



barnesandnoble.com (A)

www.barnesandnoble.com

It's a fabulous opportunity for us to extend the brand into the marketplace.... There's no one in America that knows more about books than Barnes & Noble. The Web simply enables us to broadcast that message on a new channel.¹

—Steve Riggio, Vice Chairman, Barnes & Noble

On a crisp Monday morning in February 1998, as the time neared 10 a.m., Barnes & Noble's flagship mega-book superstore on New York City's Union Square prepared to open its doors. A small crowd of eager customers milled about the store's main entrance along East 17th Street. Some of the customers were interested in picking up the latest bestseller they had read about over the weekend in *The New York Times Book Review*. Other customers came to purchase a CD or browse for computer games in the bookstore's multimedia section. Still others came to lounge in the bookstore's fourth floor cafe, to sip cappuccino as they looked over out-of-town newspapers and the most recent magazines.

For Barnes & Noble, the first book retailer to roll out the book superstore concept nationwide, the six-story, colonial-style flagship bookstore on Union Square in (see **Exhibit 1a**) served as an icon for the company. Unlike the original Barnes & Noble bookstore, located just two city blocks away (see **Exhibit 1b**) and crammed with college textbooks, the flagship had all of the amenities of the modern book superstore. In addition to a multimedia center and cafe, there was a section for children's books, a lecture room for visiting authors and book-signing events, and lounging space for customers to curl up with favorite books. Like Barnes & Noble's 483 other book superstores² located throughout the United States (see **Exhibit 1c** for photo of its book superstore in west Los Angeles), the interior of the Union Square store was decorated in the company's colors of green and gold and adorned with poster-size drawings of some of America's most popular writers, including Patricia Cromwell, John Grisham, Mark Twain, and Alice Walker (see **Exhibit 2** for photo of a book superstore interior).

¹Michael Schrage, "The I.Q. Q&A: Steve Riggio- Barnes & Noble is Betting That the Printed Word Will Be a Best Seller in Cyberspace," *Adweek Interactive Quarterly*, August 18, 1997.

²Press Release, Barnes & Noble, Inc., December 1997.

Research Associate Dickson L. Louie prepared this case, with the assistance of Research Associate Carrie L. Ardito and Holly S. Cameron, CPA, M.Div., under the supervision of Professor Jeffrey F. Rayport as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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Barnes & Noble and its prime competitor, Ann Arbor-based Borders Inc., were the two largest retail booksellers in the United States, and they dominated the nation's \$26 billion retail bookselling market.³ The combined sales revenue of both companies accounted for approximately 17% of the market nationwide. As the companies raced to increase the number of book superstores nationally, Barnes & Noble and Borders improved operating margins by reducing the number of mall-based bookstores they each owned under the B. Dalton and Waldenbooks names, respectively.

Despite the closing of many small independent bookstores in the face of this onslaught, the senior management of both Barnes & Noble and Borders Inc. had confronted new upstart competitors in the bookselling market of a different kind—approximately 500 Web sites were selling books over the Internet. The most prominent of these was Seattle-based Amazon.com,⁴ which had begun selling books on-line during summer 1995. Although Amazon.com had recorded net sales of only \$15.7 million for 1996, or less than one percent of Barnes & Noble's total net revenue for the same year, Barnes & Noble senior management—led by vice chairman Steve Riggio—was determined not to let the new company dominate the Internet as a sales channel for books.

With the projected number of World Wide Web users expected to increase seven-fold, from 23 million to 152 million, globally, between 1996 and 2000,⁵ and on-line book sales expected to grow to \$2.2 billion over the same time period,⁶ Amazon.com posed a serious, long-term threat. While Amazon.com matched the large physical booksellers in price discounts, it offered added benefits of convenience and selection to its customers—being open for business 24 hours a day on the Web and offering an “inventory” of 2.5 million books. Though not yet profitable, having incurred a loss of \$27.6 million in 1997, Amazon.com's 1997 net sales had grown over eight-fold to \$147.8 million from \$15.7 million in 1996.⁷

In January 1998, Barnes & Noble's senior management estimated that its nine-month old barnesandnoble.com would record sales of \$14 million for fiscal year 1997.⁸ Approximately 40%, or \$5.6 million, of barnesandnoble.com's 1997 sales were generated during the nine-week holiday season ended January 3, 1998.⁹ Barnes & Noble predicted that its Web-based subsidiary would have sales revenue of \$100 million for fiscal year 1998, its first full year of operation.¹⁰ Despite the estimated increase in sales, Wall Street analysts projected that neither Amazon.com nor barnesandnoble.com would show a profit in 1998.¹¹

With Borders expected to launch its on-line storefront during first quarter 1998,¹² Riggio and his team had to determine the best way, over the next year, for the bookseller to fight back on the Internet, to extend its franchise in cyberspace, and to increase the public's awareness of barnesandnoble.com without cannibalizing sales in its physical retail franchise. One question confronting Barnes & Noble senior management in early 1998 was how to best use the bookseller's 484 superstores to effectively promote its on-line subsidiary. Should the promotion of the site be

³Book Industry Study Group, 1996.

⁴Amazon.com, HBS Case No. 897-128.

⁵Mary Meeker and Chris DePuy, “The Internet Report,” New York: Harper Collins, 1996.

⁶Dan Goodin, “Booksellers: Partner or Perish?” CNET, September 9, 1997.

⁷Press release, “Amazon.com Announces Financial Results for Fourth Quarter and 1997 Year-End,” Amazon.com, January 22, 1998.

⁸Press release, “barnesandnoble.com Expects 1998 Sales to Exceed \$100 Million,” Barnes & Noble, Inc., January 15, 1998.

⁹Dow Jones Wires, “Barnes & Noble Web Unit Sees 1989 Above \$100M,” January 15, 1997.

¹⁰Dow Jones Wires, “Barnes & Noble Web Unit Sees 1989 Above \$100M,” January 15, 1997.

¹¹Nations Banc Montgomery Securities Report, January 1998, and ValueLine, “Barnes & Noble,” November, 1997.

¹²Press Release, “Borders Group Reports Holiday Sales,” Borders Group, Inc., January 15, 1998.

limited to promoting the URL inside the stores, or should the bookseller take a more aggressive approach by placing kiosks in every superstore so consumers could walk in and order books on-line? Although this question had not yet been resolved, the placing of kiosks in physical stores would force barnesandnoble.com to charge sales taxes on each book sold on-line, and could make its on-line prices less competitive than Amazon.com, which did not charge sales tax on books sold outside of Washington and Delaware (the site of Amazon.com's new distribution center).

The History of Barnes & Noble

There are several kinds of stories, but only one difficult kind—the humorous....

—Mark Twain

The predecessor retail bookseller, which became Barnes & Noble in 1917, began operations in 1873 in Wheaton, Illinois. The landmark Barnes & Noble bookstore at the corner of Fifth Avenue and East 18th Street in Manhattan opened its doors in 1932, and was sold several decades later in 1971 to Leonard Riggio. Riggio, who had begun his bookselling career as a clerk at New York University's bookstore in the 1960s, founded the independent Student Book Exchange (SBX) in Greenwich Village in 1965 with a focus on staff, selection, and service. With the acquisition of the Barnes & Noble store six years later, Riggio quickly expanded the store's selection to more than 150,000 titles—billing it as the "World's Largest Bookstore"—the Manhattan-based bookstore included complete departments in medical, engineering, and technical books, which made it a model for his company's future book superstores. By the early 1980s, Barnes & Noble had book superstores in New York City and Boston and, by 1987, it had begun testing the book superstore concept in suburban markets.¹³

By year-end 1997, Barnes & Noble had 484 superstores in the United States and was opening new stores at a rate of 70 a year. Rival Borders Inc. had over 200. For many communities, the book superstores—Barnes & Noble, Bookstar (also owned by Barnes & Noble), and Borders—had become neighborhood community centers. Superstores sold, in addition to books, magazines, books-on-tape, and multimedia software and games. The inventory was complemented by comfortable reading areas, in-store cafes, and periodic literary talks and author book signings (see **Exhibit 3** for a copy of a monthly store newsletter). The average Barnes & Noble superstore was approximately 30,000 square feet (see **Exhibit 4** for floor plan of a typical superstore)—more than triple the size of an average mall bookstore—and had an average of 128,000 book titles. Each superstore—with average sales of \$3 million to \$4 million (or 120,000 to 160,000 transactions) annually—customized inventory based on individual store sales patterns and consumer demand.¹⁴ Barnes & Noble held 400,000 of the 1.5 million in-print titles in its warehouses. Customers could expect to receive, in less than seven days, shipment to a local store on any of these titles. Stephen Johnson, a newspaper executive in Ohio, explained why he liked to visit weekly:

The selection, the customer service, and the ambiance makes Barnes & Noble an ideal place to visit. You can wander through its books and magazines, sit down with a cup of coffee, and be free of any time constraints. I find Barnes & Noble's casual atmosphere to be a stress-reliever. I try to visit the book superstores as often as I can to see what's new.¹⁵

¹³ Barnes & Noble, Inc., 1995 Annual Report.

¹⁴ Barnes & Noble, Inc., 1995 Annual Report.

¹⁵ Interview with casewriter, January 17, 1998.

In addition to large selection, another attraction bringing customers into Barnes & Noble superstores was price discounting on hardcovers and bestsellers. For example, all hardcover books were discounted 10% off suggested retail prices; all bestsellers on the current list of *The New York Times Book Review* were 30% off; and all best-selling paperbacks on *The Times'* list were 20% off (see **Exhibit 5** for newspaper advertisement).

While Barnes & Noble rolled out book superstores in the 1990s, it simultaneously decreased the number of mall bookstores that it owned through the B. Dalton, Doubleday, and Scribner's chains. At year-end 1997, the bookseller had 555 mall-based stores, down from 734 outlets at fiscal year-end 1993, in addition to its 484 book superstores. The roll-back of mall-based bookstores was driven by simple retail economics: store traffic at malls was declining, and sales per square foot in superstores exceeded sales in mall-based chains.

Barnes & Noble also sold books through a direct mail channel, wherein customers could order a selection of discounted reference, historical, and self-help books from a catalog (see **Exhibit 6**). The catalog was sent monthly to targeted buyers and provided a 24-hour toll-free line (1-800-The Book). Many of the items available through this channel included out-of-print books and publishers' overstocks. In-stock books ordered from the catalog were shipped from a New Jersey warehouse within two to seven days. Analysts estimated annual sales from the catalog at \$22 million.¹⁶

For fiscal year 1996, which ended February 1, 1997, Barnes & Noble had sales of \$2.4 billion and an operating profit of \$119.7 million (see **Exhibit 7**). Approximately 75% of sales were generated through the company's book superstores and 23% from the mall bookstores. Two years earlier, in 1994, Barnes & Noble's first full fiscal year after its initial public offering in September 1993, the bookseller had sales revenue of \$1.6 billion and an operating profit of \$68.5 million. That year, book superstores accounted for approximately 60% of sales and mall bookstores for 40%. Barnes & Noble's average gross margin on books sold from 1994 through 1997 was approximately 35%.

The Emergence of Electronic Booksellers

What is so wonderful about great literature is that it transforms the man who reads it towards the condition of the man who wrote it.

—E. M. Forster

By mid-1996, there were an estimated 500 sites selling books on the Web.¹⁷ The best-known among these Internet start-up booksellers was Amazon.com (www.amazon.com),¹⁸ which first went on-line in July 1995 and was founded by Jeff Bezos, a former senior vice president with the Wall Street brokerage house and hedge fund manager D. E. Shaw. Although Amazon.com was not yet profitable, incurring a net operating loss of \$27.6 million on net sales of \$147.8 million during 1997, its net sales had increased eight-fold from the previous year. By year-end 1997, over 1.5 million customer accounts had purchased books from Amazon.com, a 739% increase from year-end 1996. In March 1997, Amazon.com had more than doubled its selection of titles from 1.1 million to 2.5 million. Amazon.com's management team believed that the company would succeed if it accomplished three goals: establish the Amazon.com brand name; provide superior service to customers, and drive sales to achieve economies of scale in operations, marketing, and service. Approximately 90% of the \$58

¹⁶Morgan Stanley, "The Internet Retailing Report." June 1997.

¹⁷"Online Booksellers: A New Playing Field," CyberTimes, *The New York Times* on the Web, May 31, 1996.

¹⁸Amazon.com, HBS Case No. 897-128.

million operating expenses incurred by Amazon.com during 1997 were allocated to marketing expenses and product development. Gross margins were approximately 19.5% of net sales.¹⁹

Other competitors in the on-line book market included Cleveland-based Book Stacks Unlimited (www.books.com or www.bookstacks.com), which began selling books on-line through a bulletin board service (BBS) in 1992. Owned by CUC International (now Cendant Corp.) and founded by Charles Stacks, Book Stacks launched its Web site in October 1994 and offered a selection of over 500,000 titles. Unlike other electronic commerce sites on the Web, Book Stacks' maximum discounts of 30% to 40% off list prices were available only to members of its Frequent Buyer Club, who paid an annual membership fee of \$29.95. Non-members were allowed to buy books from Book Stacks, but at substantially higher, though still discounted, prices.

Other bookselling sites on the Web included Las Vegas-based Books Now, Inc., (www.booksnow.com) with over 400,000 titles; The Cookbook Store (www.cookbookstore.com), an on-line extension of the Cookbook Collection catalogue company; and the Sausuga Japanese Bookstore (www.world.std.com/-sasuga), which provided publications from Japan to educational institutions.

According to a 1997 report prepared by Morgan Stanley on Internet Retailing,²⁰ books were well-suited for on-line sales in terms of functionality, purchase decision, and distribution (see **Figure A**). For example, the sheer quantity of books, with over one million titles in print, made search capabilities on the Internet attractive; the fact that books were relatively inexpensive and did not require a consumer first to inspect the product made the purchase decision on-line easier; and the fact that most books were compact and easy to ship made them straightforward to distribute through a direct channel. Further, the report noted that "the traditional book retail industry is very fragmented with thousands of physical stores" and over 50,000 publishers. Unlike the traditional book retailing market the report predicted that Web-based book retailing would quickly become a battle among just two or three dominant Internet players with pricing as the key angle of differentiation for consumers:

Product pricing is likely to be competitive on the Web, in part because of the ease with which consumers will be able to compare prices. Shoppers can compare prices within seconds by switching from Web site to Web site. Provided that shipping costs are equal, in many instances there should be little incentive for customers to order from higher-priced providers.²¹

Figure A Key Attributes For Bookselling On-Line

Sheer Quantity of Books	Easy to Make Educated Purchase Decision	Industry Dynamics
<ul style="list-style-type: none"> Millions of unique: <ul style="list-style-type: none"> —Titles —Authors —Subjects Physical search is impractical Inventory and warehousing is explosive in general and impossible 	<ul style="list-style-type: none"> Reviews and ratings are easily available Can test product on computer (e.g. read a chapter) Don't need to feel/experience a book to make a purchase decision 	<ul style="list-style-type: none"> The traditional book retail industry is very fragmented <ul style="list-style-type: none"> —Thousands of physical stores —#1 book seller has only 15% market share Different model for Web-based Retailing <ul style="list-style-type: none"> —More analogous to publishing and cable models

¹⁹Press Release, "Amazon.com Announces Financial Results for Fourth Quarter and 1997 Year-End," Amazon.com, January 22, 1998.

²⁰Morgan Stanley, "The Internet Retailing Report," June 1997.

²¹Morgan Stanley, "The Internet Retailing Report," June 1997.

to this scale	—Converge to 2-3 dominant Internet market players	
Books Are Text-Based	Books are Relatively Cheap	Books Are Small

Source: Morgan Stanley Research.

Background of Barnes and Noble @aol and barnesandnoble.com

Anyone can be an author; the business is to collect money and fame from this state of being.

—A. A. Milne

Under its subsidiary, barnesandnoble.com, Barnes & Noble entered the on-line book retailing market in early 1997. The giant bookseller's first venture into electronic commerce began in mid-March 1997, when it established a bookselling site on America Online (AOL/keyword: barnesandnoble), almost two years after Amazon.com and Book Stacks first opened for business on the Web. At year-end 1996, AOL had over seven million members worldwide (see **Exhibit 8**), which made it the largest on-line service in the world; members could access the Internet, send e-mail, or review branded content, such as *The New York Times*, *George Magazine*, and MTV. Under Barnes & Noble's initial agreement with AOL, the bookselling giant became the exclusive bookseller in AOL's Marketplace, a cybermall for AOL members to shop on-line with many well-known retailers, including Tower Records, The Sharper Image, Starbucks, Hammacher Schlemmer, and The Disney Store. Steve Riggio believed that his company's relationship with AOL would generate prospective customers who might not otherwise shop on-line:

Barnes & Noble's long history and substantial experience as booksellers, coupled with innovations in technology, will enable us to make a quantum leap beyond the current level of on-line selling. We believe that our relationship with AOL will expand our book market and ultimately bring in millions of new customers who prefer to shop on-line.

Leonard Riggio, chairman and CEO of Barnes & Noble and Steve Riggio's older brother, believed that AOL provided the giant bookseller with an opportunity to gain market share at the expense of other on-line booksellers. Noted Leonard Riggio prior to the launch of the Barnes & Noble site:

America Online is the perfect partner for our entry into this business. We intend to dominate the on-line book business with service, selection, and technology,

and our exclusive access to AOL's base of seven million members provides us with a means to capture market share immediately.²²

Two months after the debut of its site on AOL, in May 1997, Barnes & Noble launched its second on-line venture with a site on the Web (www.barnesandnoble.com) (see **Exhibit 9**). Two years earlier, in 1995, Barnes & Noble had launched an Internet site (www.loci.com) for College Bookstores, an affiliated company privately owned by the Riggio family. The College Bookstore site provided Barnes & Noble with experience in how to establish, run, and host a commercial Web site by providing college students with a place to chat on-line and order college apparel, posters, and magazines.²³

John Kristie, Vice President of Information Technology for [barnesandnoble.com](http://www.barnesandnoble.com), recalled that the development of the on-line subsidiary also benefited from improvements to the information systems supporting Barnes & Noble's physical bookstores, especially those focused on improving in-store search capabilities and real-time inventory checks. Noted Kristie:

A lot of the original Web work came out of store systems. For example, we had a project to expand our database and consolidate multiple products within the stores. Right now, the stores have search capabilities on products, and next to that terminal they also have a "books in print" search tool, which is on a separate PC. It wasn't as comprehensive as we wanted it to be. So one of the goals of the store system was to integrate a title database, so that the bookseller would have a vast amount of information available on its inventory. That's what we tried to do on the Web by creating a powerful database and search engine. The project started six to nine months before the Web project in creating this highly searchable book database for booksellers.

We were also working on a shopping system that would allow us to communicate electronically with wholesalers in a real time mode—much like a credit card transaction—so we could confirm the availability of product as opposed to the normal method of "I'll get back to you."

Steve Riggio believed that sales made through Barnes & Noble's virtual stores on AOL and the Web complemented sales at the bookseller's physical bookstores. He also felt that physical book superstores and a national advertising campaign would help build brand awareness for the site. Noted Riggio:

I think [the Web site is] complementary in its incremental sales. We have an existing asset—our brand name and stores—that we leverage. We do \$15 million of national advertising. If you pick up *The New York Times*, *The Wall Street Journal*, *The New Yorker*, or *Entertainment Weekly*, the Web address rides free in these publications. We launched our America Online site in March and our Web site in May. The compounding effect of all that advertising over the next year, we believe, is going to be quite substantial as the Web site becomes ingrained in people's minds.

²²Press Release, "Barnes & Noble, Inc., Announces Initiative to Launch World's Largest Bookseller Online," Barnes & Noble, Inc., January 28, 1997.

²³Michael Schrage, "The I.Q. Q&A: Steve Riggio- Barnes & Noble is Betting That the Printed Word Will Be a Best Seller in Cyberspace," *Adweek Interactive Quarterly*, August 18, 1997.

We will continue to open up 75 to 80 [super]stores a year. We see 300 to 400 Barnes & Noble stores opening up over the next several years. We see tremendous growth opportunity in retail, and we are going forward with that. We see opportunity on-line, and we are going forward with that as well. We believe our on-line business has an opportunity to add incremental sales to our company.²⁴

Since March, the pace of the on-line battle between Amazon.com and barnesandnoble.com had intensified (see **Exhibit 11**) on several competitive dimensions: service, pricing, customer acquisition, community, and personalization. For 1998, barnesandnoble.com expected to achieve revenue of over \$100 million, up from \$14 million projected for 1997.²⁵ Despite Barnes & Noble's late entry into the on-line marketplace, Carl Rosendorf, Vice President of New Business Development, believed that the bookseller was now setting the standard for the on-line bookselling industry:

We've only been live since May 1997, but we have led this industry since that time, maybe not in sales, but in terms of pricing and service. Let's talk about pricing. The model for Amazon.com was basically a 10% [discount] model. When we came into the marketplace in May, we came in with discounts of 20% and 30%—20% off paperbacks and 30% off hardbacks. So we set the standard for pricing in this business and our model was the right model, and that's why the competition has matched it. Then, in terms of delivery, we stated from the beginning that we were going to be working toward same-day shipping [books shipped the same day ordered] and we were building our own warehouse. That warehouse opened up in October 1997.

The fast-paced battle with Amazon.com and the prospective entry by Borders.com, placed heavy demands on barnesandnoble.com's 40-member technology staff. Observed Kristie:

There are two key challenges in developing an on-line commerce site. One is the tactical nature of producing a site as large as ours. The other, more strategic in nature, is trying to expand the direction of the site, while everyone is still very focused on what we just put out. We launched a site in March. We launched a site in May. Then we re-did the entire technology infrastructure for the site in September. So we have done three significant launches in a very short period of time, yet we have some concrete ideas about the site and where we want to go.

Establishing the barnesandnoble.com Bookstore

An honest tale speeds best being plainly told.

—William Shakespeare

Service On-line customers interested in ordering books from barnesandnoble.com could search for them by author, title, category, or keyword (see **Exhibit 10**). A "Fast Delivery" icon on the Search Results page indicated which books were ready for shipment in two to three days from a Barnes & Noble warehouse in Dayton, New Jersey. Over 500,000 (50%) of Barnes & Noble's in-stock titles, were available for Fast Delivery or ready for shipment in two to three days. Many of these books

²⁴Michael Schrage, "The I.Q. Q&A: Steve Riggio- Barnes & Noble is Betting That the Printed Word Will Be a Best Seller in Cyberspace," *Adweek Interactive Quarterly*, August 18, 1997.

²⁵Dow Jones Wires "Barnes & Noble Web Unit Sees 1998 Above \$100M," January 15, 1997.

were shipped to the Dayton location from a central warehouse—where book publishers shipped titles directly to the bookseller, bypassing book distributors—owned by the bookseller in nearby Jamesburg, New Jersey (see **Exhibit 12**). The Jamesburg facility also served Barnes & Noble superstores. Steve Riggio believed that Barnes & Noble's extensive and long-established backroom operations in book distribution provided a key competitive advantage:

Without question, one of the principal assets we bring to the table is the fact that we are extremely good at book distribution, whether it be to our stores or to our customers, whether they be domestic or international, and whether they buy by phone, mail, or the Internet. By the fall [of 1997], our 350,000 square-foot distribution center will have 90 percent of the books we believe people are going to be buying on-line.

So it's a core competency that we know how to do this. It's a core competency that we already have existing relationships with 20,000 publishers. It's a core competency that we have the infrastructure to know how to do business with all these folks and all the back-end apparatus of paying publishers, systems, and the like. It's all there. The Internet company plugs into it. As a result, our on-line company has been able to hit the ground running without having to invest the extraordinary sums that startups would [need to] in such an operation.²⁶

After placing selections in an electronic shopping cart, on-line customers had a choice of three different shipping options for delivery in the United States: standard; second day air; and next day air. With standard delivery, books were usually delivered within four to seven business days at a cost of \$3 per shipment and 95 cents per book. With second-day air, books were delivered in two to three business days at a cost of \$6 per shipment plus \$1.95 per book. With next-day air, books were shipped within one to two business days, at a cost of \$8 per shipment plus \$2.95 per book. An e-mail from Barnes & Noble confirmed the receipt of an order (see **Exhibit 13a**). A second e-mail confirmed the shipment of an order (see **Exhibit 13b**). On average, on-line consumers ordered 2.3 books from barnesandnoble.com in each sales transaction.

Pricing Book prices at barnesandnoble.com were usually lower than those found in its physical bookstores. When purchasing books from Barnes & Noble on-line, several of the bestseller hard-cover titles were discounted at 40% off. Most of its remaining in-stock hard-cover books were available at 30% off the suggested retail price—triple the discount available on all non-best-selling hardback books purchased in a Barnes & Noble physical bookstore. In addition, every in-stock paperback book was available at 20% off when purchased on-line, while all non-best-selling paperbacks were normally sold at list prices in stores. Bargain books, beginning in November 1997, were available at 88% off list price. Amazon.com, however, had matched barnesandnoble.com's pricing policy on hardcover, paperback, and individual books (see **Exhibit 14** for price comparisons across barnesandnoble.com, Amazon.com, Barnes & Noble, and Borders).

Steve Riggio believed that the differences in discounts for on-line customers and those available for retail store shoppers were justified on the basis of competition with other on-line booksellers and lower distribution costs:

Our on-line pricing is a function of our commitment to compete effectively in the electronic marketplace, and this requires compelling prices. The economics of on-line retailing are very different from those of store retailing—on-line customers

²⁶Dow Jones Wires, "Barnes & Noble Web Unit Sees 1988 Above \$100M." January 15, 1997.

complete their own transactions and therefore not only expect to receive, but are entitled to receive, direct-from-warehouse pricing.²⁷

Despite differences in pricing policy between on-line as opposed to physical store purchases, Steve Riggio believed that most on-line sales would be incremental—not cannibalization of physical stores, as some critics charged. Explained Riggio:

First, we do not have a Barnes & Noble store in every community in America, nor will we have a store in every community in America over the next five years. There are just too many places where people can't get to a bookstore with a big selection. Our Internet initiative is a way to bring our bookstore to the desktops of potential customers. And because Barnes & Noble has such national brand recognition—it's a name people know and trust—people will buy from us. We are already experiencing that. Second, there are many people today who do not have the time or the affinity to shop retail. The Internet is a way for them to reach us. Third, our international business, or sales of English-language books abroad, is untapped. It's an explosive area for growth. Finally, we believe the concept of having an on-line bookstore on your desktop will cause an explosion of interest in books.²⁸

Still, the question of how to use almost 500 superstores to promote barnesandnoble.com remained. Would the placement of kiosks in the stores cannibalize book sales for Barnes & Noble physical stores? Would consumers be price-sensitive to the inclusion of sales taxes of on-line book purchases compared to Amazon.com which did not charge sales tax outside of Washington and Delaware? Would this promotion increase the awareness of barnesandnoble.com beyond that of Amazon.com?

Customer acquisition An area where barnesandnoble.com and Amazon.com competed fiercely throughout 1997 was in signing up affiliate—or third party—Web sites to drive traffic to their respective storefronts and acquire new customers. The first of these co-branding agreements in May 1997 made by barnesandnoble.com was with *The New York Times* Electronic Media Company, where visitors to the Book Review section of *The New York Times* on the Web could purchase almost any book noted on the site—from past and current book reviews—directly from barnesandnoble.com. (See **Exhibit 15**.) For referring on-line customers to Barnes & Noble, *The New York Times* received a commission on each book sold. “The reason I chose to partner with barnesandnoble.com,” explained Martin Nisenholtz, president of *The New York Times* Electronic Media Company, “was that it had a great brand name, was based in New York City, and was a major customer of our newspaper [on the print side].”²⁹

Building brand awareness on-line was the driving factor behind these co-branding agreements. According to a November 1997 survey conducted by PC Meter, Amazon.com was the top Web shopping site among all Web users, with a reach of 5.7%—a four-fold increase from a reach of 1.4% in October 1996—among active Web users using a personal computer at home. Among those accessing the Web at work, Amazon.com’s rating was 8.6% (see **Exhibit 16**). By comparison, barnesandnoble.com had a monthly rating for December 1997 of 2.6% at home—six times that from its first month of operation—and 3.1% at work.³⁰ Jill Yablon, barnesandnoble.com’s Vice President of

²⁷Press Release, “Barnes & Noble, Inc., Announces Initiative to Launch World’s Largest Bookseller Online,” Barnes & Noble, Inc., January 28, 1997.

²⁸Michael Schrage, “The I.Q. Q&A: Steve Riggio- Barnes & Noble is Betting That the Printed Word Will Be a Best Seller in Cyberspace,” *Adweek Interactive Quarterly*, August 18, 1997.

²⁹Interview with casewriter, December 11, 1997.

³⁰Press release, “barnesandnoble.com Expects 1998 Sales to Exceed \$100 Million,” Barnes & Noble, Inc., January 15, 1998.

Marketing, noted that Amazon.com's two-year head start represented a significant competitive advantage over barnesandnoble.com:

Amazon.com is a formidable competitor. They're considered the darlings of cyberspace. Amazon was first in the market and most people have heard of Amazon.com. Most people are not yet even aware that Barnes & Noble has a Web site. We have made a lot of improvements to the site since we launched in May. Our goals will be to get people to switch from Amazon, to attract the first-time buyer, to encourage current Barnes & Noble customers to buy on-line, and to retain all of our on-line customers through loyalty and retention programs.

David Palmieri, Director of New Business Development for barnesandnoble.com, described the frenzied activity among Web booksellers in establishing co-branding agreements:

The pace is relentless. The principal battleground over the past four months [September to December 1997] has been establishing the affiliate relationships. We went up on AOL in March [1997]. Amazon countered with deals with Yahoo! and Excite around the time we were launching our Web business [in May 1997]. From there it has been an all-out sprint between the two of us to lock up key points of distribution on the Web. If you look at the top sites, the list of those that are not aligned with the booksellers is dwindling, and most of them have chosen to align with either ourselves or with Amazon. Borders being late to the game has really paid a price: so they have paid dearly to be on InfoSeek and CNET. That is the arena where we have seen the most competition, and we run up against Amazon on every single deal.

In September 1997, barnesandnoble.com expanded the concept of driving traffic through well-known commercial sites with the launch of its Affiliates Network (see **Exhibit 17**). The Network involved 40 of the most popular sites on the Web, including CNN Interactive (www.cnn.com), the *Los Angeles Times* (www.latimes.com), and Ziff Davis' ZDNet (www.zdnet.com). Affiliates received commissions of up to seven percent on books sold to on-line customers coming through their sites to barnesandnoble.com. Each affiliate network member provided a link from its site to barnesandnoble.com for easy click-throughs. (See **Exhibit 18**.) In addition, like Amazon.com's Associates program, individual or non-commercial Web sites could join barnesandnoble.com's Affiliate Network and receive commissions. Unlike Amazon.com's program, however, barnesandnoble.com paid commissions on *all* books purchased by customers referred on-line to its site, not just on specific titles, and provided updated sales information within 24 hours to all affiliates through a designated Extranet. Palmieri believed that the unique design of the Affiliates program provided it with a competitive advantage over Amazon.com:

There are two components of support. The first is the Extranet site at affiliate.net, which provides the affiliates with on-line reporting. The second is our account executive. Every affiliate is assigned an account executive. Some of the Affiliate companies that have switched over from Amazon didn't have a point of contact, so people complained that "I didn't have anyone to talk to" or "I kept getting passed off" or "they didn't return my calls." I think it's indicative that [Amazon.com] never intended it to be a true partnership program but only a linking program. We realize that if you work with important media and technology companies, you had better know how to support them and treat them right.

Despite Amazon.com's higher sales commissions of 15% on Associates' book sales, Palmieri noted that the Seattle-based bookseller paid commissions only on the referred book—not all books—purchased by third parties through Associates. Palmieri compared the commission's policy for Amazon.com's Associate program with that of barnesandnoble.com's Affiliate program:

Amazon.com's commission structure is great for them and not so great for the Associates, if you really look at how people buy books on-line. You can put out a headline number like 15% commission, or in the case of their PC Meter top 500 accounts, 22.5% commission. They can put numbers like those out there, because they know people won't buy the first book they click on, and—even if they do—they will often buy two or three more books without any commission. The net effect is that our commission pay structures are similar. Our model is based on what we think is sustainable. We went out with a five to seven percent commission structure that we can live with as a business five years from now. We know that if Amazon gave away 15% on every book, they would give away all their margin.

Nicole Vanderbilt, an analyst with Jupiter Communications, projected that the affiliate sites would become a key driver of sales for on-line commerce:

As the on-line shopping market matures, innovative selling practices, such as affiliates programs, will be crucial in reaching new on-line customers and driving incremental sales. Jupiter believes that by 2002, over 25% of on-line shopping revenues will be realized through purchases that originate at Affiliate sites.³¹

Vanderbilt also believed that barnesandnoble.com's Affiliate program now provided the giant bookseller with a competitive advantage over Amazon.com. In the December 1997 issue of *Online Marketplace*, an industry newsletter, she wrote:

A day on the Internet is really like a year in the physical world. The on-line competition intensifies with every passing second and given that competitors are only a click away, an innovator cannot afford to stop for a breather once the first phase of a product or idea is launched. It is essential to continue enhancing the product in order to keep the competition at bay. After Amazon.com pioneered the idea of affiliate programs, several on-line merchants bought into the idea. However, recently, barnesandnoble.com rewrote the compensation structure for the actual sales force and managed to steal some of Amazon.com's important Affiliates. Realizing that an innovator does not a (lasting) premier retailer make, Amazon has had to substantially increase its sales commission in order to keep in stride with its fierce competitor.³²

While Amazon.com had established co-branding alliances with Yahoo! and Excite!, the two largest Internet search engines, to drive traffic to its home page, barnesandnoble.com entered similar agreements with Lycos, the third largest search engine on the Web, and with Webcrawler, the fifth largest search engine, in summer 1997. Later in the year, it concluded similar agreements with Microsoft's MSNBC, Investor, and Expedia Web sites, and Pointcast. As Palmieri noted, the co-branding agreements with the Affiliate network were critical in building brand loyalty on the Web:

Look at the partners that we have aligned ourselves with: They are big brand names, well-recognized brands from off-line media—CNN, *USA Today*, *The New York Times*—so the next generation of people coming to the Web will find what the early adopters didn't find two years ago. Two years ago you didn't find Barnes & Noble, all your favorite stores, or all your favorite television channels on the Web. Now you do. So, as the next generation of folks come on-line, they will find their familiar brands, and we believe we will build loyalty with them.

³¹Press release, "barnesandnoble.com Launches Affiliate Network," barnesandnoble.com, September 9, 1997.

³²*Online Marketplace*, December 1997.

In December 1997, barnesandnoble.com entered into a four-year, \$40 million co-branding agreement with AOL to become the exclusive bookseller throughout the commercial on-line service (see **Exhibit 19**) excluding AOL.com and AOL Net Search which had already become exclusive domains of Amazon.com (see **Exhibit 20**). Under terms of the agreement, AOL, with over ten million members at year-end 1997, agreed to promote barnesandnoble.com in areas throughout the on-line service and integrate the bookseller with the AOL Greenhouse sites, Digital Cities, and AOL International.

A month later, at the end of January 1998, Barnes & Noble also announced that it would expand its Affiliates program to include non-profit organizations through the Book Benefit Network. With the sponsorship of American Express, the financial services company that had pioneered "cause marketing" through its "Give for Hunger" program, barnesandnoble.com agreed to donate up to seven percent on book sales generated through non-profit organizations' sites. Among the first non-profits to join the Affiliates Network were international relief agency CARE (www.care.org) and the United Nations Children Fund (www.unicef.org).

To date, however, the company had achieved limited awareness of its initiatives. Rosendorf noted that Barnes & Noble did not begin advertising its Web site until August 1997. By year end, advertisements for barnesandnoble.com appeared in several leading publications, such as *The New Yorker* (see **Exhibit 21**), in addition to weekly newspaper ads for Barnes & Noble stores which carried the URLs for both barnesandnoble.com's Web and AOL sites (see **Exhibit 5**).

Community The Barnes & Noble home page on the Web represented an attempt to provide on-line customers with a sense of community similar to that found in a physical Barnes & Noble superstore. The familiar italicized logo headlined the top of each screen in the company's colors of green and gold with the slogan, "World's Largest Bookseller Online." A column on the left side of the screen provided on-line customers with a directory of the virtual bookstore—indicating where visitors could search for books, join an on-line book discussion, obtain personalized book recommendations, and search for features in 19 different book categories, ranging from "Biography" to "History" to "Travel" (see **Exhibit 22**). The rest of the home page was devoted to promoting special events on the barnesandnoble.com site—a schedule of upcoming live chats with best-selling authors, on-file interviews with various writers, and excerpts from the hottest-selling books. Steve Riggio commented on the effort to create a community on-line:

We feel that the stores are warm and cozy and comfortable gathering places where it's easy to buy a book. We wanted to do the same thing on the Web. We felt that in addition to easy checkout, fast shipping, and great prices, we wanted to have a community aspect to our site. From very early on we had the idea of the live author auditoriums and the bulletin board system to be part of the site, and it's been very successful in generating dialogue.³³

As in the physical superstores, live events with authors played an essential role in Barnes & Noble's on-line bookstore (see **Exhibit 23**). An "Online Community" page (see **Exhibit 24**) provided on-line customers with a schedule of upcoming live events with a diverse pool of writers and celebrities, including Scott Adams, Michael Beschloss, Jackie Collins, Patricia Chao, Michael Crichton, Julie Garwood, Doris Kearns Goodwin, Charlton Heston, Andrew Morton, Carol O'Connell, Gabrielle Reece, Danny Seo, and Studs Terkel. At the scheduled date and time, visitors entered the site's Auditorium, submitted inquiries, and awaited authors' answers to these questions posed on-line. Transcripts of past events were available to members in the site's Live Events Archive section. Books with signed bookplates from the authors were usually available directly from barnesandnoble.com.

³³*Online Marketplace*, December 1997.

For example, the following questions and answers were from a September 3, 1997, on-line session with Howard Schultz, CEO of Starbucks and author of a book called *Pour Your Heart Into It*.

Question: Did you ever imagine this much success for Starbucks?

HSchultz: I guess the answer to that is, we had a big dream for our company and for ourselves. That was to create a national company whose principles became as strong as the quality of our coffee. The success has come more quickly than we thought. After the last 15 years, in which we have worked so hard and with so much passion, the success we have enjoyed and the fact that we enjoyed it with so many people is quite gratifying.

Question: Can you describe the first Starbucks you ever walked into? How does it differ from what we see today?

HSchultz: The first Starbucks store was in the Public Market in Pike Place in Seattle. It opened in 1971, and I visited it for the first time in 1980. The primary difference was that the original stores did not serve any coffee or espresso. The change came after my trip to Italy in 1983, when I saw the connection the Italian people had with the romance of the coffee and a sense of community that existed in all the coffee and espresso bars in Italy. It reminded me of people's front porch, and that was the shift that took place to bring the coffee experience that I discovered in Italy to Starbucks.

Question: Do you think your retail philosophy can be applied to other goods, like clothing or food?

HSchultz: I would say the retail philosophy we execute every day can be applied to other goods. It is important to reiterate what that philosophy is. We live in a society where, in my view, the country is over-retailed. There are too many stores for not enough people. The result is we are in an environment as merchants that is more competitive than it's been at any other time in retail history. Now, the philosophy we tried to apply can be reduced to a simple formula. That is, our goal at Starbucks is to exceed the expectations that our customers have for us. But in order to do that, the company needs to inspire customers and trust the people who work in our stores that they will apply their belief in what Starbucks is trying to accomplish. Now, obviously in addition to that, we have to provide our customers every single day with a reason to both come to Starbucks and to come back, and we believe we do that by providing high-quality coffee, providing an environment and almost a "third place" between home and work.

Another feature of the barnesandnoble.com site, "Books In the News," was added in September 1997, and focused on books and authors in the news each week. "What's News" tracked publishing trends and major authors; "Making the Scene" focused on authors and books featured on television, radio, and in print; "Books-in-Brief" provided information on the most talked about titles; and "The Well-Dressed Book" highlighted noted book jackets.³⁴

Personalization An on-line customer at the barnesandnoble.com bookstore had the option of registering as a member or simply browsing the unrestricted areas of the site as a non-member. Member registration was accomplished through response to seven simple requests: choose an alias

³⁴Press Release, "Barnes & Noble Takes Books 'Off the Shelf' and Puts Them Into Your Hands," Barnes & Noble, Inc., September 3, 1997.

name, select a password, provide an e-mail address, and answer questions on country of residence, zip code, date of birth, and gender (see **Exhibit 25**). Members were then provided, without charge, the benefits of receiving personalized book recommendations and being able to post messages on the site's Book Forum bulletin boards. An on-line customer who chose not to register as a member was still able to shop for books on the site but could not access any of barnesandnoble.com's personalization services.

On the site's bulletin boards, which ranged from "The Bible as Literature" to "Tolkien" to "History Lovers" to "Alternate Endings" (see **Exhibit 26**), members could post reviews of books, participate in book discussions, or read reviews written by other barnesandnoble.com members. A sampling of a book review submitted on Walter Mosley's book, *Gone Fishin'*, in the Book Forum on "Contemporary Black Male Writers" is shown below:

I have not read any of the other authors referred to in this forum, but I have read all of Mr. Mosley's books. The latest, *Gone Fishin'* was a terrific read and gives great insight into the origins of Easy Rawlins. The odd relationship between him and Mouse begins to be clarified. Each of the Easy Rawlins novels is not only a good mystery for its own sake, but also an interesting look at another time in American history that does not seem to get explored very often.

Members also received personalized book recommendations. Using collaborative filtering technology (see **Exhibit 27**) licensed from Firefly Network, Inc., a Cambridge, Massachusetts-based software company, barnesandnoble.com could recommend books to its members based on preferences of other readers with similar interests. Customers interested in using this personalized service were first asked to complete an on-line survey (see **Exhibit 28**) rating a list of books within a specific subject category on a scale of one ("Hated it") to seven ("The best"). Books purchased by individuals with similar profiles, based on survey ratings, became new book recommendations for the customer. "One of our goals," said Yablon, who was previously Vice President of Content and New Business Development at AOL's Greenhouse Networks, "is to use one-to-one marketing and create the personal bookstore for the customer."

Visiting the Barnes & Noble @ AOL Bookstore

Books we must have though we lack bread.

—Alice Williams Brotherton

Like the barnesandnoble.com Web site, the Barnes & Noble site on AOL (see **Exhibit 29**) attempted to provide AOL members with the same sense of on-line community and service, but in abbreviated form. For example, while the AOL site provided its on-line customers with live events with noted authors, chat rooms for news groups, and book trivia contests, it did not provide personalized book recommendations as did the Web site. However, when purchasing books through the Barnes & Noble @ AOL site, on-line customers ordered from the same directory of over one million titles, enjoyed the same on-line price discounts, and had their orders fulfilled by the same backroom operations. As an added benefit, AOL guaranteed customer satisfaction on any purchases made through Barnes & Noble @ AOL—as AOL did with all its merchants in the Marketplace area.

Barnes & Noble @ AOL was managed by barnesandnoble.com as a separate business unit. The unit, which reported to Rosendorf, had a staff of eight in early 1998. The potential AOL audience was upscale and purchase-oriented: 63% of all AOL members were college graduates (versus 23% for the general population in the United States), 46% had children in the household (versus 35% for the

general U.S. population);³⁵ and the AOL population spent 15% less time watching television than the general U.S. population.³⁶ On average, AOL members logged 37 minutes on-line daily during the fourth quarter of 1997 and spent \$30 a year on electronic commerce through the on-line service.³⁷ As Rosendorf noted, however, there were key differences between sales made through Barnes & Noble on AOL as opposed to the Web:

We have found that consumers buying from us on AOL and on our Web site tend to be different audiences. Because of that, the merchandising, the product offering, and the editorial is tailored to a separate market. Our AOL site is a separate business unit. The type of books that we sell and the time of day when consumers purchase books on AOL varies greatly from that of our Web site. The books sold on AOL are more consumer-oriented versus business- or professional-oriented. The number one category of book sales on our Web site, and probably for Amazon, is computer and technical books. On AOL, the top five books sold are general interest and fiction. You get a different audience. Totally different.

Other Product Line Additions

Some men have only one book in them; others, a library.

—Sydney Smith

In addition to selling books, barnesandnoble.com considered selling other media products—video, music, and software—through its Web site in 1998. An agreement to market magazine subscriptions on-line in partnership with Electronic Newsstand (www.enews.com) was announced in January 1998. Selling additional categories would leverage barnesandnoble.com's distribution infrastructure, and would be competitive with the expected product offerings made by Borders in print, video, and music. Said Palmieri:

When you do books, you've done a product catalogue of two million SKUs. So you have dealt with the largest number of individual SKUs of any category of information-based products. Music has over 200,000 SKUs. Software—best we can tell—has only about 40,000 SKUs. The complexity and size of the book business is an order of magnitude greater than those two businesses. Incidentally, I would expect Borders to launch with books, music, and video.

Conclusion

In early 1998, Barnes & Noble's senior management was pleased with the progress they the company had made in creating two virtual sales channels for the bookseller—Barnes and Noble @ aol and barnesandnoble.com. By year-end 1997, barnesandnoble.com had more than 250,000 customer

³⁵United States Department of Commerce, *Statistical Abstract of the United States*, 1998.

³⁶America Online, 1996 Annual Report.

³⁷America Online, 1997 Annual Report.

accounts and over 40% of its business came from repeat buyers.³⁸ As Steve Riggio commented on Barnes & Noble's efforts:

We're not building a rocket ship here. It's a way for us to extend our expertise, our passion, and our knowledge of books to the American and global marketplace. And that's good. There is no one in America that knows more about books than Barnes & Noble; the Web simply enables us to broadcast that message on a new channel.³⁹

Rosendorf added that expected entry of Borders Inc. in the on-line marketspace would intensify the competition in the on-line marketspace:

In the minds of people, when you say Barnes & Noble, they tell you books, bookselling. The research is overwhelming. Barnes & Noble stands for books. You ask people to describe Barnes & Noble, and generally it's community, it's safe haven, it's intellectual, it's books. Borders doesn't have our scale and doesn't have nearly as strong a history. The name doesn't have the history—although they are a fine company.

Amazon is hip, it's fun. That's true today, but will it be true tomorrow? That remains to be seen. Amazon is now in with this very loyal group of constituents, and they have been able to build a very strong, good little business. It remains to be seen where it moves from this point forward as Borders goes on-line and we are on-line.

The Borders customer today has either had to come to us or they would go to Amazon, and I'm sure they really don't want to do that. Our customer until a few months ago couldn't come to us because we weren't here, and they had to go to Amazon. Now we are here and Borders will be here. So our customers and their customers will have a lot to choose from.

The business is going to be very, very different two years from now.

³⁸Press release, "barnesandnoble.com Expects 1998 Sales to Exceed \$100 Million," Barnes & Noble, Inc., January 15, 1998.

³⁹Michael Schrage, "The I.Q. Q&A: Steve Riggio- Barnes & Noble is Betting That the Printed Word Will Be a Best Seller in Cyberspace," *Adweek Interactive Quarterly*, August 18, 1997.

Exhibit 1 Barnes & Noble Bookstores

1a Union Square Store
New York City, New York



1b Original Store
New York City, New York
5th Avenue & 15th Street

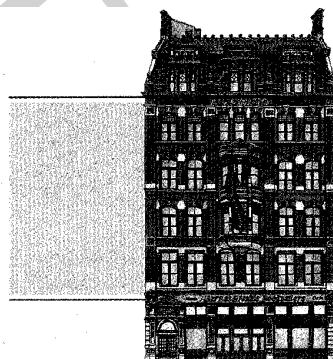


1c Westside Pavilion Store
Los Angeles, CA

Exhibit 2 Interior of a Barnes & Noble Super Bookstore



Exhibit 3 Barnes & Noble Superstore Newsletter



Barnes & Noble Union Square

EVENTS

33 East 17th Street at Union Square • (212) 253-0810

Open 10:00am-10:00pm Seven Days a Week



Writer's Harvest: The National Reading

Share Our Strength and over 1,500 renowned authors for the nation's largest annual series of simultaneous readings to help fight hunger and poverty. On October 23, every Barnes & Noble will support Writers Harvest by donating a percentage of sales to Share Our Strength.

4 OCT., SATURDAY 3:00pm

Our Saturday Sounds

Program welcomes the contemporary/acoustic duo **Smithline/Manion**.

6 OCT., MONDAY 7:30pm

Meet award-winning actor and comedian **John Leguizamo!** The star of countless movies including *Romeo & Juliet*, *To Wong Foo: Thanks for Everything!* *Julie Newmar, Carlito's Way*, and the FOX network show *House of Buggin* signs copies of his new book, *Freak: A Semi-Demi-Quasi-Pseudo Autobiography*,

released in conjunction with the opening of his one-man play on Broadway of the same name.

7 OCT., TUESDAY 7:30pm

Doris Lessing, author of more than thirty books including the critically acclaimed *Under My Skin* returns with volume two of her autobiography, *Walking in the Shade*. This rich and insightful sequel covers the years 1949-1962 and is the fascinating account of the creative process by which her literary masterpiece *The Golden Notebook* was conceived and executed.

8 OCT., WEDNESDAY 7:30pm

Following the critical and commercial success of his Art of the Personal Essay, **Philip Lopate** inaugurates *The Anchor Essay Annual*, a collection of the best prose writing today. Barnes & Noble invites you to join Mr. Lopate and contributors **Vivian Gornick, Lynne Schwartz, Daniel Harris, Cynthia Ozick** for the launch of this new anthology.

13 OCT., MONDAY 7:30pm

Dorothy Dunnett, author of the acclaimed Francis Crawford of Lynd and the House of Niccolo novels will discuss the

fifth and sixth in the legendary Lyndon Chronicles series, *The Ringed Castle* and *Checkmate*. Join us for a delightful evening with the world's greatest writer of historical fiction.

14 OCT., TUESDAY 7:30pm

Join Pulitzer Prize winning author **Doris Kearns Goodwin** for a discussion of her new release *Wait Till Next Year*. Set in the suburbs of New York in the 1950's where neighborhoods were equally divided between Dodger, Giant and Yankee fans, this is a beautiful memoir of a young girl growing up loving her father and baseball.

15 OCT., WEDNESDAY 7:30PM

As part of *The New Yorker Series at Barnes & Noble Union Square*, please join Pulitzer Prize-winning author **David Remnick** for an insightful look into the lives of prominent people and the culture of celebrity as he presents his new work, *The Devil Problem and Other Stories*.

16 OCT., THURSDAY 7:30pm

Barnes & Noble invites you to come meet **Sheri Reynolds**, author of the best-seller *The Rapture of Caanan*

as she discusses her eagerly-anticipated new novel, *A Gracious Plenty*.

18 OCT., SATURDAY 10am-2pm

Join acclaimed author **Mimi Sheraton** when she signs copies of her new book, *Food Markets of the World* at the Union Square Greenmarket.

18 OCT., SATURDAY 3:00pm

Our **Saturday Sounds** program welcomes back jazz/folk guitarist **Mark Sganga!**

19 OCT., SUNDAY 2:00pm

Join us for the Barnes & Noble Crossword Puzzle Classic!

Stanley Newman, *Times Books* Crossword Puzzle and Games editor will host a crossword competition sure to challenge all puzzlers from beginners to expert. Finalists from our event are invited to compete on Sunday, November 17 at Barnes & Noble Union Square for the grand prize. Call (212)352-3690 to register.

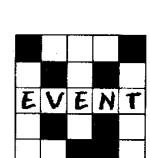
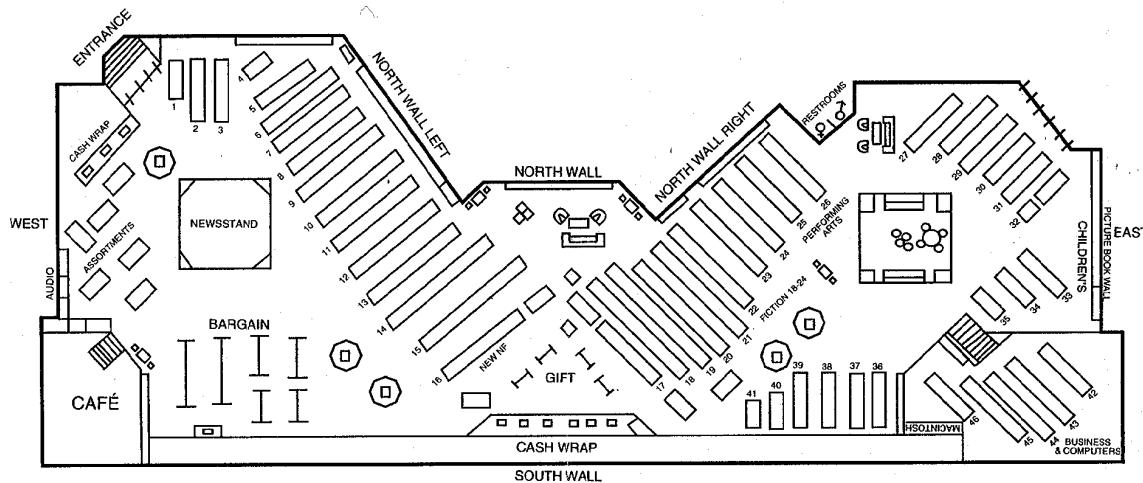


Exhibit 4 Floor Plan of Barnes & Noble Superstore (Jack London Square, Oakland, CA)

DIRECTORY OF SUBJECTS

ALL SUBJECTS ARE ARRANGED ALPHABETICALLY BY AUTHOR UNLESS OTHERWISE NOTED ON SHELF

HISPANIC STUDIES	15	HUMOR	38	INTERIOR DESIGN	6	JUDAICA	10
HOBBIES & CRAFTS	N. WALL L.	I		INVESTMENT/MONEY MANAGEMENT	43	L	
HOME REPAIR & REMODEL	6	INSPIRATION	10	J		LANGUAGES	40-41
HORROR	23	INTERNATIONAL COOKBOOKS	2	JAZZ/BLUES	26	LATTER DAY SAINTS	9
HOUSE & GARDEN	8	INTERNET & ON-LINE SERVICES	45	JEWELRY	N. WALL L.	LEGAL REFERENCE	13



98 BROADWAY, OAKLAND, CA 92607 (Broadway & Embarcadero) • (510) 272-0120 • FAX (510) 272-0343
Monday - Sunday 9 AM - 11 PM • Café Hours Monday - Friday 8 AM - 11 PM, Saturday & Sunday 9 AM - 11 PM

Source: Barnes & Noble Company Documents.

Exhibit 5 Barnes & Noble Advertisement

Introducing you to the next wave of great literary voices.

DISCOVER GREAT NEW WRITERS

High Holiday Sutra
by Allan Apel
In a sermon delivered on Yom Kippur, an emboldened rabbi reflects on his own spiritual journey from his 1960s childhood to his beloved wife's battle with cancer. (Coffee House Press)
B&N Price \$12.95

Night Letters
by Robert Dessaix
A book of fictional letters written by a man diagnosed with an incurable disease recounts his very personal and tender observations from his travels through southern Switzerland, Italy and Australia. (Bob Wyatt/St. Martin's)
Pub. Price \$22.95
B&N Price \$20.65

Boondocking
by Tricia Bauer
After the tragic death of their daughter, a couple leave their suburban Maryland home, and with their granddaughter in tow, set out for life on the road in a travel trailer. (Bridge Works Publishing Company)
Pub. Price \$21.95
B&N Price \$19.75

A Blessing on the Moon
by Joseph Kandy
Inspired by Yiddish folktales, this extraordinary novel follows the astonishing after-death odyssey of a man killed in the Holocaust, and his rabbi, who is reincarnated as a black crow. (Algonquin Books of Chapel Hill)
Pub. Price \$21.95
B&N Price \$19.75

Celibates & Other Lovers
by Walter Kandy
The saints and sinners of a small Irish village live and love with exuberant passion in this delightful first novel. (MacMurray & Beck)
Pub. Price \$20.00
B&N Price \$18.00

Eggs for Young America
by Katherine L. Hester
In a collection of insightful stories, the author captures the lives of fragile characters fighting to find their way, despite dead-end jobs and dysfunctional relationships. (University Press of New England)
Pub. Price \$19.95
B&N Price \$17.95

At Barnes & Noble, talented new authors find a home. It's all part of our *Discover Great New Writers* program, designed to showcase the best fiction, short stories and literary nonfiction of the season. Look for these outstanding new works and many more by *Discover* authors in any Barnes & Noble bookstore.

Traces by Ida Fink Set in occupied Poland, this powerful collection of 21 stories depicts the daily life of ordinary people in extraordinary circumstances before, during and after the Holocaust. (Metropolitan Books) Pub. Price \$23.00 B&N Price \$20.70	flesh wounds by Mick Cochrane When a man is arrested for abusing his 15-year-old granddaughter, a troubled family is forced to face a legacy of childhood suffering and parental denial. (Nan A. Talese) Pub. Price \$21.95 B&N Price \$19.75	THE LIGHT OF FALLING STARS by J. Robert Lennon In the aftermath of a plane crash, the subtleties of relationships are explored in this affecting story of shattered people coming to grips with their lives. (Riverhead Books) Pub. Price \$23.95 B&N Price \$21.55	All Over but the Shoutin' by Rick Bragg In this poignant autobiography, the author—a Pulitzer Prize-winning journalist—recounts his poverty-stricken childhood in Alabama and pays tribute to his exceptional mother. (Pantheon) CD Also Available in Audio Pub. Price \$25.00 B&N Price \$22.50	FOUR LETTERS OF LOVE by Niall Williams The stories of two families in Ireland intertwine in this exploration of the mysteries and limitations of the human heart—and the power of love. (Farrar, Straus & Giroux) Pub. Price \$23.00 B&N Price \$20.70	DELUGE by Albertine Strong A native American woman tries to understand her history through the magnificent story of her family's evolution in a generational saga that spans the 20th century. (Harmony Books) Pub. Price \$23.00 B&N Price \$20.70

Meet *Discover Great New Writers*
Author Michelle Huneven
Barnes & Noble in Santa Monica • 1201 Third Street in the Third Street Promenade Thursday • September 18th • 7:30-8:30 PM
Meet *Discover Great New Writers* author Michelle Huneven when she reads from and signs copies of *Round Rock*, an engaging novel about a man who turns a dilapidated ranch into a home for recovering alcoholics.

<http://www.barnesandnoble.com> • AOL Keyword: barnesandnoble

Barnes & Noble
Booksellers Since 1873

Source: *Los Angeles Times Book Review*, September 14, 1997.

Exhibit 6 Barnes & Noble Catalog

Barnes & Noble
BOOKS BY MAIL

Thank You For Your Recent Order

Here is our latest catalog where you will find hundreds of exclusive book bargains.

At this time we can only accept orders for books from this catalog by mail or phone but shortly will provide that ordering option at our web site and on AOL.

As a special 'Thank You,' we'd like to offer you a chance to save on your next order.

When you place an order from this catalog, you may

DEDUCT \$10.00

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Instant information for the whole family at a price that won't break the budget!
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BODY LANGUAGE
RILLIS EAST

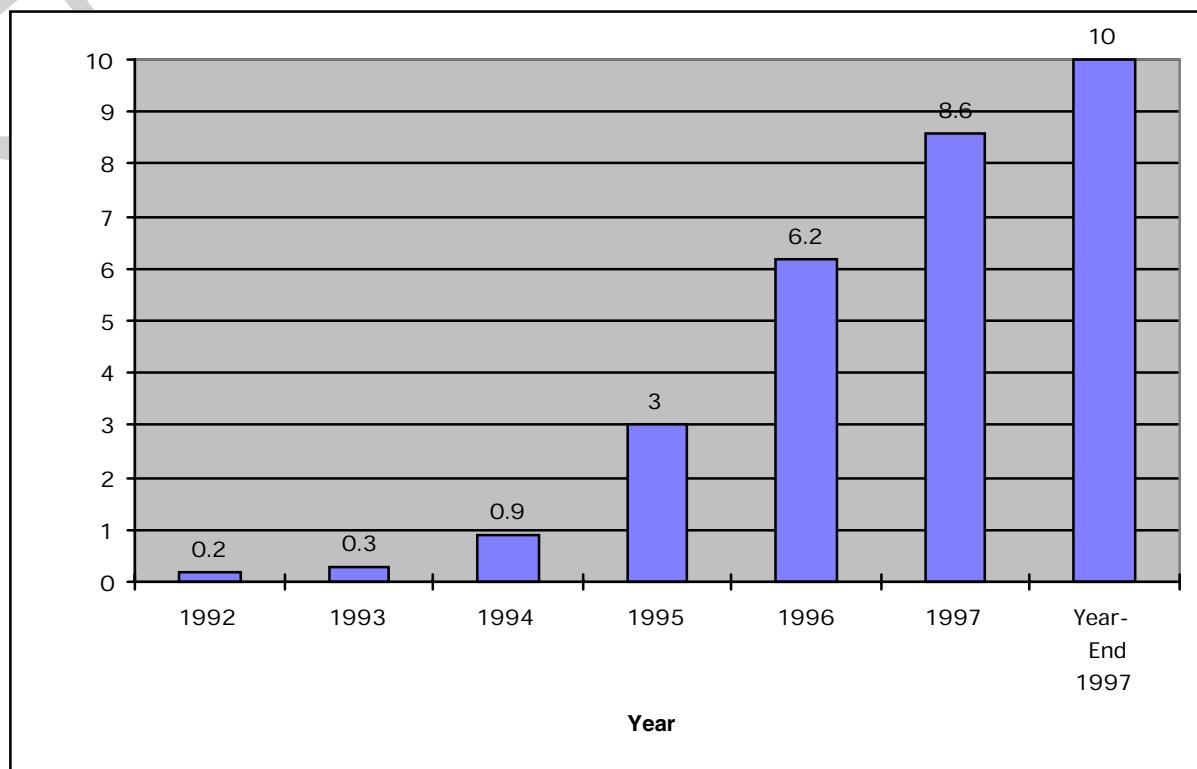
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Pub. \$12.95
SALE \$6.98
p. 4

Order Toll-Free 1-800-THE BOOK (1-800-843-2663) 24 hours a day, 7 days a week

Exhibit 7 Barnes & Noble Income Statement 1994-1996

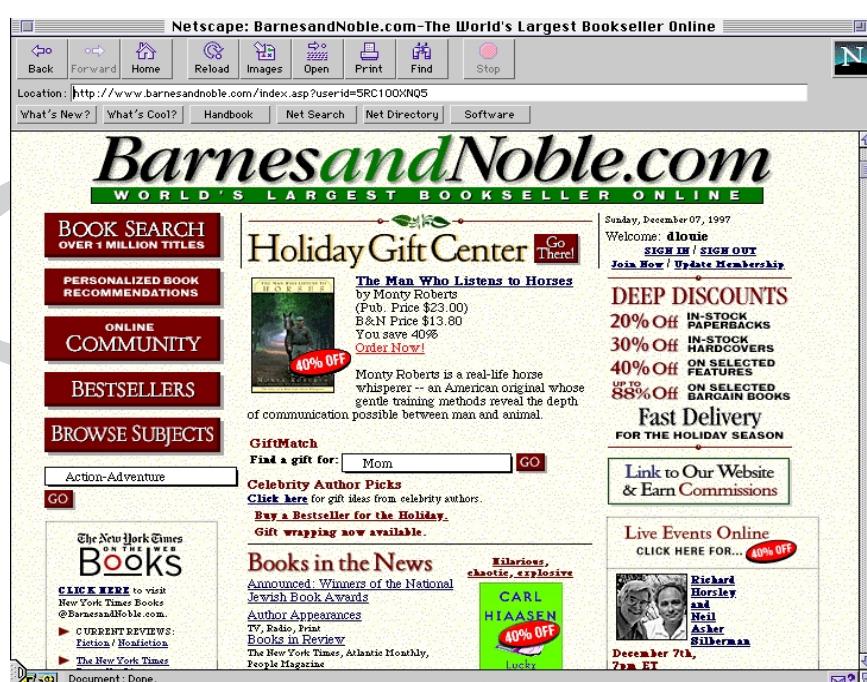
	In Thousands of Dollars			As Percentage of Revenue		
	1996	1995	1994	1996	1995	1994
Revenue						
Superstores	\$1,861,177	\$1,349,830	\$952,697	76.0%	68.3%	58.7%
Mall Bookstores	564,926	603,204	646,876	23.1%	30.5%	39.9%
Other	22,021	23,866	23,158	0.9%	1.2%	1.4%
Total Revenue	\$2,448,124	\$1,976,900	\$1,622,731	100.0%	100.0%	100.0%
Expenses						
Cost of Sales & Buying & Occupancy	1,569,448	1,269,001	1,051,011	64.1%	64.2%	64.7%
Gross Margin	878,676	707,899	572,011	35.9%	35.8%	35.3%
Selling & Administrative	456,181	376,773	311,344	18.6%	19.1%	19.2%
Rental Expenses	225,450	182,473	147,225	9.2%	9.2%	9.1%
Depreciation & Amortization	59,806	47,881	36,167	2.4%	2.4%	2.2%
Pre-opening Expenses	17,571	12,160	9,021	0.7%	0.6%	0.6%
Restructuring Expenses	0	123,768	0	0.0%	6.3%	0.0%
Operating Earnings (Loss)	119,668	(35,156)	68,963	4.9%	-1.8%	4.2%
Net Interest Expense	38,286	28,142	68,963	1.6%	1.4%	1.4%
Earnings (Loss) Before Income Tax	81,382	(63,298)	22,995	3.3%	-3.2%	2.8%
Provision (Benefit) for Income Tax	30,157	(10,322)	20,085	1.2%	-0.5%	1.2%
Net Earnings (Loss)	\$51,225	\$(52,976)	\$25,883	2.1%	-2.7%	1.6%

Source: Barnes & Noble Annual Reports, 1995 and 1996

Exhibit 8 America Online Membership 1993-1997 (Numbers are Mid-Year, Except When Noted)

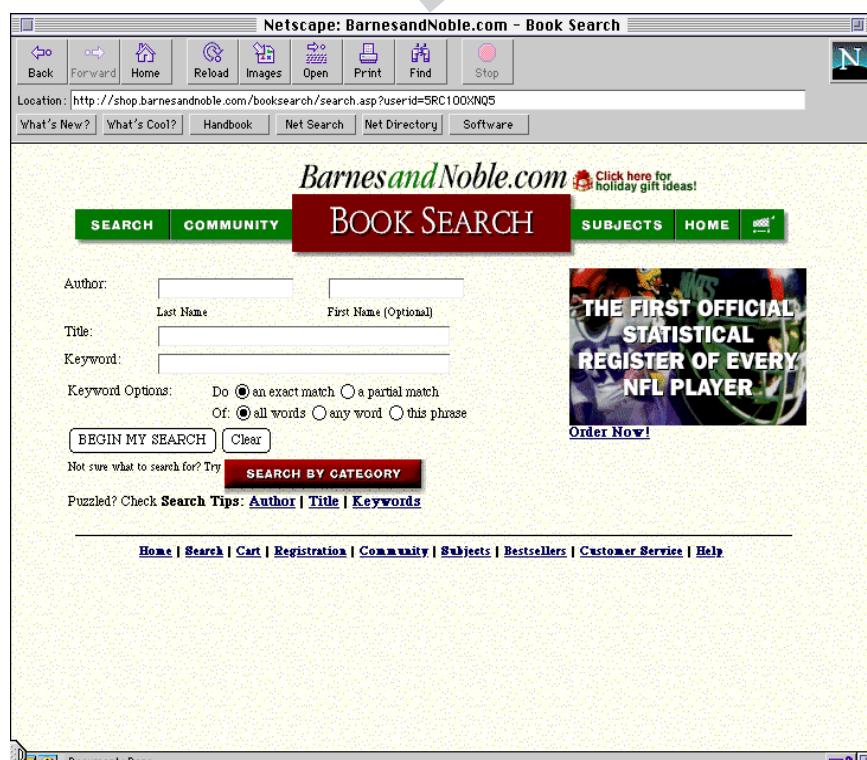
Source: America Online Annual Report, 1997, America Online Press Release.

Exhibit 9 barnesandnoble.com Home Page



Source: www.barnesandnoble.com.

Exhibit 10 barnesandnoble.com Search Page



Source: www.barnesandnoble.com.

Exhibit 11 1997 Electronic Bookselling War: barnesandnoble.com Versus Amazon.com

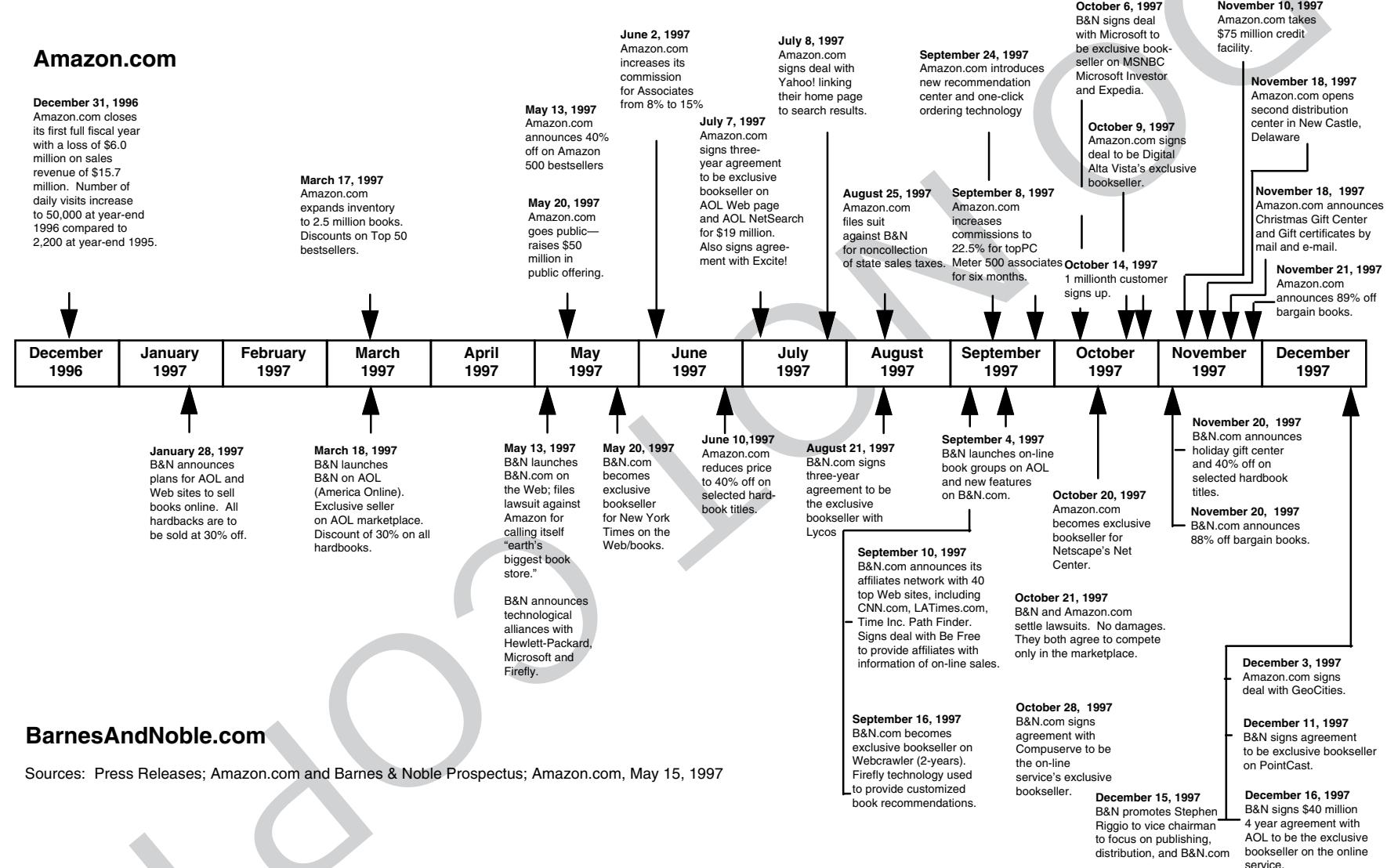


Exhibit 12 Photos of Barnes & Noble Distribution Center

Exhibit 13a barnesandnoble.com Confirmation E-Mail

From: service@barnesandnoble.com
To: dlouie@aol.com
Date: 97-10-16 11:43:07 EDT
Thank you for your order!
We received your order on Oct 16, 1997 11:05 EDT
You ordered:
QTY PRICE TITLE

1 \$ 13.96 Real Time: Preparing for The Age of The

\$ 13.96 Subtotal
\$ 0.00 Sales Tax
\$ 3.95 Shipping

\$ 17.91 Total
We will notify you by email as soon as your order ships. If you have any questions, please contact us via email at service@barnesandnoble.com.
Thank you for shopping with barnesandnoble.com.
barnesandnoble.com World's Largest Bookseller Online

Check out our Sweepstakes!
Here's a chance to win a trip to one of four literary destinations: the Himalayas, the Virgin Islands, Paris & London, or California!
Go to <http://www.barnesandnoble.com/destinations/> to enter!

Exhibit 13b barnesandnoble.com Shipping E-Mail

From: service@barnesandnoble.com
To: dlouie@aol.com
Date: 97-10-19 11:19:23 EDT
Thank you for your order!
We wanted you to know that your order has been shipped.
You ordered:
QTY PRICE TITLE

1 \$ 13.96 Real Time: Preparing for The Age of The

\$ 13.96 Subtotal
\$ 0.00 Sales Tax
\$ 3.95 Shipping

\$ 17.91 Total
Carrier: UPS 2-Day Air
Tracking Number: 1Zx863w70210338703
If you have any questions, please contact us via email at service@barnesandnoble.com.
You can track your package at <http://www.ups.com>.
Thank you for shopping with barnesandnoble.com.
barnesandnoble.com
World's Largest Bookseller Online

Check out our Sweepstakes!
Here's a chance to win a trip to one of four literary destinations: the Himalayas, the Virgin Islands, Paris & London, or California!
Go to <http://www.barnesandnoble.com/destinations/> to enter!

Exhibit 14 Prices on Various Hardcover Books and Products on January 20, 1998

Title	Amazon.com	barnesandnoble.com	Barnes & Noble Superstore	Borders Superstore
<u>Angela's Ashes</u> by Frank McCourt*	\$17.50	\$17.50	\$17.50	\$17.50
<u>A Certain Justice</u> by PD James*	17.47	17.50	17.50	17.50
<u>Cat and Mouse</u> by James Patterson*	17.47	17.46	17.46	17.47
The Chicago Manual of Style, 14th Edition	28.00	28.00	40.00	36.00
<u>The Christmas Box</u> by Richard Paul Evans*	10.46	9.06	10.46	10.47
<u>Cold Mountain</u> by Charles Frazier*	16.80	16.80	16.80	16.80
<u>Conversations With God, Book 1</u> by Neale Donald Walsch*	13.97	13.96	13.96	13.97
<u>Competitive Advantage</u> by Michael Porter	26.25	26.25	33.75	33.75
<u>D-Day</u> by Stephen Ambrose	21.00	21.00	27.00	not available
<u>It Takes a Village</u> by Hillary Clinton	14.00	14.00	20.00	not available
<u>The Letter</u> by Richard Paul Evans*	11.16	11.86	11.16	11.17
<u>The Man Who Listens to Horses</u> by Monty Roberts*	16.10	16.10	16.10	16.10
<u>Midnight in the Garden of Good and Evil</u> by John Berendt*	17.50	17.50	17.50	17.50
<u>The Millionaire Next Door</u> by Thomas Stanley*	15.40	15.40	15.40	19.80
<u>Paradise</u> by Toni Morrison	15.00	15.00	22.50	17.50
<u>The Perfect Storm</u> by Sebastian Junger*	16.77	16.76	16.76	16.77
<u>The Service Profit Chain</u> by James Heskett, Len Schlesinger, Earl Sasser	21.00	21.00	not available	27.00
<u>Snoopy: Not Your Average Dog</u> by Charles Schultz	19.95	not available	not available	19.95
<u>Taking Charge: The Johnson White House Tapes</u> by Michael Beschloss	21.00	21.00	27.00	27.00
<u>Truman</u> by David McCullough	22.40	21.00	27.00	16.00
<u>The Winner</u> by David Baldacci*	17.50	17.50	17.50	17.50
The Titanic Soundtrack-Compact Disc	11.89	not available	not available	13.99
<u>7 Habits of Highly Effective People</u> (Audio CD) by Stephen Covey	20.97	20.96	not available	29.95

* The New York Times Bestseller List, Week of January 20, 1998.

Sources: Amazon.com; barnesandnoble.com; Barnes & Noble Superstore Burlington, MA; and Borders Superstore Chestnut Hill, MA

Exhibit 15 New York Times Book Review Link

Netscape: The New York Times on the Web: Books

NetSite: <http://www.nytimes.com/books/>

What's New? What's Cool? Destinations Net Search People Software

Books
WHERE TO FIND WHAT TO READ

Search OVER 50,000 REVIEWS BACK TO 1980

Use double quotes: "Amy Tan" or "Cold Mountain"
More Search Options

Thursday, January 22, 1998

Today
REVIEW:

"Cuba Libre" by Elmore Leonard

IN THE NEWS:

Book Notes: Feeding Eggs, Not Sales (Jan. 22)

Book Award Nominees (Jan. 22)

Coaxed Out of Her Nest, a Diva Takes Wing Again (Jan. 22)

Culture Notes (Jan. 22)

Ted Hughes at Last Recounts Life With Sylvia Plath (Jan. 19)

FROM THE NEW YORK TIMES MAGAZINE:

An Indian Without Reservations (Jan. 18)

First Chapters

New Books: Start Here. We have hundreds of complete first chapters for you to read, including...

"Visions" by Anne Brookner

"Bad Chemistry" by Gary Krist

"Starting Out in the Evening" by Brian Morton

"Stealing Jesus: How Fundamentalism Betrays Christianity" by Bruce Bawer

... And Many More

The Round Table

NEW DISCUSSIONS

newEtymology: What's In a Word

NEWHowD

Directory
AN ADVERTISING MARKETPLACE

This Week

■ 43 NEW REVIEWS, INCLUDING:

ON THE COVER: Hero of an American Epic: Taylor Branch's "Pillar of Fire: America in the King Years," the second of three planned volumes on the life and times of Martin Luther King.

By giving King such epic treatment, Branch implies that he was an epic hero. Was he? The great merit of Branch's stunning accomplishment is to prove definitively that he was," writes Alan Wolf.

ONLY ON THE WEB More on Martin Luther King from The New York Times Archives: "Battle Against Tradition," a 1956 profile in the wake of Montgomery bus boycott, excerpts from King's "I Have a Dream" speech, King's reaction to winning the 1964 Nobel Peace Prize and his Nobel Prize acceptance speech, and an overview of his life and legacy following his 1968 assassination in Memphis. | AND: Reed Eleanor Holmes Norton's review of "Parade the Waters," the first volume of Taylor Branch's biography of Martin Luther King.

Calculated Seduction: "M. F. K. Fisher: A Life in Letters" shows that for the essayist and novelist, writing was a form of making love. | PLUS: Read the First Chapter of "A Life in Letters."

ONLY ON THE WEB More on M. F. K. Fisher from The New York Times Archives: reviews of her early classics, "Serve Itforth" (1937), "How to Cook a Wolf" (1942) and "Here Let Us Eat" (1947), plus reviews of more recent books, "Savoring Wine," a Fisher essay for The New York Times Magazine, a 1990 profile by Times food writer Molly O'Neill, and Fisher's 1992 obituary, written by Molly O'Neill.

Maureen Howard's "A Lover's Almanac." Modeled on the "OM Farmer's Almanac," the novel charts the fate of two lovers in the year 2000. The result is a college or commonplace book... Piecing together a world... Howard makes a modern version of the great panoramas of the past.

ONLY ON THE WEB More on Maureen Howard from The New York Times Archives, with reviews of earlier books, "Before I Go I Have Something to Say." Howard's essay on her life as a writer, her childhood influences and her understanding of language, and more.

Don't Know Much Biology. Steven Rose's "Lifelines: Biology Beyond Determinism" argues that neo-Darwinians fail to understand biochemical processes. | PLUS: Read the First Chapter of "Lifelines."

Book Review

Table of Contents

Extra

FACTS BECOME FANTASY

THE MAKING OF FRAGILE

"Regime: The Musical" just opened on Broadway. It is the latest (and splashiest) interpretation of E.L. Doctorow's novel "Regime" and the history and music of America at the beginning of this century. "Fact Become Fantasy" explores how "Regime: The Musical" came to be.

NEW BESTSELLER ONLY ON THE WEB

■ New bestseller lists compare how the top hardcover books rank very differently at independent and chain bookstores. The lists are available for fiction, nonfiction, and advice, how-to, and miscellaneous.

* Index of Audio Specials
* Index of Books Specials

FACTS BECOME FANTASY

HOW TO BUY A BOOK:

You may now order any book featured on our site -- or any book in print -- from BarnesandNoble.com.

To buy a book we feature, click on the purchasing buttons that appear near the bottom of reviews and other articles. This will take you to BarnesandNoble.com, where you will be able to complete the transaction.

More information on the purchasing service

ON PURCHASE ONLINE

Off the Shelf: A monthly column about business books, by Deborah Sted, including Tom Peters' "The Circle of Innovation," and web-only reviews of "It Was a Very Good Year: Extraordinary Moments in Stock Market History" by Martin S. Fridson and "Hamilton's Blessing: The Extraordinary Life and Times of Our National Debt" by John Steele Gordon.

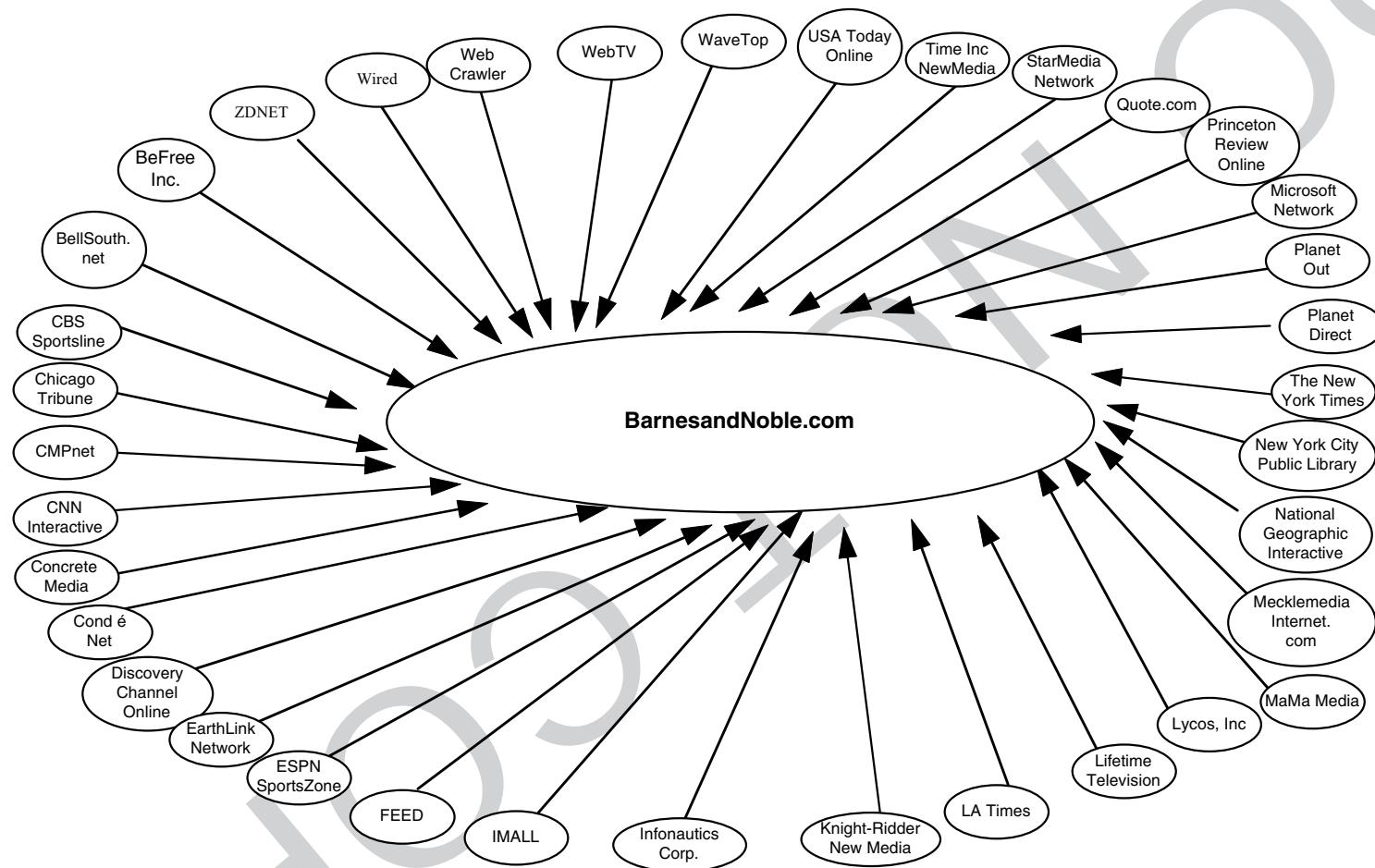
Source: www.nytimes.com

Exhibit 16 PC Meter Rankings

Top 25 Web Sites - At Home			Top 25 Web Sites - At Work		
Rank	Web Site	Reach	Rank	Web Site	Reach
1	aol.com	46.0	1	yahoo.com	48.3
2	yahoo.com	39.1	2	netscape.com	41.7
3	netscape.com	26.5	3	aol.com	40.9
4	microsoft.com	23.9	4	microsoft.com	31.1
5	geocities.com	22.2	5	excite.com	25.3
6	excite.com	18.8	6	infoseek.com	23.1
7	infoseek.com	16.6	7	geocities.com	21.9
8	lycos.com	14.5	8	lycos.com	18.9
9	msn.com	10.8	9	digital.com	15.2
10	tripod.com	10.1	10	zdnet.com	15.0
11	switchboard.com	9.7	11	msn.com	12.5
12	digital.com	9.6	12	four11.com	10.2
13	bluemountainarts.com	8.7	13	bluemountainarts.com	9.4
14	zdnet.com	7.9	14	real.com	9.2
15	real.com	7.8	15	switchboard.com	9.1
16	webcrawler.com	7.5	16	amazon.com	8.8
17	four11.com	7.3	17	compuserve.com	8.8
18	disney online	7.0	18	tripod.com	8.0
19	angelfire.com	6.5	19	weather.com	8.0
20	simplenet.com	6.5	20	webcrawler.com	7.8
21	earthlink.com	6.3	21	usatoday.com	7.7
22	amazon.com	6.3	22	cnn.com	7.2
23	pathfinder.com	6.2	23	whowhere.com	6.9
24	att.net	6.1	24	gte.net	6.7
25	hotmail.com	6.1	25	hp.com	6.6
—	barnesandnoble.com	2.6	—	barnesandnoble.com	3.1

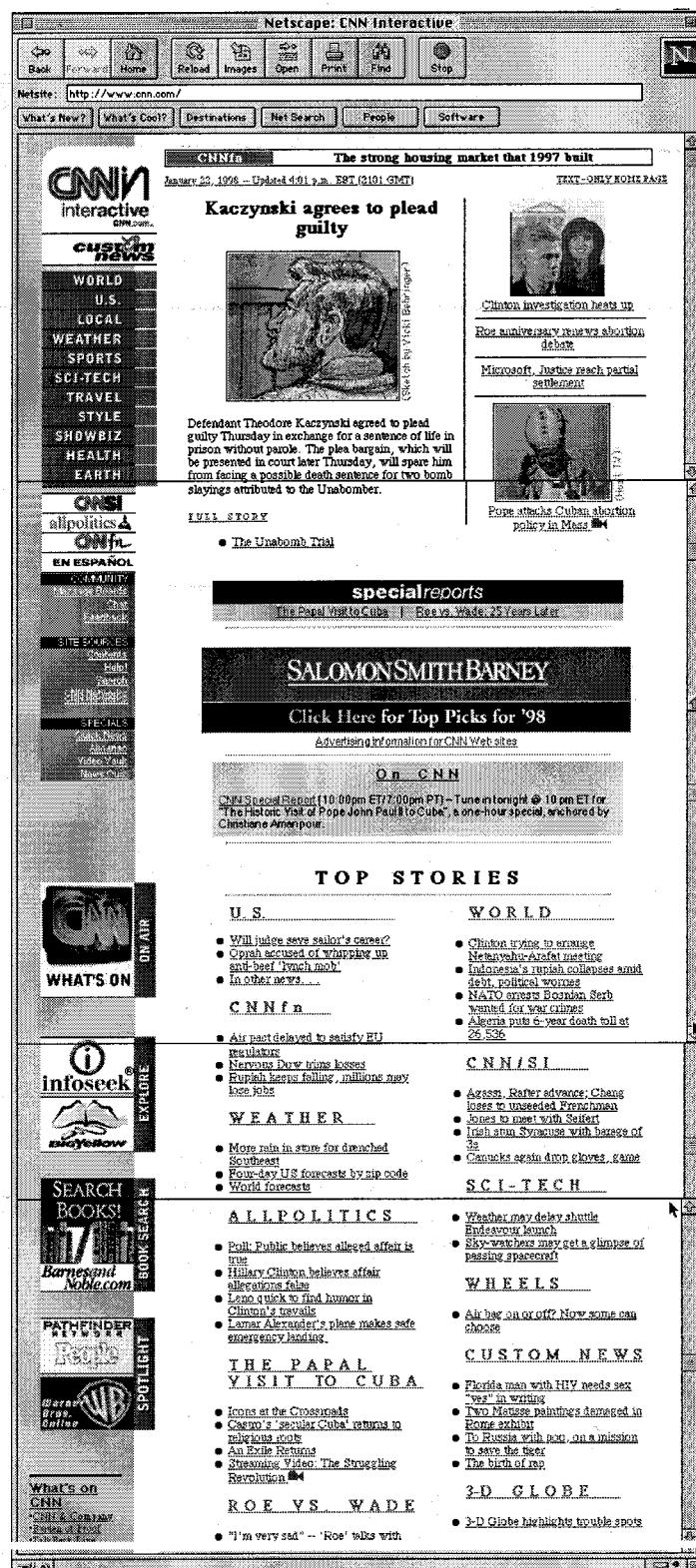
Source: PC Meter, December, 1997

Exhibit 17 barnesandnoble.com Major Affiliates



Source: barnesandnoble.com Company Documents

Exhibit 18 barnesandnoble.com CNN Interactive Link



Source: www.cnn.com.

Exhibit 19 December 1997 barnesandnoble.com/AOL Agreement**barnesandnoble.com, America Online Expand Partnership and Enter into 4-Year, \$40 Million Commerce Agreement; Far-Reaching, Exclusive Agreement Includes Unique barnesandnoble.com Links Throughout Service, Enabling AOL Members to Easily Find Titles Related to Online Content; Integration Advances Proven Partnership of Two Leading E-Commerce Brands and Includes Placement Within AOL Studios Properties**

NEW YORK and DULLES, Va.--(BUSINESS WIRE)--Dec. 17, 1997- barnesandnoble.com, the on-line subsidiary of the world's largest bookseller, and AOL Networks, the Internet on-line services division of America Online Inc. (NYSE: AOL), the world's leading on-line service, Wednesday announced an agreement to renew and significantly expand their existing on-line relationship.

AOL will receive payments totaling \$40 million over the four-year term of the agreement. barnesandnoble.com has been the exclusive bookseller in AOL's Marketplace since March 1997; this agreement will leverage the brand recognition and extensive product offerings of barnesandnoble.com across the AOL service to AOL's more than 10 million members with one of the broadest and most comprehensive integrations by an AOL partner.

This expanded relationship gives barnesandnoble.com extensive placement and visibility throughout the AOL service, including the AOL "Find Central" area and AOL Studios properties like Entertainment Asylum, Electra, Real Fans, Love@aol and Digital City.

barnesandnoble.com will also leverage a host of promotional and marketing opportunities throughout the AOL service in such high-traffic areas as Personal Finance, Lifestyles and Entertainment; in more targeted areas like Health, Travel, WorkPlace and Influence; and virtually all of the current international services. barnesandnoble.com will also be directly accessible from on-line auditoriums during select live events with authors and personalities.

Contextual integration will enable AOL members to locate barnesandnoble.com titles related to the content of the channel they're reviewing, and will make it easier than ever for members to explore and buy books on-line from barnesandnoble.com.

For example, AOL members in the Personal Finance Area will be able to link instantly to the barnesandnoble.com Investing Basics Bookstore; contextual links in the AOL Travel section can point members directly to titles relating to geographic locations, travel guides and other travel topics.

"The expansion of our agreement with barnesandnoble.com is testimony to the success of our existing relationship," said Bob Pittman, president and chief executive officer of AOL Networks. "Barnes & Noble is a brand that consumers know and trust, and has the unique power to draw consumers on-line. barnesandnoble.com is providing the best possible on-line experience for book buyers.

"So this is the makings of a super partnership: barnesandnoble.com's proven track record on-line combined with AOL's emergence as the largest and most commerce-friendly cyberspace community with demographics that are attractive to America's leading retailers."

Steve Riggio, vice chairman of Barnes & Noble Inc., added, "We are committed to innovation and leadership in the explosively growing on-line book market, and we have the best and most strategic partner possible in America Online.

"AOL's established base of more than 10 million members collectively represents the most sophisticated consumers buying on-line, and is the single most important audience successful retailers must reach in order to grow on-line business.

"AOL has worked with us to develop one of its most far-reaching and creative marketing programs to date, one that we believe will set a new standard for electronic commerce. Based on the scale of our current business on AOL, we expect this expanded relationship will grow our sales exponentially into the next millennium." About AOL Networks

AOL Networks is the Internet on-line services division of America Online Inc. Based in Dulles, Va., AOL is the world's leading Internet on-line service, with over ten million members worldwide.

Founded in 1985, AOL offers its subscribers a wide variety of interactive services including electronic mail, Instant Message features, entertainment, reference, financial information computing support, interactive magazines and newspapers, as well as easy access to all the services of the Internet. About barnesandnoble.com

Since its inception in early 1997 as an on-line subsidiary of Barnes & Noble Inc., barnesandnoble.com has continually introduced innovations to the on-line bookselling marketplace. The company was the first to offer deep discounts on-line, create compelling community environments, provide substantial inventory on its shelves and deliver personalized e-commerce.

In addition to its presence on AOL, barnesandnoble.com offers books to customers worldwide through its own Web site (<http://www.barnesandnoble.com>).

Barnes & Noble Inc. (NYSE: BKS) is the world's largest bookseller. It is the leading operator of book superstores in America, with 484 stores nationwide, in 48 states. It also operates 555 bookstores in shopping malls, in 46 states.

Source: *Business Wire*, December 17, 1997.

Exhibit 20 December 1997: Amazon.com Press Release

Search **Browse Subjects** **Bestsellers** **Recommendation Center** **Gift Center** **Award Winners** **Reviewed in the Media** **Shopping Cart**

amazon.com  **About Amazon.com**

Text-Only

[About Our Store](#)
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Amazon.com Issues Statement Regarding Barnes & Noble AOL Commerce Agreement

SEATTLE, WA -- (December 18, 1997) -- Amazon.com (Nasdaq: AMZN) said today that the Barnes & Noble/America Online commerce agreement has no effect on Amazon.com's existing position as an exclusive bookseller on America Online.

Amazon.com announced a three-year exclusive bookseller agreement with AOL in July of this year. Under the terms of the agreement, Amazon.com is the exclusive bookseller on AOL.com and AOL's NetFind search engine. In addition, Amazon.com has multi-year exclusive and premier bookseller relationships with 5 of the top 6 sites on the World Wide Web: AOL.com, Yahoo!, Netscape, GeoCities, and Excite.

"Amazon.com is and continues to be one of AOL's strongest partners," said Bob Pittman, president and chief executive officer of AOL Networks. "With the impressive results Amazon.com continues to garner, we feel very strongly about this partnership and are looking forward to working together with Amazon.com in the future and to build on this relationship," continued Pittman.

"Of all the online bookstores, Amazon.com has the biggest selection, is the easiest to use, and offers the lowest prices," said Jeff Bezos, founder and CEO of Amazon.com. "Amazon.com is providing the best possible online experience for book buyers and is the clear leader in online bookselling with a PC Meter (Media Metrix) reach of 5.9% compared to its nearest competitor's 1.5%."

Amazon.com Inc., Earth's Biggest Bookstore, is the leading online retailer of books and is the premier bookseller on AOL.com, Yahoo!, Netscape, Excite, the AltaVista Search Service, @Home Network, and the Prodigy Shopping Network.

Amazon.com offers a catalog of 2.5 million titles, easy-to-use search and browse features, e-mail services, personalized shopping services, secure Web-based credit card payment, and direct shipping to customers. Amazon.com has virtually unlimited online shelf space and offers customers a vast selection through an efficient search-and-retrieval interface, as well as streamlined ordering through 1-Click(SM) technology.

Amazon.com is headquartered at 1516 Second Avenue, Seattle, WA 98101. Internet address: <http://www.amazon.com>. Telephone: 206-622-2335.

This announcement contains forward-looking statements that involve risks and uncertainties, and actual results may differ materially from predicted results. Potential risks and uncertainties include, among others, Amazon.com's limited operating history, the unpredictability of its future revenues, and risks associated with capacity constraints and management of growth. More information about factors that potentially could affect Amazon.com's financial results is included in the company's final prospectus, dated May 15, 1997, as well as the company's Form 10Q for the third quarter ended September 30, 1997, both filed with the Securities and Exchange Commission.

Amazon.com, Earth's Biggest Bookstore, and 1-Click are service marks of Amazon.com Inc. All other names are trademarks and/or registered trademarks of their respective owners.

CONTACT:
*Kay Dangaard
206-694-2078 or dangaard@amazon.com*

or

*Beth Garson
206-694-2105 or bgarson@amazon.com*

Search Our 2.5-Million-Title Catalog
Enter Keywords:
[Other ways to search our catalog](#)

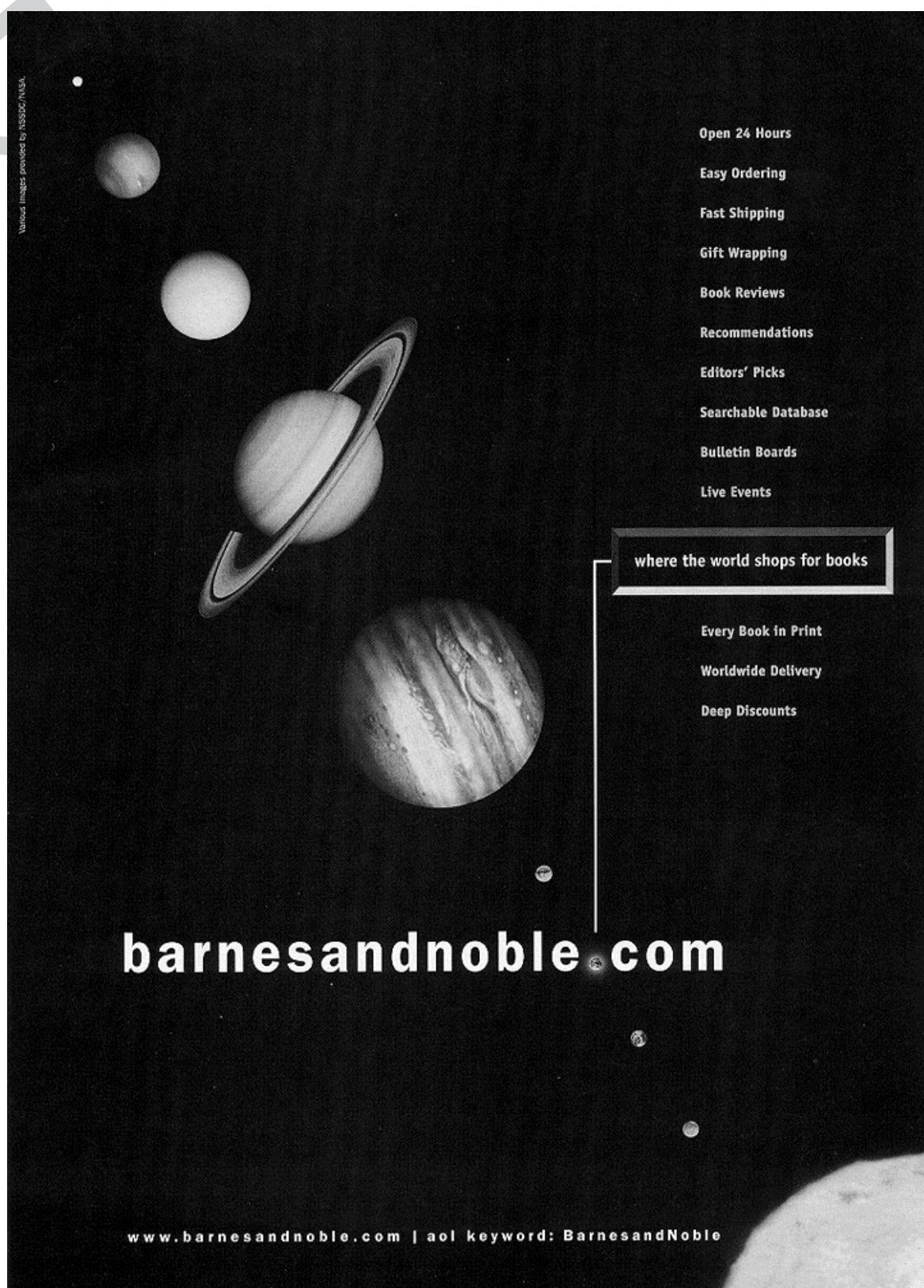
or [Browse by Subject](#)

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Source: www.amazon.com.

Exhibit 21 barnesandnoble.com Print Advertisement



Source: *The New Yorker*, December 15, 1997.

Exhibit 22 BarnesandNoble.com Subject Page

Source: www.barnesandnoble.com.

Exhibit 23 barnesandnoble.com Schedule of Events

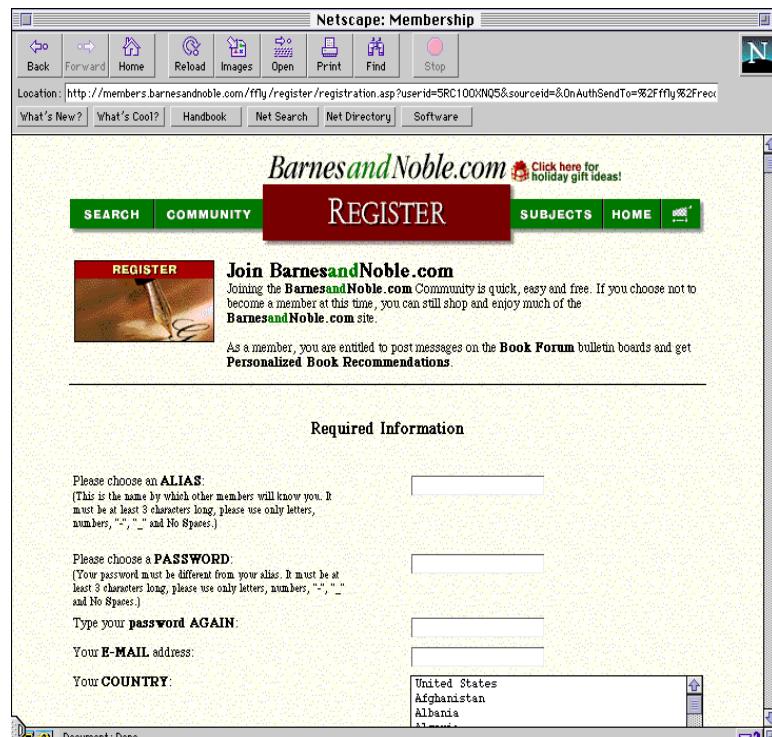
Source: www.barnesandnoble.com.

Exhibit 24 barnesandnoble.com On-line Community Page



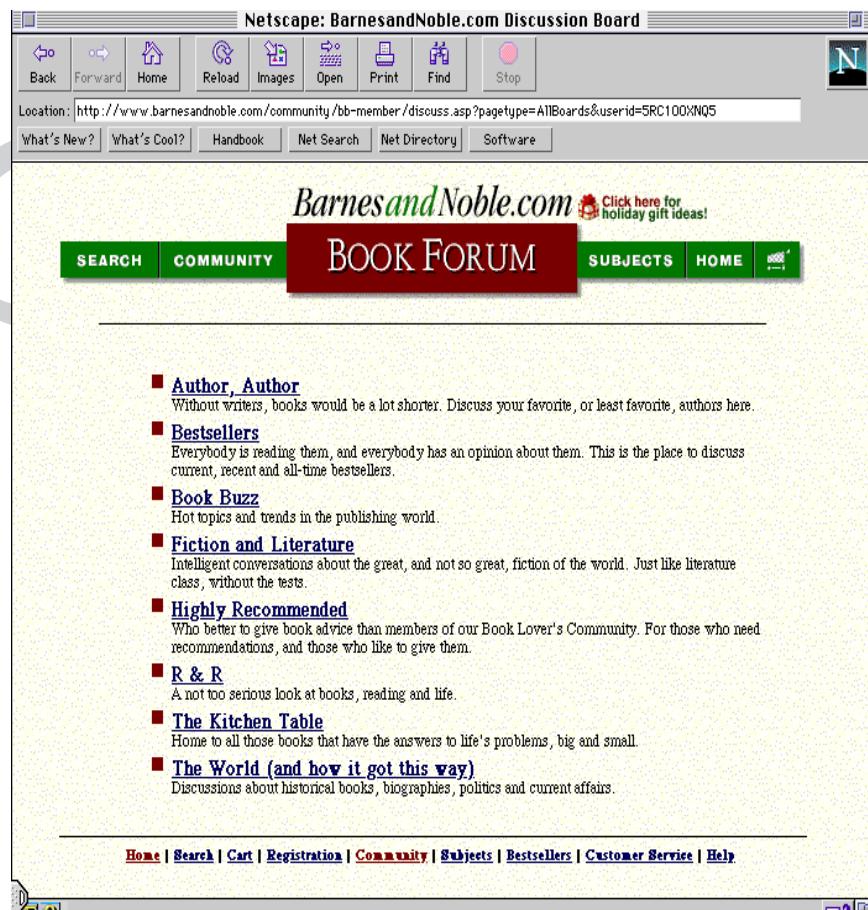
Source: www.barnesandnoble.com.

Exhibit 25 barnesandnoble.com Registration Page



Source: www.barnesandnoble.com.

Exhibit 26 barnesandnoble.com Book Forum Page



Source: www.barnesandnoble.com.

Exhibit 27 Firefly Technology

How an Agent Works for You

Software agents are often likened to personal assistants, but like any other helper, they need to be trained. Here's how Firefly works:

You log on to the Firefly Web site (www.firefly.com) and register for a Firefly "Passport." With your screen name (let's say MerryOne) and a password, Firefly will recognize you on future visits.

Start with music. Firefly's music feature, Bignote, asks you to rate a list of musicians (7 the highest score, 1 the lowest), so you rate Tracy Chapman (5); Blues Traveler (2); the Cure (4); Pete Townshend (4); the Stray

Cats (3); Blondie (5); Madonna (4); Jimmy Page (don't know); Robert Plant (don't know); Pat Metheny (1).

In less than a second, using a technique called "collaborative filtering," Firefly receives your responses in one of its six Web servers, compares them against its three-million-member database and looks for responses similar to yours. Firefly fetches its recommendations out of two Silicon Graphics Challenge servers, a process that takes roughly 200 milliseconds. It then identifies 200 members whose ratings are similar to yours, and searches the profiles of those members — your "trusted neighbors" — to see what other artists they rate highly. Firefly then replies with at least five recommendations.

Second iteration: Once again, you rate five offerings. Uncle Tupelo (don't know); Louis Armstrong (7); the Stooges (don't know); Guided by Voices (don't know); Bach (5).

Third iteration: Firefly offers John Coltrane (6); Howlin' Wolf (don't know); Nick Cave and the Bad Seeds (3); the Feelies (don't know), and Dizzy Gillespie (6). (Firefly's current membership is skewed toward young people, so you'll do fine if you like rock music, but less so if you like classical.)

Fourth iteration: Firefly begins to zero in on your tastes, with Charles Mingus (5); Thelonious Monk (5); Bob Marley (5), and artists you don't know — the Wedding Present and Carl Stalling.

Fifth iteration: Firefly produces Wire (don't know), Beethoven (5), Golden Palominos (don't know), Shostakovich (6) and Clifford Brown (don't know). Next round, Firefly hits pay dirt, recommending two of your favorites — Billie Holiday (6) and Ella Fitzgerald (7) — along with Funkadelic (5), Firehouse (2) and Prokofiev (5). In less than 10 minutes, Firefly has begun to understand your tastes. You begin to trust the process and go out and buy a Clifford Brown CD. (You can go on and on, filling out

hundreds of electronic questionnaires; the more information you provide, the more accurate Firefly becomes.)

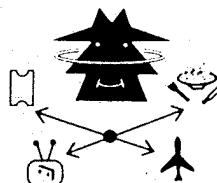
Firefly provides a list of people who like the same music you do. Your "trusted neighbors" include Pensando, HitsMan, and Twinkle Wonder Kid. You visit their home pages on the Firefly site, see their pictures, read their poetry and start up a correspondence with Pensando.

Fast-forward two or three years into the future. Firefly (the company) may not have survived its battles with competitors, but software agents will not only have survived, but also be more powerful. As soon as you give your agent your personal tastes about restaurants, plays or clothing, it begins fetching things for you — even things you didn't know you wanted.

Your agent knows that you like Latin jazz, for example. A record company with access to the data sends you an ad: a Tito Puente CD is about to come out. Knowing that music and food tastes sometime overlap, your software agent even recommends that you try a

reserved your aisle seat and ordered a vegetarian meal). Knowing you like small, intimate Italian places, your agent searches a pool of people whose taste is similar to yours, and then recommends three places in the North End: Massimino's, D'Parma and Terramia.

But your software agent has another idea. By cross-checking your travel schedule



against entertainment listings, your agent learns that Tito Puente will be performing in Boston when you're there. Want to order a ticket? Your agent produces a screen where you can make a dinner reservation at the nightclub where he's playing.

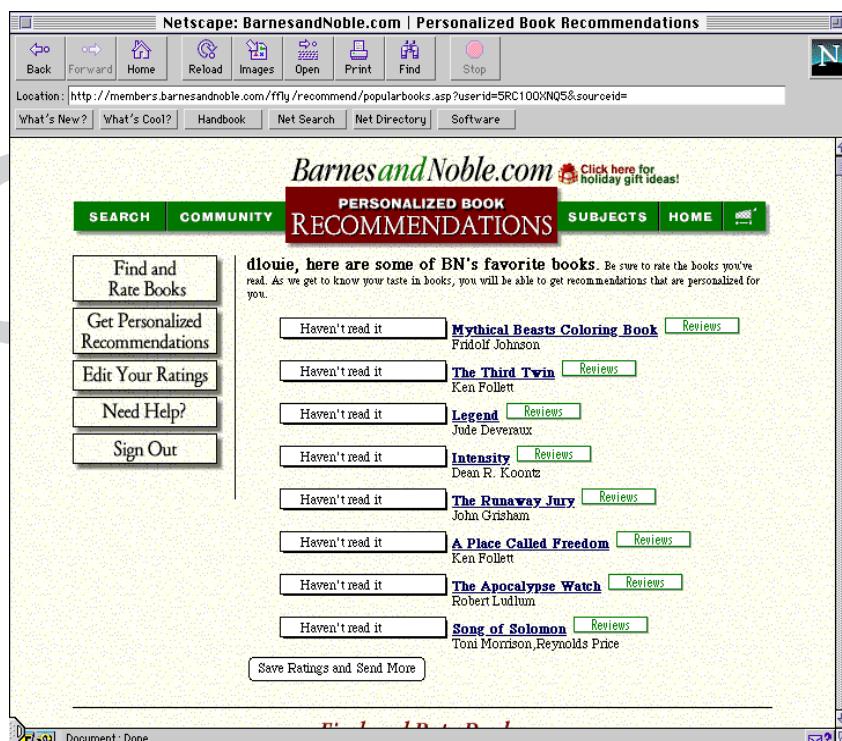
Just back from Boston, you and five friends want to watch a movie. An agent in a video store can choose a movie that none of you have seen and that all of you will like. If you decide to stay home, an agent on a cable system points out that a documentary about Cuba will be shown at 10 that evening.

As more and more people supply more and more data about their personal preferences, agent software will be able to provide the ultimate data slicing. If Tito Puente fans also like Pepsi and Levi 505's and Subaru, that will explain all the advertisements on your screen. — D.L.

ILLUSTRATIONS BY JOHN HERSEY. PHOTOGRAPH BY KATRIN THOMAS FOR THE NEW YORK TIMES

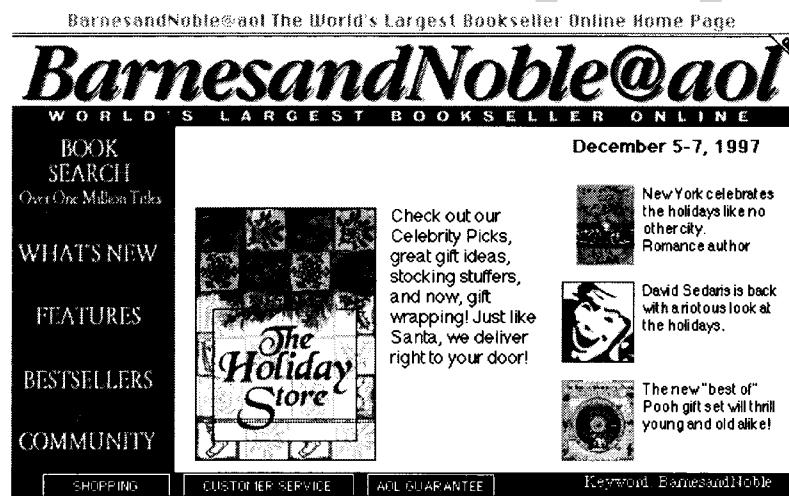
Source: *The New York Times Sunday Magazine*, June 29, 1997.

Exhibit 28 barnesandnoble.com Book Rating Page



Source: www.barnesandnoble.com.

Exhibit 29 barnesandnoble.com America Online Link



Source: America Online.