Barnes & Noble posts 3Q loss as Nook demand slows

MAE ANDERSON - AP Business Writer - Associated Press

Physical books may have a longer shelf life than expected. Barnes & Noble posted a third-quarter loss on Thursday, partly because demand for its e-books and Nook e-book readers have plummeted.

Many have predicted the eventual demise of physical books, as e-book readers and e-book demand soars. But that trend appears to be slowing, at least with the Nook, according to Barnes & Noble CEO William Lynch. And digital "cannibalization" — consumers buying e-books instead of physical books — has also slowed.

The company reported said sales of digital media — including digital books, digital newspapers and magazines, and apps — rose just 7 percent during the fiscal third quarter. Sales had risen 38 percent in the second quarter and 46 percent in the first quarter.

Barnes & Noble, based in New York, has invested heavily in its Nook e-book readers and a digital library as more readers shift to electronic books and competition has grown from discount stores and online rivals.

"After the hyper growth in the e-book market over the last few years, consumers have settled into their book formats of choice, and while e-books will continue to drive growth in the book category in the future, physical book sales will have a longer tail (or longer life expectancy) than previously anticipated," he said in a call with investors.

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, it has not been profitable, and has fared worse than its competitors, Amazon.com's Kindle and Apple Inc.'s iPad and iPad Mini.

The company acknowledged it needs to take significant steps to make the Nook unit profitable, or try to spin it off. Lynch said cost cutting and other measures are forthcoming, and Barnes & Noble shares rose nearly 8 percent.

The Nook weighed on the retail stores. Revenue in the entire retail unit, which includes the bookstores and website, fell 10 percent to $1.51 billion. Revenue in stores open in at least one year fell 7.3 percent, and store closings and lower online sales also hurt results. But excluding Nook sales, revenue in Barnes & Noble stores open at least one year fell 2.2 percent in the fourth quarter.

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

The company has 689 bookstores in 50 states as well as 674 college bookstores.

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 the 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.

Nook revenue fell 26 percent to $316 million. Barnes & Noble company recorded $21 million in returns due to weak demand during the holiday season, and $15 million in allowances for promotions.

"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.

In a call with investors, Lynch also addressed the offer of Leonard Riggio, Barnes & Noble's founder, to buy the physical bookstores and website of Barnes & Noble, but not the Nook unit. No terms or other details have been announced.

"We can't comment further on Len Riggio's plan to make a proposal to purchase the retail business other than to confirm ongoing discussions between Len and the strategic committee of the board," Lynch said Thursday.

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.

Shares rose $1.18, or 7.8 percent, to $16.41 during midday trading. The stock has traded between $10.45 and $26 during the past 52 weeks.