



IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

YUCAIPA AMERICAN ALLIANCE FUND II, L.P., a )  
 Delaware limited partnership, and YUCAIPA )  
 AMERICAN ALLIANCE (PARALLEL) FUND II, L.P., )  
 a Delaware limited partnership, )  
 )  
 Plaintiffs, )  
 )  
 v. )  
 )  
 LEONARD RIGGIO, STEPHEN RIGGIO, GEORGE )  
 CAMPBELL JR., MICHAEL J. DEL GIUDICE, )  
 WILLIAM DILLARD, II, PATRICIA L. HIGGINS, )  
 IRENE R. MILLER, MARGARET T. MONACO, )  
 LAWRENCE S. ZILAVY, and BARNES & NOBLE, )  
 INC., a Delaware corporation. )  
 )  
 Defendants. )

C.A. No. \_\_\_\_\_

**VERIFIED COMPLAINT FOR DECLARATORY RELIEF,  
INJUNCTIVE RELIEF AND DAMAGES**

Yucaipa American Alliance Fund II, L.P. and Yucaipa American Alliance (Parallel) Fund II, L.P (collectively, “Yucaipa” or “Plaintiffs”), by and through their undersigned counsel, allege, upon knowledge as to their own actions and otherwise upon information and belief (including the investigation of counsel and review of publicly available information), as follows:

**SUMMARY OF ACTION**

1. This case is about a self-dealing scheme designed to entrench the Riggio family in their control of Barnes & Noble, Inc. (“B&N” or the “Company”) and prevent an effective proxy contest from being mounted by Yucaipa or other public stockholders.<sup>1</sup> In breach of their fiduciary duties, the Board of Directors of B&N, Leonard Riggio, Stephen Riggio, George

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<sup>1</sup> In this Complaint, all stockholders other than the Riggio family, those business associates beholden to the Riggio family, the Board and Company management are referred to as the “public stockholders.”

Campbell Jr., Michael J. Del Giudice, William Dillard, II, Patricia L. Higgins, Irene R. Miller, Margaret T. Monaco, and Lawrence S. Zilavy (the “Director Defendants” or the “Board”), adopted a poison pill triggered when any stockholder other than the Riggio family acquires 20% or more of the outstanding shares of B&N. This poison pill was adopted shortly after Yucaipa’s public announcement that it intended to express its views “regarding the need for improved corporate governance,” and contemporaneously with Yucaipa’s acquisition of 17.8% of B&N common shares. The Board did so despite the fact that the Riggio family owns approximately 32.4%<sup>2</sup> of B&N common shares and, together with other B&N insiders and business associates beholden to the Riggios, they collectively own approximately 38.2% of B&N common shares.

2. The B&N Board, in a further breach of its fiduciary duties, subsequently refused (a) Yucaipa’s request to allow public stockholders to purchase, without triggering the poison pill, an equivalent amount of B&N common shares to those owned by the Riggio family, and (b) to directly answer Yucaipa’s question as to whether Riggio family members were allowed, under the vague and ambiguous provisions of the poison pill, to acquire more than 50% of B&N common shares.

3. The B&N Board has not identified any material benefit to the Company’s public stockholders in adopting the poison pill. Yet the benefits to the Riggio family and the Board in ensuring that they will remain in control and office are obvious. This is particularly troublesome given the Board’s failure to use an independent special committee when adopting the poison pill and the history of self-dealing transactions involving the Riggios, including:

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<sup>2</sup> All share calculations are based on information in either the Company’s or the individual stockholder’s most recent SEC filings. Beneficial ownership is calculated consistent with Rule 13d-3(d)(1)(i) promulgated under the Securities Exchange Act of 1934, as amended, and therefore includes options exercisable within 60 days of the date the information was reported.

- a. Using B&N as the Riggios' personal piggy bank, when they sold Barnes & Noble College Booksellers, Inc. ("College Books") – owned by Leonard Riggio and his wife – to B&N for cash and notes<sup>3</sup> at an above-market price and interest rate, respectively;
  - b. Causing B&N to enter into leases with entities in which the Riggio family has an interest with aggregate annual rent of approximately \$5.5 million in fiscal year 2008 alone;
  - c. Causing B&N to purchase textbooks, for \$8.25 million in fiscal year 2008 alone, from MBS Textbook Exchange, Inc. – an entity in which Leonard Riggio, Stephen Riggio and various members of the Riggio family have a majority interest; and
  - d. Causing B&N to hire a company owned by Leonard and Stephen Riggio's brother and friends to provide freight distribution services for all of B&N's shipping to its retail stores.
4. Yucaipa expects to propose a slate of three directors to oppose management's slate at the next annual meeting of B&N stockholders which B&N has publicly stated will be held on or before September 30, 2010. As detailed below, the poison pill – with one set of rules for the Riggio family and another set of rules for all the other B&N stockholders – creates a terribly slanted playing field and makes it extremely difficult, if not impossible, for Yucaipa and B&N's other public stockholders to overcome the huge voting advantage the poison pill gives to the Riggio family and their beholden business associates. The poison pill gives the Riggios and the Board an unfair advantage in a proxy contest by deterring or preventing public stockholders

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<sup>3</sup> The notes also contain a change of control provision – often referred to as a “poison put.”

from exercising their franchise, thereby ensuring that the Riggio family and the incumbent Board remain in control and in office.

5. Yucaipa challenges those features of the poison pill that inhibit B&N's public stockholders from exercising their stockholder franchise. Yucaipa requests that the Court implement one or more of the following remedies for Defendants' breaches of their fiduciary duties in adopting and refusing to amend the poison pill. These are all designed to level the playing field so that (a) B&N's public stockholders may, through a proxy contest, fairly express their displeasure with the Riggios' self-dealing transactions and the Board's complicity in approving them, and (b) B&N's public stockholders may fairly assert and protect their rights as stockholders now and in the future.

6. First, Yucaipa requests that the Court declare that the 20% trigger for the poison pill is invalid and should instead be at least 30%. This is less than the approximately 32.4% of B&N's outstanding shares owned by the Riggio family, whom the B&N Board preferentially exempted from the effects of the poison pill. Alternatively, Yucaipa requests that the Court enjoin the Riggio family from exercising voting rights for any of their shares above the 20% ownership limit that the poison pill imposes on other stockholders.

7. Second, Yucaipa requests that the Court declare that no member of the Riggio family may acquire shares resulting in collective ownership by the Riggio family of more than the approximately 32.4% of the Company's outstanding shares that the family owned at the time the poison pill was adopted.

8. Third, Yucaipa requests that the Court declare that Yucaipa and other stockholders may, without triggering the poison pill, cooperate with and/or enter into agreements, arrangements or understandings with any other stockholder of the Company with

respect to (a) a proxy contest for the election of directors, or (b) a vote of the stockholders concerning whether to keep the poison pill in place. Alternatively, Yucaipa requests that the Court declare that the provisions of the poison pill which would cause the pill to be triggered by such stockholder actions are invalid.

9. Leonard Riggio personally owns approximately 30.6% of B&N's issued and outstanding common stock, and exercises practical dominion and control over the business and affairs of the Company as its founder, largest individual stockholder, CEO until 2002 (when he was replaced by his brother, Stephen) and Chairman of the Board since 1986. In addition, Leonard Riggio dominates the Board through personal and professional relationships with the other Director Defendants. Leonard Riggio is a "controlling stockholder" of the Company. While serving as the Chairman of B&N's Board and during his tenure as CEO, Leonard Riggio repeatedly engaged in self-dealing transactions with B&N and used its resources to advance his own family's personal business ventures at the expense of B&N and its public stockholders.

10. For example, in August 2009, B&N agreed to purchase College Books. College Books was a company then owned entirely by Leonard Riggio and his wife. While Leonard Riggio and his wife received over a half a billion dollars in cash and notes from the transaction, B&N used much needed cash and incurred significant debt to pay an excessive amount for a company that conducts business in an increasingly challenging environment: college textbook sales. Immediately prior to the College Books transaction, Leonard Riggio also caused College Books to distribute 667,058 B&N shares held by College Books (representing approximately 1.2% of the outstanding B&N shares) to 17 members of College Books' management, all of whom were appointed by Leonard Riggio. Due to Leonard Riggio's substantial control and

influence over the Board, it is not surprising that they approved such an unfavorable transaction that was disadvantageous and not entirely fair to the Company or its public stockholders.

11. In response to such blatant self-dealing by Leonard Riggio, and with legitimate concerns about the adequacy and enforcement of the Company's corporate governance policies and practices (as evidenced by, among other things, the College Books transaction), Yucaipa began to raise with the Board concerns about the Riggios' self-dealing and domination of the Company, the deteriorating performance of the Company, and the poor corporate governance at the Company. These communications were either ignored or rebuffed by Leonard Riggio and the other Board members. With the stock price of B&N declining after the College Books acquisition and believing that, despite this acquisition, B&N's shares were still undervalued, Yucaipa acquired shares in the Company to, among other things, increase its voting power should it decide to nominate a slate of independent directors at B&N's next annual stockholder meeting. However, without a stock position large enough to neutralize the Riggios' voting power (which is supplemented by their control of the corporate machinery and treasury), a proxy contest to provide the Company's stockholders an alternative to the continued self-dealing domination of the Company by the Riggios is practically impossible. B&N's nine-member Board is divided into three classes elected for three year terms. Thus, even if Yucaipa were to succeed in electing a full slate of three independent directors, those directors would be a minority of the Board.

12. Just four days after Yucaipa disclosed that it had increased its stake in B&N to approximately 16.8% and announced its concern about the governance of B&N (and the same day that Yucaipa disclosed that it had increased its stake to approximately 17.8%), the Board adopted the poison pill. The Board's sudden concern with Yucaipa's accumulation of shares was

in marked contrast to the Board's historical indifference to the Riggios' accumulation of shares. For example, the Company had adopted a poison pill in July 1998 which it allowed to expire in July 2008, and the Company expressly elected, in its certificate of incorporation, not to be governed by Section 203 of the Delaware General Corporation Law. Thus, during this period when the most obvious party could acquire absolute control of the Company without paying an appropriate premium – the Riggio family – the Board was indifferent to protecting the public stockholders from share purchases by the Riggios. Indeed, as detailed below, the Board authorized transactions that actually *increased* the Riggios' percentage ownership while the prior poison pill was in place. However, within days after the Riggios and the Board became aware that Yucaipa might be willing to accumulate a stock position large enough to challenge the Riggios and thereby provide a meaningful choice to the public stockholders in a proxy contest, the Board adopted a poison pill. The Board's action was not for the purpose of protecting the public stockholders, but rather for the sole purpose and with the effect of obstructing any stockholder from running a proxy contest challenging the Riggios' dominance and control as well as assuring that they would remain in office.

13. The poison pill is replete with provisions that operate to the advantage of the Riggios and to the detriment of B&N's public stockholders. For example:

- a. Leonard Riggio, who beneficially owned approximately 30.6% of the Company's common stock at the time the Board adopted the poison pill, is exempted from the poison pill's 20% trigger.
- b. Even though the "grandfather" provision of the poison pill is drafted as a general provision of purportedly neutral application, the only stockholder who can

possibly qualify for the exception to the general 20% ownership rule is Leonard Riggio and other Riggio family members (or trusts for their benefit);

- c. The poison pill allows for transfers of shares among the members of the Riggio family or trusts for their benefit without triggering the poison pill, establishing members of the Riggio family as part of a special class of stockholders with preferential rights.
- d. The poison pill is triggered if stockholders owning more than 20% of the stock of the Company enter into any “agreement, arrangement or understanding (written or oral) for the purpose of . . . voting . . . any voting securities of the Company . . . [or] . . . **cooperate** in . . . influencing the control of the Company.” (Emphasis supplied.) This broadly worded provision is intended to stifle stockholder dissent by preventing existing, dissatisfied stockholders of the Company from “cooperating” in connection with a proxy contest which might dislodge the Riggios from wielding de facto control of the Company, notwithstanding that the Riggios and others beholden to them already own approximately 38.2% of the Company’s stock.
- e. The poison pill effectively prohibits stockholders owning, individually, shares, which if added together would be in excess of 20%, from cooperating, reaching agreements, arrangements or understandings in connection with a proxy contest while the Riggio family through the Company is free to engage in all of those activities. As a result, the pill materially interferes with the stockholder franchise.
- f. The poison pill is written with a calculated and artful ambiguity as to whether the entire Riggio family is “grandfathered” under the poison pill but unable to acquire

any additional shares, or whether members of the family other than Leonard Riggio could acquire additional stock of the Company, so that the family could collectively acquire over 50% of the Company's stock without triggering the poison pill. Indeed, when Yucaipa twice asked in letters whether any member of the Riggio family could acquire additional shares without triggering the poison pill, the Board twice refused to directly answer the question.

- g. The poison pill operates to preclude collective action by public stockholders – none of whom owns more than 20% of the Company's stock – but apparently allows members of the Riggio family, which already beneficially owns approximately 32.4% of the stock, to achieve absolute voting control.
- h. The poison pill expressly allows the Board to approve additional share acquisitions by the Riggio family so that the poison pill is not triggered by such acquisitions, but the poison pill does not provide the same approval mechanism for share acquisitions by persons other than the Riggios.
- i. The poison pill is not triggered by additional shares being issued to Leonard or Stephen Riggio, who already beneficially own approximately 32.4% of the Company's stock, pursuant to the Company's compensation plans. Thus, the Riggios will be able to augment their share position under the poison pill.

14. As set forth herein, the Board has used the poison pill as a weapon to intentionally discriminate against Yucaipa and B&N's other public stockholders. The poison pill deters or prevents B&N's public stockholders from conducting a proxy contest and operates to entrench the Riggios to the detriment of the public stockholders. Such a result constitutes an impermissible restraint upon B&N's public stockholders' franchise rights, serving only the

Riggios' and the Director Defendants' self-interests to maintain control of the Company and remain in office.

15. The Board's adoption and maintenance of the poison pill is wrongful for numerous reasons, including:

- a. The poison pill was adopted and is being maintained for the principal purpose and/or effect of frustrating a proxy contest and improperly limiting the public stockholder franchise.
- b. The adoption of the poison pill with a 20% trigger, while "grandfathering" the Riggio family's significantly higher ownership stake and potentially allowing them to acquire absolute voting control, is not reasonable in relation to any legitimate corporate purpose.
- c. The poison pill materially interferes with the stockholder franchise. The Board in adopting the poison pill did not and cannot identify either a compelling corporate justification or a threat to an important corporate policy which would outweigh the harm to the stockholder franchise.
- d. The poison pill is an unfair, self-dealing transaction between the Company and the Riggios because it provides materially preferential treatment and custom-made benefits to the Riggios who exercise practical control over the Company.
- e. The Board was grossly negligent in adopting and maintaining the poison pill, because the Board either ignored or failed to understand the most critical component of the poison pill: how the poison pill would inappropriately and disproportionately benefit and protect the Riggios' exercise of control and would materially and unfairly disenfranchise and discriminate against the other

stockholders of the Company. Indeed, even after twice being asked in writing, the Board refused to answer the basic but critical question of whether the Riggios can acquire more than 50% of the Company's stock without triggering the poison pill. (See Exhibit A, Yucaipa's letter, dated January 28, 2010, to the B&N Board; Exhibit B, B&N's letter to Managing Partner of Yucaipa, dated February 17, 2010; Exhibit C, B&N's 8K dated February 17, 2010, attaching amendment to the poison pill; and Exhibit D, Yucaipa's letter, dated February 25, 2010, to the B&N Board, to which there has been no response.)

- f. The Board acted in bad faith because (i) no committee of independent directors considered whether the adoption of a poison pill with custom-crafted Riggio exceptions was for the benefit of the other stockholders and (ii) the adoption and continuation of the poison pill are not in the best interests of the Company or its public stockholders, but instead were intended to stifle stockholder dissent and to ensure the Riggios' continued control of the Company.

16. The purpose for which the poison pill was adopted is best demonstrated by the Board's response to Yucaipa's request that it be permitted to acquire the same percentage of shares as were collectively owned by the Riggios and other B&N insiders. The acquisition of such a share position by Yucaipa would not cause a change of control, but rather would neutralize the practical control exercised by the Riggios and the insiders beholden to them, thereby enhancing the value of the remaining public shares. Yet, the Board refused Yucaipa's request without any legitimate explanation of resulting benefit to the Company's public stockholders, nor did the Board address why it was appropriate at the same time to enshrine the Riggios' ownership and control by creating a different set of rules for them. It is manifest that

only the Riggios and those beholden to them benefit from the Board's refusal to allow any other stockholder to own an equivalent stake in the Company.

### **THE PARTIES**

17. Plaintiff Yucaipa American Alliance Fund II, L.P. ("YAAF II") is a Delaware limited partnership with its principal place of business located at 9130 W. Sunset Boulevard, Los Angeles, California 90069. YAAF II is the direct beneficial owner of 6,806,868 shares of B&N's common stock, which represents 11.8% of the B&N shares outstanding.

18. Plaintiff Yucaipa American Alliance (Parallel) Fund II, L.P. ("YAAF II Parallel") is a Delaware limited partnership with its principal place of business located at 9130 W. Sunset Boulevard, Los Angeles, California 90069. YAAF II Parallel is the direct beneficial owner of 4,484,345 shares of B&N's common stock, which represents 7.8% of the B&N shares outstanding.

19. YAAF II and YAAF II Parallel together beneficially own 11,291,213 shares representing approximately 19.6% of the B&N shares outstanding and at all times relevant hereto, have been record or beneficial stockholders of B&N shares.

20. Defendant Leonard Riggio has been Chairman of the Board since 1986. He also served as the Chief Executive Officer 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 the direct beneficial owner of 17,900,132 shares of B&N's common stock, which represents approximately 30.6% of the shares outstanding, and is by far the largest individual stockholder of B&N.

21. Defendant Stephen Riggio is the younger brother of Leonard Riggio, and has been a director of the Company since September 1993. 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. He was appointed Vice-Chairman in 1997, and replaced Leonard Riggio as Chief Executive Officer from February 2002 until March 18, 2010, when he was succeeded by William Lynch. Stephen Riggio is the direct beneficial owner of 1,516,751 shares of B&N common stock, which represents approximately 2.6% of the B&N shares outstanding. In addition, he is the beneficiary of options to purchase another 964,202 B&N shares held in trust for him by Leonard Riggio. Each fiscal year since at least 2006, Stephen Riggio has been paid at least approximately \$3 million by the Company in cash and equity-based compensation.

22. Defendant George Campbell Jr. ("Campbell") has been a B&N Board member since 2008, and serves on the Compensation Committee. Campbell beneficially owns 8,115 shares of B&N common stock. In 2008, Campbell received over \$60,000 in director compensation.

23. Defendant Michael J. Del Giudice ("Del Giudice") has served as a B&N Board member since 1999, and is the Chair of the Compensation Committee and a member of the Corporate Governance and Nominating Committee and the Audit Committee. Del Giudice beneficially owns 46,974 shares of B&N common stock. In 2008, he was paid nearly \$130,000 in director compensation.

24. Defendant William T. Dillard, II ("Dillard") has been a member of the B&N Board of Directors since November 1993, when B&N went public. Dillard is the Chair of the Corporate Governance and Nominating Committee, and is a member of the Compensation Committee. Dillard beneficially owns 89,635 shares of B&N common stock. In 2008, he was paid over \$200,000 in director compensation.

25. Defendant Patricia L. Higgins (“Higgins”) served on the B&N Board from 1999 to 2004 and again since June 2006. Higgins is a member of the Audit Committee and the Corporate Governance and Nominating Committee. Higgins beneficially owns 32,553 shares of B&N common stock. In 2008, she was paid over \$200,000 in director compensation.

26. Defendant Irene R. Miller (“Miller”) has been a member of the Board of the Company since May 1995. Miller served as the Chief Financial Officer of the Company from September 1993 to June 1997. From September 1995 to June 1997, Miller was Vice-Chairman of the Company. Miller beneficially owns 51,329 shares of B&N common stock. In 2008, Miller received nearly \$200,000 in director compensation.

27. Defendant Margaret T. Monaco (“Monaco”) has been a member of the Company Board since May 1995 and serves on the Audit Committee. Monaco beneficially owns 93,848 shares of B&N common stock. In 2008, Monaco received nearly \$200,000 in director compensation.

28. Defendant Lawrence S. Zilavy (“Zilavy”) has been a Board member since June 2006. Zilavy beneficially owns 32,553 shares of B&N common stock. In 2008, Zilavy received more than \$140,000 in director compensation.

29. Defendant Barnes & Noble, Inc. (“B&N” or the “Company”) is a corporation organized and existing under the laws of the State of Delaware, with its principal place of business at 122 Fifth Avenue, New York, New York.

### **FACTS COMMON TO ALL COUNTS**

#### **A. A Brief Overview of Barnes & Noble and Its Current Financial Status**

30. B&N is the world’s largest bookseller. The Company’s main businesses include retail stores, internet sales, publishing, and eBooks. As of October 2009, the Company operated

775 retail book stores and over 630 college bookstores, and conducted its online businesses through barnesandnoble.com llc.

31. In fiscal year 2008, B&N had revenues of \$5.12 billion, compared to \$5.29 billion in 2007. As reported by Reuters Company Research on April 29, 2010, over the past five years, B&N lost approximately 35% of its market value – underperforming the S&P 500 Total Return Index by approximately 39%. According to data from Standard & Poor’s Equity Research as of April 24, 2010, over the last three years, B&N sales have been stagnant, hovering at a compound-annual growth rate of less than 1% while net income has fallen on average by approximately 16% per year during that period.

32. For the third-quarter that ended January 30, 2010, B&N earned \$80.4 million, or \$1.38 a share, approximately a 5.6% decrease from \$85.1 million, or \$1.42 a share, for the book retailer for the same period in the previous year. For the same time period, store sales fell 4.7% to \$1.3 billion and sales at stores open at least 15 months fell 5.5%, compared to the same period in the previous year. B&N expects a fourth-quarter loss between 85 cents and \$1.15 a share. For the year, the Company foresees earnings in the range of 23 cents to 53 cents. Additionally, B&N expects a stores sales drop between 3% and 5% for the current fiscal year.

**B. The Riggios’ Control Over the Company**

33. B&N is controlled by Leonard Riggio, its founder, Chairman of the Board, and controlling stockholder. Leonard Riggio controls B&N through his beneficial ownership of approximately 30.6% of B&N’s outstanding common stock and through his influence over the Board and other persons beholden to him, including, Stephen Riggio, who owns approximately 2.6% of the outstanding B&N shares and for whom Leonard Riggio holds in trust options to purchase 964,202 shares of stock for his benefit. Leonard Riggio and Stephen Riggio

collectively own approximately 32.4% of the Company. If the shares of B&N stock received by the former College Books officers and employees – all of whom were appointed by Leonard Riggio – are included, the percentage increases to approximately 33.5%. The non-Riggio directors and officers of the Company beneficially own 3,386,508 shares, increasing the percentage of shares owned by the Riggio family and those beholden to it to approximately 38.2%.

34. While serving as the Chairman of B&N's Board and during his tenure as CEO of the Company, Leonard Riggio repeatedly used B&N and its resources to advance the business ventures of himself and his family and friends at the expense of B&N and its stockholders. For example, Leonard Riggio caused B&N to enter into leases with entities in which the Riggio family has an interest with aggregate annual rent of approximately \$5.5 million in fiscal year 2008 alone. Leonard Riggio also caused B&N to purchase textbooks, in an amount totaling \$8.25 million in fiscal year 2008 alone, from MBS Textbook Exchange, Inc. – an entity in which Leonard Riggio, Stephen Riggio and various members of the Riggio family have a majority interest. Additionally, Leonard Riggio caused B&N to hire a company owned by a brother of Leonard and Stephen Riggio and friends to provide freight distribution services for all of B&N's shipping to its retail stores. Leonard Riggio also caused B&N to transact business on noncompetitive and disadvantageous terms with two other companies in which he holds minority interests. These companies were B&N's principal supplier of music, movies, newspapers and magazines, and its supplier for database equipment and services. Finally, in yet another unfair related-party transaction, Leonard Riggio caused B&N to buy one of his companies that later became a wholly-owned subsidiary of GameStop Corp. ("GameStop") at a significant premium over the price he and his investor friends had paid just two years earlier. Leonard Riggio

subsequently had B&N divest its holdings in GameStop despite its success, which resulted in Leonard Riggio receiving the largest distribution of shares due to his status as B&N's largest individual stockholder.

35. Not surprisingly, B&N and its public stockholders have been harmed by these unfair transactions with companies controlled by or affiliated with Leonard Riggio. B&N has been overcharged for goods and services, forced to sell goods at a discount or subsidize Leonard Riggio's related companies' operating costs by providing office space at cost, and marketing and other services at no cost. By approving these types of related transactions, the Board, comprised of friends, employees, and others beholden to Leonard Riggio, have repeatedly demonstrated their lack of independence from the Company's Chairman by their willingness to rubber stamp transactions that give Leonard Riggio and his friends and family substantial benefits to the detriment of B&N and its stockholders.

**C. The College Books Acquisition**

**1. *Background of College Books***

36. College Books was founded by Leonard Riggio in 1965 and is one of the largest operators of college and university bookstores in the nation. College Books was entirely owned by Leonard Riggio and his wife, Louise Riggio, until it was acquired by B&N on September 30, 2009.

37. Leonard Riggio abused his power over B&N by siphoning benefits from the Company to advantage College Books. For example, B&N subsidized College Books' operating costs by leasing office space to College Books at cost, and supplying inventory to College Books stores at attractive rates. Leonard Riggio's manipulation of B&N allowed College Books to become one of the largest operators of college and university bookstores in the U.S. However,

when faced with declining sales growth and a changing market landscape, Leonard Riggio liquidated his investment in College Books by selling it to B&N for over half a billion dollars, which drained B&N of cash and significantly increased its debt burden to finance the sale.

**2. *The Board's Announcement of the College Books Acquisition***

38. On August 10, 2009, B&N announced that it had entered into a stock purchase agreement with Leonard and his wife, Louise Riggio, in which B&N would acquire all of College Books's issued and outstanding stock, in a transaction valued at \$596 million. In return, Leonard and Louise Riggio would receive \$346 million in cash and \$250 million in B&N-issued notes.

39. The College Books transaction was completed on September 30, 2009. An SEC filing revealed that the transaction purchase price had been reduced to \$514 million, reflecting \$82 million in cash bonuses paid to College Books management team and employees. In addition, Leonard Riggio caused College Books to distribute 667,058 shares of B&N stock (approximately 1.2% of the outstanding B&N shares) to 17 members of the College Books' management – all of whom were appointed by him. Thus, these individuals profited significantly from the distribution of B&N stock, which would have otherwise been acquired by B&N as part of the acquisition.

**3. *The Self-Interested Transaction Was Not Entirely Fair to B&N's Stockholders***

40. The College Books acquisition price constituted disproportionately large consideration that was well beyond the price any independent, third-party purchaser would pay, particularly due to the recent technological innovations and trends in the college book industry. *Barron's* reported on August 14, 2009 that "the deal strategically makes little sense over time as the company 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 that cash element of the

Barnes & Noble story that has supported it for so long.” Credit Suisse Analyst Gary Balter noted that “the recently announced acquisition of Barnes & Noble College Booksellers significantly raises the [B&N] risk profile and takes away the free cash that could have been used for a special dividend.” Immediately after the deal was announced, Credit Suisse downgraded Barnes & Noble from “Neutral” to “Underperform,” and the Company shares fell by approximately 9.2% the same day (August 14, 2009), further confirming the acquisition’s unfairness.

41. Leonard Riggio used his influence as B&N’s controlling stockholder and Chairman to force College Books onto B&N for grossly excessive consideration of cash and notes, thus shifting the risk of a challenging business from him to B&N and its public stockholders. By using the Company’s assets to enrich himself, he and the Board members which approved the transaction breached their fiduciary duties.

42. Between August 17 and September 18, 2009, six derivative actions were filed in this Court, alleging breaches of fiduciary duties, waste of corporate assets, and unjust enrichment in connection with the approval of the College Books acquisition. The Court subsequently consolidated those actions and a consolidated complaint was filed on November 3, 2009. Thereafter, on March 18, 2010, the plaintiffs filed an amended consolidated stockholder derivative complaint, C.A. No. 4813-VCS.

**D. Yucaipa’s Purchase of Stock Did Not Pose a Threat to B&N Or its Stockholders**

43. In late November 2008, prior to its purchase of any B&N stock, Ronald Burkle (Yucaipa’s managing member) called Leonard Riggio, whom he knew as the result of prior joint investments. Mr. Burkle told Leonard Riggio that he believed B&N’s stock had been battered by the recession and was undervalued. He stated that Yucaipa was going to make an investment in B&N as he believed B&N to be a retailer which offered a “superior customer experience” and

that its stock would do well when the economy improved. He stated that Yucaipa did not seek to acquire or control B&N. Mr. Burkle did offer several ideas as to how B&N might leverage and further enhance the B&N customer experience. Mr. Burkle stated that he did not know if Yucaipa would acquire more than 5% of the B&N common stock, but that if it were going to do so he would tell Mr. Riggio.

44. In late December 2008 or early January 2009, Mr. Burkle met with Mr. Riggio in New York and told him that Yucaipa still believed B&N's stock to be undervalued and Yucaipa was purchasing more B&N shares and would be filing a 13D. Among other things, they discussed the opportunity presented by the bankruptcy of Borders's, B&N's biggest competitor. Numerous parties had suggested that purchasing certain Borders assets (the "Best of Borders") out of bankruptcy would make sense for B&N. Mr. Riggio stated that he was against such a transaction because: (a) he did not want to increase B&N's exposure to retail stores (even by acquiring more retail stores in prime locations at an attractive price); and (b) he wanted to keep B&N liquid and not have B&N incur any additional debt. Mr. Burkle left the decision as to a possible Best of Borders transaction up to the Board and reiterated Yucaipa's desire to be a long-term investor who would from time-to-time offer suggestions as how to improve upon and leverage the superior retail experience that B&N provides to its customers.

45. Between November 24, 2008 and December 31, 2008, Yucaipa acquired an aggregate of 4,584,313 B&N shares and, on January 2, 2009, Yucaipa disclosed in its 13D filing that it beneficially owned approximately 8.3% of B&N's outstanding shares.

46. On August 10, 2009, B&N announced the College Books transaction with the Riggios. This transaction was contrary to what Mr. Riggio had told Mr. Burkle when discussing a possible Best of Borders transaction. Contrary to Mr. Riggio's earlier opposition to increasing

B&N's exposure to retail outlets, the College Books transaction did precisely that; and contrary to Mr. Riggio's earlier opposition to increased debt and desire to maintain B&N's liquidity, the College Books transaction increased B&N's debt by hundreds of millions of dollars and impaired its liquidity by paying significant amounts of cash to the Riggios. Even worse, it lessened Mr. Riggio's personal exposure to the very risks he had expressed a concern about while exposing B&N and its stockholders to those same risks. Mr. Burkle, noting the reversal of Mr. Riggio's prior position, wrote to the Board on August 14, 2009, stating as follows:

Never would I imagine that you would try to put these two companies together. It is contrary to everything that [Leonard Riggio] told me.

Barnes & Noble is a great company. It doesn't need to double-down on the technology risk that the industry faces and it doesn't need to give up the financial stability that its current balance sheet affords it.

You've built a great company and you are a very wealthy man. You don't need to do this. It's not right for the company and it's horrible for your reputation.

*See Exhibit E.*

47. After being ignored and rebuffed by Leonard Riggio and the other Board members, Yucaipa decided to raise its stake in B&N. With the stock price of B&N declining after the College Books acquisition and believing that, despite this acquisition, B&N's shares were still undervalued, Yucaipa acquired shares in the Company to among other things, increase its voting power should it decide to nominate a slate of independent directors at B&N's next annual stockholder meeting. However, without a stock position large enough to neutralize the Riggios' voting power (which is supplemented by their control of the corporate machinery and treasury), a proxy contest to provide the Company's stockholders an alternative to the continued self-dealing domination of the Company by the Riggios is practically impossible. B&N's nine-

member Board is divided into three classes elected for three year terms. Thus, even if Yucaipa were to succeed in electing a full slate of three independent directors, those directors would be a minority of the Board.

48. On November 13, 2009, Yucaipa disclosed in its Amendment No. 1 to its Schedule 13D that it had purchased an additional 5,038,900 shares of B&N common stock, thus increasing its stake in B&N to 16.8%, up from the 8.3% it had held since January 2009. In that filing Yucaipa stated that it was “concerned with the adequacy and enforcement of the Company’s corporate governance policies and practices, as evidenced in part by the recent acquisition of Barnes & Noble College Booksellers, Inc,” and that it “intend[ed] to express [its] views regarding the need for improved corporate governance to the board of directors and the management of the Company,” and that it “may in the future exercise any and all of [its] respective rights as shareholders of the Company in a manner consistent with [its] equity interests.”

49. Three days later, on November 16, 2009, Yucaipa disclosed that it had acquired an additional 457,000 shares of B&N common stock, raising its stake to 17.8% of the B&N shares.

**E. The Board Responds to Yucaipa’s Rising Stake in B&N By Adopting a Poison Pill**

50. The Board responded to Yucaipa’s disclosure that it had upped its stake in B&N to approximately 17.8% by adopting a Stockholder Rights Plan, referred to herein as the “poison pill,” effective November 17, 2009. The poison pill was intended to make it extremely difficult if not impossible for any outside stockholder to conduct a proxy contest to challenge the Riggios and the incumbent Board. The Company concurrently issued a November 17, 2009 press release stating, without directly addressing Yucaipa, that the poison pill was adopted “in response to the

recent rapid accumulation of a significant portion of [B&N's] outstanding common stock," and purportedly "intended to protect the company and its stockholders from efforts to obtain control of the company that are inconsistent with the best interests of the company and its stockholders." In adopting the poison pill, which does not expire for three years, the Board did not create a special committee, in order to minimize the conflict of interest inherent in their adoption of defensive measures, particularly problematic where, as here, the adoption of the defensive measure protects the stock position of an existing controlling stockholder. While B&N has stated that it intends to put the poison pill to a vote of its stockholders within 12 months, it has refused to say whether the poison pill will be put up for a vote at B&N's 2010 annual meeting.

51. The poison pill was implemented in the form of a distribution of a dividend of one "Right" for each outstanding share of common stock, par value \$0.001 per share, of B&N. Each Right entitles the registered holder to purchase from B&N a unit consisting of one one-thousandth (1/1,000) of a share of Series I Preferred Stock, par value \$0.001 per share, of the Company at a price of \$100.00.

52. Under the poison pill, the Rights would become exercisable if a person or group – other than the Riggio family – acquires 20% or more of B&N's common stock or announces a tender offer which results in the ownership of 20% or more of B&N's common stock. The Rights also will be exercisable if a person or group that already owns 20% or more of B&N common stock acquires any additional shares (other than pursuant to B&N's compensation or benefit plans). If the Rights become exercisable, all rights holders (other than the person triggering the poison pill) will be entitled to acquire B&N's common stock at a 50% discount without board approval.

53. The poison pill includes a provision that purports to “grandfather” in any “Excluded Person” who would otherwise trigger the poison pill based on their share acquisition as of the date the pill was adopted. In fact this provision only applies to Leonard Riggio and some or all of this family members, as they are the only stockholders who held more than 20% of the B&N shares at the time the poison pill was adopted. Other provisions allow Excluded Persons (*i.e.*, Leonard Riggio, Stephen Riggio or other members of their family) to freely transfer shares to their family members (and trusts for their benefit) without triggering the poison pill. Tellingly, Excluded Persons may also acquire additional shares without triggering the poison pill with Board approval, but the poison pill does not authorize the Board to approve such exceptions for any other stockholder.

54. In addition to the custom-made Riggio provisions, the poison pill is vaguely worded as to whether the Riggio family can acquire even more shares. If a person is deemed an “Acquiring Person,” as defined in the poison pill, then the poison pill is triggered. The definition generally excludes Leonard Riggio so long as he does not acquire any more shares. However, the poison pill, as adopted on November 17, 2009, expressly excluded from the definition of an “acquiring person” other Riggio family members as follows:

(d) (i) any Person who is an immediate family member of an Excluded Person [*i.e.*, Leonard Riggio or Stephen Riggio] and any trust for the benefit of (or the trustees of which include) such immediate family member or such Excluded Person, which Person or trust acquires from such Excluded Person Common Shares (such shares, “Excluded Shares”) and (ii) any executor or trustee for the estate of an Excluded Person or of such immediate family member, unless and until, in the case of clause (i) and (ii), such Person, trust, executor or trustee, together with all Affiliates and Associates of such Person, trust, executor or trustee, shall become the Beneficial Owner of 20% or more of the Common Shares not including Excluded Shares.

Under the poison pill's definition of an Excluded Person, at a minimum, each of Leonard and Stephen Riggio were Excluded Persons, as each, as brothers, was an immediate family member of the other. Thus, each could acquire the shares of the other without triggering the poison pill. In addition, under the original definition of an Acquiring Person, the poison pill purported to allow Stephen Riggio to acquire an additional 20% or more of the shares of B&N common stock not including any Excluded Shares he might acquire from Leonard or any other immediate family member. The poison pill also purports to allow other immediate family members of either Leonard or Stephen Riggio to acquire shares from one or both of them, or acquire additional shares equal to 20% of the B&N shares outstanding, effectively giving the Riggio family the ability to acquire absolute voting control of the Company without triggering the poison pill.

55. The Board's adoption of the poison pill is also a transparent attempt to deter or prevent Yucaipa (or any other public stockholder) from conducting a proxy contest to elect a slate of directors other than a slate approved by the Riggios and the incumbent Board. The Board accomplishes this objective by the following mechanisms:

- a. Limiting the number of shares any other stockholders could acquire before triggering the poison pill, while allowing the Riggios to retain approximately 32.4% of the shares, or approximately 38.2% when taken together with the other B&N insiders and those beholden to the Riggios.
- b. Allowing the Riggio family members, including Stephen Riggio, to acquire additional shares until each of those family members owned 20% of the shares.
- c. Including an expansive definition of "beneficial ownership" of shares so that a person owns the shares of any other person with whom they have any "agreement,

arrangement or understanding (written or oral) for the purpose of . . . voting . . . any voting securities of the Company . . . [or] . . . to cooperate in . . . influencing the control of the Company.” This provision is intended to preclude existing, dissatisfied stockholders of the Company – even if they owned less than 20% of the B&N shares – from “cooperating” in any way in connection with a proxy contest which might wrest control from the Riggios, even while the Riggio family is permitted to own approximately 32.4% of the B&N shares and be excepted from provisions of the poison pill so that they would be allowed to achieve absolute voting control.

- d. The poison pill effectively prohibits stockholders owning individually shares, which if added together would be in excess of 20%, from cooperating, reaching agreements, arrangements or understandings in connection with a proxy contest while the Riggio family through the Company is free to engage in all of those activities. As a result, the pill materially interferes with the stockholder franchise.
- e. Allowing Leonard and Stephen Riggio (and other Company insiders who are beholden to the Riggio family) to accumulate additional shares under the Company’s compensation or benefit plans.
- f. Allowing the Board to approve the acquisition of additional shares by the Riggios without triggering the poison pill, but does not allow the same exception for any other stockholders, including Yucaipa.

56. When the Board approved and adopted this blatantly discriminatory poison pill, the Company issued a press release stating that the poison pill was “intended to protect the Company and its stockholders from efforts to obtain control of the Company that are inconsistent

with the best interests of the Company and its stockholders.” In fact, it is clear that the Board is only concerned with anyone other than the Riggios having the opportunity to exercise meaningful control over the company. In July 1998, the Company adopted a poison pill with a 15% ownership trigger. However, at that time Leonard Riggio beneficially owned 24% of the stock of the Company (in other words, almost 10% above the poison pill trigger), so the Board “grandfathered” him in and further allowed him to increase his stake by an additional 5% under the terms of the poison pill. In fact, as a result of his acquisition of additional shares and Company share buybacks, Leonard Riggio’s beneficial ownership was allowed to increase to 31.9% of the stock before that poison pill expired in July 2008. Thus, the prior poison pill was used to preclude share accumulations by others while Leonard Riggio increased his percentage of shares from 24% to almost 32%. Once the Riggio family had obtained effective control, the poison pill was allowed to expire. Clearly, Riggio family control and ownership accumulation is viewed differently by the Board than the right of other stockholders to invest in B&N shares, and to exercise their stockholder franchise as owners of the Company. It was only when Yucaipa began to acquire sufficient shares to challenge the Riggios’ control and apply pressure to improve the Company’s inadequate corporate governance policies and practices that the Board suddenly felt compelled to adopt a new poison pill that protects and entrenches the Riggios and the other incumbent Directors while depriving outside stockholders of the free exercise of the stockholder franchise.

57. The adoption of the poison pill was not needed to accomplish the avowed purpose of “protect[ing] the company and its stockholders from efforts to obtain control.” Even without a poison pill, it would be impossible for a third party to obtain control of the Company in fewer than two election cycles, taking no less than two years. In fact, allowing a person to acquire

shares equal to the percentage of shares owned by the Riggios will serve to neutralize the existing control of the Riggios, enhancing the stockholder franchise and making the public shares more valuable.

58. B&N's by-laws and certificate of incorporation provide for a classified Board consisting of three classes, with each director holding office for a term of three years. A super-majority vote of 80% of the outstanding shares is required to amend this article in the certificate. The Board is presently comprised of nine directors, with three seats up for election at B&N's upcoming annual meeting. The by-laws provide that the number of directors may be increased or decreased by resolution of the Board, provided that the Board consists of a minimum of nine and a maximum of twelve directors. Stockholders can only amend the by-laws at a stockholder meeting called by the Board or by written consent, but in either case consent of 80% of the outstanding stock is required. With control of the Board and substantially more than 20% of the outstanding shares, the Riggios can veto any change to the staggered board or the size of the Board.

59. Under these circumstances, there can be no reasonable likelihood of an imminent hostile takeover if Yucaipa or another stockholder acquires a number of shares equal to or less than the percentage of shares owned by the Riggios, as it would take at least two years to gain control of the Board.

60. Following the adoption of the poison pill, Mr. Burkle sent a letter to Leonard Riggio expressing his concern over the poison pill and suggesting ways in which the B&N Board would better serve the interests of B&N and its stockholders:

1. Run the company for the best interests of all the shareholders. The world has changed and you have too many conflicts. Sit down with your advisors and come up with corporate governance changes that are meaningful and empowering, not those that only

serve to entrench management and the Board, such as the recently adopted poison pill.

2. If you want to run it like a private company and you want to run it for your own personal benefit, you should consider making a proposal to buy the Company.

3. If you in fact hate retail and want to take a half billion dollars off the table, then the Board should contemplate options in which all shareholders can participate. Options that increase shareholder risk, but allow you as a controlling shareholder to decrease yours by, among other things, cashing out, are not acceptable for a public company.

I want to make sure you know where I am coming from. I also want to make sure you know that I believe, and I think many of my fellow shareholders would agree, that the recent actions by the Company are not in the best interests of all shareholders. I would like to meet with you whenever it is convenient.”

See Exhibit F. Mr. Burkle never received from Mr. Riggio a response to his letter.

**F. Yucaipa Seeks a Waiver of the Poison Pill**

61. On January 28, 2010, Yucaipa sent a letter to the Board, requesting that the Board (a) allow Yucaipa to acquire, without triggering the poison pill provision, an amount of shares equivalent to the amount controlled by the Riggio family, and (b) confirm that the members of the Riggio family cannot individually or collectively acquire any more common stock without triggering the poison pill provision.

62. In this letter, Yucaipa expressed its concerns regarding the adequacy and enforcement of the Company’s corporate governance policies and practices, as evidenced in part by the Company’s adoption of the poison pill. Specifically, Yucaipa expressed the following concerns:

We believe Barnes & Noble is currently undervalued, and have therefore bought approximately 19% of the outstanding Barnes & Noble common stock in open market purchases. I was surprised to find that, even though I spoke with Leonard Riggio prior to our

purchasing any shares to make sure he understood our views and concerns as an investor, the Company has reacted to our stock purchases by implementing a poison pill prohibiting us (or any other non-Riggio shareholder) from acquiring stock ownership above a 20% threshold.

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.

We believe the poison pill is counterproductive, unnecessary, and inappropriately impairs the free and fair exercise of the shareholder franchise. Put simply, we believe it hurts the share price and inappropriately penalizes Barnes & Noble's "non-Riggio" shareholders. We also firmly believe that by implementing the poison pill but nonetheless allowing Len Riggio and other insiders to own over 37% of the stock, the Board is sending a message to the other shareholders and the investing community that Barnes & Noble is a company controlled and operated for the benefit of selected insiders.

*See Exhibit A.*

63. Permitting Yucaipa to raise its stake to equal that of the Riggios without tripping the poison pill provisions would put Yucaipa "on equal footing" with the Riggio family at the

2010 annual stockholder meeting. Without such changes, winning a proxy contest at the annual meeting would be either mathematically impossible or realistically unattainable.

**G. The Board Confirms Its Motive in Adopting the Poison Pill**

64. In a letter, dated February 17, 2010 (Exhibit B), the Board rejected Yucaipa's request to amend the poison pill so Yucaipa could acquire shares not to exceed the percentage owned or controlled by the Riggios, so that the outcome of a proxy contest would not be adversely affected by the combination of the poison pill's percentage limitation and the preexisting block owned by the Riggios. The Board offered conclusory, self-serving statements that its actions were intended to "protect our shareholders" from "actions that are inconsistent with their best interests," but offered no legitimate explanation as to how it could be in the best interests of the stockholders of the Company to prevent a third-party from having voting parity with the Riggios and their fellow insiders. The Board's refusal of Yucaipa's request reveals that it did not have any legitimate justification or valid corporate purpose for adopting such a discriminatory poison pill, other than to prevent any outside stockholder from challenging the Riggios' control and the Directors' incumbency.

65. Yucaipa's letter also asked the Board to confirm that the members of the Riggio family could not acquire additional shares, at least not without the approval of the Board. Rather than respond to the simple "yes" or "no" question, the Board adopted an amendment to the poison pill with respect to the definition of "Acquiring Person," which the Board claimed in its response letter was intended to "eliminate any ambiguity" as to whether the Riggios could acquire more shares." The revision is exceedingly complex and even more confusing and ambiguous than the flawed provisions it supposedly was designed to fix. The following is a black line comparing the amendment to the original definition of "Acquiring Person":

~~(d) (i) any Person who is (i) an immediate family member of an Excluded Person and any trust for the benefit of (or the trustees of which include) such immediate family member or such Excluded Person, which Person or trust acquires Common Shares from such Excluded Person—Common Shares (such shares, “Excluded Shares”) and, (ii) any executor or trustee for the estate of an Excluded Person or of such immediate family member, ~~unless and until, in the case of clause (i) and (ii), such Person~~ which executor or trustee acquires Common Shares from such Excluded Person or family member (the shares acquired by any such family member, trust, executor or trustee, together with all as described in clause (d)(i) or (d)(ii), the “Specified Shares” and any Person so acquiring Specified Shares, a “Specified Person”) or (iii) an Affiliate or Associate of a Specified Person; provided that, with respect to any Specified Person and its Affiliates and Associates of such Person, trust, executor or trustee, shall become the Beneficial Owner of 20% or more of the Common Shares not including Excluded Shares., this clause (d) shall only be applicable if:~~

(x) in the event the Specified Shares acquired by a Specified Person after the date of this Rights Agreement are more than 20% of the Common Shares then outstanding, (1) within 90 days from such acquisition (or such earlier or later time as the Board may determine and so advise the Specified Person in writing), such Specified Person and/or any or all of its Affiliates and Associates take the necessary actions (if any) to reduce their aggregate Beneficial Ownership of Common Shares to an amount not more than the Specified Shares acquired by such Specified Person, (2) such Specified Person and its Affiliates and Associates vote (which shall include action by written consent for purposes of this definition), with respect to any matter submitted to a vote of the holders of Common Shares, any Common Shares then beneficially owned by any of them (other than such Specified Person’s Specified Shares) on a pro rata basis proportionate to all other votes of Common Shares actually cast on the matter and (3) at all times following a Specified Person’s acquisition of Specified Shares, none of such Specified Person or any of its Affiliates and Associates acquire, without the prior approval of the Board, Beneficial Ownership of any additional Common Shares (other than any such ownership resulting from the exercise of any options or the vesting of any restricted shares, in each case, granted prior to

or after the date hereof under any employee benefit or compensation plan of the Company or any of its Subsidiaries); and

(y) in the event the Specified Shares acquired by a Specified Person after the date of this Rights Agreement are not more than 20% of the Common Shares then outstanding and, after giving effect to the acquisition of such Specified Shares, such Specified Person and its Affiliates and Associates then beneficially own collectively more than 20% of the Common Shares then outstanding, (1) within 90 days from such acquisition (or such earlier or later time as the Board may determine and so advise the Specified Person in writing), such Specified Person and/or any or all of its Affiliates and Associates take the necessary actions to reduce their aggregate Beneficial Ownership of Common Shares to 20% or less of the Common Shares then outstanding, (2) until such Beneficial Ownership is so reduced and solely with respect to the Common Shares beneficially owned by such Specified Person and its Affiliates and Associates in excess of 20% of the Common Shares then outstanding, such Specified Person and its Affiliates and Associates vote, with respect to any matter submitted to a vote of the holders of Common Shares, all such excess Common Shares on a pro rata basis proportionate to all other votes of Common Shares actually cast on the matter, (3) following its acquisition of Specified Shares and until they comply with the requirements of clause (y)(1) above, none of such Specified Person or any of its Affiliates or Associates acquire, without the prior approval of the Board, Beneficial Ownership of any additional Common Shares (other than any such ownership resulting from the exercise of any options or the vesting of any restricted shares, in each case, granted prior to or after the date hereof under any employee benefit or compensation plan of the Company or any of its Subsidiaries) and (4) at all times following their compliance with the requirements of clause (y)(1) above, such Specified Person and its Affiliates and Associates, taken together, do not, without the prior approval of the Board, become the Beneficial Owners of more than 20% of the Common Shares then outstanding (other than any such ownership resulting from the exercise of any options or the vesting of any restricted shares, in each case, granted prior to or after the date hereof under any employee benefit or compensation plan of the Company or any of its Subsidiaries).

...

Any Specified Person subject to clause (x) of the proviso to clause (d) of the second preceding sentence shall, for so long as such Specified Person complies with the requirements of such clause (x), be considered an “Excluded Person” for purposes of clause (d) of such sentence (including for purposes of the definition of “Specified Shares” and “Specified Person”). Any Excluded Person who transfers more than 20% of the Common Shares then outstanding to a Specified Person shall, following such transfer, no longer be considered an Excluded Person for purposes of clause (c) of the third preceding sentence.”

66. While the foregoing amendment places certain restrictions on family members who acquire Specified Shares from an Excluded Person, the amendment still does not answer the fundamental question of whether members of the Riggio family other than Leonard Riggio can acquire shares in excess of the shares owned by them at the time the poison pill was adopted other than from other Riggio family members. If such purchases are permitted, and there is nothing in the poison pill that limits such purchases, the poison pill would allow the Riggio family to acquire absolute voting control over the Company. As noted above, even if the intent and interpretation of this amendment was to limit the Riggios’ ability to acquire additional shares, it still allows additional share acquisition by members of the Riggio family with Board approval, an exception that is not authorized or available to any outside stockholder.

67. There is nothing in the poison pill that would prevent the Board from amending the terms of the poison pill to raise the trigger and allow other stockholders the potential for voting parity with the Riggios. The poison pill expressly provides that “the Company may . . . amend any provision of this Rights Agreement in any manner which the Company may deem necessary or desirable,” at any time prior to the time a triggering event occurs, except that no amendment can be made extending the expiration date or reducing the redemption price. The

poison pill also provides that the B&N Board may terminate the poison pill or redeem the Rights prior to the time the Rights are triggered. Accordingly, the only thing preventing the Board members from amending the poison pill to treat all stockholders the same is their desire to protect the Riggio family and their own effective control over the Company.

**H. Yucaipa's Response to the Board's February 17th Letter**

68. On February 25, 2010, Yucaipa sent a letter to the Board of the Company expressing disappointment in the Board's refusal to permit Yucaipa to acquire additional shares of B&N common stock without triggering the poison pill. Yucaipa repeated the fundamental question from its January 28th letter as to whether the poison pill would allow the Riggio family to acquire complete voting control without triggering the poison pill:

I asked a very simple question – can the Riggio family collectively own 50% or more of the common stock without triggering the poison pill?

Instead of responding to that straightforward question, this 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.

So I ask you again – can the Riggio family collectively own 50% or more of the common stock without triggering the poison pill?

*See Exhibit D.* Yucaipa also requested that the Riggios not be allowed to vote their shares in any stockholder vote on the poison pill due to the “custom-crafted provisions that create personal rights and exceptions for the Riggio family” because “the Riggios have a clear personal interest in the benefits this poison pill gives to them and to no other stockholders, they have a clear conflict of interests and should not be able to exercise their disproportionate voting power (which the poison pill itself enshrines and protects) on the question of whether to retain the poison pill.”

69. In response to other statements contained in the Board's February 17th letter, Yucaipa noted:

- You state that the Company adopted the current poison pill “in response to a rapid accumulation of a significant portion of Barnes & Noble’s outstanding common stock.” However, after the Board implemented its prior poison pill in July 1998 (which had an exception to the ownership limitation allowing Leonard Riggio to hold a greater percentage of stock and even increase his ownership), the Board endorsed actions that allowed Leonard Riggio to increase his share ownership from 24% to 31.9% of the outstanding stock (according to the Company’s Proxy Statements). In denying my request, the Board has, once again, demonstrated that it acts to protect the interests of the Riggio family in maintaining effective control of Barnes & Noble.

- You state that the Riggio family and other Company insiders own 31% of the outstanding stock (which as you know is 11% more than any non-Riggio shareholder is entitled to own, due to the poison pill). However, the Company’s own public filings report that these insiders beneficially own more than 37% of the outstanding stock. Unless the Company has restricted the insiders’ ability to exercise their options or the insiders have committed not to vote any shares issued upon exercise of their options, your statements as to the insiders’ voting power are in our view misleading. In the absence of such restrictions or commitments, the exercise of the options and the right to vote the resulting shares is entirely within the control of these insiders, and they absolutely can vote 37% of the Company’s shares if they choose to do so.

- You state that the Company has previously announced it would put the poison pill to a shareholder vote within 12 months of its adoption. Please confirm that the poison pill will be on the ballot at the upcoming 2010 annual meeting of shareholders (which the Company has announced will be held as soon as reasonably practicable after May 1, 2010 but no later than September 30, 2010).

70. The letter requested a meeting with the non-management directors. A meeting with two B&N directors took place in New York on March 29, 2010. At that meeting, Mr. Burkle, on behalf of Yucaipa, discussed with the directors the Company’s corporate governance practices and Mr. Burkle reiterated (a) Yucaipa’s request that the Company’s poison pill, which was implemented on November 17, 2009 without stockholder approval, either be cancelled or amended to allow any stockholder to acquire the same level of share ownership as the Riggio

family, and (b) Yucaipa's request for clarification that the Riggio family cannot acquire additional shares under the terms of the poison pill. He also recommended that the Company improve its corporate governance practices by adding three to four new independent directors to the Company's Board of Directors. The B&N directors said that they would get back to Mr. Burkle.

71. To date, the B&N Board has not substantively responded to any of the issues raised in the meeting or Yucaipa's letters.

**I. Irreparable Harm**

72. The adoption and continuation of the poison pill is causing irreparable injury to Yucaipa and the other stockholders of B&N in numerous respects, including:

- a. Precluding Yucaipa from acquiring additional shares of the Company to equal or approach the voting power of the Riggios and other insiders;
- b. Allowing the Riggios to acquire additional shares of the Company while Yucaipa is precluded from doing so;
- c. Precluding Yucaipa from cooperating with or reaching an agreement, arrangement or understanding with other stockholders of the Company for the purpose of nominating individuals to serve as directors of the Company, conducting a proxy contest to elect directors to the Board of the Company, or sharing expense in connection with such a proxy contest;
- d. Allowing the Company to utilize the assets of the Company in support of a proxy contest to re-elect the incumbent board and maintain the control of the Riggios while Yucaipa and other stockholders are precluded from doing so;

- e. Precluding Yucaipa and other non-Riggio stockholders owning shares, which if added together would be in excess of 20%, from reaching agreements, arrangements or understandings in connection with a proxy contest while the Riggio family through the Company is free to engage in all of those activities. As a result, the poison pill materially interferes with the stockholder franchise. In adopting the poison pill, the Board did not and cannot identify either a compelling corporate justification or a threat to an important corporate policy which would outweigh the harm to the stockholder franchise.

73. In the absence of expedited judicial relief, Yucaipa and the other public stockholders will suffer or continue to suffer irreparable harm from the Board's wrongful use of the poison pill. Yucaipa expects to nominate a slate of three directors to be elected to the B&N board. It is also considering whether to put before the stockholders other matters, such as a vote on the poison pill, at the 2010 annual meeting (the "2010 Meeting"). Waging an effective proxy contest is expensive and involves time and resources as well as communication and coordination with other stockholders. The Company and the Board are free to communicate with stockholders and to solicit views on board candidates, including reaching understandings or agreements to place representatives of a stockholder or group of stockholders on the Board.

74. In order for Yucaipa to be able to wage a meaningful proxy contest and the B&N stockholders – other than the Riggios and those beholden to them – to effectively exercise their stockholder franchise, Yucaipa needs relief from this Court to level the playing field without triggering the poison pill (1) in advance of the record date for the 2010 Meeting in order to buy additional shares and (2) well in advance of the advance notice by law date in order to communicate, coordinate and reach agreements or understandings with other stockholders, on

such subjects as who would be good candidates for the slate of directors to be nominated for election at the 2010 Meeting, what issues to bring to the stockholders at the 2010 Meeting and the possible sharing of the expense of the proxy contest.

75. B&N has not set the date for the 2010 Meeting. It has publicly stated that it will be held not later than September 30, 2010. B&N has an advance notice by-law that requires Yucaipa to give notice of and information regarding any nominees and proposals not less than 30 days in advance of the meeting date, provided that B&N has publicly announced the date of the 2010 Meeting at least 40 days in advance of the date of the Meeting. If notice of the meeting date is less than 40 days, then the notice and information must be provided 10 days in advance of the meeting date.

76. Assuming that the 2010 Meeting is to be held in mid-September, Yucaipa and the B&N stockholders will need relief from the Court by mid-July or sooner. Unless the provisions of the poison pill precluding cooperation or agreements among stockholders with respect to the nomination of directors or the conduct of a proxy contest are enjoined, Yucaipa will be unable, or irreparably impaired in its ability, to nominate candidates before the deadline established by the advance notice provisions of the bylaw.

77. Unless the provisions of the poison pill setting the level of stock ownership at which the poison pill is triggered are modified, Yucaipa will be unable to acquire shares sufficient to equal or approach the number of shares owned by the Riggios in advance of the record date to be set by the Board for the unscheduled stockholder meeting.

78. Yucaipa has suffered and is suffering irreparable injury as a consequence of the Board's misuse of the poison pill.

**COUNT I – BREACH OF FIDUCIARY DUTY**  
**(Refusal to Amend the Poison Pill: Violation of *Unocal*)**

79. Plaintiffs repeat and reallege the allegations contained in the foregoing paragraphs as if fully set forth herein.

80. The individual defendants owed Yucaipa and B&N's other stockholders uncompromising fiduciary duties of loyalty, good faith, and due care.

81. Delaware law imposes a fiduciary duty on the Director Defendants to act reasonably and not to invoke defensive measures unless they are in response to a legitimate threat to the Company's policy and effectiveness.

82. The Director Defendants have breached their fiduciary duties by refusing to amend the poison pill's 20% trigger because their actions were not reasonable in light of any perceived threat. The Riggios effectively control approximately 38.2% of the shares of B&N, and there are staggered Board elections. The Company has a classified Board structure that requires an 80% stockholder vote to change, and therefore it is effectively "locked in" under the By-laws and Certificate of Incorporation. There is no reasonable likelihood of a hostile takeover of the Company or the Board under these circumstances. The poison pill was not adopted in response to any legitimate threat to corporate policy but, rather, was expressly designed and adopted to prevent an outside stockholder from acquiring sufficient shares to challenge the Riggios' control and the entrenchment of the incumbent Directors. The Director Defendants should be ordered to amend the poison pill's trigger to an amount equal to that owned by the Riggio family. Alternatively, the Riggio family should be enjoined from exercising voting rights for any of their shares above the 20% ownership limit that the poison pill imposes on other stockholders. In addition, the Director Defendants should be ordered to amend the poison pill to

make explicit that all members of the Riggio family cannot individually or collectively acquire any more common stock without triggering the poison pill.

83. Plaintiffs have no adequate remedy at law.

**COUNT II – BREACH OF FIDUCIARY DUTY**  
**(Refusal to Amend the Poison Pill: Violation of *Blasius*)**

84. Plaintiffs repeat and reallege the allegations contained in the foregoing paragraphs as if fully set forth herein.

85. The Director Defendants were under a fiduciary duty to refrain from acting to interfere with the stockholder franchise in the absence of a compelling corporate justification.

86. The Director Defendants’ refusal to increase the 20% trigger in the poison pill to amount equivalent to those shares controlled by the Riggio family was for the principal purpose of disenfranchising the stockholders and preventing the legitimate exercise of the stockholder franchise, including a proxy contest. Because the Riggios effectively control approximately 38.2% of B&N’s shares, and the poison pill prevents any other stockholder from obtaining 20% of the shares, a successful proxy contest is realistically unattainable.

87. No “compelling justification” existed for the Director Defendants’ actions. The Director Defendants should be ordered to amend the poison pill’s trigger to an amount equal to that owned by the Riggio family. Alternatively, the Riggio family should be enjoined from exercising voting rights for any of their shares above the 20% ownership limit that the poison pill imposes on other stockholders. In addition, the Director Defendants should be ordered to amend the poison pill to make explicit that all members of the Riggio family cannot individually or collectively acquire any more common stock without triggering the poison pill.

88. Plaintiffs have no adequate remedy at law.

**COUNT III – BREACH OF FIDUCIARY DUTY**  
**(Refusal to Amend the Poison Pill Constituted Gross Negligence)**

89. Plaintiffs repeat and reallege the allegations contained in the foregoing paragraphs as if fully set forth herein.

90. The Director Defendants owe Plaintiffs and B&N's other stockholders the utmost duty of care.

91. The Director Defendants were grossly negligent in refusing to amend the 20% trigger in the poison pill. The Director Defendants should be ordered to amend the poison pill's trigger to an amount equal to that owned by the Riggio family. Alternatively, the Riggio family should be enjoined from exercising voting rights for any of their shares above the 20% ownership limit that the poison pill imposes on other stockholders. In addition, the Director Defendants should be ordered to amend the poison pill to make explicit that all members of the Riggio family cannot individually or collectively acquire any more common stock without triggering the poison pill.

92. Plaintiffs have no adequate remedy at law.

**COUNT IV – BREACH OF FIDUCIARY DUTY**  
**(Refusal to Amend the Poison Pill Constituted Bad Faith)**

93. Plaintiffs repeat and reallege the allegations contained in the foregoing paragraphs as if fully set forth herein.

94. The Director Defendants owe Plaintiffs and B&N's other stockholders uncompromising fiduciary duties of loyalty, good faith and due care. They must act in the good faith belief that their actions are in the Company's best interest.

95. By refusing to amend the 20% trigger in the poison pill, the Director Defendants have breached their fiduciary duties by acting for an improper purpose. The Director Defendants

breached their duty of loyalty by making a bad faith decision to refuse to amend the poison pill to allow Plaintiffs to collectively acquire shares equal to those beneficially owned by the Riggio family without triggering the poison pill for reasons inimical to the interests of B&N and its stockholders. The Director Defendants' action in refusing to amend the poison pill was taken for entrenchment purposes, and not in reaction to any perceived threat of a hostile takeover. The Director Defendants should be ordered to amend the poison pill's trigger to an amount equal to that beneficially owned by the Riggio family. Alternatively, the Riggio family should be enjoined from exercising voting rights for any of their shares above the 20% ownership limit that the poison pill imposes on other stockholders. In addition, the Director Defendants should be ordered to amend the poison pill to make explicit that all members of the Riggio family cannot individually or collectively acquire any more common stock without triggering the poison pill.

96. Plaintiffs have no adequate remedy at law.

**COUNT V – BREACH OF FIDUCIARY DUTY**  
**(Entire Fairness)**

97. Plaintiffs repeat and reallege the allegations contained in the foregoing paragraphs as if fully set forth herein.

98. The Board's adoption of the poison pill and issuance of the Rights to the Riggios was but one in a long line of self-dealing transactions between the Company and the Riggios. The poison pill is replete with provisions that operate to the advantage of the Riggios and to the detriment of B&N's public stockholders. For example:

- a. Leonard Riggio, who beneficially owned approximately 30.6% of the Company's common stock at the time the Board adopted the poison pill, is exempted from the poison pill's 20% trigger.

- b. Even though the “grandfather” provision of the poison pill is drafted as a general provision of purportedly neutral application, the only stockholder who can possibly qualify for the exception to the general 20% ownership rule is Leonard Riggio and other Riggio family members (or trusts for their benefit);
- c. The poison pill allows for transfers of shares among the members of the Riggio family or trusts for their benefit without triggering the poison pill, establishing members of the Riggio family as part of a special class of stockholders with preferential rights.
- d. The poison pill is triggered if stockholders owning more than 20% of the stock of the Company enter into any “agreement, arrangement or understanding (written or oral) for the purpose of . . . voting . . . any voting securities of the Company . . . [or] . . . cooperate in . . . influencing the control of the Company.” This provision is intended to stifle stockholder dissent by preventing existing, dissatisfied stockholders of the Company from “cooperating” in connection with a proxy contest which might dislodge the Riggios from wielding de facto control of the Company, notwithstanding that the Riggios and others beholden to them own approximately 38.2% of the Company’s stock.
- e. The poison pill is written with a calculated and artful ambiguity as to whether the entire Riggio family is “grandfathered” under the poison pill but unable to acquire any additional shares, or whether members of the family other than Leonard Riggio could acquire additional stock of the Company, such that the family could collectively acquire over 50% of the Company’s stock without triggering the poison pill. Indeed, when Yucaipa twice asked in letters whether any member of

the Riggio family could acquire additional shares without triggering the poison pill, the Board twice refused to directly answer the question.

- f. The poison pill operates to preclude collective action by public stockholders – none of whom own more than 20% of the Company’s stock – but apparently allows members of the Riggio family, which already beneficially owns approximately 32.4% of the stock, to achieve absolute voting control.
- g. The poison pill expressly allows the Board to approve additional share acquisitions by the Riggio family so that the poison pill is not triggered by such acquisitions, but the poison pill does not provide the same approval mechanism for share acquisitions by persons other than the Riggios.
- h. The poison pill is not triggered by additional shares being issued to Leonard or Stephen Riggio, who already beneficially own approximately 32.4% of the Company’s stock, pursuant to the Company’s compensation plans. Thus, the Riggios will be able to augment their share position under the poison pill.

99. The terms of the poison pill are not entirely fair to the other stockholders of the Company. The Court should enjoin the effectuation of the offending provisions of the poison pill identified by Plaintiffs.

100. Plaintiffs have no adequate remedy at law.

**COUNT VI – BREACH OF FIDUCIARY DUTY**  
**(Adoption of the Poison Pill With a 20% Trigger And With Exclusive Benefits**  
**to the Riggio Family: Violation of *Unocal*)**

101. Plaintiffs repeat and reallege the allegations contained in the foregoing paragraphs as if fully set forth herein.

102. The Director Defendants owe Plaintiffs and B&N's other stockholders uncompromising fiduciary duties of loyalty, good faith and due care.

103. Delaware law imposes a fiduciary duty on the Director Defendants to act reasonably and not to invoke defensive measures unless they are in response to a legitimate threat to the Company's policy and effectiveness.

104. The Director Defendants have breached their fiduciary duties by approving and implementing the poison pill with a 20% trigger and creating preferential exceptions and special rights for the exclusive benefit of members of the Riggio family, because their actions were not reasonable in light of any perceived threat. The Riggios effectively control approximately 38.2% of B&N's shares, and there are staggered Board elections that cannot be changed without Riggio family approval due to the 80% vote required to amend the By-Laws and Certificate. There is no reasonable likelihood of a hostile takeover under these circumstances. The poison pill was created not to address a threat to important corporate policy, but rather to prevent another stockholder from acquiring an equal number of shares as the Riggios, thereby counterbalancing their influence on the Board. The poison pill also impermissibly interferes with Yucaipa's and other public stockholders' right to conduct proxy contests and engage in other protected activities in furtherance of their stockholder franchise. The Court should enjoin the effectuation of the offending provisions of the poison pill identified by Plaintiffs.

105. Plaintiffs have no adequate remedy at law.

**COUNT VII – BREACH OF FIDUCIARY DUTY**  
**(Adoption of the Poison Pill With a 20% Trigger And With Exclusive Benefits**  
**to the Riggio Family: Violation of *Blasius*)**

106. Plaintiffs repeat and reallege the allegations contained in the foregoing paragraphs as if fully set forth herein.

107. The Director Defendants owe Plaintiffs and B&N's other stockholders uncompromising fiduciary duties of loyalty, good faith and due care.

108. The Director Defendants were under a fiduciary duty to refrain from acting to interfere with the stockholder franchise in the absence of a compelling corporate justification.

109. By virtue of the facts set forth above, and specifically by adopting the poison pill with a 20% trigger and creating preferential exceptions and special rights for the exclusive benefit of members of the Riggio family in order to prevent a proxy contest, the Director Defendants breached their fiduciary duties. Because the Riggios effectively control approximately 38.2% of B&N's shares and the poison pill prevents any other stockholder from obtaining 20% of the shares, a successful proxy contest is not realistically attainable.

110. No "compelling justification" existed for the Director Defendants' actions.

111. The Director Defendants were not acting in good faith, were not acting with an honest belief that the actions were in the best interest of the company or its stockholders, and wholly disregarded the best interest of B&N in taking these actions. B&N was also acting disloyally to Plaintiffs. The poison pill impermissibly interferes with Yucaipa's and other public stockholders' right to conduct proxy contests and engage in other protected activities in furtherance of their stockholder franchise. The Court should enjoin the effectuation of the offending provisions of the poison pill identified by Plaintiffs.

112. The Plaintiffs have no adequate remedy at law.

**COUNT VIII – BREACH OF FIDUCIARY DUTY**  
**(Adoption of the Poison Pill With a 20% Trigger And With Exclusive Benefits to the Riggio Family Constituted Gross Negligence)**

113. Plaintiffs repeat and reallege the allegations contained in the foregoing paragraphs as if fully set forth herein.

114. The Director Defendants owe Plaintiffs and B&N's other stockholders the utmost duty of care.

115. The Director Defendants were grossly negligent in approving the poison pill with a 20% trigger and when creating preferential exceptions and special rights for the exclusive benefit of members of the Riggio family. The terms of the poison pill were established without any independent advice to the Director Defendants with respect to its terms. The Court should enjoin the effectuation of the offending provisions of the poison pill identified by Plaintiffs.

116. Plaintiffs have no adequate remedy at law.

**COUNT IX – BREACH OF FIDUCIARY DUTY**  
**(Adoption of the Poison Pill With a 20% Trigger And With Exclusive Benefits to the Riggio Family Constituted Bad Faith)**

117. Plaintiffs repeat and reallege the allegations contained in the foregoing paragraphs as if fully set forth herein.

118. The Director Defendants owe Plaintiffs and B&N's other stockholders uncompromising fiduciary duties of loyalty, good faith and due care. They must act in the good faith belief that their actions are in the Company's best interest.

119. By approving and implementing the poison pill with a 20% trigger, the Director Defendants have breached their fiduciary duties by acting for an improper purpose. The Director Defendants breached their duty of loyalty by making a bad faith decision to approve the poison pill with a 20% trigger and by creating preferential exceptions and special rights for the exclusive benefit of members of the Riggio family for reasons inimical to the interests of B&N and its stockholders. The Director Defendants' action in approving the poison pill was taken for entrenchment purposes, and not in reaction to any perceived threat of a hostile takeover. The

Court should enjoin the effectuation of the offending provisions of the poison pill identified by Plaintiffs.

120. Plaintiffs have no adequate remedy at law.

**COUNT X – DECLARATORY JUDGMENT**

121. Plaintiffs repeat and reallege the allegations contained in the foregoing paragraphs as if fully set forth herein.

122. Pursuant to Chapter 65 of Title 10 of the Delaware Code and Court of Chancery Rule 57, this Court has the power to declare the rights, status or other legal relations of the parties before it. More specifically, Section 6502 of Title 10 permits any person interested under a written contract to obtain a declaration of that person’s rights, status or other legal relations thereunder.

123. Plaintiffs request that this Court declare the following: All members of the Riggio family are “Excluded Persons” under the terms of the poison pill and no member of that family may acquire additional shares of the Company without triggering the poison pill.

124. Plaintiffs have no adequate remedy at law.

**COUNT XI – DECLARATORY JUDGMENT**

125. Plaintiffs repeat and reallege the allegations contained in the foregoing paragraphs as if fully set forth herein.

126. Pursuant to Chapter 65 of Title 10 of the Delaware Code and Court of Chancery Rule 57, this Court has the power to declare the rights, status or other legal relations of the parties before it. More specifically, Section 6502 of Title 10 permits any person interested under a written contract to obtain a declaration of that person’s rights, status or other legal relations thereunder.

127. Plaintiffs request that this Court declare the following: Any cooperation, agreements, arrangements, or understanding with any other stockholder of the Company with respect to a proxy contest for the election of directors or a vote of the stockholders with respect to the poison pill does not trigger the poison pill or that any provision of the poison pill for such is invalid and void.

128. Plaintiffs have no adequate remedy at law.

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**WHEREFORE**, Plaintiffs pray that this Court enter an Order:

A. Declaring the Director Defendants in breach of their fiduciary duties of loyalty, care and good faith;

B. Enjoining the effectuation of the offending provisions of the poison pill identified by Plaintiffs;

C. Directing the Directors Defendants to amend the poison pill's trigger to an amount equal to that controlled by the Riggio family or, alternatively, permanently enjoin the Riggio family from exercising voting rights for any of their shares above the 20% ownership limit that the poison pill imposes on other stockholders;

D. Declaring that all members of the Riggio family are "Excluded Persons" under the terms of the poison pill and no member of that family may acquire additional shares of the Company without triggering the poison pill;

E. Directing the Director Defendants to amend the poison pill to make explicit that all members of the Riggio family cannot individually or collectively acquire any more common stock without triggering the poison pill;

F. Declaring that cooperating and/or entering into any agreements, arrangements, or understandings with any other stockholder of the Company with respect to a proxy contest for the election of directors or a vote of the stockholders with respect to the poison pill or any other proposal to be presented to stockholders for vote does not trigger the poison pill or, alternatively, that any provision of the poison pill prohibiting such action is invalid and void;

G. Awarding Plaintiffs damages for Defendants' illegal and improper conduct in an amount to be determined at trial;

H. Awarding Plaintiffs' costs and expenses incurred in this action, including, but not limited to, experts' and attorneys' fees; and

I. Awarding such other and further relief as the Court deems just, equitable, and proper.

**YOUNG CONAWAY STARGATT  
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*/s/ David C. McBride*

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