

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN RE BARNES & NOBLE
STOCKHOLDER DERIVATIVE LITIGATION

REDACTED

C.A. No. 4813-VCS

March 25, 2010

**AMENDED VERIFIED CONSOLIDATED
SHAREHOLDER DERIVATIVE COMPLAINT**

Michael J. Barry (#4368)
GRANT & EISENHOFER, P.A.
1201 N. Market Street
Wilmington, DE 19801-2599
(302) 622-7000

Pamela S. Tikellis (#2172)
CHIMICLES & TIKELLIS LLP
222 Delaware Avenue, Suite 1100
Wilmington, DE 19801
(302) 656-2500

Dated: March 16, 2010

Plaintiffs City of Ann Arbor Employees' Retirement System ("Ann Arbor"), Louisiana Municipal Police Employees Retirement System ("MPERS"), Southeastern Pennsylvania Transportation Authority ("SEPTA"), and the Virgin Islands Government Employees' Retirement System ("VIGERS") (collectively, "Plaintiffs") by and through their undersigned counsel, assert this action on behalf of Barnes & Noble, Inc. ("B&N" or the "Company") against defendants Leonard Riggio, Stephen Riggio, George Campbell, Jr., Michael J. Del Giudice, Lawrence S. Zilavy, Irene R. Miller, William T. Dillard, II, Patricia L. Higgins, and Margaret T. Monaco (the "Individual Defendants" or the "Board"). Plaintiffs make the following allegations upon knowledge as to themselves and upon information and belief (including the investigation of counsel and review of publicly available information) as to all other matters, and allege as follows.

SUMMARY OF THE ACTION

1. This is a shareholder derivative action arising out of an unlawful scheme in which B&N's Board of Directors (the "Board"), in breach of its fiduciary duties to the Company and its shareholders, agreed to purchase Barnes & Noble College Booksellers, Inc. ("B&N College") – a company then owned by B&N's founder, Chairman, and controlling shareholder, Leonard Riggio – for the benefit of Leonard Riggio and to the detriment of the Company (the "Transaction"). Leonard Riggio, who owns approximately 31% of B&N, benefitted substantially from the Transaction and received more than half a billion dollars in the deal. By contrast, B&N used much needed cash to pay an exorbitant sum for a company that conducts business in a sinking market environment: college textbook sales. As a Credit Suisse analyst report from August 14,

2009 noted, “the deal strategically makes little sense over time as [B&N] essentially doubles its exposure to one of the segments that we believe are most at risk to technology change over the next several years, as well as reduces the cash element of the Barnes & Noble story that has supported it for so long.”

2. Although the Transaction made no business sense for B&N, and was far above a price any independent, disinterested third-party would pay for B&N College, it is unsurprising that the Transaction was approved by the Board. Leonard Riggio exercises and continues to exercise significant control and influence over the Company. Known as a persistent micromanager, Leonard Riggio has continually asserted himself in an abrupt, demanding manner into every aspect of B&N’s business and laid out a business model for B&N that was designed to grow not only B&N’s business but also a series of complementary businesses owned, controlled or affiliated with Riggio or his family and friends. Throughout his tenure, Leonard Riggio has used his control over B&N and its Board to further his personal business interests in a number of related businesses.

3. Leonard Riggio’s younger brother, Stephen Riggio, currently serves as the Company’s Chief Executive Officer (“CEO”) and Vice Chairman. In addition, the special committee of the Board charged with independently evaluating the Transaction (the “Committee”) consisted of four individuals who lacked the requisite independence to fairly consider the Transaction. Among other things, the Committee was headed by a former long-term executive of B&N and associate of Leonard Riggio, while other members of the Committee have shown themselves unwilling to challenge Leonard Riggio or have ties to banks that provided financing for the Transaction. Similarly, the

remaining members of the Board who participated in the Board vote concerning the Transaction had divided loyalties and conflicting financial and professional interests that precluded them from fairly and independently evaluating the Transaction.

REDACTED

5. In agreeing to the Transaction, which unjustly enriched B&N's controlling shareholder at the expense of B&N, the Individual Defendants breached their fiduciary duties to the Company and committed corporate waste. Additionally, the entire fairness standard applies to the Transaction, as Leonard Riggio, B&N's Chairman and controlling shareholder, stood on both sides of the deal.

JURISDICTION

6. This Court has jurisdiction over this action pursuant to 10 Del. C. § 341.

7. As directors of a Delaware corporations, the Individual Defendants have consented to the jurisdiction of this Court pursuant to 10 Del. C. § 3114.

8. This Court has jurisdiction over B&N pursuant to 10 Del. C. § 3111.

THE PARTIES

9. Plaintiff Ann Arbor is a retirement system for employees of the City of Ann Arbor, Michigan, administered by a Board of Trustees established pursuant to the Ann Arbor City Code. Ann Arbor is presently a shareholder of B&N and has been a shareholder at all times relevant to the claims asserted herein.

10. Plaintiff MPERS is an instrumentality of the State of Louisiana that provides retirement and other benefits to municipal police personnel throughout that state. MPERS is a current shareholder of B&N and has been a shareholder at all times relevant to the claims asserted herein.

11. Plaintiff SEPTA is presently a shareholder of B&N and has been a shareholder at all times relevant to the claims asserted herein.

12. Plaintiff VIGERS, the retirement system for employees of the United States Virgin Islands, is presently a shareholder of B&N and has been a shareholder at all times relevant to the claims asserted herein.

13. Nominal Defendant B&N is a Delaware corporation with its principal executive offices located at 122 Fifth Avenue, New York, New York. B&N operates bookstores throughout the United States. The Company runs book superstores under the names Barnes & Noble Booksellers, Bookstop, and Bookstar, and also operates bookstores in shopping centers under the names B. Dalton Bookseller, Doubleday Book Shops, and Scribner's Bookstore.

14. Defendant Leonard Riggio ("Leonard Riggio") is the founder of B&N, and has been Chairman of the Board since 1986. He also served as the CEO of B&N

from 1986 through February 2002, at which time he turned the reins over to his younger brother, Stephen Riggio. Leonard Riggio is by far the largest individual shareholder of B&N. Since 1965, Leonard Riggio was the Chairman, CEO and principal stockholder of B&N College. Leonard Riggio is the principal beneficial owner and the Chairman of the Board of MBS Textbook Exchange Inc ("MBS"). Leonard Riggio has owned MBS since 1985 and has developed this business into one of the nation's largest wholesalers of college textbooks. He also owns Textbooks.com, Inc. ("Textbooks"), an online retailer of new and used textbooks. Leonard Riggio also serves as a director of the board of GameStop Corporation ("GameStop").

15. Defendant Stephen Riggio ("Stephen Riggio") has been the Vice-Chairman of B&N since 1997, and became its CEO in 2002. Stephen Riggio joined the Company in 1975. From 1981 to 1987, he served as Vice-President and General Manager of the Company's direct mail division, and in 1987 he was appointed Executive Vice-President of Merchandising. From 1995 to 1997, Stephen Riggio was the Company's Chief Operating Officer. Since 1993, Stephen Riggio has served on the Board. Stephen Riggio, along with Leonard Riggio, is a majority owner of MBS.

16. Defendant George Campbell, Jr. ("Campbell") has been a board member since 2008, and serves on the Compensation Committee. Since 2000, Campbell has been the President of The Cooper Union for the Advancement of Science and Art. Campbell is a board member of Consolidated Edison, Inc. ("Con Edison, Inc.") and a Trustee of the Consolidated Edison Company of New York.

17. Defendant Michael J. Del Giudice ("Del Giudice") has served as a board member since 1999, and is the Chair of the Compensation Committee and a member of the Corporate Governance and Nominating Committee ("Nominating Committee") and the Audit Committee. Del Giudice is the Founder, Chairman and Senior Managing Director of Rockland Capital Energy Invest, the co-founder and Senior Managing Director of Millennium Credit Markets LLC, and the co-founder and Senior Managing Director of Mcm Securities LLC. Along with Campbell, Del Giudice is also a Trustee of the Consolidated Edison Company of New York and the Lead Director of Con Edison, Inc. Del Giudice is a board member of Fusion Telecommunications Intl., Reis Inc. and Corinthian Capital Group Inc.

18. Defendant Lawrence S. Zilavy ("Zilavy") has been a Board member since June 2006, and has been the Senior Vice-President of B&N College since 2005. Previously, Zilavy was the Executive Vice-President of B&N from 2003 to 2004, and the Chief Financial Officer of B&N from 2002 to 2003. Zilavy also serves on the Board of Hain Celestial Group Inc., and he is on the board of GameStop with Leonard Riggio.

19. Defendant Irene R. Miller ("Miller") has been a member of the Board since May 1995. Miller was employed at the Company starting in 1991 and served as the Chief Financial Officer from September 1993 to June 1997. From September 1995 to June 1997, Miller was Vice-Chairman of the Company. Miller also served as the Chair of the Committee. Since July 1997, Miller has been the CEO of Akim, Inc., a management consulting company. Miller is also Lead Director of Coach, Inc., a manufacturer of luxury goods.

20. Defendant William T. Dillard, II ("Dillard") has been a member of the Board since November 1993. Dillard is the Chairman of the Nominating Committee, and is a member of the Compensation Committee. Dillard also served on the Committee. Dillard has been the CEO of Dillard's, a nationwide retail department store, since May 1998, and its Chairman since May 2002. Dillard serves on the JPMorgan Chase & Co. National Advisory Board and the Dallas Region Advisory Board.

21. Defendant Patricia L. Higgins ("Higgins") has served on the Board since June 2006. Higgins was previously a Board member from 1999 to 2004. Higgins served on the Committee, and is also a member of the Audit Committee and the Nominating Committee. From 2000 to 2004, Higgins was the President and CEO of Switch and Data Facilities. Higgins currently serves on the boards of Dycom Industries Inc., Travelers, Internap Network Services and Visteon Corp.

22. Defendant Margaret T. Monaco ("Monaco") has been a member of the Board since May 1995 and serves on the Audit Committee. Monaco was also a member of the Committee. Monaco is a founder of Probus Advisors, where she was a Principal from 1993 to 1998, and again from 2003 to the present. Monaco was the Chief Administrative Officer of Merrill Lynch Ventures, LLC from 1998 to 1999, and from 1999 to 2003 she served as the Chief Operating Officer. From 1999 to 2003, Monaco was also the Chief Operating Officer of KECALP, Inc.

SUBSTANTIVE ALLEGATIONS

A. Background Of The Transaction

23. B&N is the nation's largest bookseller, operating more than 700 bookstores throughout the United States and it continued to expand in 2009, opening an additional 15 bookstores. Through its bricks-and-mortar operations, as well as its website, barnesandnoble.com, the Company currently holds a 16.2% share of the consumer book market. In fiscal year 2008, B&N had revenues of \$5.12 billion compared to \$5.28 billion in 2007. B&N is controlled by Leonard Riggio, its founder and Chairman, who owns approximately 31% of B&N common stock. Leonard Riggio served as CEO of B&N from 1986 until 2002, when he handed the reins to his younger brother, Stephen Riggio, who is currently the Company's CEO and Vice Chairman.

24. B&N College was founded by Leonard Riggio in 1965 and is one of the largest operators of college and university bookstores in the United States, with 636 campus bookstores. Until September 2009, B&N College was a private entity, wholly owned by Leonard Riggio – who has served as its CEO since 1965 – and his wife, Louise Riggio.

25. Throughout his tenure at the helm of B&N, Leonard Riggio has handpicked the Company's board members which usually included an amalgam of employees, friends and others beholden to him. Leonard Riggio's control over B&N was made evident when he single-handedly appointed his sibling to the highest ranking position at B&N without the input of any independent nominating committee and without consideration of any other prospective candidate.

26. Moreover, since taking B&N public in 1993, and retaining ownership of B&N College for himself, Leonard Riggio systematically abused his power over B&N by siphoning benefits from the Company for B&N College's gain. For instance, B&N subsidized B&N College's operating costs by, among other things, leasing office space to B&N College at cost, and supplying inventory to B&N College bookstores at desirable rates.

27. Leonard Riggio's manipulation of B&N allowed B&N College to become one of the largest operators of college and university bookstores in America. However, faced with declining sales growth and a shifting market landscape, Leonard Riggio decided to cut his losses and force B&N College onto B&N.

28. On August 10, 2009, B&N issued a press release titled "BARNES & NOBLE TO ACQUIRE BARNES & NOBLE COLLEGE BOOKSELLERS, REUNITING BARNES & NOBLE BRAND" which stated as follows:

Barnes & Noble, Inc. ("BKS") (NYSE: BKS), the world's largest bookseller, today announced a definitive agreement to acquire privately held Barnes & Noble College Booksellers, Inc. ("College"), a leading contract operator of college bookstores in the United States, in a transaction valued at \$596 million, or approximately \$460 million net of College's cash on hand on the expected closing date.

The company also announced that concurrent with the signing of the definitive agreement to acquire College, BKS has received commitment letters on a new \$1 billion, four-year revolving credit facility, which will replace each of BKS' and College's existing credit facilities. BKS will finance the transaction through \$250 million of seller financing, with the remainder coming from the new credit facility and cash on hand.

29. Also on August 10, 2009, B&N filed as Exhibit 2.1 to an SEC Form 8-K a copy of the definitive "Stock Purchase Agreement dated as of August 7, 2009 among

Barnes & Noble, Inc., Leonard Riggio and Louise Riggio relating to the purchase and sale of 100% of the Capital Stock of BARNES & NOBLE COLLEGE BOOKSELLERS, INC.” (the “Stock Purchase Agreement”).

30. Under the terms of the Stock Purchase Agreement, B&N would acquire all issued and outstanding stock of B&N College, which would become a wholly-owned subsidiary of B&N. In return, Leonard Riggio, B&N’s founder, Chairman, and controlling shareholder, and his wife, Louise Riggio, would receive \$346 million in cash and \$250 million in B&N-issued notes.

31. Pursuant to Section 5.07 of the Stock Purchase Agreement, prior to closing of the Transaction, B&N College would distribute an undisclosed amount of cash and “Excluded Assets” to certain B&N College employees as “Bonus Payments.” The Disclosure Schedule cited in the Stock Purchase Agreement that identifies the recipients of the bonuses, the “Excluded Assets” to be distributed, and the recipients of the “Excluded Assets” were not publicly disclosed.

32. Under Section 11.04 of the Stock Purchase Agreement, Leonard Riggio was appointed as the protector of Louise Riggio’s interests related to the Stock Purchase Agreement. The Section states in part:

Louise Riggio, by her execution and delivery of this Agreement, hereby irrevocably appoints Leonard Riggio as her agent and attorney-in-fact for all purposes under this Agreement (the “Seller Representative”), and consents to the taking by the Seller Representative of any and all actions and the making of any decisions required or permitted to be taken by Sellers or the Seller Representative hereunder or under any Ancillary Agreement. By the Seller Representative’s execution below, Leonard Riggio hereby accepts his appointment as Seller Representative hereunder.

33. Of course, recognizing the clearly interested nature of the Transaction, the Company's Board cobbled together a purportedly independent Committee "to evaluate the acquisition opportunity, negotiate its terms, and make a recommendation" to the Board. Not surprisingly, the Committee, which consisted of Miller, Higgins, Monaco, and Dillard, recommended the Transaction and the Board approved it (with Leonard Riggio, Stephen Riggio, and Zilavy abstaining from the vote).

REDACTED

35. Ultimately, on October 1, 2009, B&N filed an SEC Form 8-K announcing that the Transaction had been completed on September 30, 2009 pursuant to the terms of the Stock Purchase Agreement. The filing revealed that the Transaction purchase price had been reduced to \$514 million – reflecting \$82 million in cash bonuses paid to members of management and employees of B&N College – with Leonard and Louise Riggio receiving \$264 million in cash, and \$250 million in seller notes. While the Form 8-K stated that Leonard Riggio did not receive any of these cash bonuses, tellingly, it does not deny that Zilavy, as Senior Vice President of B&N College, received a "Bonus Payment" – creating a fair inference that Zilavy was a recipient.

36. The October 1 Form 8-K further stated that 667,058 shares of Barnes & Noble stock, previously owned by B&N College, were distributed to "certain of the Bonus Recipients." The fair inference is that Zilavy also received a portion of these shares.

37. Moreover, the Form 8-K disclosed that B&N College amended and restated its long-term supply agreement with MBS, an entity majority owned by Leonard and Stephen Riggio. However, the amended and restated supply agreement was not publicly disclosed. Further, the Barnes & Noble Board unilaterally amended the Company's Articles of Incorporation and By-laws to change the Company's fiscal year and stated, in clear violation of Delaware law, that it would not hold the next annual meeting within 13 months of the previous meeting. The Form 8-K indicated an annual meeting could be delayed until September 30, 2010, nearly 16 months after the 2009 annual meeting and nearly a year after the consummation of the Transaction.

B. The Transaction Was Not Entirely Fair

1. The Committee And Its Financial Adviser Overvalued B&N College

38. While Leonard Riggio gained over a half-billion dollars from the Transaction, B&N significantly overpaid for a company threatened by a changing marketplace and ever-expanding competition. As *Barron's* reported on August 14, 2009, "Barnes & Noble is buying into a segment of the book-retailing business that shaped up as most heavily at risk from technological change – both from downloading and from a rivalry from Amazon.com."

REDACTED

REDACTED

REDACTED

Additionally, after the Transaction was announced, Joseph J. Lombardi

("Lombardi"), B&N's Chief Financial Officer, acknowledged during the Company's August 20, 2009 quarterly earnings conference call that synergy "is not really what the transaction has."

REDACTED

¹ B&N College's fiscal year 2009 ended on April 30, 2009.

REDACTED

49. Ultimately, the Transaction provided no material benefits to the Company.

REDACTED

Thus, B&N's purchase of B&N College – which is nothing more than a bricks-and-mortar book retailer that faces these same problems – made little or no business sense for the Company and only increased B&N's exposure to the “declining retail marketplace.”

3. The Transaction Was Financed In A Way That Further Enriches Leonard Riggio

50. Further compounding the Individual Defendants' breaches of their fiduciary duties, the Individual Defendants agreed to pay Leonard Riggio absolute top-dollar for B&N College. In addition to paying more than half a billion dollars for a company that compounds B&N's market risk, and adds little or no incremental benefits to the Company, the Transaction was structured in such a way as to enrich Leonard Riggio by additional millions above the purported \$596 million acquisition price. Specifically, in addition to the cash Leonard Riggio received, he also received \$250 million in seller notes issued to him by the Company. As was first reported in B&N's SEC Form 8-K, filed August 10, 2009, the \$250 million in notes consisted of the following:

(i) a senior subordinated note in the principal amount of \$100 million, payable in full on December 15, 2010, *with interest of 8% per annum* payable on the unpaid principal . . . and (ii) a junior subordinated note in the principal amount of \$150 million, payable in full on the fifth anniversary of the closing of the Acquisition, *with interest of 10% per annum* payable on the unpaid principal amount.

(Emphasis added.)

51. Thus, in addition to the \$596 million stated purchase price, the Committee and Board agreed to pay Leonard Riggio more than \$80 million over the course of the next five years in the form of interest payments. Moreover, the Committee agreed to pay Leonard Riggio 8% interest and 10% interest on \$250 million in debt, despite the Company's access to cash at significantly lower interest rates. Indeed, B&N acquired a \$1 billion revolving credit line with an interest rate currently less than 5%, and already had an \$850 million credit revolver at roughly the same rate.

4. The Market As Well As Analysts Panned The Transaction

52. On Monday, August 10, 2009, the day the Transaction was announced, B&N's shares closed at \$25.01 per share. By the end of the week, B&N's share price had fallen more than 16.5%, wiping out approximately \$236 million in market capitalization. B&N's shares fell another 4.47% the following Monday, August 17, erasing an additional \$56.5 million in market capitalization.

53. B&N suffered further blowback as a result of its announcement of the Transaction when Credit Suisse downgraded the Company to "underperform." Citing the "deteriorating" university book sales environment in which B&N College operates, Credit Suisse Analyst Gary Balter noted that "we believe the recently announced

acquisition of Barnes & Noble College Booksellers significantly raises the risk profile and takes away the free cash that could have been used for a special dividend.”

C. The Transaction Was The Product Of An Unfair Process

1. The Committee Failed To Independently Evaluate The Transaction

54. Acknowledging the related-party nature of the Transaction, the Board established the Committee to purportedly evaluate and negotiate the terms of the acquisition, and make a recommendation to the Board (with Leonard Riggio, Stephen Riggio, and Zilavy abstaining from the final vote). The Committee was comprised of Miller, serving as Chairperson, and Dillard, Higgins and Monaco. Additionally, the Committee was advised by Davis Polk & Wardwell LLP, which acted as legal advisor, and Greenhill, which acted as a financial advisor and delivered a fairness opinion to the Committee concerning the transaction (and, ultimately, the remaining Board members that voted on the Transaction).

55. Despite Company rhetoric about how the Committee supposedly evaluated the Transaction in light of its related nature, the Committee failed to provide an independent assessment of the Transaction. Each member of the Committee was prevented from providing a disinterested and independent examination as a result of the financial compensation they receive from the Company, their close ties to Leonard Riggio or other entities involved in the Transaction, and other professional and financial conflicts. This failure of the Committee was underscored by the lack of transparency in its evaluation process and the paucity of information that was provided to the Company’s shareholders about this process.

56. Miller, the Chair of the Committee, is closely tied to Leonard Riggio, and her ties with Leonard Riggio are representative of the authority that Leonard Riggio exerted over the Committee. Since 1991, Miller has been either employed by B&N or been a member of its Board. Indeed, Miller began working with Leonard Riggio when B&N was still privately held and controlled by Leonard Riggio, and then followed Leonard Riggio when B&N became public. Miller's professional status and reputation rest in part on her position at the Company, and her service to Leonard Riggio and the Company he founded, which has resulted in great personal financial rewards for Miller. Apart from the compensation Miller received as an executive of B&N, Miller continues to receive hundreds of thousands of dollars of direct compensation in the form of an annual salary from the Company, which was nearly \$200,000 in 2008, and she has earned millions of dollars through stock option awards from the Company, including approximately \$2 million in 2004, more than \$2.5 million in 2005, and, in 2006, more than \$2.5 million.

57. Similarly, Monaco was also not able to provide an independent and disinterested evaluation of the Transaction. Monaco has served on the Board alongside its Chairman, Leonard Riggio, for the past fifteen years. Furthermore, Monaco has a long history of approving transactions harmful to the Company but beneficial to high-level executives and insiders, including Leonard Riggio. Indeed, Monaco was a long-time member of the B&N Compensation Committee, which approves compensation for the Company's executive officers. In 2006, a Company internal investigation found that improperly backdated options had regularly been granted for nearly a decade, which

caused Monaco to be removed from the Compensation Committee in May 2007. Amazingly, Monaco simply moved to the Company Audit Committee, and, now, the Committee charged with evaluating the Transaction. Additionally, throughout Monaco's tenure, Monaco has reaped substantial financial benefits, including nearly \$1.5 million in 2005 through the exercise of Company-issued stock options. Last year, the Company paid her nearly \$200,000 to serve as a director. Monaco's lack of independence from Leonard Riggio extends beyond the Company. Along with Leonard Riggio and fellow Board member Del Giudice, Monaco was a member of the prominent Bill Bradley for President organization.

58. Monaco also has strong professional ties with Merrill Lynch & Co. Inc. ("Merrill Lynch"), given her previous positions as Chief Administrative Officer and most recently Chief Operating Officer of Merrill Lynch Ventures, LLC and Chief Operating Officer of KECALP, Inc., both wholly-owned subsidiaries of Merrill Lynch, one of three banks that provided up to \$1 billion to the Company in a four-year revolving credit facility which partly financed the Transaction. In this capacity, Merrill Lynch received significant fees and large profits. Monaco's positions at these Merrill Lynch subsidiaries prevented her from being a disinterested party to the Transaction.

59. Similarly, Dillard has financial and personal interests that prevented him from evaluating the Transaction as a disinterested party. Dillard has continuously served on the Company Board alongside Leonard Riggio since B&N went public in 1993. This nearly two-decade relationship with Leonard Riggio and his Company have provided Dillard with, among other things, \$450,792 in 2004 through the exercise of Company

stock options, significant additional stock grants, and a \$200,000 salary in 2008. Moreover, in the two decades that Dillard has served alongside Leonard Riggio, Dillard sat idly by and repeatedly acquiesced to Leonard Riggio's demands. Specifically, Dillard is a long-time member of the Nominating Committee, where he, among other things, allowed Leonard Riggio to appoint his younger brother to the position of CEO. Dillard and his fellow committee members raised no objections to Leonard Riggio's unilateral act and made no attempt to engage in any independent selection of the Company's highest-ranking officer. Dillard also has ties to JPMorgan Chase & Co ("JPMorgan"), where he serves as a member of the National Advisory Board and the Dallas Region Advisory Board. JPMorgan is one of the three joint lead arrangers of the four-year revolving credit facility provided to the Company to help finance the Transaction.

60. Higgins was also unable to offer any meaningful independence from Leonard Riggio's control. Indeed, Higgins is a member of the Audit Committee, where she has failed to provide any substantive oversight of the numerous interested transactions benefitting Leonard Riggio. In addition, Higgins is conflicted due to her compensation from the Company, including over \$200,000 in 2008.

2. The Remaining Board Members' Lack Of Independence Precluded Them From Independently Evaluating The Transaction

61. Leonard Riggio's control over the approval process of the Transaction was evidenced not only through his influence over the Committee, but also in the final approval stage by the remaining members of the Board. The significant self-interest of the Board in the Transaction was apparent from the fact that three of the five remaining board members had to abstain from the Board vote on the Transaction. Due to their

positions at B&N and B&N College and their obvious financial interest in the Transaction, Leonard Riggio, Stephen Riggio and Zilavy were unable to participate in the full Board vote, which left only two remaining Board members, Del Giudice and Campbell, to "evaluate" the work of the Committee and determine whether to approve the Transaction.

62. Del Giudice has been handsomely rewarded since joining the Board in 1999, when Chairman Leonard Riggio was still serving as CEO. In only the past five years, Del Giudice has made more than \$500,000 through stock options awarded by the Company, not to mention the annual salary he and Campbell receive as directors. In addition, Del Giudice's tenure on the Audit Committee evidences his unwillingness to question practices that wrongfully benefit insiders at the Company. Indeed, Del Giudice served on the Audit Committee during the period when improperly backdated options were routinely issued to Company insiders, including Leonard Riggio.

63. In addition to the financial compensation he receives from B&N, Del Giudice has political and personal relationships that prevented him from being free from Leonard Riggio's influence. Along with Monaco, Del Giudice and Leonard Riggio were members of the prominent Bill Bradley for President Organization, for which they both were high-profile fundraisers.

64. Del Giudice and Campbell also have a long standing professional relationship outside of the Company in addition to their involvement with B&N. Since 2000, Campbell and Del Giudice have served together on the Board of Con Edison, Inc., and both are Trustees of the Consolidated Edison Company of New York.

65. The combination of financial interests, professional, political and personal relationships, and the dominating influence of Leonard Riggio ultimately prevented the Committee and the remaining Board members from acting as a truly independent party when evaluating the Transaction.

3. The Board Has A Long History Of Approving Leonard Riggio's Self-Serving Transactions

66. Beyond Leonard Riggio's prior misuse of B&N for the benefit of B&N College, the Transaction falls within a larger history of self-dealing B&N transactions pushed forward by Leonard Riggio for the benefit of companies that are owned, affiliated and/or controlled by him. This self-dealing by Leonard Riggio is so prevalent that the total payments from B&N to Leonard Riggio's companies topped \$1 billion in fiscal 2006 and 2007. In each instance, the Board of B&N failed to act in the best interest of the Company and its shareholders, and instead permitted these related party transactions to go through despite the harm they caused to the Company.

67. While serving as the Chairman of B&N's Board and formerly as B&N's CEO, Leonard Riggio has taken every opportunity to use B&N and its resources to further his business ventures and line his own pockets at the expense of B&N and its shareholders. For years, Leonard Riggio has caused B&N to purchase textbooks from MBS, of which he has been Chairman of the Board and a principal beneficial owner since 1985,

REDACTED

Leonard Riggio has also caused B&N to transact on noncompetitive and disadvantageous

terms with two other companies in which he holds minority interests as B&N's principal supplier of music, movies, newspapers and magazines, and as B&N's supplier for database equipment and services. Leonard Riggio also caused B&N to enter into a contract with a freight shipping company owned by his brother and friends to provide all of B&N's shipping needs to B&N retail stores. Finally, in another transaction, Leonard Riggio caused the Company to purchase a company which he owned, Babbage's Etc. LLC, which later became a wholly-owned subsidiary of GameStop, at a substantial premium over the price he and his investor friends originally paid only two years earlier. Approximately five years later, Leonard Riggio then had B&N divest its holdings in GameStop despite its success, and as the largest individual shareholder of B&N, Leonard Riggio, correspondingly received the largest distribution of shares.

68. Unsurprisingly, B&N has been harmed by these unfair transactions. In some cases, B&N is being overcharged for goods and services while in other cases B&N is being forced to sell goods at a discount or subsidize a portion of these related companies' operating costs by providing them with office space at cost, and marketing and other services free of charge. B&N has also been required to continue doing business exclusively with suppliers and middlemen owned by Leonard Riggio. Leonard Riggio has so deeply intertwined his personal business interests with those of B&N's interests that he has put himself, the Board and the Company's most senior officer, Stephen Riggio, in a hopelessly conflicted situation. Moreover, the full Board, in acquiescing to the foregoing transactions, has conclusively demonstrated its own lack of independence from Leonard Riggio.

REDACTED

REDACTED

REDACTED

77. By ignoring the possibility of using stock as consideration, the Committee either specifically structured the transaction to avoid a shareholder vote, or capitulated to Leonard Riggio's demand that they do so.

REDACTED

78. Since shareholders would not have the opportunity to vote on the Transaction, it was particularly important that the Committee ensure that it fully informed itself on the advisability of the Transaction as the Committee (as well as two additional Board members) would be the ultimate arbiters of the Transaction.

REDACTED

REDACTED

84. Ultimately, on September 29, 2009, B&N College distributed more than \$100 million of B&N stock to Leonard Riggio and Louise Riggio, as well as more than

\$60 million of GameStop stock. Between October 6 and October 8, Leonard Riggio sold 2,253,826 shares of GameStop Class A Common Stock, formerly held by B&N College, for \$60,232,125.12.

REDACTED

9. The Transaction Suffered From A Lack of Transparency

86. Commentators noted the lack of transparency in the Transaction. As the *Wall Street Journal* reported on August 13, 2009, B&N only selectively disclosed earnings figures for B&N College when it announced the Transaction: “As for earnings, B&N has provided only numbers for the year to May with no history or projections. *Shareholders deserve to know whether the college chain's earnings are declining. B&N says it will disclose more when the deal closes, a little late.*” (emphasis added).

REDACTED

10. The B&N Board Continues To Exhibit A Willingness To Serve Leonard Riggio's Interests

88. In addition to the Transaction, and the countless other interested transactions benefitting Leonard Riggio that were approved of or acquiesced to by the B&N Board, the Board has even more recently demonstrated its propensity to serve and protect Leonard Riggio's interests.

89. Specifically, on November 13, 2009, Ronald W. Burkle (“Burkle”), Yucaipa American Management, LLC, Yucaipa American Funds, LLC, Yucaipa American Alliance Fund II, LLC, Yucaipa American Alliance Fund II, L.P., and Yucaipa American Alliance (Parallel) Fund II, L.P. (collectively, the “Yucaipa Funds”) filed an SEC Schedule 13D/A indicating their ownership of 16.8% of B&N common stock. One of the purposes for the filing was to amend the reason the Yucaipa Funds acquired B&N’s common stock to state they “are concerned with the adequacy and enforcement of the Company’s corporate governance policies and practice *as evidenced in part by the recent acquisition of Barnes & Noble College.*” (emphasis added). The initial 13D, filed by the Yucaipa Funds on December 23, 2008, stated the sole reason for acquiring the B&N stock was for investment purposes. On November 17, 2009, the Yucaipa Funds filed a separate Schedule 13D/A indicating they increased their holdings of Barnes & Noble common stock to 17.8%.

90. In response to the Yucaipa Funds’ filings, on November 17, 2009, B&N announced its Board had *unilaterally* adopted a Stockholder Rights Plan (the “Poison Pill”) “in response to the [Yucaipa Funds’] rapid accumulation of a significant portion of Barnes & Noble’s” stock. Under the Poison Pill, Company shareholders will have the right to receive deeply-discounted B&N stock if, without prior Board approval, a person or entity “acquires 20% or more of Barnes & Noble’s common stock or announces a tender offer which results in the ownership of 20% or more of Barnes & Noble common stock.” Critically, however, Leonard Riggio, who currently owns more than 30% of B&N’s common stock, was excluded from this provision. Indeed, Leonard Riggio will

only trigger the Poison Pill were he to purchase *additional* Company shares without prior Board approval.

91. On January 28, 2010, the Yucaipa Funds filed a Schedule 13D/A indicating they increased their holdings of B&N common stock to 18.7%. As part of their filing, Burkle sent a letter to the B&N's Board asking them to allow the Yucaipa Funds to acquire up to 37% of B&N common stock (the same amount owned by B&N insiders), to confirm that no member of the Riggio family can acquire any additional B&N stock without triggering the Poison Pill, and to reiterate the Yucaipa Funds' concerns about B&N's corporate governance policies. More specifically, Burkle's letter stated the following::

The fact that the Riggio family and other Company insiders own over 37% of the outstanding stock, and that over the past 3 years Len was allowed to increase his personal stake by approximately 10% of the outstanding stock (to over 30% of the outstanding shares), in my view shows that the Board and its Chairman endorse two sets of rules: one for the Riggio family, and one for the rest of the Company's shareholders. I believe the poison pill allows Len and other Company insiders to exert effective control over the shareholder franchise, while at the same time Len has taken a great deal of money off the table by selling his textbook business to the Company, thereby reducing the Company's liquidity and burdening the Company and its shareholders with significant debt to finance that purchase.

We believe having over 37% of the Company shares in the hands of the Riggio family and other insiders, coupled with the 20% ownership limitation enforced on other shareholders under the poison pill, has a coercive effect on the Company's other shareholders and gives the Riggio family a preclusive advantage in any proxy contest. This has the effect of placing de facto control of the Company in the Riggio's hands, despite their owning much less than a majority of the Company's shares.

92. Burkle also stated that prior to their acquisition of any additional shares of B&N common stock, he had "spoke[n] with Leonard Riggio . . . to make sure he

understood [their] views and concerns as an investor.” But once Burkle expressed his dissatisfaction with the Company’s corporate governance, especially in light of the Transaction, and the Yucaipa Funds increased their holdings of B&N common stock, Leonard Riggio abused his control over the B&N Board to cause it to approve the implementation of the Poison Pill, so that he could continue to control the Company and silence any dissident B&N shareholders who might threaten that control.

93. Not surprisingly, on February 17, 2010, in response to the Burkle’s letter, the Board remained stalwart in its decision to implement the Poison Pill. Critically, the Board failed to explain how the Poison Pill would protect any future management plans for the Company. Instead, the Board tersely, and without further explanation, stated that the Poison Pill “is intended to protect our shareholders from actions that are inconsistent with their best interests.” Moreover, the Board failed to respond to Burkle’s request for confirmation that further Riggio-family stock purchases would not trigger the Poison Pill, and instead amended the Poison Pill to purportedly limit Leonard Riggio’s and Stephen Riggio’s family members’ ability to acquire additional shares.³

94. The Yucaipa Funds have since responded to B&N’s rebuff and, among other things, requested a “meet[ing] with the non-management directors as soon as possible to discuss . . . concerns about the Company’s corporate governance policies and practices.” As of the date of this filing, B&N’s Board has not responded to the Yucaipa Funds’ request.

³ It is far from clear whether the Board’s amendment restricts such Riggio-family stock purchases. As a subsequent letter from Burkle to the Board states, “[the] Board amended the poison pill to add new provisions that in my view are even more confusing and ambiguous than the flawed provisions they presumably were designed to fix.”

95. The Board's implementation of the Poison Pill not only demonstrates Leonard Riggio's control over B&N, but also B&N Board's continued willingness to allow Leonard Riggio to exert his authority over the Company, regardless of the interests of shareholders.

DERIVATIVE ALLEGATIONS

96. Plaintiffs bring this action derivatively to redress injuries suffered by the Company as a direct result of the breaches of fiduciary duties by the Individual Defendants.

97. Plaintiffs have owned B&N stock continuously during the time of the wrongful course of conduct by the Individual Defendants alleged herein and continue to hold B&N stock.

98. Plaintiffs will adequately and fairly represent the interests of B&N and its shareholders in enforcing and prosecuting its rights and has retained counsel competent and experienced in shareholder derivative litigation.

DEMAND ON THE B&N BOARD IS EXCUSED AS FUTILE

99. Plaintiffs have not made a demand on the Board to bring suit asserting the claims set forth herein because pre-suit demand was excused as a matter of law.

100. First, the acquisition of B&N College from Leonard Riggio was plainly an interested transaction and, as alleged above, was not entirely fair to the Company – in terms of both price and process. Because the acquisition of B&N College was not entirely fair to the Company, the Transaction cannot be deemed a product of the valid exercise of business judgment and demand is excused as a matter of law.

101. Second, a majority of the Board suffered and continues to suffer from conflicts of interest and divided loyalties that precluded them from exercising independent business judgment. Because the Board members were interested, their actions with respect to the facts alleged herein are subject to entire fairness review, and the business judgment rule is not applicable.

102. As of the date of the filing of this amended complaint, the Board consisted of the following nine directors: Defendants Leonard Riggio, Stephen Riggio, Campbell, Del Giudice, Zilavy, Miller, Dillard, Higgins and Monaco. Several of these directors hold executive positions at B&N, and many of them have, over time, shown either unwillingness or inability to challenge Leonard Riggio's control over the Company. In addition, all of the directors receive significant financial compensation and benefits from their positions on the Board.

103. Leonard Riggio is the Founder, Chairman of the Board, controlling shareholder and former CEO of B&N. Before the Transaction closed, he was also the Chairman, CEO and principal shareholder of B&N College. Leonard Riggio exerts tremendous control over the Board due to his ownership interests and position. In fact, he dominates B&N's Board, the members of which were selected by Leonard Riggio himself. No director could ever be appointed or reelected to B&N's Board over Leonard Riggio's objections. Riggio even single-handedly appointed his brother, Stephen Riggio, as his successor and CEO of B&N and failed to give even the appearance of propriety by vetting other prospective candidates or appointing an independent committee to nominate his successor. Riggio, as a member of the B&N Board, also approved and caused the

Company to implement the Poison Pill which was put into place to prohibit any non-Riggio shareholder from acquiring stock ownership above a 20% threshold and to allow him to maintain control over B&N. Given his overwhelming financial interests in the Transaction, the fact that he stood on both sides of the Transaction, and his position in the Company, Leonard Riggio is unable to legitimately consider a demand.

104. Stephen Riggio is the Vice-Chairman and CEO of B&N, as well as Leonard Riggio's younger brother. Stephen Riggio's lack of independence is apparent by his abstaining from the full Board vote on the Transaction. Indeed, Stephen Riggio is conflicted because he and his family members received enormous direct benefits from the Transaction. As one of the majority owners of MBS, Stephen Riggio has a significant financial interest in the amended and restated long-term supply agreement between MBS and B&N College executed in connection with the Acquisition. Leonard Riggio, Stephen Riggio's older brother, received more than half a billion dollars in the Transaction. Stephen Riggio is also professionally conflicted given his working relationship with his brother and the unarguable fact that he owes his entire career to him. Stephen Riggio went to work for his brother at B&N immediately after graduating college. At that time, the Company was still privately owned by Leonard Riggio. Leonard Riggio promoted Stephen Riggio to various positions in the Company for more than two decades before appointing him CEO. In 2002, Leonard Riggio retired as CEO of B&N and singly appointed Stephen Riggio to succeed him. The Board assented to the appointment without conducting a search or naming a special committee of outside directors to approve it. Leonard Riggio invited Stephen Riggio to join the Board in 1993, and,

thereafter, in 1997 Leonard Riggio appointed his brother Vice Chairman of the Company. His entire adult life, Stephen Riggio has worked for his brother and has been given opportunities and advancements on account of his brother. Defendant Stephen Riggio, as a member of the Board, also approved and caused the Company to implement the Poison Pill which was put into place to prohibit any non-Riggio shareholder from acquiring stock ownership above a 20% threshold and to allow Leonard Riggio to maintain control over B&N. Thus, Stephen Riggio was both financially and personally interested in the actions challenged herein and lacks independence from the other Board members, particularly Leonard Riggio, and is therefore unable to legitimately consider a demand.

105. Zilavy is the Senior Vice-President of B&N College where he serves at the pleasure of B&N College's founder, CEO, and principal shareholder, Leonard Riggio. Due to Zilavy's executive position at B&N College, he will also likely benefit financially from the Transaction, likely receiving a portion of the "Bonus Payments" and B&N stock distributed by B&N College pursuant to the Stock Purchase Agreement. Before moving to B&N College to work directly for Leonard Riggio, Zilavy served as Chief Financial Officer of B&N from June 2002 through April 2003, and as Executive Vice President, Corporate Finance and Strategic Planning for B&N from May 2003 until November 2004. Zilavy also serves on the board of directors of GameStop with Leonard Riggio, for which he received \$476,667 in compensation in 2008. Clearly, Zilavy's financial interests and his professional career are largely dependant on his relationship with Leonard Riggio. These obvious conflicts were further underscored when Zilavy abstained from the full Board vote on the Transaction. Zilavy, as a member of the Board,

also approved and caused the Company to implement the Poison Pill which was put into place to prohibit any non-Riggio shareholder from acquiring stock ownership above a 20% threshold and to allow Leonard Riggio to maintain control over B&N. Zilavy, therefore, cannot objectively consider demand in this case as a result of his past and present positions and strong loyalties to Leonard Riggio.

REDACTED

107. Additionally, Dillard had professional, personal and possibly financial interests in the Transaction, and has shown that he is unwilling to act against the wishes of Leonard Riggio. Dillard is the longest running director on B&N's Board, with the exception of Leonard Riggio, and has served with Leonard Riggio on B&N's Board since the Company went public in 1993. Dillard and Leonard Riggio are close friends and have been known to socialize and play golf together on frequent occasions. Dillard's relationship with Leonard Riggio has also been financially lucrative for Dillard, and Dillard has increased his personal wealth considerably through his directorship at B&N. For instance, in 2004, Dillard made more than \$450,000, a material amount, by exercising options issued to him by the Company.

108. Moreover, Leonard Riggio's influence over Dillard is evidenced by the fact that Dillard allowed Leonard Riggio to name his youngest brother as his successor

without any input from the Nominating Committee whose primary responsibility it is to seek qualified individuals to serve in high-level corporate positions and to oversee the corporate governance of the Company. Dillard has been on this committee since 1993 and even chaired this committee for a number of years. Dillard's conduct as member of the Nominating Committee shows he is unwilling to question Leonard Riggio and is incapable of acting with sufficient independence to deal with corporate governance issues and to protect the interests of all shareholders. Dillard put forth no effort to pursue a selection process for the top executive of the Company and instead gave Leonard Riggio total control of this key decision. He, along with the other directors on the Board, readily rubber-stamped Leonard Riggio's decision to appoint Stephen Riggio who had been receiving criticism for his less than stellar performance as CEO of barnesandnoble.com from 1997 to 1999. Additionally, Dillard, as a member of the Board, also approved and caused the Company to implement the Poison Pill which was put into place to prohibit any non-Riggio shareholder from acquiring stock ownership above a 20% threshold. Dillard, as a member of the Board, also failed to respond to the Yucaipa Funds request for information and a meeting to discuss the Poison Pill. These actions are designed to allow Leonard Riggio to maintain control over B&N.

109. Finally, Dillard also has ties to JPMorgan – one of three banks that provided a credit revolver to finance the Transaction – which benefitted financially from the Transaction. Specifically, Dillard sits on JPMorgan's National Advisory Board and Dallas Region Advisory Board. Given his professional and personal conflicts, and possible financial interest, Dillard is not able to legitimately consider a demand.

110. Monaco is a long-time friend of Leonard Riggio and has served alongside him on the Board for the past fourteen years. Among other things, this relationship has also allowed her to increase her personal wealth considerably. For instance, in 2005, Monaco made nearly \$1.5 million through the exercise of B&N stock options. As importantly, throughout her tenure at B&N, Monaco has shown an unwillingness to challenge transactions benefitting insiders, such as Leonard Riggio. Specifically, until 2007, Monaco was a member of the Compensation Committee of which a principal function is to “approve the compensation . . . arrangements for the Company’s executive officers.” In 2006, a B&N internal investigation concluded that improper options backdating was pervasive at the Company between 1996 and 2006, and, accordingly, recommended that all existing members of the Compensation Committee be removed. As a result, Monaco was removed from her position on the Compensation Committee in May of 2007. Amazingly, upon leaving the Compensation Committee, Monaco joined the Board’s Audit Committee. Equally astounding is the fact that Monaco sat on the Committee charged with evaluating, negotiating and recommending the Transaction. Additionally, Monaco, as a member of the Board, also approved and caused the Company to implement the Poison Pill which was put into place to prohibit any non-Riggio shareholder from acquiring stock ownership above a 20% threshold. Monaco, as a member of the B&N Board, also failed to respond to the Yucaipa Funds request for information and a meeting to discuss the Poison Pill. These actions are designed to allow Leonard Riggio to maintain control over B&N.

111. Monaco's and Leonard Riggio's relationship, however, extends beyond B&N. Together with Del Giudice, Monaco served with Leonard Riggio as a member of the prominent Bill Bradley for President organization.

112. Monaco also has strong ties with Merrill Lynch, which benefitted enormously from the Transaction. She served as Chief Operating Officer of Merrill Lynch Ventures, LLC and of KECALP, Inc., which are both wholly-owned subsidiaries of Merrill Lynch, one of the three banks that assisted in financing the Transaction. She is therefore not able to legitimately consider a demand.

113. Miller, who headed the Committee, has a long history of executive employment at B&N, and largely owes her career and professional successes to Riggio, her former boss and good friend. Indeed, Miller's tenure at B&N began in 1991 when B&N was still a closely-held company, privately-owned by Leonard Riggio. Two years later, when Leonard Riggio took the Company public, he brought Miller with him, appointing her Chief Financial Officer in September 1993 and Vice Chairman of the Board in September 1995. Miller's close affiliation with Leonard Riggio has proven highly lucrative for Miller. To be sure, in just the past few years, Miller has earned millions of dollars by exercising B&N stock options. In 2004 she earned nearly \$2 million, in 2005 she earned more than \$2.5 million, and in 2006 she nearly earned another \$2.5 million. Given this professional history and personal friendship with Leonard Riggio, Miller is unable to assert any meaningful opposition to Leonard Riggio, and is unable to objectively consider a demand. Additionally, Miller, as a member of the Board, also approved and caused the Company to implement the Poison Pill which was

put into place to prohibit any non-Riggio shareholder from acquiring stock ownership above a 20% threshold. Miller, as a member of the B&N Board, also failed to respond to the Yucaipa Funds request for information and a meeting to discuss the Poison Pill. These actions are designed to allow Leonard Riggio to maintain control over B&N.

114. Del Giudice's inability to challenge Leonard Riggio is apparent from his conduct as a member of the Board's Audit Committee. While Del Giudice was serving on the Audit Committee, he failed to question improperly backdated stock options grants to Leonard Riggio and other executives of the Company, including B&N's directors—a practice that B&N's own internal investigation found to be pervasive at the Company. Underscoring the lack of corporate governance of B&N's Board, Del Giudice retained his position on the Board's Audit Committee and subsequently became Chairman of the Compensation Committee. Del Giudice, as a member of the B&N Board, also approved and caused the Company to implement the Poison Pill which was put into place to prohibit any non-Riggio shareholder from acquiring stock ownership above a 20% threshold. Del Giudice, as a member of the B&N Board, also failed to respond to the Yucaipa Funds request for information and a meeting to discuss the Poison Pill. These actions are designed to allow Leonard Riggio to maintain control over B&N.

115. Del Giudice also has professional, financial, political and personal interests that prevented him from being a disinterested party. Del Giudice is the co-founder and Senior Managing Director at Millennium Credit Markets LLC, an investment banking firm which helps fund and build school housing likely on the same campuses that B&N College seeks to build college bookstores. Leonard Riggio and B&N also

support charities sponsored by Del Giudice and Millennium, including the Regional Food Bank of Northeastern New York and the Northeast Parent and Child Society.

116. Del Giudice also has a political relationship with Leonard Riggio stemming from their involvement as high-profile supporters and top fundraisers for Bill Bradley's presidential primary campaign, for which Del Giudice served as co-chair for the New York Operation. Together with Monaco, Del Giudice and Leonard Riggio were all members of the Bill Bradley for President organization. Given Del Giudice's track record, and his professional and personal conflicts, Del Giudice is incapable of fairly assessing demand in this case.

117. Campbell has a long-standing professional relationship with Del Giudice outside of the Company. Campbell serves on the Con Edison, Inc. board with Del Giudice. Campbell, therefore, has conflicting professional interests and cannot validly exercise business judgment in considering a demand. Additionally, Campbell, as a member of the Board, approved and caused the Company to implement the Poison Pill which was put into place to prohibit any non-Riggio shareholder from acquiring stock ownership above a 20% threshold. Campbell, as a member of the Board, also failed to respond to the Yucaipa Funds request for information and a meeting to discuss the Poison Pill. These actions are designed to allow Leonard Riggio to maintain control over B&N.

118. Similarly, Higgins is a member of the Audit Committee and her unremarkable tenure on this committee indicates her inability to provide any meaningful oversight of interested transactions. Additionally and further demonstrating her inability to provide any meaningful oversight over interested transactions, Higgins, as a member

of the Board, approved and caused the Company to implement the Poison Pill which was put into place to prohibit any non-Riggio shareholder from acquiring stock ownership above a 20% threshold. Higgins, as a member of the Board, also failed to respond to the Yucaipa Funds request for information and a meeting to discuss the Poison Pill. These actions are designed to allow Leonard Riggio to maintain control over B&N. Higgins thus cannot validly exercise business judgment in considering a demand.

119. Under these circumstances, the Board cannot be expected to bring the claims asserted herein, and the actions of the Board challenged herein are not protected from judicial scrutiny. Demand is therefore excused.

CAUSES OF ACTION

COUNT I

Breach of Fiduciary Duty (Derivatively Against Individual Defendants)

120. Plaintiffs reallege the preceding paragraphs as set forth above and incorporate them herein by reference.

121. The Individual Defendants, as Directors of B&N, are fiduciaries of the Company and its shareholders. As such, they owe the Company the highest duties of good faith, fair dealing, due care, candor and loyalty.

122. The Individual Defendants breached their fiduciary duties by failing to fairly evaluate the Transaction and permitting the purchase of B&N College at an excessive and inequitable price.

123. In contemplating, planning, and/or effecting the foregoing conduct, the Individual Defendants were not acting in good faith toward the Company and breached their fiduciary duties.

124. As a result of these actions of the Individual Defendants, the Company has been and will be damaged.

125. Plaintiffs have no adequate remedy at law.

COUNT II
Breach of Fiduciary Duty
(Derivatively Against Leonard Riggio)

126. Plaintiffs reallege the preceding paragraphs as set forth above and incorporate them herein by reference.

127. Defendant Leonard Riggio, as a controlling shareholder, is a fiduciary of the Company and its shareholders. As such Leonard Riggio owes them the highest duties of good faith, fair dealing, due care, candor and loyalty.

128. Defendant Leonard Riggio breached his fiduciary duties by using his control over B&N and the Individual Defendants to cause the Company to allow the Transaction to proceed and permit the purchase of B&N College at an excessive price, despite knowing that such acquisition would ultimately be detrimental to the Company.

129. In contemplating, planning, and/or effecting the foregoing conduct and in pursuing and structuring the Transaction, Leonard Riggio did not act in good faith and breached his fiduciary duties to the Company.

130. As a result of the actions of Leonard Riggio, the Company has been and will be damaged.

131. Plaintiffs have no adequate remedy at law.

COUNT III
Aiding and Abetting Breach of Fiduciary Duty
(Derivatively Against Leonard Riggio, Stephen Riggio and Zilavy)

132. Plaintiffs reallege the previous paragraphs set forth above and incorporate them herein by reference.

133. Defendants Leonard Riggio, Stephen Riggio and Zilavy were aware of the Individual Defendants' fiduciary duties to B&N and its shareholders to maximize the enterprise value of the Company for the benefit of the shareholders.

134. Defendants Leonard Riggio, Stephen Riggio and Zilavy aided and abetted the Individual Defendants' breaches of their fiduciary duties.

135. Defendants Leonard Riggio, Stephen Riggio and Zilavy had knowledge of these breaches, provided substantial assistance in these breaches, and knowingly participated in the breaches by causing and accepting the Transaction.

136. As a result of Leonard Riggio's, Stephen Riggio's and Zilavy's conduct, the Company suffered harm.

137. Plaintiffs have no adequate remedy at law.

COUNT IV
Waste of Corporate Assets
(Derivatively Against the Individual Defendants)

138. Plaintiffs reallege the previous paragraphs set forth above and incorporates them herein by reference.

139. The Individual Defendants failed to adequately evaluate the Transaction, and caused waste of corporate assets by paying an excessive and inflated price to B&N

College and its owners, Leonard Riggio and Louise Riggio, as part of the Transaction. The consideration paid to Leonard Riggio and Louise Riggio represented an amount that no officer or director of ordinary sound business judgment would pay for B&N College.

140. As a result of these actions of the Individual Defendants, the Company has been and will be damaged.

141. Plaintiffs have no adequate remedy at law.

COUNT V
Unjust Enrichment
(Derivatively Against Leonard Riggio)

142. Plaintiffs reallege the preceding paragraphs as set forth above and incorporate them herein by reference.

143. Defendant Leonard Riggio was unjustly enriched as a result of the inflated and excessive consideration paid for B&N College, at the expense of B&N.

144. As a result of the actions of Leonard Riggio, the Company has been and will be damaged.

145. Plaintiffs have no adequate remedy at law.

WHEREFORE, Plaintiffs pray for judgment as follows:

- (a) for an order declaring that the Defendants breached their fiduciary duties to the Company;
- (b) for an order rescinding the acquisition of B&N College by B&N under the terms of the Stock Purchase Agreement;
- (c) for an order rescinding the Stock Purchase Agreement;
- (d) for an order awarding damages, together with pre- and post-judgment interest to the Company;

- (e) for an order requiring the immediate disgorgement of and/or imposition of a constructive trust on all profits, benefits and other compensation obtained by Leonard Riggio as a result of his breaches of fiduciary duties;
- (f) for Plaintiffs' costs and expenses incurred in this action, including, but not limited to, experts' and attorneys' fees; and
- (g) for such other and further relief as may be just and proper.

DATED: March 16, 2010

CHIMICLES & TIKELLIS LLP

/s/ Pamela S. Tikellis

Pamela S. Tikellis (#2172)
Robert J. Kriner, Jr. (#2546)
Scott M. Tucker (#4925)
Tiffany J. Cramer (#4998)
222 Delaware Ave.
P.O. Box 1035
Wilmington, DE 19899
(302) 656-2500

GRANT & EISENHOFER, P.A.

/s/ Michael J. Barry

Jay W. Eisenhofer (# 2864)
Michael J. Barry (# 4368)
Ned C. Weinberger (# 5256)
1201 N. Market Street
Wilmington, DE 19801-2599
(302) 622-7000

KAHN SWICK & FOTI, LLC

Lewis S. Kahn
Michael A. Swick
Albert M. Myers
Kevin L. Oufnac
650 Poydras Street, Suite 2150
New Orleans, LA 70130
(504) 455-1400

BARRACK, RODOS & BACINE

Daniel E. Bacine
Julie B. Palley
3300 Two Commerce Square
2001 Market Street
Philadelphia, PA 19130
(215) 963-0600

- and -

A. Arnold Gershon
1350 Broadway
Suite 1001
New York, NY 10018
Phone: (212) 688-0782

Co-Lead Counsel for Plaintiffs

LABATON SUCHAROW LLP

Sidney S. Liebesman (#3702)
One Commerce Center
1201 N. Orange Street, Suite 801
Wilmington, DE 19801
(302) 573-2540

Of Counsel



IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN RE BARNES & NOBLE
STOCKHOLDER DERIVATIVE LITIGATION

C.A. No. 4813-VCS

CERTIFICATE OF SERVICE

I, Scott M. Tucker, do hereby certify that I caused copies of Plaintiff's Notice of Filing Amended Verified Consolidated Shareholder Derivative Complaint and Exhibits thereto to be served upon Defendants by serving the following counsel on March 17, 2010 in the manner indicated:


BY LEXIS NEXIS FILE AND SERVE

Peter J. Walsh, Jr., Esq.
William E. Green, Esq.
Potter Anderson & Corroon LLP
1313 North Market Street
P.O. Box 951
Wilmington, DE 19899

Gregory P. Williams, Esq.
Blake K. Rohrbacher, Esq.
Lisa A. Schmidt, Esq.
Richards Layton & Finger, P.A.
One Rodney Square
Wilmington, DE 19801

Kenneth J. Nachbar, Esq.
Morris Nichols Arshat & Tunnell LLP
1201 North Market Street
P.O. Box 1347
Wilmington, DE 19899

Sidney S. Liebesman, Esq.
Finger, Slanina & Liebsman, LLC
One Commerce Center
1201 N. Orange Street, 7th Floor
Wilmington, DE 19801



Scott M. Tucker (#4981)

CERTIFICATE OF SERVICE

I hereby certify that on this 25th Day of March, 2010, a copy of the foregoing Certification Pursuant to Court of Chancery Rule 5(g) was electronically served via *LexisNexis*

File And Serve on the following counsel of record:

Sidney S. Liebesman
FINGER, SLANINA
& LIEBESMAN, LLC
One Commerce Center
1201 N. Orange Street, 7th Floor
Wilmington, Delaware 19801

Pamela S. Tikellis
CHIMICLES & TIKELLIS LLP
222 Delaware Avenue, Ste. 1100
Wilmington, DE 19801

Kenneth J. Nachbar (#2067)
MORRIS, NICHOLS,
ARSHT & TUNNELL LLP
1201 N. Market St., 18th Fl.
Wilmington, DE 19899

Michael J. Barry
GRANT & EISENHOFER, PA
1201 N. Market Street, Ste. 2100
Wilmington, DE 19801

Gregory P. Williams
RICHARD, LAYTON & FINGER, PA
One Rodney Square
920 N. King Street
Wilmington, DE 19801

/s/ William E. Green, Jr.
William E. Green, Jr. (#4864)