

# Barnes & Noble falls on guidance cut, Nook review

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FILE - In this Nov. 7, 2011 file photo provided by Barnes & Noble a demonstrator holds the new Barnes & Noble Nook Tablet following a news conference in New York. Barnes & Noble said Thursday, Jan. 5, 2011, it is reviewing its options for its growing Nook e-book reader business and might spin it off from its core bookstore business. (AP Photo/Barnes & Noble, Jim Sulley, File)

(AP) -- Barnes & Noble is considering options for its quickly growing but expensive Nook e-book reading business, its latest attempt to regain profitability as the publishing industry adapts to the rising popularity of digital books and magazines.

Investors fled as the company also forecast a much bigger loss for the year than originally expected. The stock lost almost a quarter of its value.

Barnes & Noble has been investing heavily in electronic books and its Nook e-book readers as it faces face tough competition from online retailers and discount stores. That business is growing as consumers increasingly shift to reading e-books. But it has led to losses for the New York-based bookseller.

Barnes & Noble is facing tough competition from Amazon.com, which offered its Kindle Fire for \$199 and its Kindle e-reader for \$79 over the holidays. Barnes & Noble sold its Nook Tablet for \$249 and its black-and-white Simple Touch e-reader for \$99. Demand for the Simple Touch reader lagged expectations during the holidays, Barnes & Noble said.

Still, combined sales of Nook products were brisk, up 70 percent compared with a year ago during the nine-week period ended Dec. 31. Digital content sales more than doubled. The company expects those sales to total \$450 million in fiscal 2012.

In an interview with the Associated Press, CEO William Lynch said the Nook review is an attempt to provide more visibility into Nook operations, which Barnes & Noble doesn't believe are valued as highly as they should be by investors and analysts.

"We want to unlock value and shine a bright light on that business," he said.

He said the company is looking at a "range of options" for the Nook business, which the company expects to generate \$1.5 billion in revenue in fiscal 2012. He declined to comment on whether the company was considering selling the business outright. The review is expected to be

complete by the end of the year.

Lynch added that the company could expand the Nook business overseas and should make an announcement related to that within the next two months.

Analysts expressed skepticism.

"Separating Nook from the Barnes & Noble brand would be a huge mistake," said Simba Information senior trade analyst Michael Norris. "A lot of people who buy e-books buy physical books as well. Do they really want to tamper with that kind of marriage?"

The shift is the latest move by Barnes & Noble to contend with the sea change occurring in the book business as more consumers shift to e-books and e-book readers. Its chief rival Borders was driven into bankruptcy last year due to the changing landscape. Barnes & Noble put itself up for sale for a period last year but called that off after receiving a \$204 million investment from former suitor Liberty Media in August.

Overall during the nine-week holiday period Barnes & Noble's sales in stores open at least a year rose 3.4 percent. Total sales rose 2.5 percent to \$1.2 billion.

Barnes & Noble cut its yearly guidance for earnings before interest, taxes, depreciation and amortization, a financial measure known as Ebitda, to between \$150 million to \$180 million. In December it said that figure would be at the low end of the range of \$210 million to \$250 million.

The bookseller expects a yearly loss of \$1.40 to \$1.10 per share on total sales between \$7 billion and \$7.2 billion. The loss is far greater than the loss of 10 cents to 50 cents Barnes & Noble forecast in August. And it's

bigger than the 63 cents per share expected by analysts, according to Fact Set. Analysts expect revenue of \$7.34 billion.

Shares fell \$3.23, or 23.8 percent, to \$10.32 in midday trading. The stock was down about 4 percent since the beginning of 2011 prior to the Nook news.

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