Background:

Barnes & Noble, Inc. is considered one the top book sellers in the U.S . This New York based company was founded in 1986 by the hands of Gilbert Clifford Noble . This company currently has 639 stores all around the U.S. The **Industry** of Barns and Nobel fell under " specialized retail" , more specifically it operated as a content and commerce company. Their main focus is to sell books, eBooks, magazines, games, toys, and gifts. Also, the bookstore famously house an in-store Starbucks cafe.One of the business subsidiaries is NOOK, which is a an electronic e-book reader, unfortunately the NOOK is not successful as the Apple's iPad and the Amazon Kindle and it plays a huge role in the slump of the company sales.

Barns and Nobel is operating in the US, and the **economic condition** seems to be stabilizing and improving since the credit crisis. The unemployment rate was decreased significantly under the Obama administration . Also, the minimum wage is improving in many states. **The business condition** is very difficult for the company. B&N sales are deteriorating , which lead the company to close a series of stores for 2013. Many market experts are speculating the Barn and Nobel could not survive because of the hard market conditions. The market condition of this particular business can be described as unstable and surrounded by a lot of uncertainty. Many people are shifting from buying physical books to to e-books and other medias and since BKS is operating in that filed, it is threatening the future of the business. Also, the business condition is not stable because it is facing a brutal **competitors** that includes Apple inc, Books-A-Million, and Amazon. Both Apple and Amazon aggressively interred the digital book field and pushed Barns and Nobel aside with their innovation and creativeness.The Nook is actually considered one of the huge drawbacks for BKS were it's sales had plunged in the last couple of year and it grow to be unsuccessful project. While on the other hand, Amazon Kindle and Apple iPad are growing more and more in popularity.In addition, Amazon started launching the Amazon books, which is a physical books store that operated in a similar way as Barns and Nobel. Amazon opened in 3 locations so far and working on two other locations . It seems like and it created a trend and attract people to it. The **company management** was not successful enough to lead the company to put the company on the map of digital content . Also, they were not successful in avoiding financial problems that hit the company. In 2016 the CEO changed and now the CEO is Theresa Thompson. Finally, The **objective of this paper** is to analyze the financial position of the company for the last few years, especially under the light of its struggles. This analysis will discuss the liquidity, profitability, activity, and leverage. Also, this analysis will hep us understand the strength and weakness in Barnes & Noble financial positions.

Consolidated Balance Sheets - USD ($) $ in Thousands		Apr. 30, 2016	May 02, 2015	May. 03, 2014
Current assets:				
Cash and cash equivalents		$ 13,838	$ 14,646	$ 340,171
Receivables, net		124,917	60,265	143,981
Merchandise inventories, net		933,723	995,738	1,234,635
Prepaid expenses and other current assets		105,912	93,965	50,341
Current assets of discontinued operations			447,626	66,580
Total current assets		1,178,390	1,612,240	144,730
Property and equipment:				1,980,438
Land and land improvements		2,541	2,541	
Buildings and leasehold improvements		1,058,452	1,057,975	2,541
Fixtures and equipment		1,560,005	1,531,315	1,224,083
Property and equipment, gross		2,620,998	2,591,831	1,938,555
Less accumulated depreciation and amortization		2,322,418	2,250,096	3,165,179
Net property and equipment		298,580	341,735	2,674,466
Goodwill		211,276	215,197	490,713
Intangible assets, net		310,904	315,653	493,189
Other non-current assets		13,632	7,905	528,576
Non-current assets of discontinued operations			619,701	44,533
Total assets	[1]	2,012,782	3,112,431	3,537,449
Current liabilities:				
Accounts payable		480,574	484,574	735,112
Accrued liabilities		360,194	326,660	502,583
Gift card liabilities		353,103	358,146	356,700
Current liabilities of discontinued			303,613	127,250

Consolidated Statements of Operations - USD ($) shares in Thousands, $ in Thousands	12 Months Ended		
	Apr. 30, 2016	May 02, 2015	May 03, 2014
Sales	4,163,844	$ 4,297,108	$ 4,633,345
Cost of sales and occupancy	2,836,547	2,871,184	3,214,396
Gross profit	1,327,297	1,425,924	1,418,949
Selling and administrative expenses	1,176,778	1,192,065	1,287,163
Depreciation and amortization	135,863	143,665	168,793
Operating income (loss)	14,656	90,194	(37,007)
Interest expense, net and amortization of deferred financing fees	8,770	17,678	29,122
Income (loss) before income taxes	5,886	72,516	(66,129)
Income taxes provision (benefit)	(8,814)	39,644	13,011
Net income (loss) from continuing operations	14,700	32,872	(79,140)
Net income (loss) from discontinued operations	(39,146)	3,724	31,872
Net income (loss)	$ (24,446)	$ 36,596	$ (47,268)
Basic income (loss) per common share:			
Income (loss) from continuing operations	$ 0.05	$ 0.15	$ (1.67)
Income (loss) from discontinued operations	(0.54)	0.06	0.54
Basic income (loss) per common share	(0.49)	0.21	(1.12)
Diluted income (loss) per common share:			
Income (loss) from continuing operations	0.05	0.15	(1.67)
Income (loss) from discontinued operations	(0.54)	0.06	0.54
Diluted income (loss) per common share	$ (0.49)	$ 0.21	$ (1.12)
Weighted average common shares outstanding:			
Basic	72,410	60,842	58,971
Diluted	72,542	60,928	58,971
Dividends declared per common share	$ 0.60		

Consolidated Statements of Cash Flows - USD ($) $ in Thousands	12 Months Ended		
	Apr. 30, 2016	May 02, 2015	May 03, 2014
Cash flows from operating activities:			
Net income (loss)	$ (24,446)	$ 36,596	$ (47,268)
Net income (loss) from discontinued operations	(39,146)	3,724	31,872
Net income (loss) from continuing operations	14,700	32,872	(79,140)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:			
Depreciation and amortization (including amortization of deferred financing fees)	139,138	149,143	174,750
Stock-based compensation expense	14,201	16,875	11,154
Impairment charges	3,991	366	32,379
Deferred taxes	34,604	(3,858)	58,098
(Gain) loss on disposal of property and equipment	2,428	4,605	(920)
Decrease in other long-term liabilities	(48,025)	(4,201)	(5,223)
Pension contributions	(12,707)	(13,667)	(1,904)
Pension reclassification	20,802	7,317	
Net (increase) decrease in other non-current assets	(3,405)	1,019	3,983
Changes in operating assets and liabilities, net	29,960	(191,201)	82,507
Net cash flows provided by (used in) operating activities	195,687	(730)	275,684
Cash flows from investing activities:			
Purchases of property and equipment	(94,274)	(94,805)	(96,728)
Net (increase) decrease in other non-current assets			3,402
Net cash flows used in investing activities	(94,274)	(94,805)	(93,326)
Cash flows from financing activities:			
Proceeds from credit facility	929,500	349,400	734,000
Payments on credit facility	(882,300)	(349,400)	(811,000)
Cash dividends paid	(46,056)	0	
Treasury stock repurchase plan	(26,718)		
Cash settlement of equity award	(8,022)		
Payment of new credit facility related fees	(5,701)		
Purchase of treasury stock related to stock-based compensation	(4,004)	(10,607)	(5,254)
Cash dividends paid to preferred shareholders	(3,941)	(16,026)	(15,768)
Inducement fee paid upon conversion of Series J preferred stock	(3,657)		
Excess tax benefit from stock-based compensation	1,838	1,865	560
Proceeds from exercise of common stock options	1,303	1,282	1,031
Payment of Junior Seller Note		(127,250)	
Acquisition of preferred membership interests		(76,175)	
Net proceeds from Microsoft commercial agreement financing arrangement		57,161	84,675
Net cash flows used in financing activities	(47,758)	(169,750)	(11,756)
Cash flows from discontinued operations:			
Operating cash flows	(81,643)	57,657	48,255
Investing cash flows	(16,505)	(58,183)	(39,156)
Financing cash flows (including cash at date of Spin-Off)	(16,029)		
Net cash flows provided by (used in) discontinued operations	(114,177)	(526)	9,099
Net increase (decrease) in cash and cash equivalents	(60,522)	(265,811)	179,701
Cash and cash equivalents at beginning of period	74,360	340,171	160,470
Cash and cash equivalents at end of period	13,838	74,360	340,171
Cash and cash equivalents of discontinued operations		(59,714)	(144,269)
Cash and cash equivalents at end of period	13,838	14,646	195,902
Changes in operating assets and liabilities, net:			
Receivables, net	(64,652)	44,715	8,097
Merchandise inventories, net	62,015	(36,448)	206,121
Prepaid expenses and other current assets	(11,947)	(28,228)	4,197
Accounts payable and accrued liabilities	44,544	(171,240)	(135,908)

CONSOLIDATED BALANCE SHEETS - USD ($) $ in Thousands			May. 03, 2014	
Current assets:				
Cash and cash equivalents			$ 340,171	
Receivables, net			143,981	
Merchandise inventories, net			1,234,635	
Textbook rental inventories			50,341	
Prepaid expenses and other current assets			66,580	
Short-term deferred tax assets			144,730	
Total current assets			1,980,438	
Property and equipment:				
Land and land improvements			2,541	
Buildings and leasehold improvements			1,224,083	
Fixtures and equipment			1,938,555	
Property and equipment, gross			3,165,179	
Less accumulated depreciation and amortization			2,674,466	
Net property and equipment			490,713	
Goodwill			493,189	
Intangible assets, net			528,576	
Other noncurrent assets			44,533	
Total assets	[1]		3,537,449	
Current liabilities:				
Accounts payable			735,112	
Accrued liabilities			502,583	
Gift card liabilities			356,700	
Short-term note payable			127,250	
Total current liabilities			1,721,645	
Long-term deferred taxes			211,925	
Other long-term liabilities			366,989	
Redeemable Preferred Shares; $0.001 par value; 5,000 shares authorized; 204 and 204 shares issued, respectively			194,797	
Preferred Membership Interests in NOOK Media, LLC			383,397	
Shareholders' equity:				
Common stock; $0.001 par value; 300,000 shares authorized; 98,115 and 93,540 shares issued, respectively			94	
Additional paid-in capital			1,395,463	
Accumulated other comprehensive loss			(11,773)	
Retained earnings			344,021	
Treasury stock, at cost, 34,841 and 34,364 shares, respectively			(1,069,109)	
Total shareholders' equity			$ 658,696	
Commitments and contingencies				
Total liabilities and shareholders' equity			$ 3,537,449	
[1]	Excludes intercompany balances.			

The application of the key financial ratios:

liquidity Ratio & Liquidity Analysis:

Ratio	Formula	2016	2015	2014
Current Ratio	Current assets / current liabilities	0.99	1.09	1.15
Quick Ratio	Current assets - Invetory / Current liabilities	0.20	0.42	0.43
Cash flow liquidity	Cash and cash equivalent + Mrk sec +CFO/ current liabilities	0.18	0.01	0.36
Days Payble Outstanding	Account Payble/ Average daily cost of sales	61.84	61.60	83.47
Average collection period	Net account Receivable / average daily sales	10.95	5.12	11.34
Days inventory held	Inventory/ average daily cost of sales	120.15	126.58	140.19
Cash conversion	Average collection period + days inventory held - days payable outstanding	69.26	70.10	68.06

The current and quick ratio are declining, which decrease the ability for the company to meet cash obligation

Cash source in cashflow liquidity is not form the main oporation of business. Therefore, not sustainable

The **current ratio** measure how B&N can cover the debt requirement as they acquire. The figures have a declining pattern over the three years .Although the current assets and current liabilities we declining, the change was not 100% proportionate and the company experienced a decline in the ratio which might affect the liquidity ratio in a negative way.

The **quick ration**, which is a more accurate measure of how B&N can meet their debt obligation is also declining, but with a smaller degree than the current. This is assuring because most of the asset the company has are in the form of inventory , which is eliminated in the quick ratio. Inventory decreased in these three years. It decreased the numerator, whoever it did not affect the declining ratio.

Cash Flow liquidity: The ratio did not have a sold pattern we can say that

- 2014 has the cash flow liquidity due to the great amount of cash and cash equivalent ($340,171) and a great CFO ($275,680). Note that the company did not have any marketable securities. The cash and CFO boosted the numerator and even overcome the surging current liabilities. It is great to mention that the net cash flow from changes in operating assets and liabilities was very high and amounted of $275,684 m . Note that the current liabilities was higher in 2014 and it might be the reason behind the amount of cash it had in that year. The management might of hold their cash deliberately and not paid them for their creditors. If that is the case it is might considered as a weakness since this is temporary improvement.

- 2015 had a very low cashflow liquidity ratio due to the low amount of cash and, most importantly, the negative cash flow form oporation and it the main reason behind the low ratio. The decrease of the numerator while the denominator was held high, yielded a low ratio. This is a big weakness for B&N liquidity ratio

- 2016 Cashflow liquidity ratio recovers to be 0.18 times . The recovery was aided by the positive CFO, which was $195,687. Positive CFO is always favorable and the ratio recovery can be considered as a strength

Days payable outstanding measures the days the B&N takes to pay its creditors, usually short term like suppliers. The days have decreased during these three years, which is unfavorable and could count as a weakness . The more time the company can hold the cash the better. This price of information complements the notion that N&B had greater amount of cash in the balance sheet in

2014 and less in 2015 and 2016. B&N stretched the days payable to 83.47 days. while the average for the two following years are 61 days.

Average collection period measure the days the B&N collects it account receivables. The ratio in the three years did not have a unified pattern.

- 2014 and 2016 the ratio were close . Bothe years the company has consistent relationship between the amount of sale and the amount of account receivables.
- 2015 did not have a consist relashigship between the amount of account recevabile and the amount of sale. The account resaevabels were very low at that year($60,265 comparing to $124,917 and $142,981 in 2016 and 2014 respectively) . This low number made the numerator increase and lower the ratio comparing to $124,917 and $142,981 in 2016 and 2014 respectively. The lower amount of account receivable might because the company is not offering sales on credit. This is a weakness for the company because it might lost a lot of sale because it is not offering sale on credit. One the other hand this could be a strength because is voiding account receivable because they might default and increase risk.

Days inventory held measure the days that B&N hold the marchdise in inventory before they are sold. The days for B&N are high and it is acceptable because but corresponds to the nature of the business, which is selling books. The company seceded in lowering the days from 140 to 120 during these three years. This is considered as a strength. This ratio is lowered due to the continuous decrease in net innovatory and Average cost of sale. These numerator and denominator crease was not proportional and the denominator dominated the affect and led to decrease in the ratio.

Cash conversion cycle captures the days the the B&N needs to convert inventory to cash. The ratio were fairly consistent. The ratio in 2015 was the highest because the year experienced the lowest average collection period.

Activity Ratios and Activity Analysis:

Ratio	Formula	2016	2015	2014
Account receivable turnover	Net sales/ net account receivable	33.33	71.30	32.18
Inventory turnover	COGS/ invetory	3.04	2.88	2.60
Paybels turnover	COGS/ account payble	5.90	5.93	4.37
Fixed asset turnover	Net sales/ net PPE	4.99	2.86	9.44
Total asset turnover	Net sales/ net assets	2.07	1.38	1.31

Account receivable turnover ratio is decreasing from 2015 to 2016 due to the decrease in the net sales and the increase in net account receivable. This means the B&N collects its account receivables 33.33 times in 2015, which is lower than The previous year. Note that account receivables in 2015 were significantly low, which might be the reason behind the high ratio. Inventory turnover ratio is increasing slowly during the three years and that considered a success in the operating efficiency and that because of the decreases of the day's inventory held and which means, "The Company is not having an over stored problem". Moreover, The company is maintains the stability of the payable turnover, the ratio of it is almost stable during the three years. Fixed asset turnover ratio has a high decline in 2015 which was compensated in 2016.The fixed asset ratio jumped from 2.86 to 4.99 and that indicate that the company has a good operating efficiency in 2016 compared to 2015 even if the company still has loses in revenue. The increases of the fixed asset turnover and the good management of the fixed asset causes total asset ratio to increase.

Profitability Ratios & Profitability Analysis :

Ratio		2016.00	201500.00%	201400.00%
Gross profit margin	Gross profits/ net sales	31.88%	34.42%	30.62%
Operating profit margin	Operating profits/ net sales	0.35%	2.10%	-0.80%
Effective tax rate	Income taxes/ net sales	-0.21%	0.92%	0.28%
Net profit margin	Net profit/ net sales	-0.59%	0.85%	-1.02%
Cash flow margin	Cash flow from operations/ net sales	4.70%	-0.02%	5.95%
Return on assets	Net earnings/ total assets	-1.21%	1.18%	-1.34%
Return on equity	Net earnings/ stockholders equity	-4.05%	3.08%	-7.18%
Cash return on assets	Cash flow from operations activities/ total assets	9.72%	-0.02%	7.79%

Gross profit captures the profit after the didactic of cost of good sold.Gross profit margin is fairly stable, whoever note that 2015 was the highest with 34.42%. This increase might indicate that B&N accord the books with lower costs or increased the quantity or prices of books sold. Moreover, B&N gross profit margin is slipping in the last year, which is not a good indicator and might considered as a weakness.

Operating profit which measures the profit after deducting all operating expenses. In 2014, the ratio was very low due to higher amount of selling and administrative as well as depreciation.In

2015, the management was able to boost the operating margin to 2.10% by keeping these to expenses at lower levels. This is considered as a strength . In 2016, the margin got low due to the decreased amount of sales without a corresponding decrease in COGS, which produced higher gross profit. The lower oporation margin is considered as a weakness.

Effective tax rate captures the amount the company recognizes as tax expense.

Net profit margins measures the profit after deducting all expenses and adding all other sources of income. The net profit margin for this company is week and unstable. B&N experienced loss in 2014 and 2016. The losses were around 1%, which is not a big loss and the situation could be reverse if some adjustment were made. In 2015, the management was successful in producing 2.10% profit margin. Although it is a good margin for specialty retail store, B&N need to boost that to 4% to catch us with the industry average.

Cashflow margin measure the ability of the company to produce cash form operations. The ratio was high in 2014 and 2016 by 6% and 4.7% and it was negative -02% in 2015, which is contacts the profit margin ration for that year. the high cashflow margin in 2014 and 2016 might seems as a strength for the company, but note that the company generated income loss in theses two years. Also, if we were to investigate the reason berind the positive oporation cashflow it not be as good as it looks. First, the CFO experienced some gain in the disposal of PP&E . This gain is temporary and it will not generate a sustainable source of cash in the future because the company will not continue selling its PP&E. Second, There is a significant amount of cash flow from changes in operating assets and liabilities. This is the same reason behind the high cash holdings in the liquidity ratio. This is not nessasrly good because this changes might be forced by the management in order to mask a trouble that the company might be facing.

Return on assets measure the efficiency in where the company uses asset to generate profit. The **return on equity** measure the return on the stockholder investments. Both ratios behaved in the same way. These ratios results were similar to the net profit margin, where 2014 and 2016 had a negative ratios and 2015 had a positive ratio. The reason behind the negative ratio in 2014 and 2016 is the negative earnings. This indicator is considered as a weakness and the management has to try increase the efficiency of using its assets

Cash return on asset measures the return on assets on cash basis . As expected the cash return on assets has a similar pattern as the cash flow margin in 2014 and 2016. Since Both years produced high amount of oporation cashflow that yielded positive cash return on assets. One the other hand, in 2015, the cash return on assets had a slightly negative ratio that reflected the negative CFO

Debt Ratios & Debt Analysis:

Ratio	Formula	2016	2015	2014
Debts ratio*	Total liabilities/ total assests	70.02%	61.79%	81.38%
Long term debts to total capitalization	Long-term debt/ long-term debt+ stockholder's equity	7.25%	0.00%	24.34%
Debt to equity	Total liabilaties/ stockholders equity	233.51%	161.69%	437.04%
Times interest earned	Operating profits/ interest expense	1.67	5.10	-1.27
Cash interest coverage	Cash flow from operation activities+ interest paid+ taxes paid/ interest paid	186874.00	16950.24	304806.45
Fixed charges coverage	EBIT+ lease payment/ interest expense+ lease payment	1.02	1.32	0.80

Ratio	Formula	2016	2015	2014
Cash flow adequacy	Cash flow form operation activities/ Capital expenditures+ debt payments+ dividends paid			

The capital structure of B&N is considered to be complex because it depends on equity and debt.

The **debt ratio** measure how much the assets are funded by debt. The debt ratio has no specific pattern, but overall B&N is heavy handed with debt. 2014 The asset was 81% financed by debt, wight it is 62% in 2015 and 70% in 2016. In our opinion the leverage is high for a specialized retail company.

Long term to total capitalization measures the extent to which long-term debt is used for permanent financing in 2014 there was 24% , which means that 24% of financing comes form long term debt. Moreover, in 2015 there was no additional long term debt. The numerator in this case is zero and the ratio is zero. In 2016, the long term debt was

Conclusion

The purpose of this analysis is to examine the financial position for Barns & Nobel. A table of a significant findings is mentioned below:

Liquidity	• The current and quick ratio are declining, which decrease the ability for the company to meet cash obligation. • Cash source in cashflow liquidity is not form the main oporation of business. Therefore, not sustainable .
Activaty	The activity ratio is fairly stable. Indicates efficient operations
Profitability	• Affected negatively by decreasing amount of sale and high operating expenses. • Deteriorating ROA & ROE. • Boost in the CFO from sources other than income .
Debt	• Heavily dependent on debt financing.

The most prominent trends that Barns and Nobel faces are, first, the deteriorating amount of sales. This is a huge problem that will cause some future problems. if sales will still decrease, the management will have to start cutting expenses, which means closing more stores. This problem is could be intense because the company lease all stores but one. so the lease expense is of course very high. The management has to focus on increasing sales by competing in the digital content or finding new innovative way to attract more sales. Second, the debt component in financing is very huge in the company financials, which means the the company is using a lot of leverage. Therefore, it is risky. Although the coverage the debt financing is sold, if we take in to consideration that the company sale is not going strong, the debt component increase the company risk significantly.

Bans & Noble is an established and well-known company. The problem that is facing it is the shit in people preference form using books to using digital content such as e-books. B&N has to find an innovateve way to sort this problem like entering in to new oporation that will attract customers and work towed re-establish itself in the market. The company has to stop income losses and make profits if it wants to continue in operating in the future.

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