Barnes & Noble posts 3Q loss as Nook costs mount

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The digital business is weighing on Barnes & Noble Inc., the largest traditional U.S. bookseller. The company posted on Thursday a loss in the fiscal third quarter, hurt by weak sales during the all-important holiday quarter for its Nook e-book readers as well as at its bookstores. Nook revenue fell 26 percent, and the company has begun cutting costs at the unit due to the sharp decline.

Barnes & Noble, based in New York, has been struggling to find its place as more readers have shifted to electronic books and competition has grown from discount stores and online rivals. The company, which has 689 bookstores in 50 states as well as 674 college bookstores, has invested heavily in its Nook e-book readers and a digital library to try to carve out a niche in the current retail landscape.

The company's founder, chairman and largest shareholder, Leonard Riggio, plans to offer to buy the physical bookstores and website of Barnes & Noble, but not the Nook unit. No terms or other details have been announced. On Thursday, the company said it has appointed board members to evaluate a proposal when it's made and the potential value of the retail business.

In the fiscal third quarter through Jan. 26, the New York company posted a loss of $6.1 million, or 18 cents per share. The company blamed the loss in part on charges stemming from weaker-than-expected sales of Nook e-readers during the holiday shopping season. Analysts had expected a profit of 53 cents per share.

In the same period the year before, the New York company posted a profit of $52 million, or 71 cents per share.

Revenue fell 9 percent to $2.22 billion—analysts polled by FactSet predicted a more modest decline, to $2.4 billion.

Revenue from its retail unit—which includes its bookstores and website—fell 10 percent to $1.51 billion. Revenue in stores open in at least one year fell 7.3 percent. Store closings and lower online sales also hurt results. Excluding Nook sales, revenue in stores open at least one year fell 2.2 percent.

Revenue from the chain's college bookstore unit fell nearly 2 percent to $517 million.

Nook revenue fell 26 percent to $316 million as the company sold fewer e-readers. Barnes & Noble company recorded $21 million in returns due to weak demand during the holiday season, and $15 million in allowances for promotions. Digital content sales rose almost 7 percent during the quarter.

The Nook unit has attracted investors—Microsoft owns 16.8 percent, while U.K. publisher and education company Pearson has a 5 percent stake. But aside from investor funding, the unit has been losing money. CEO William Lynch addressed the problems with the unit in a statement.

"Coming off the holiday shortfall, we're in the process of making some adjustments to our strategy as we continue to pursue the exciting growth opportunities ahead for us in the consumer and digital education content markets," he said.

But he added that the chain remains committed to its tablet and e-reader business.

For fiscal 2013, the company expects revenue in stores open at least one year to fall in the low- to mid-single digit range. Revenue in stores open at least one year in its college bookstores are expected to fall by a low single digit percentage.