch NOOKstudy , a feature-rich digital textbook and study tool that lets college students manage all their digital content on a PC or Mac

Build relationships with the key college demographic group

More effectively transition those relationships into lifetime BKS customers
28

29
College Transaction: Attractive
Financial Terms Support Digital Strategy
Independent special committee and independent financial and legal advisors reviewed and negotiated the transaction to ensure fairness to all shareholders
$514 million purchase price includes $75 million of cash College had at closing
Purchase price of only $439 million (net of cash) equates to only 3.8x adjusted EBITDA (pro forma for Fiscal Year 2010)*
College continues to be a healthy and profitable business

Positive 2.9% comp store sales increase in latest quarter

Expected to generate $65MM in cash from operations this fiscal year

College is **a significant source of funding** for the Company  s investments aimed at
growing digital sales

*In the twelve months ended April 30, 2010, College had operating profit of approximately $49 million and generated adjusted
forma basis.  A reconciliation of adjusted EBITDA to operating profit is included in the Appendix.

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MBS Supply Agreement is Key
Competitive Advantage for College

College has long-term Supply Agreement with MBS Textbook Exchange, Inc. ( MBS ), a leading U.S. wholesaler of new and used textbooks (majority owned by Len Riggio)

College purchases new and used printed textbooks from MBS prior to buying from other suppliers ($24MM since the acquisition date in 2010)

College sells used textbooks (bought back from students) exclusively to MBS
Agreement re-negotiated by independent special committee in College acquisition
Access to supply of used textbooks from market leading wholesaler is key competitive advantage for College and nearly impossible to replicate

Other major textbook retailers (Follett, Nebraska) have integrated wholesale operations
Separately, MBS sells used books through B&N.com; B&N.com
receives same
commissions from MBS as from other dealers in its dealer network
($3MM in 2010)

Ronald Burkle
is Cherry-Picking Analyst
Comments on The College Transaction
Burkle
claims on slide 18 of his presentation that Bank of America/Merrill Lynch
criticized the acquisition of College Booksellers, but here is what they said:

... [W]e
view the transaction favorably as it provides the company with an alternate
avenue for growth
(*14 August 2009*)

Recall the college book market is estimated at $10 billion, and 65% of colleges bookstores (2,000+ colleges) are still operated by the schools themselves. As such, we believe BKS will

look to grow this newly acquired channel.
(*8 October 2009*)
Stifel
Nicolaus
also noted the favorable transaction terms and that investor
skepticism was overdone:

BKS bought College with cheap money relative to the cash flows of the business (*10* August 2009)

We believe the skepticism [regarding the transaction] may be getting overdone. College bookstores may indeed have more resilience to e-books (you can t take notes in the margin as easily on an e-book or mobile phone).
(*20 August 2009*)
31

We Believe Ronald Burkle s
Self-Serving
Agenda is not in the Best Interest of
Barnes & Noble Shareholders
32

Why You Should Reject Yucaipa s Nominees
Ronald Burkle
has a history of taking control of companies without paying shareholders a
premium
many with highly negative consequences
We believe Mr. Burkle s
actions are part of his ongoing effort to gain control of Barnes & Noble

Yucaipa and Aletheia
together control 34% of outstanding shares

Yucaipa and Aletheia
have a history of following each other in making investments

In response to the company s Rights Plan, Burkle sued in the Chancery court in Delaware

The court held for the company on every issue

The court said the Board s adoption and use of the Rights Plan was a good faith, reasonable response to a threat to Barnes & Noble and its stockholders (Opinion, pg. 87)

The Shareholder Rights Plan is more important now than ever

A special committee of independent Directors is reviewing strategic alternatives to maximize shareholder value

The Rights Plan must continue in its current form in order to protect this process

A special meeting of shareholders will be held on or

before
Nov.
17
to
ratify
the
Rights
Plan
If the Board s nominees are elected, 7 of the 9 directors would be independent directors
Ron
Burkle s
slate
proposes
two
independent
Directors
who
are
now
on
his
payroll
Burkle
has offered no strategy or plan to create shareholder value
33
th

Burkle
and Aletheia

A Clear Pattern Emerges
34
Barnes & Noble Ownership Percentage
3/31/2008
6/30/2008
9/30/2008
12/31/2008
3/31/2009
6/30/2009
9/30/2009
12/31/2009

3/31/2010
6/30/2010
Aletheia
0.4%
0.4%
0.6%
0.4%
5.7%
4.7%
4.8%
13.1%
17.1%
15.7%
Yucaipa
n/a
n/a
n/a
8.3%
8.3%
8.0%
8.0%
17.8%
18.7%
19.6%

Mr.
Burkle
Claims
That
He
Barely
Knows
Aletheia

But
Look at the Remarkable Pattern of Their Investments
Yucaipa Total Position
Aletheia Total Position
A&P: Yucaipa Total Position (Includes Warrants and Preferred Convertible)

35
Barnes & Noble
Whole Foods Market
A&P (The Great Atlantic and Pacific Tea Company)
Wild Oats Markets
0
1,000,000
2,000,000
3,000,000
4,000,000
5,000,000
6,000,000
2/26/2005
8/27/2005
2/25/2006
8/26/2006
2/24/2007
8/27/200
0
2,000,000
4,000,000
6,000,000
8,000,000
10,000,000
12,000,000
3/31/2008
9/04/2008
2/08/2009
7/15/2009
12/19/2009
5/21/2010
0
5,000,000
10,000,000
15,000,000
20,000,000
25,000,000
30,000,000
35,000,000
12/03/2007
5/24/2008
11/13/2008
5/05/2009
10/25/2009
4/16/2010
0
2,000,000
4,000,000
6,000,000
8,000,000

10,000,000
12,000,000
6/30/2008
11/05/2008
3/13/2009
7/19/2009
11/24/2009
3/31/2010
2/1/07:
Whole Foods announces
offer to acquire Wild Oats
Favorable Investment Timing?

Shareholders Should Not Let Burkle
Increase His Ownership
He Has Proven to Serve His Own
Interests Time and Time Again
As the Delaware Chancery Court found:
Despite its protestations, Yucaipa s prior investing history is replete
with
the
sorts
of
investments
that
often

lead to transactions in which public stockholders are treated differently. Although Yucaipa seems to have mostly entered on friendly terms, the terms it extracted have often given it control rights not available more generally to stockholders and its influence has resulted in important managerial changes.

(p. 68) (emphasis added)

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Company
Issue
Comments
Aletheia
Follows
Investment by
Yucaipa
No Shareholder Rights Plan was in place to protect shareholders and
Yucaipa and Aletheia
together now control approximately 45% of A&P on a
fully diluted basis.
Preferential

Treatment
Right to designate 2 directors; in addition former Yucaipa appointee to Pathmark board has been A&P director since Pathmark was acquired
Yucaipa approval required for certain business combinations exceeding $50 million, certain issuances of equity securities and amendments to articles of incorporation and by-laws
The approval of at least one Yucaipa nominated director required for certain acquisitions and dispositions of assets exceeding $50 million, certain issuances or repurchases of equity securities, incurrence of debt exceeding $50 million and declaration of any dividends on common stock
The terms of Yucaipa s Pathmark warrants were amended to permit exchange of the warrants for A&P warrants. A&P warrants received by Yucaipa enable Yucaipa to have greater participation in any upside than A&P s other stockholders
Yucaipa nominated director named Chief Administrative Officer; President and CEO, EVP of Operations and SVP of Human Resources and Communications also have Yucaipa ties
Payments to Yucaipa; Shareholders Suffer
Four consulting agreements for Yucaipa employees each worth $500,000/year
Share price decline of 40% since Yucaipa nominated directors were added to the Board
Shareholders Should Think Twice Before Allowing Burkle to Increase His Ownership
He Has Proven to Serve His Own Interests Time and Time Again

37

Company
Issue
Comments
Creeping
Control
While
owning
less
than
a
majority
of
Source,

Mr. Burkle took control of board by reducing board size so that Burkle s designees constituted a majority and by naming Yucaipa partner as Chairman

Treatment of Minority Shareholders

Ignored long-time shareholder s requests to **do what s right for all** shareholders and not just [what is] in Yucaipa s self interest

Postponed annual meeting to keep shareholder proposal (relating to declaration of special dividend to return value to shareholders) out of proxy materials

Poor Strategic Decision

Review of strategic alternatives led by Yucaipa resulted in acquisition of Primedia for $1.2 B in 2007, which left company overlevered

Payments to Yucaipa

Yucaipa entered into a $1 million per year consulting arrangement with Source in 2005

Source paid Yucaipa an additional $12.8 million for special consulting services in connection with Source s review of strategic alternatives

Bankruptcy

Source filed for bankruptcy protection in April 2009, citing a heavy debt load
38
Shareholders
Should
Think
Twice
Before
Allowing
Burkle
to
Increase
His
Ownership
He Has Proven to Serve His Own
Interests Time and Time Again

Company
Issue
Comments
Burkle
Acquires Stake
Mr.
Burkle
acquired
a
22%
stake
in
Simon

Worldwide
(fka
Cyrk)
via
warrants
and convertible preferred shares
and received 3 of 7 Board seats (Burkle
chairman)
Scandal
Scandal
over
administration
of
McDonalds
game
competitions
leads
to
loss
of major customers, lawsuits
Stock delisting due to insufficient assets and equity
Resignation of Burkle
as Chairman
Payments to
Yucaipa
Management consulting contract of $500,000/year and 1% of purchase
price of any acquisition/divestiture in which Yucaipa consulted
Sale or
Liquidation
Subsequent
to
a
recapitalization
giving
Mr.
Burkle
a
70%
stake,
stockholders
decided
to
either
sell
or
liquidate
the
company
by
end

of
2010
39
Shareholders
Should
Think
Twice
Before
Allowing
Burkle
to
Increase
His
Ownership
He Has Proven to Serve His Own
Interests Time and Time Again

Company
Issue
Comments
Burkle
Reportedly
Gains Influence
Ron Burkle
made investments in Kmart (11/2000) and Fleming Companies
(2/2001)
In same month Mr. Burkle
made his investment in Fleming, Kmart, as a part
of a superstore initiative that was reportedly encouraged by Burkle, entered
a 10-year $4.5Bn food supply agreement with Fleming

Burkle
Profits
but Companies
File for
Bankruptcy
Burkle
sold Fleming investment 10 months later (12/2001) with a **$25**
million
profit
(based on press estimates)
A
month
later
(1/2002),
Kmart
filed
for
bankruptcy;
Burkle
claims
to
have
purchased downside protection on Kmart stock
Fleming filed for **bankruptcy** in 4/2003
40
Shareholders
Should
Think
Twice
Before
Allowing
Burkle
to
Increase
His
Ownership
He Has Proven to Serve His Own
Interests Time and Time Again

In Our View The Record Is Clear: Ron Burkle
Pursues
His Own Interests
NOT That of All Shareholders
41
Mr. Burkle s
40+ page investor presentation lacks a single positive
idea, plan or strategy for BKS
The
BKS
Board
believes
Burkle s
nominees

have
no
vision,
no
strategy
and
no
relevant
experience
to
build
value
at
Barnes
&
Noble
Burkle
has a history of investments characterized by

Creeping control without paying a premium
to all shareholders

Preferential
treatment
of
Yucaipa

Corporate ***governance failures***
The
Board
is
convinced
Ron
Burkle
and
Aletheia
are
trying
to
gain
control
without paying a premium to all shareholders[1]

Rights Plan with 20% trigger prevents Burkle/Aletheia
control group
1) While Yucaipa s nominees, if elected would constitute a minority of the Board, the Board believes Yucaipa s proposal to e
nominees, together with its efforts to weaken the Rights Plan, are part of a larger plan to obtain control of the company.

We Believe the Current Rights Plan is
Necessary to Keep Burkle
and Aletheia
from
Gaining Control Without Paying a Premium
42

Barnes & Noble Shareholder Rights Plan
Adopted November 17, 2009 with a three-year term
20% triggering threshold
Leonard Riggio frozen at pre-existing ownership level of approximately 30%, which includes options
Barnes & Noble publicly committed to put the Rights Plan to a shareholder vote by November 17, 2010
Mr. Burkle sued in the Delaware Chancery Court to challenge the Rights Plan
Vice Chancellor Leo Strine upheld the Rights Plan following a trial on the merits in July 2010; Burkle has appealed
43

Rights Plan Protects Barnes & Noble Shareholders against the Formation of a Control Bloc

Mr. Burkle claims he wants to level the playing field, but

his
proposal
to
increase
the ownership threshold to 30% would allow formation of an absolute control
bloc
Burkle
and Aletheia
already own 34%
Among
other
things,
this
control
bloc
would
give
Burkle
and
Aletheia

Ability to block outcome of the strategic alternatives process

Power to deny Barnes & Noble shareholders a control premium for their shares
As the Court stated: [T]he
board was concerned that Yucaipa could, along with
Aletheia
as
an
admiring
and
devoted
fellow
traveler,
essentially
form
a
control
bloc without paying a control premium. Wielding effective voting control,
Yucaipa and Aletheia
could then propose options, such as a leveraged buyout in
which they remained as controlling stockholders, that might be less attractive to
the company s other stockholders than would either the status quo or the sale
of the company in an open shopping process. Contrary to Yucaipa s view, I do
not believe that this concern is at all unreasonable.
(p. 71)
44

What Did the Court Say about Yucaipa and Aletheia?
45
What
did
the
Court
say
about
Yucaipa
and
Aletheia s
discussions
about
Barnes &

Noble?

The evidence at trial also showed that Eichler and Burkle had met for lunch in both August 2009 and January 2010, although Burkle disclaims having had any serious discussions about Barnes & Noble. Notably, however, their initial meeting on August 14, 2009 was the same day that Burkle sent his first letter to Riggio complaining about the College Booksellers transaction. Furthermore, Eichler had a more detailed, and quite believable, recollection of the discussion. (p. 24)

That Burkle and Eichler took a meeting on the same day that Burkle shot off his private letter to Riggio complaining about the College Booksellers deal, and met again after the Rights Plan was in place, are events that I, being neither Goober Pyle or Kenneth Parcell, believe were anything but coincidental and had everything to do with Barnes & Noble (p. 67)

What did the Court say about a Yucaipa and Aletheia control bloc?

The testimonial record supports the conclusion that the board had good reason to be concerned that these two large investors were capable of and interested in cooperating in a joint effort to take effective voting control of the company (p. 25)

[I]t is clear that Aletheia s Eichler is a big admirer of Burkle and that there is a strong possibility for the immediate formation of a control bloc if the Rights Plan were not in place (p. 73)

What Did the Court Say about the Rights Plan?
What did the Court say about the Board s adoption of the Rights Plan?

The Board s adoption and use of the Rights Plan was a good

faith,
reasonable
response
to
a threat to Barnes & Noble and its stockholders
(p. 87)

In response to this threat that the corporation s stockholders would relinquish control through a creeping acquisition without the benefit of receiving a control premium, the board adopted a measured pill that protected Barnes & Noble shareholders
(p. 3)
What did the Court say about the Rights Plan s 20% triggering threshold?

"In this respect, it is critical that the board used a 20% trigger rather than a 15% cap. With the Riggios
ownership, that threshold was reasonable because **setting the threshold any**
higher would have only made Yucaipa s creeping acquisition of control more likely**.**
(p.
84) (emphasis added)

[The Board s advisor] focused, in my view reasonably, on the notion that a standard pill with a cap higher than 20%
such as 25%
would allow for the formation of a de facto
control bloc between Yucaipa and Aletheia
(or another activist) through conscious
parallelism.
(p. 85)
46

How Can You Believe Burkle
Does Not
Want Control?
Last
November,
Mr.
Burkle s
SEC
filings
reserved
the
right

for Yucaipa to acquire all of the Company s stock and Yucaipa notified the Company that it had requested U.S. antitrust clearance to do so

This July, he testified in Court that he considered offering to buy the Company "Burkle also took meetings with two large investment banks, Bank of America and Deutsche Bank, about the possibility of a leveraged buyout of the company." (Opinion, p. 14)

He recently told New York magazine that he *would certainly consider a bid* to buy the Company *( The* Billionaire and the Book Lover, Andrew Rice, New York, August 30

September 6, 2010, p. 40)

Ronald Burkle has spent millions in legal fees on litigation to invalidate or weaken the Rights Plan in order to be able

to
acquire
additional
BKS
shares
47

Highly Qualified Slate With Two New
Independent Nominees
48

Highly Qualified Slate with Two New Independent Nominees
49
Leonard Riggio
Visionary Founder, Chairman and former CEO of Barnes & Noble with 45+ years of entrepreneurial, executive and board-level experience
Mr.
Riggio
has
led
Barnes
&
Noble
to
become

the
nation's
top
bookseller
brand
for
seven
years
in
a
row
(1)
and was a key leader of the Company s expansion into digital media
Mr. Riggio
founded and serves as a director of GameStop Corporation
Mr. Riggio
is Barnes & Noble s largest shareholder
David Golden
Top
executive
at
Revolution
LLC
with
over
20
years
of
technology
and
finance
experience,
maximizing
value
from investments in diversified portfolio of innovative consumer-facing businesses, including Zipcar
Provides significant Tech & Media experience having served as Vice Chairman and Director of JP Morgan s
global technology, media and telecommunications investment banking practice
Dr. David Wilson
Brings
15
years
of
executive
and
board-level
experience
and
extensive
knowledge
of

the
education
market
as
President & CEO of the Graduate Management Admission Council
Specific previous Board experience in value-creating sale transactions of Terra Industries Inc. and Laureate Education, Inc.
Valuable financial experience having served as Ernst & Young Audit Partner, Managing Partner, National
Director
of
Professional
Development
and
a
Director
of
the
Ernst
&
Young
Foundation
Notes: (1) Based on EquiTrend® Brand Study by Harris Interactive®

Notes:
(1) Stephen Bollenbach and Burkle served on the board of KB Home until

Burkle stepped down in April 2010. According to Bollenbach, he and Burkle have known each other for 25 years and have vacationed together. Michael McQuary would have joined the board of Liquid Audio Inc. as a Yucaipa director upon the failed merger of Alliance Entertainment Corp., a company majority-owned by

Yucaipa, and Liquid Audio in 2002. According to McQuary, he and Burkle met 10 years ago when McQuary did consulting work for Burkle s technology portfolio and have been friends since then.

(2) *Business* Insider: What would you do? The Atlanta Journal

Constitution. May 8, 2008

The Board Believes Mr. Burkle s Nominees Are Neither Independent Nor Qualified

50

Yucaipa s independent nominees have been hand-picked by Burkle, are each being paid $100,000 to run and have each had prior dealings with Burkle

(1) In the Board s view, Burkle s nominees do not have the experience to build value at Barnes & Noble

Ronald Burkle

Has provided no strategic vision and offered no plan for Barnes & Noble s future

Was part of the Yahoo! Board that rejected an acquisition proposal from Microsoft at $33 per

share
-
Possibly
the biggest missed opportunity in the history of technology M&A
Served
together
with
Mr.
Bollenbach
on
the
Board
of
troubled
homebuilder
KB
Home.
KB
Home
shares
are
down 40% in the last two years.
Stephen Bollenbach
Served
on
the
Board
of
Time
Warner
that
approved
the
merger
with
AOL

possibly
the
worst
M&A
transaction in history in terms of value destruction
Served
together
with
Mr.
Burkle
on
the
Board

of troubled homebuilder KB Home. KB Home shares are down 40% in the last two years.

Served as lead director at AIG when it almost went bankrupt and needed a $180 billion taxpayer bailout to mitigate systemic risk to the global financial system

Michael McQuary

Presided over a stock price decline of nearly 70% during his 2-1/2 year tenure as President of Earthlink

Later admitted publicly that he was pushed out (2)

Board nominees include the Founder and largest shareholder
and two new highly-qualified independents
Significant Experience in Book Industry, Technology, Education,
Corporate Governance and Strategic Alternatives
Strong Governance

If Board s nominees are elected, 7 of 9 directors would be independent

Separated positions of Chairman & CEO

Independent Audit, Compensation and Governance Committees
Electing the Board s Nominees is in
the Best Interests of B&N Shareholders
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Ron Burkle
Ron Burkle
and his nominees do not bring any relevant experience,
and his nominees do not bring any relevant experience,
insight or business plan to BKS
insight or business plan to BKS

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Conclusion
Barnes & Noble is at a crucial inflection point:
Executing value-creating strategy in evolving industry with positive early results
Requires focused execution to drive shareholder value
Supported by an experienced and engaged Board
Independent Special Committee reviewing strategic alternatives to maximize value
Barnes & Noble does NOT need:
What is, in the Board s view, a thinly veiled attempt by Yucaipa and Aletheia
to
acquire control without paying a premium to all shareholders
Burkle s
nominees, who the Board believes have demonstrated no vision, no strategy
and no relevant experience

Costly legal battles to the detriment of shareholder value
Protect Your Investment: Vote the WHITE Proxy Card FOR The Barnes & Noble
Protect Your Investment: Vote the WHITE Proxy Card FOR The Barnes & Noble
Nominees and AGAINST Yucaipa s Rights Plan Proposal
Nominees and AGAINST Yucaipa s Rights Plan Proposal

Appendix
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Overview of Other Ongoing Related Party Transactions
Transaction
Since
Expense
(FY 10)
Comments
Aircraft Time
Sharing Agreement
Pre-IPO
$0.4MM
Use of jet aircraft owned by LR Enterprises Management LLC owned
by Len
Riggio
and others (prior to 2010, used aircraft owned by B&N College)

Reimbursement of costs for usage
Lease
Agreements
Pre-IPO
$4.9MM
$0.5MM
$0.8MM
Leases
2
corporate
office
buildings
where
Len
Riggio
has
an
ownership
interest,
expiring in 2013 and 2016
Company leases one of its B&N College stores from partnership owned by
Leonard and Stephen Riggio, expiring in 2014
Company leases office/warehouse from partnership in which Leonard Riggio
has
50% interest, expiring 2023
Freight Distribution
Agreement
1996
$17.2MM
Argix
Direct (formerly the LTA Group) provides national freight distribution
services for many major retailers including: Ann Taylor, Barney s, Coach, Hot
Topic, Limited, Liz Claiborne, Polo and Toys R Us
A brother of Len and Steve Riggio
owns a 20% interest in Argix
(since 1996)
Argix
provided services to BKS for over 20 years
long before this investment
Rates comparable to third-party freight distributors at time of agreement
Argix
higher contracted fuel surcharge and transportation costs led to amended
agreement providing annual credit to Company s costs to level Argix
costs to
market
Source Interlink /
Digital on Demand
1993
(1)
$34.0MM

$3.0MM
Source Interlink used as primary supplier of music and DVD/video
Digital on Demand used as provider of music and video database equipment and services
Len Riggio
and Yucaipa both owned minority interests in Source Interlink (prior to its bankruptcy, through its parent company AEC Associates, LLC). Both own minority interests in Digital on Demand through same investment
(1)
The predecessor company AEC One Stop Group started providing services to B&N in 1993. In 1999, AEC s parent was acqui
which Len Riggio and Yucaipa were minority investors

College: EBITDA Reconciliation Table
55
Pro Forma Fiscal 2010 ($ 000's)
12 Month Operating Profit
$ 49,241
Depreciation & Amortization
37,350
12 Month EBITDA
$ 86,591
Pre-Acquisition Adjustments:
Seller Paid Employee Bonuses
96,861
Gain on Transfer of Stock
(72,466)

| | |
|---|---|
| Non-Cash Asset Impairments | 6,163 |
| Total Pre-Acquisition Adjustments | $ 30,558 |
| 12 Month Adjusted EBITDA | $ 117,149 |