

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 31, 1998

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 1-12302

Barnes & Noble, Inc.

(Exact name of registrant as specified in its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

06-1196501
(I.R.S. Employer
Identification No.)

122 Fifth Avenue, New York, NY
(Address of principal executive offices)

10011
(Zip Code)

Registrant's telephone number, including area code: (212) 633-3300

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$0.001 par value per share
(Title of Class)

New York Stock Exchange
(Name of Exchange on
which registered)

Securities registered pursuant to Section 12(b) of the Act: None

Indicate by check mark whether the registrant: (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to
such filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405
of Regulation S-K is not contained herein, and will not be contained, to the
best of registrant's knowledge, in definitive proxy or information statements
incorporated by reference in Part III of this Form 10-K or any amendment to
this Form 10-K.

The aggregate market value of the voting stock held by non-affiliates of the
registrant was approximately \$2,046,874,964 based upon the closing market
price of \$38.88 per share of Common Stock on the New York Stock Exchange as of
March 30, 1998.

Number of shares of \$.001 par value Common Stock outstanding as of March 30,
1998: 68,185,433

(Cover page 1 of 2)

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 1998 Annual Meeting of
Shareholders are incorporated by reference into Part III.

Portions of the Registrant's Annual Report to Shareholders for the fiscal year ended January 31, 1998 are incorporated by reference into Parts II and IV.

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PART I

ITEM 1. BUSINESS

General

Barnes & Noble, Inc. ("Barnes & Noble" or the "Company"), the world's largest bookseller*, operated 483 "super" stores in 48 states and the District of Columbia and 528 mall-based bookstores in 45 states and the District of Columbia as of January 31, 1998. The Company's rapidly expanding "super" store business operates under the Barnes & Noble Booksellers, Bookstop and Bookstar trade names (collectively "Barnes & Noble stores") and its mall-based business operates under the B. Dalton Bookseller, Doubleday Book Shops and Scribner's Bookstore trade names (collectively "B. Dalton stores"). The Company is the world's largest supplier of books through direct-mail catalogs* and publishes books under its own Barnes & Noble Books imprint for exclusive sale through its retail bookstores and mail-order catalogs. The Company is also the exclusive bookseller in America Online's Marketplace (AOL keyword: BarnesandNoble) and maintains its own Web site (BarnesandNoble.com), operating the "world's largest bookseller online." Barnes & Noble is the only book retailer operating through all four channels of distribution: retail stores, the Internet, 1-800-THE-BOOK and mail order. During fiscal 1997, the Company's share of the consumer book market increased to approximately 14%.

The Company's principal business is the retail sale of trade books (generally hardcover and paperback consumer titles, excluding educational textbooks and specialized religious titles), mass market paperbacks (such as mystery, romance, science fiction and other popular fiction), children's books, off-price bargain books and magazines. These collectively account for substantially all of the Company's sales. Bestsellers represent only 3% of the Barnes & Noble store sales.

The Company's fiscal year is comprised of 52 or 53 weeks, ending on the Saturday closest to the last day of January. The fiscal year ended January 31, 1998 ("fiscal 1997") was comprised of 52 weeks and the fiscal year ended February 1, 1997 ("fiscal 1996") was comprised of 53 weeks.

The Company generated revenues of \$2.797 billion during fiscal 1997, an increase of 14.2%, compared with revenues of \$2.448 billion during fiscal 1996. Fiscal 1996 includes 53 weeks; excluding the impact of the 53rd week, revenues increased 16%. During fiscal 1997, revenues from Barnes & Noble stores rose 20.7% to \$2.246 billion from \$1.861 billion during fiscal 1996. The Company's net earnings before an extraordinary charge due to early extinguishment of debt, increased \$13.4 million, or 26.2%, to \$64.7 million during fiscal 1997 from \$51.2 million during fiscal 1996. The extraordinary charge of \$11.5 million recorded in fiscal 1997 equated to \$0.17 per common dilutive share resulting in net earnings of \$53.2 million or \$0.76 per common dilutive share compared with \$0.75 per common dilutive share for the prior year.

Barnes & Noble Stores

General

The Company is the largest operator of book "super" stores in the United States* with 483 stores, of which 65 were opened in fiscal 1997. During fiscal 1997, Barnes & Noble stores generated 80.3% of

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* Based upon sales reported in trade publications and public filings.

total Company revenues, up from 76.0% during the prior year. The Barnes & Noble stores realized a comparable store sales increase of 9.4% during fiscal 1997.

Barnes & Noble stores range in size from 10,000 to 60,000 square feet depending upon market size. The 65 Barnes & Noble stores opened during fiscal 1997 added 1.6 million square feet to the Barnes & Noble store base, bringing the total square footage to 10.8 million square feet, a 16% increase over the prior year. The Company intends to open approximately 60 Barnes & Noble stores during the 52 weeks ending January 30, 1999 which are expected to average 26,000 square feet in size. With its market leadership position and its high standards for site selection, store design, merchandising and customer service, the Company believes that its Barnes & Noble store business continues to have significant growth opportunities and intends to expand its operations in new and existing markets. The Company plans to continue opening as many new stores in the future that meet its strict standard for return on investment. The Company believes that the key elements contributing to the success of the Barnes & Noble stores are:

Proximity to Customers. The Company's strategy is to increase its share of the consumer book market, as well as to increase the size of the market. Since it began its "super" store roll-out, the Company has employed a market clustering strategy. As of January 31, 1998, Barnes & Noble had stores in 140 of the total 208 DMA markets (Designated Market Area). In 71 of the 140 markets the Company has only one Barnes & Noble store. The Company believes its early market penetration and the stores' proximity to their customers strengthen its market position and increase its franchise value. Most Barnes & Noble stores are located in high-traffic areas with convenient access to major commercial thoroughfares and ample parking. Most stores offer extended shopping hours, generally 9:00 a.m. to 11:00 p.m., seven days a week.

Dominant Title Selection. Each Barnes & Noble store features an authoritative selection of books, ranging between 60,000 and 175,000 titles. Each store's comprehensive title selection is customized to the local community's interests and demands. To further the breadth of title selection, Barnes & Noble funds the Discover Great New Writers program supporting the work of newly published authors, and emphasizes books published by small and independent publishers and university presses. In addition to this extensive on-site selection, each store will special order any book from the more than one million books in print. The Company believes that its tremendous selection, including many otherwise hard-to-find titles, builds customer loyalty.

Experienced Booksellers. Seven years into its "super" store roll-out, the Company has a large and experienced base of booksellers from which it can select managers and booksellers to fill positions in the Company's expanding business. The Company's culture of outgoing, helpful and knowledgeable booksellers consists of 27,200 full- and part-time employees operating over 1,000 stores as of January 31, 1998. During fiscal 1997, 75% of the new Barnes & Noble store managers were promoted from within this group, from which the Company realizes the benefits of better store-level execution, staffing and customer service.

Store Design and Ambiance. Barnes & Noble stores are designed to be

reminiscent of an old world library, with wood fixtures, antique style chairs and tables, ample public space, a cafe and public restrooms. Barnes & Noble's literary cafes, for which the Starbucks Coffee Company is the sole provider of coffee products, further the image of its "super" stores as a community meeting place.

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Music Departments. As of January 31, 1998, the Company had 155 Barnes & Noble stores with music departments which range in size from 2,000 to 4,000 square feet. The music departments generally stock over 50,000 titles in classical music, opera, jazz, blues and pop rock, tailored to the tastes of the Company's core customers - the 35- to 45-year age group. Listening stations are available for customers to preview selected compact disks.

Discount Pricing. Barnes & Noble stores employ a nationwide discount pricing strategy. The New York Times hardcover bestsellers are discounted 30% off the publishers' suggested retail price, with a 10% discount on most other hardcover books. The Company believes that its pricing strategies enable the Company to be highly competitive.

Marketing and Community Relations. Barnes & Noble stores are launched with a major grand opening campaign involving extensive print and radio advertising, direct-mail marketing and community events. Each store plans its own community-based calendar of events, including author appearances, children's storytelling hours, poetry readings and discussion groups. The Company believes its community focus encourages customer loyalty, significant word-of-mouth publicity and free media coverage. The Company also supports communities through efforts on behalf of First Book, a national organization dedicated to providing books to children with little or no access to them outside of school. The Company is one of the leading sponsors of Writer's Harvest, an annual series of readings held across the country sponsored by Share our Strength, one of the nation's foremost anti-poverty organization.

Proprietary Product. The Company features titles published under the Barnes & Noble Books imprint in its retail stores and mail-order catalogs. During fiscal 1997, sales of Barnes & Noble's self-published titles grew over 30% in terms of retail dollars over fiscal 1996. During 1997 the Company introduced more titles under its own imprint, bringing its total catalog of self-published books to over 1,500 titles. Sales of these books enable the Company to distinguish its product offerings from those of its competitors and offer customers high quality books at excellent values while generating attractive gross margins.

Merchandising and Marketing

The Company's merchandising strategy for its Barnes & Noble stores is to be the authoritative community bookstore which carries a dominant selection of titles in all subjects, including an extensive selection of titles from small independent publishers and university presses. Each Barnes & Noble store stocks from 60,000 to 175,000 titles, of which approximately 50,000 titles are common to all stores; the balance is crafted to reflect the lifestyles and interests of each store's customers. Before a store opens, the Company's buyers study the community and customize the title selection with offerings from the store's local publishers and authors. After the store opens, each Barnes & Noble store manager is responsible for adjusting the buyers' selection to the interests, lifestyles and demands of the store's local customers. The Company's proprietary database, which includes catalogued sales rankings of over 650,000 titles in over 110 subjects, provides each store with comprehensive title selections in those subjects in which it seeks to expand. During 1997, the Company began rolling out the next generation of its state-of-the-art store system. The new store system greatly enhances store-level customer service and productivity with its extremely fast register transactions and its title database with more than one million titles designed specifically for book browsing. The roll-out will be substantially completed in 1998.

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Store Locations and Properties

The Company's experienced real estate personnel select sites for new Barnes & Noble stores after an extensive review of demographic data and other information relating to market potential, bookstore visibility and access, available parking, surrounding businesses, compatible nearby tenants, competition and the location of other Barnes & Noble stores. Most stores are located in high-visibility areas adjacent to main traffic corridors in strip shopping centers or freestanding buildings. The Company has been successful in converting existing structures into dynamic bookstores in the Barnes & Noble store format such as conversions of old movie theaters, bowling alleys and landmark buildings.

The number of Barnes & Noble stores located in each state and the District of Columbia as of January 31, 1998 are listed below:

| STATE | NUMBER OF STORES | STATE | NUMBER OF STORES |
|-------------------|---------------------|----------------|---------------------|
| Alaska | 1 | Montana | 3 |
| Alabama | 5 | Nebraska | 3 |
| Arizona | 11 | Nevada | 5 |
| Arkansas | 2 | New Hampshire | 3 |
| California | 70 | New Jersey | 15 |
| Colorado | 13 | New Mexico | 2 |
| Connecticut | 10 | New York | 31 |
| Dist. Of Columbia | 1 | North Carolina | 13 |
| Florida | 35 | North Dakota | 2 |
| Georgia | 10 | Ohio | 14 |
| Hawaii | 1 | Oklahoma | 5 |
| Idaho | 3 | Oregon | 8 |
| Illinois | 20 | Pennsylvania | 14 |
| Indiana | 6 | Rhode Island | 1 |
| Iowa | 2 | South Carolina | 5 |
| Kansas | 4 | South Dakota | 1 |
| Kentucky | 3 | Tennessee | 8 |
| Louisiana | 5 | Texas | 52 |
| Maine | 1 | Utah | 7 |
| Maryland | 6 | Vermont | 1 |
| Massachusetts | 14 | Virginia | 11 |
| Michigan | 13 | Washington | 13 |
| Minnesota | 14 | Wisconsin | 6 |
| Mississippi | 1 | Wyoming | 1 |
| Missouri | 8 | | |

Expansion

The Company believes its Barnes & Noble store format offers the greatest opportunity to increase its share of the expanding consumer book market and intends to strengthen its position as the world's leading operator of book superstores by opening approximately 60 new stores during fiscal 1998.

All stores will be opened under the Barnes & Noble Booksellers trade name, and positions in those stores will be filled from within the Company wherever possible.

The Company anticipates that its expansion plans will be supported by a combination of continuing strong demand for consumer books, which has grown over the past five years at a rate of 5.0% compounded annually according to Veronis, Suhler & Associates Communications Industry Forecast ("Veronis Suhler") and incremental sales generated by new stores.

Demographic trends in the United States support the prospect of continued growth in the retail book industry. The principal book buying

population is between 45 and 64 years of age. According to the U.S. Bureau of the Census, over the next five years this age group is expected to increase 17%.

B. Dalton Stores

General

The Company is the second largest operator of mall bookstores in the United States*. During fiscal 1997, B. Dalton generated revenues of approximately \$509.4 million, or 18.2% of the Company's total revenues, compared with 23.1% of total Company revenues during fiscal 1996.

Most B. Dalton stores range in size from 2,800 to 6,000 square feet. These stores stock between 15,000 and 25,000 titles, feature new releases, bestsellers and children's books, and carry a solid selection of titles in categories such as business, computers, cooking and reference. B. Dalton employs a market-by-market discount pricing strategy which generally discounts hardcover bestsellers from 15% to 25% off the publishers' suggested retail prices. B. Dalton also offers a BookSavers discount card for an annual fee which allows customers an additional 10% discount on substantially all purchases. The Company's 18 Doubleday and nine Scribner's bookstores utilize a more upscale format in select shopping malls and place a greater emphasis on hardcover and gift books.

The Company is continuing to execute a strategy to maximize returns from its B. Dalton stores in response to declining sales attributable primarily to superstore competition and, to a lesser extent, weaker overall consumer traffic in shopping malls. Part of the Company's strategy has been to close underperforming stores, which has resulted in the closing of more than 50 B. Dalton stores per year since 1989 as leases come up for renewal.

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* Based upon sales reported in trade publications and public filings.

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The Company has also been expanding the size of some of its new B. Dalton stores and is seeking better locations within malls. A new B. Dalton prototype was developed for this purpose; more than 100 new or converted stores have been opened in the new format and are performing, on average, better than the remaining store base.

Merchandising and Marketing

Each B. Dalton store carries a solid selection of core titles within a variety of subject categories which are supplemented by new releases, bestsellers and other titles specially selected to meet local demand. B.

Dalton's merchandise strategy is to expand title assortments within categories it believes have significant growth potential, such as children's books, mass market paperbacks (such as mystery, romance, science fiction and other popular fiction), publishers' remainders and other bargain books including the Company's self-published books. B. Dalton's product offerings are merchandised to attract shoppers responding to movies, television talk show topics and current events. Each store has the ability to customize its selection to its local customers based upon their interests and demands.

B. Dalton's advertising and promotional programs focus on point-of-sale and storefront signage and other in-store promotions designed to attract walk-by mall traffic. B. Dalton takes full advantage of cooperative advertising funds made available by publishers and generally limits its expenditures and promotional programs to the amount of such funds. In addition, stores customarily incur advertising costs, often in amounts equal to a percentage of their annual sales, for lease required advertising of mall-related promotional events.

Store Locations and Properties

Approximately 90% of B. Dalton stores are located in enclosed

regional shopping malls. The remaining stores are located in strip shopping centers and central business districts. Site selections and lease renewals for all B. Dalton stores are made after an extensive review of demographic data, mall tenants, location within the mall and competitive factors.

The number of B. Dalton stores located in each state and the District of Columbia as of January 31, 1998 are listed below:

| STATE | NUMBER OF STORES | STATE | NUMBER OF STORES |
|-------------------|------------------|----------------|------------------|
| Alabama | 1 | Montana | 4 |
| Arizona | 12 | Nebraska | 3 |
| Arkansas | 1 | Nevada | 3 |
| California | 78 | New Hampshire | 2 |
| Colorado | 11 | New Jersey | 13 |
| Connecticut | 6 | New Mexico | 2 |
| Dist. Of Columbia | 4 | New York | 22 |
| Florida | 27 | North Carolina | 12 |
| Georgia | 13 | North Dakota | 4 |
| Idaho | 3 | Ohio | 24 |

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|---------------|----|----------------|----|
| Illinois | 21 | Oklahoma | 4 |
| Indiana | 8 | Oregon | 6 |
| Iowa | 11 | Pennsylvania | 24 |
| Kansas | 7 | South Carolina | 7 |
| Kentucky | 3 | South Dakota | 2 |
| Louisiana | 12 | Tennessee | 5 |
| Maine | 2 | Texas | 36 |
| Maryland | 12 | Utah | 6 |
| Massachusetts | 8 | Virginia | 15 |
| Michigan | 25 | Washington | 16 |
| Minnesota | 23 | West Virginia | 1 |
| Mississippi | 1 | Wisconsin | 10 |
| Missouri | 16 | Wyoming | 2 |

The Company remains committed to opening stores in new shopping mall projects which meet the Company's return on investment criteria and anticipates opening four new B. Dalton stores during the 52 weeks ending January 30, 1999. Given the declining rate of new mall development and the Company's continuing plans to close B. Dalton stores, the Company anticipates it will continue to realize a decline in the number of B. Dalton stores during 1998 primarily due to lease expirations. During fiscal 1997, the Company opened 4 B. Dalton stores and closed 53 stores, primarily as a result of electing not to renew expiring leases.

BarnesandNoble.com

General

During March of 1997, the Company, through its wholly owned subsidiary BarnesandNoble.com Inc., became the exclusive bookseller in America Online's marketplace (keyword: BarnesandNoble), linking the world's largest bookseller with the world's most popular Internet online service. America Online provides its over 12 million members with access to the proprietary database of BarnesandNoble.com, and enables the Company to directly reach a well-established online community. The exclusive four-year agreement gives BarnesandNoble.com an extensive presence throughout America Online. In May of 1997, BarnesandNoble.com launched its own Web site. The Company believes that it brings significant competitive advantages to the online bookselling market, including its distribution expertise, proprietary title database, large customer base and established brand recognition. BarnesandNoble.com employs a discount pricing strategy of 30% to 40% off publishers' suggested retail prices for hardcover and 20% off publishers' suggested retail prices for paperback.

The Company's database of every book in print is powered by a proprietary search engine that allows users to locate books by author, title or subject. To further tailor customers' searches, BarnesandNoble.com includes book

descriptions, reviews and author interviews on hundreds of thousands of titles, along with recommendations by the Company's editors and the Company's online community of readers. From the latest bestsellers and new releases to diverse titles from small presses and university publishers, the Company has more books available for same-day shipping from the Company's distribution center than any online bookseller. Currently, the Company offers almost 600,000 titles for same-day shipping covering almost 90% of orders placed through BarnesandNoble.com. In 1997, over 250,000 customers in 149 countries purchased their books from BarnesandNoble.com.

Merchandising and Marketing

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Since the launch of BarnesandNoble.com, the Company has aggressively pursued and won marketing and distribution deals with the Web's leading content, search and commerce sites. These deals serve to extend the reach of BarnesandNoble.com by creating links to high traffic sites, such as Lycos, CNN Interactive, Discovery Channel Online, ZD Net, The New York Times, Time Inc., New Media and USA Today. The reach was further extended by the thousands of additional Web sites that have joined the Company's innovative affiliate network. All of the affiliates earn commissions based upon sales generated from the traffic they direct to BarnesandNoble.com. The Company also entered into a partnership with Disney Online, in which BarnesandNoble.com is the exclusive bookseller for their site and operates a Disney bookstore on the BarnesandNoble.com site. BarnesandNoble.com has a dedicated management team of e-commerce marketing and technology professionals. As a leader in the fast-growing world of e-commerce, the Company intends to actively advertise and further develop affiliate relationships.

Other Strategies

Proprietary Publishing. With publishing and distribution rights to over 1,500 titles covering a wide range of subject categories, the Company further differentiates its product offerings from those of its competitors by publishing books under its own Barnes & Noble Books imprint for exclusive sale in its retail stores, direct mail catalogs and BarnesandNoble.com. As part of this activity, the Company licenses titles directly from domestic and international publishers as well as from literary agents, commissions books directly from authors, reprints classic titles in the public domain and creates collections of fiction and non-fiction using in-house editors. These books are published under the Barnes & Noble Books imprint. By self-publishing books, the Company is able to significantly lower its merchandise costs and pass on a portion of the savings to its customers. While the prices of these books represent significant value to customers, they also generate substantially higher gross profit margins than those realized on sales of non-proprietary books.

Books published by the Company are featured prominently in the Company's direct-mail catalogs, in the front of the Company's stores, and on the BarnesandNoble.com Web site. The Company is continuing to expand the scope of its publishing program by increasing the number of titles it publishes, particularly dictionaries, reference books, children's books and classics. During the 52 weeks ended January 31, 1998, sales of the Company's proprietary books increased 30% over proprietary book sales during the 53 weeks ended February 1, 1997.

Mail-Order. Complementing its leadership position as the world's largest bookseller, Barnes & Noble is the world's largest supplier of books through direct-mail catalogs*. The Company mails over 15 million catalogs each year to its in-house mailing list of over one million customers. The Company acquires new customers by mailing additional catalogs to potential customers on targeted mailing lists, as well as by placing catalog-request ads in

national and local newspapers and upscale magazines. Through the direct-mail catalogs, the Company sells publishers' remainders and imported books at up to 80% off publishers' suggested retail prices, as well as the Company's self-published books under its Barnes & Noble Books imprint. The Company believes that its extensive catalog mailings over the past eleven years have

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* Based upon sales reported in trade publications and public filings.

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created substantial name recognition in the United States and internationally, which has benefited both the retail stores and the online business.

Strategic Investments. The Company maintains an equity investment in Chapters, Inc., an Ontario corporation which is publicly traded on the Toronto Stock Exchange. Chapters is the largest book retailer in Canada and the third largest in North America*, operating 347 bookstores, including 29 superstores. The Company also maintains an equity investment in Calendar Club L.L.C., an operator of seasonal calendar kiosks in the United States and internationally.

Store Operations

The Company has seasoned management teams for its Barnes & Noble and B. Dalton stores, including those for real estate, merchandising and store operations. Field management includes regional store directors and district managers supervising multiple store locations. Each B. Dalton store generally employs a manager, an assistant manager and approximately seven full- and part-time booksellers. By comparison, each Barnes & Noble store generally employs a manager, two assistant managers and approximately 40 full- and part-time booksellers. Most Barnes & Noble stores also employ a full-time community relations manager. The Company's large employee base provides the Company with experienced booksellers to fill positions in the Company's new Barnes & Noble stores. The Company anticipates that a significant percentage of the personnel required to manage its expanding business will continue to come from within its existing operations.

Field management for all of the Company's bookstores, including regional store directors, district managers and store managers, participate in a bonus program tied to sales. The Company believes that the compensation of its field management is competitive with that offered by other specialty retailers of comparable size.

The Company has a twelve-week manager training program in which existing store managers train new store managers in all areas of store operations. Store managers are generally responsible for training other booksellers in accordance with detailed procedures and guidelines prescribed by the Company, utilizing training aids available at each bookstore. In addition, district managers participate in semi-annual training and merchandising conferences.

Purchasing

Barnes & Noble's buyers negotiate terms, discounts and cooperative advertising allowances with publishers for all of the Company's bookstores. The Company's increased use of its distribution center enables it to maximize available discounts and the Company's multiple strategies greatly enhance its ability to create customized marketing programs with many of its vendors. The Company has teams of buyers who specialize in customizing inventory for each of the Company's bookselling strategies. Store inventories are further customized by the store managers, who may respond to local demand by purchasing a limited amount of fast-selling titles through a nationwide wholesaling network.

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The Company purchases books on a regular basis from over 1,600 publishers and approximately 50 wholesale distributors. Purchases from the top five suppliers (including publishers and wholesale distributors) accounted for approximately 47% of the Company's book purchases during the 52 weeks ended January 31, 1998, and no single supplier accounted for more than 16% of the Company's purchases during this period. Consistent with retail book industry practice, substantially all of the Company's book purchases are returnable for

full credit, a practice which substantially reduces the Company's risk of inventory obsolescence.

Publishers control the distribution of titles by virtue of copyright protection, which limits availability on most titles to a single publisher. Since the retail, or list, prices of titles, as well as the retailers' cost price, are also generally determined by publishers, the Company has limited options concerning availability, cost and profitability of its book inventory. However, these limitations are mitigated by (i) the substantial number of titles available (over one million), (ii) the Company's ability to maximize available discounts and (iii) its positive relationships with publishers, which are enhanced by the Company's significant purchasing volume.

Publishers periodically offer their excess inventory in the form of remainder books to book retailers and wholesalers through an auction process which generally favors booksellers such as the Company who are able to buy substantial quantities. These books are generally purchased in large quantities at favorable prices and are then sold to consumers at significant discounts off publishers' list prices.

Distribution

Over the past three years, the Company has invested significant capital in its systems and technology, by building new platforms, implementing new software applications and opening a new distribution center. During September 1996 the Company opened a new state-of-the-art 344,000 square foot distribution facility in South Brunswick, New Jersey. Historically, the Company replenished through its distribution network some of its fast-moving

frontlist titles and bargain and self-published books and had the remaining inventory drop-shipped directly to the stores from wholesalers and publishers. Significantly more inventory is sourced through the Company's new distribution center which provides increased gross margins through more direct buying from publishers rather than wholesalers, improved store-level just-in-time deliveries to yield higher sales volumes, and increased inventory turnover.

In addition, the Company's distribution network provides a significant competitive advantage for BarnesandNoble.com. By stocking nearly 600,000 titles, the Company is currently in a position to provide overnight delivery service to its online customers at gross margins which can allow the Company to offer very deep discounts. The Company plans to significantly increase the number of titles in the distribution center in the next year.

Management Information and Control Systems

The Company has focused a majority of its information resources on strategically positioning and implementing systems to support store operations, merchandising and finance. The Company

determined that an open-architecture distributed computing environment would provide the flexibility needed in the future and as a result a migration to a client server platform was initiated.

Building on the Company's previous proprietary inventory management system, during 1996 the Company introduced a new client server store system ("BookMaster"). BookMaster is an inventory management system with integrated point of sale features that utilizes a proprietary data-warehouse-based replenishment system. It enhances communications and real-time access to our network of stores, distribution center and wholesalers. In addition, implementation of just-in-time replenishment has provided for more rapid replenishment of books to all stores. The BookMaster system roll-out will be substantially completed in 1998.

The Company continues to implement systems to improve efficiencies in back office processing in the human resources, finance and merchandising areas. An offsite business recovery capability has been developed and implemented to assure uninterrupted systems support.

Year 2000. The Company is continuing its comprehensive evaluation of all computer systems and microprocessors and is in the process of replacing,

modifying and/or converting those systems which are not yet year 2000 compliant. The incremental cost over the next two years is being determined as part of the continuing evaluation. Management does not expect such costs to have a material adverse effect on the financial position or results of operations of the Company.

Competition

The retail bookselling business is highly competitive. The Company competes in the superstore business with Borders Group, Inc. and other national chains which have substantially fewer superstores than the Company, and in the mall bookstore business with Walden Book Company, Inc., a subsidiary of Borders Group, Inc. and the largest operator of mall bookstores in the country*. The Company also competes with regional chains, as well as independent single store operators, local multi-store operators, department stores, variety discounters, drug stores and warehouse clubs. Many of the Company's competitors have been expanding in both store size and number of outlets. The Company competes with Internet-based competition from numerous booksellers including online companies, such as Amazon.com, traditional book retailers and publishers. The Company expects future online competition to intensify.

Trademarks and Servicemarks

B. Dalton Bookseller, Bookstar and Book\$avers are Company-owned service marks registered with the United States Patent and Trademark Office. Barnes & Noble, Doubleday Book Shops and Scribner's Bookstores are federally registered service marks which have been licensed to the Company under long-term license agreements which are royalty-free. These license agreements provide the Company with the exclusive right to use the Doubleday and Scribner's service marks only in connection with the retail sale of books.

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* Based upon sales reported in trade publications and public filings.

Employees

The Company currently employs approximately 3,500 full-time salaried, 11,000 full-time hourly and between 15,000 and 17,000 part-time hourly employees. The fluctuation in the number of part-time hourly employees is due to the seasonality of the business. The Company's employees are not represented by unions and the Company believes that its relationship with its employees is excellent.

ITEM 2. PROPERTIES

All but one of the Barnes & Noble stores are leased. The leases typically provide for an initial term of ten or fifteen years with one or more renewal options. The terms of the Barnes & Noble store leases for its 482 leased stores open as of January 31, 1998 expire as follows:

| Lease Terms to Expire During (twelve months ending on or about January 31) | Number of Stores |
|---|---------------------|
| | ----- |
| 1999..... | 3 |
| 2000..... | 8 |
| 2001..... | 5 |
| 2002..... | 9 |
| 2003..... | 39 |
| 2004 and later..... | 418 |

All B. Dalton stores are leased. The leases generally provide for an initial ten-year term with no renewal option. The terms of the 528 B. Dalton leases as of January 31, 1998 expire as follows:

| Lease Terms to Expire During (twelve months ending on or about January 31) | Number of Stores |
|---|---------------------|
| 1999..... | 150 |
| 2000..... | 58 |
| 2001..... | 78 |
| 2002..... | 46 |
| 2003..... | 32 |
| 2004 and later..... | 164 |

The Company generally has been able to renew expiring leases on favorable terms, and believes that renewals of leases expiring in the future will not have a material adverse effect on the Company's financial condition or results of operations.

ITEM 3. LEGAL PROCEEDINGS

Various claims and lawsuits arising in the normal course of business are pending against the Company. The subject matter of these proceedings primarily includes commercial disputes and employment issues. The results of these proceedings are not expected to have a material adverse effect on the Company's consolidated financial position or results of operations.

In March 1998, the American Booksellers Association ("ABA") and twenty-six independent bookstores filed a lawsuit in the United States District Court for the Northern District of California against the Company and Borders Group, Inc. alleging violations of the Robinson-Patman Act, the California Unfair Trade Practice Act and the California Unfair Competition Law. The Complaint seeks injunctive and declaratory relief; treble damages on behalf of each of the bookstore plaintiffs, and, with

respect to the California bookstore plaintiffs, any other damages permitted by California law; disgorgement of money, property and gains wrongfully obtained in connection with the purchase of books for resale, or offered for resale, in California from March 18, 1994 until the action is completed and pre-judgment interest on any amounts awarded in the action, as well as attorney fees and costs. The Company intends to vigorously defend the action.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the 13 weeks ended January 31, 1998.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Price Range of Common Stock

The Company's common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "BKS". The following table sets forth, for the periods indicated, the high and low sales prices of the common stock on the NYSE Composite Tape (restated to adjust for the two-for-one stock-split effected September 22, 1997).

| | Fiscal 1997 | | Fiscal 1996 | |
|---------------|-------------|---------|-------------|--------|
| | High | Low | High | Low |
| First Quarter | \$19 15/16 | 15 3/16 | \$18 1/8 | 11 7/8 |

| | | | | | | | | |
|----------------|----|-----|----|-------|----|------|----|-------|
| Second Quarter | 25 | 1/2 | 18 | 1/2 | 18 | 7/8 | 14 | 3/8 |
| Third Quarter | 32 | 1/4 | 22 | 3/8 | 17 | 7/8 | 14 | 13/16 |
| Fourth Quarter | 34 | 1/4 | 25 | 13/16 | 17 | 3/16 | 12 | 7/8 |

Approximate Number of Holders of Common Equity

| Title of Class | Approximate Number of Record Holders as of March 30, 1998 |
|---------------------------------|---|
| Common stock, \$0.001 par value | 1,296 |

Dividends

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The terms of the Company's debt agreements restrict payment of cash dividends. During the 52 weeks ended January 31, 1998, the Company did not

declare or pay any cash dividends or make distributions or payments on its common stock.

ITEM 6. SELECTED FINANCIAL DATA

The information included in the Company's Annual Report to Shareholders for the fiscal year ended January 31, 1998 (the "Annual Report") under the section entitled "Selected Financial Data" is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information included in the Annual Report under the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information included in the Annual Report under the sections entitled: "Consolidated Statements of Operations," "Consolidated Balance Sheets," "Consolidated Statements of Changes in Shareholders' Equity," "Consolidated Statements of Cash Flows" and "Notes to Consolidated Financial Statements" are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information with respect to directors and executive officers of the Company is incorporated herein by reference to the Company's definitive Proxy Statement relating to the Company's 1998 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission within 120 days of the Company's fiscal year ended January 31, 1998 (the "Proxy Statement").

The information with respect to compliance with Section 16(a) of the Securities Exchange Act is incorporated herein by reference to the Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

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The information with respect to executive compensation is incorporated herein by reference to the Proxy Statement.

The information with respect to compensation of directors is incorporated herein by reference to the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information with respect to security ownership of certain beneficial owners and management is incorporated herein by reference to the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information with respect to certain relationships and related transactions is incorporated herein by reference to the Proxy Statement.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) 1. Consolidated Financial Statements:

- (i) "The Report of Independent Certified Public Accountants" included in the Annual Report is incorporated herein by reference.
- (ii) The information included in the Annual Report under the sections entitled: "Consolidated Statements of Operations," "Consolidated Balance Sheets," "Consolidated Statements of Changes in Shareholders Equity," "Consolidated Statements of Cash Flows" and "Notes to Consolidated Financial Statements" are incorporated herein by reference.

2. Schedules:

All schedules are omitted because the information is either not applicable or is contained in the consolidated financial statements incorporated herein by reference.

3. Exhibits:

The following are filed as Exhibits to this form:

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| Exhibit No. | Description |
|-------------|--|
| 3.1 | Amended and Restated Certificate of Incorporation of the Company, as amended.(1) |
| 3.2 | Amendment to the Amended and Restated Certificate of Incorporation of the Company filed May 30, 1996.(2) |
| 3.3 | Amended and Restated By-laws of the Company.(1) |
| 3.4 | Amendment to the Company's By-laws adopted May 31, 1995.(3) |
| 4.1 | Specimen Common Stock certificate. (1) |
| 10.1 | Amended and Restated Credit Agreement, dated as of November 18, 1997, among the Company, its subsidiaries, The Chase Manhattan Bank (National Association), as Administrative Agent (the "Agent") and the Banks party thereto. (5) |
| 10.2 | Pledge and Security Agreement dated as of March 15, 1996, among the |

Company, its subsidiaries and the Agent. (4)

- 10.3 Amendment to the Pledge and Security Agreement dated as of November 18, 1997. (5)
- 10.4 1996 Incentive Plan. (2)
- 10.5 1991 Employee Incentive Plan. (1)
- 10.6 Extended Savings Plan. (1)
- 10.7 Amendment to the Extended Savings Plan dated as of December 22, 1995. (4)
- 10.8 Amended and Restated Employees' Retirement Plan dated as of January 1, 1998. (5)
- 10.9 Supplemental Compensation Plan. (7)
- 10.10 License Agreement for "Barnes & Noble" service mark, dated as of February 11, 1987. (1)
- 10.11 Consents to "Barnes & Noble" License Agreement Assignments, dated as of November 18, 1988 and November 16, 1992, respectively. (4)
- 10.12 License Agreement for "Doubleday Book Shops" service mark, dated as of May 31, 1990. (1)
- 10.13 License Agreement for "Scribner's Bookstores" mark, dated as of February 21, 1989. (1)
- 10.14 Lease dated June 3, 1987 between B. Dalton, as tenant, and Bromley Rockleigh Associates, L.P., as landlord. (1)
- 10.15 Services Agreement, dated as of November 16, 1992, between Barnes & Noble Bookstores, Inc. and the Company. (1)
- 10.16 Aircraft Use Agreement, dated as of June 30, 1993, between the Company and B&N Aircraft Company, Inc. (6)
- 10.17 Asset Purchase Agreement dated as of July 29, 1996 among NeoStar Retail Group, Inc. (and its wholly owned subsidiary, Software Etc. Stores, Inc.) and Barnes & Noble, Inc. (8)
- 10.18 Stock Option and Repurchase Agreements, dated as of August 1, 1988, between the Company and each of Mitchell S. Klipper and Stephen Riggio, as

| Exhibit No. | Description |
|-------------|---|
| | amended November 16, 1992. (6) |
| 10.19 | Stock Option Certificates, dated March 15, 1993, granting options to purchase Common Stock to each of Mitchell S. Klipper, Stephen Riggio and Irene R. Miller pursuant to the Company's 1991 Employee Incentive Plan. (6) |
| 10.20 | Employment Agreements between the Company and each of Mitchell S. Klipper and Stephen Riggio, dated as of April 1, 1993 and July 15, 1993, respectively (collectively the "Employment Agreements"). (6) |
| 10.21 | Amendment to each of the Employment Agreements dated as of April 1, 1998. (5) |
| 10.22 | Stock Option Certificates, dated September 28, 1993, granting options to purchase Common Stock to Leonard Riggio, Mitchell S. Klipper and Stephen Riggio. (9) |

- 13.1 The sections of the Company's Annual Report entitled: "Selected Financial Data", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Consolidated Statements of Operations", "Consolidated Balance Sheets", "Consolidated Statements of Changes in Shareholders' Equity", "Consolidated Statements of Cash Flows", "Notes to Consolidated Financial Statements" and "The Report of Independent Certified Public Accountants".(5)
- 21.1 List of subsidiaries. (5)
- 23.1 Consent of BDO Seidman, LLP. (5)

-
- (1) Previously filed as an exhibit to the Company's Registration Statement on Form S-4 (Commission File No. 33-59778) and incorporated herein by reference.
- (2) Previously filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended April 27, 1996.
- (3) Previously filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended April 29, 1995.
- (4) Previously filed as an exhibit to the Company's Form 10-K for the fiscal year ended January 27, 1996.
- (5) Filed herewith.
- (6) Previously filed as an exhibit to the Company's Registration Statement on Form S-1 (Commission File No. 33-50548) and incorporated herein by reference.
- (7) Previously filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended July 29, 1995.
- (8) Previously filed as an exhibit to the Company's Form 10-Q for the fiscal quarter ended July 27, 1996.
- (9) Previously filed as an exhibit to the Company's Registration Statement on Form S-1 (Commission File No. 33-77484) and incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BARNES & NOBLE, INC.
(Registrant)

By: /s/ Leonard Riggio

Leonard Riggio, Chairman
of the Board and Chief
Executive Officer
May 1, 1998

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Name ----- | Title ----- | Date ----- |
|---|--|---------------|
| /s/ Leonard Riggio ----- Leonard Riggio | Chairman of the Board and Chief Executive Officer | May 1, 1998 |
| /s/ Stephen Riggio ----- Stephen Riggio | Vice Chairman | May 1, 1998 |
| /s/ Michael N. Rosen ----- Michael N. Rosen | Secretary and Director | May 1, 1998 |
| /s/ Matthew A. Berdon ----- Matthew A. Berdon | Director | May 1, 1998 |
| /s/ William Dillard, II ----- William Dillard, II | Director | May 1, 1998 |
| /s/ Jan Michiel Hessels ----- Jan Michiel Hessels | Director | May 1, 1998 |
| /s/ Irene R. Miller ----- Irene R. Miller | Director | May 1, 1998 |
| /s/ Margaret T. Monaco ----- Margaret T. Monaco | Director | May 1, 1998 |
| /s/ William Sheluck, Jr. ----- William Sheluck, Jr. | Director | May 1, 1998 |

BARNES & NOBLE, INC.

and

SUBSIDIARY GUARANTORS

AMENDED AND RESTATED CREDIT AGREEMENT

Dated as of November 18, 1997

\$850,000,000

THE CHASE MANHATTAN BANK,
as Administrative Agent

CHASE SECURITIES INC.,
As Arranger

CIBC INC.,
as Syndication Agent and Co-Arranger
and

ING (U.S.) CAPITAL CORPORATION,
as Documentation Agent and Co-Arranger

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EXHIBIT D - Form of Opinion of Special New York Counsel to Chase, CIBC and ING

EXHIBIT E - Form of Compliance Certificate

AMENDED AND RESTATED CREDIT AGREEMENT dated as of November 18, 1997, among: BARNES & NOBLE, INC., a corporation duly organized and validly existing under the laws of the State of Delaware (together with its successors and assigns, the "Company"); each of the Subsidiaries of the Company identified under the caption "SUBSIDIARY GUARANTORS" on the signature pages hereto (each such Subsidiary and each other Subsidiary of the Company that becomes a "Subsidiary Guarantor" pursuant to Section 9.17 hereof, together with its successors and assigns, but excluding any Released Guarantors, individually, a "Subsidiary Guarantor" and, collectively, the "Subsidiary Guarantors" and, together with the Company, the "Obligors"); each of the lenders named under the caption "Lenders" on the signature pages hereof (together with its successors and assigns, individually, a "Lender" and, collectively, the "Lenders"); THE CHASE MANHATTAN BANK, in its capacity as Swingline Bank under Section 2.01(b) hereof (in such capacity, together with its successors in such capacity, the "Swingline Bank"); and THE CHASE MANHATTAN BANK, as agent for the Lenders (in such capacity, together with its successors in such capacity, the "Administrative Agent").

The Company and the Subsidiary Guarantors are engaged as an integrated group in the business of distributing and selling books and related products, and in related or complementary businesses, and in furnishing the required supplies, services, equipment, credit and other facilities for such integrated operation. This integrated operation requires financing on such a basis that credit supplied to the Company be made available from time to time to the Subsidiary Guarantors, as required for the continued successful operation of the Obligors, separately, and the integrated operation of the Obligors as a whole. In that connection, the Obligors, certain of the Lenders and the

Administrative Agent entered into a Credit Agreement dated as of March 28, 1996 (the "Existing Credit Agreement") pursuant to which said Lenders agreed to extend credit to the Company in an aggregate amount not exceeding \$550,000,000. The Obligors have requested that the Lenders increase the aggregate Commitments to extend credit to the Company (all or a substantial portion of which will be made available by the Company to the Subsidiary Guarantors) to an aggregate principal amount not exceeding \$850,000,000 to refinance certain existing indebtedness of the Obligors, including all of the obligations under the existing Credit Agreement, to enable certain acquisitions and capital expenditures by the Obligors, for working capital and for other corporate purposes.

To induce the Lenders to extend such credit, the Obligors desire to enter into this Agreement, which will amend and restate the Existing Credit Agreement in all respects, and pursuant to which the Lenders will make loans to and issue or participate in letters of credit for account of the Company, the Swingline Bank will make loans to the Company, each Subsidiary Guarantor will guarantee the credit so extended to the Company and each of the Obligors will agree to execute and deliver security

agreements providing for security interests and liens to be granted by the Obligors on certain of their respective Properties as collateral security for the obligations of the Obligors to the Lenders, the Swingline Bank and the Administrative Agent hereunder. Each Obligor expects to derive benefit, directly or indirectly, from the credit so extended to the Company, both in its separate capacity and as a member of the integrated group, because the successful operation of each Obligor is dependent on the continued successful performance of the functions of the integrated group as a whole.

Accordingly, the parties hereto agree as follows:

Section 1. Definitions and Accounting Matters

1.01 Certain Defined Terms. As used herein, the following terms shall have the following meanings (all terms defined in this Section 1.01 or in other provisions of this Agreement in the singular to have the same meanings when used in the plural and vice versa):

"Affiliate" shall mean, as to any specified Person, any other Person that directly or indirectly controls, or is under common control with, or is controlled by, such specified Person and, if such other Person is an individual, any member of the immediate family (including parents, spouse, children and siblings) of such individual and any trust whose principal beneficiary is such individual or one or more members of such immediate family and any Person

Exhibit 10.1

who is controlled by any such member or trust. As used in this definition, "control" (including, with its correlative meanings, "controlled by" and "under common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise), provided that, in any event, any Person that owns directly or indirectly securities having 10% or more of the voting power for the election of directors or other governing body of a corporation or 10% or more of the partnership or other ownership interests of any other Person will be deemed to control such corporation or other Person. Notwithstanding the foregoing, (a) no individual shall be an Affiliate of the Company or any of its Subsidiaries solely by reason of such individual being a director, officer or employee of the Company or any of its Subsidiaries, (b) the Company and its Wholly Owned Subsidiaries (other than Unrestricted Subsidiaries) shall not be Affiliates of each other and (c) neither the Administrative Agent, the Swingline Bank nor any Lender shall be an Affiliate of the Company or any of its Subsidiaries.

"Applicable Commitment Fee Percentage" shall mean a percentage per annum calculated by reference to the Fixed Charge Ratio as at the last day of the most recently ended four consecutive fiscal quarters of the Company (a "Testing Date"), which if such Fixed Charge Ratio shall fall within any of the ranges set forth in the Schedule A below, then the

"Applicable Commitment Fee Percentage" shall be the respective percentage per annum set forth opposite such range in Schedule A below, during the period commencing on the Fee Change Date for such Testing Date to but not including the Fee Change Date for the next succeeding Testing Date (except that notwithstanding the foregoing, (i) during any period prior to the first Fee Change Date after the date hereof, the Applicable Commitment Fee Percentage shall be 0.175% per annum and (ii) the Applicable Commitment Fee Percentage shall not, as a consequence of the rate changes herein provided, be so changed to less than 0.175% per annum for any period during which any Event of Default shall have occurred and be continuing):

SCHEDULE A

| Fixed Charge Ratio Range | Applicable Commitment Fee Percentage (% p.a.) |
|---|---|
| greater than or equal to 1.75 to 1 | .125% per annum |
| less than 1.75 to 1, but greater than or equal to 1.55 to 1 | .150% per annum |
| less than 1.55 to 1, but greater than or equal to 1.35 to 1 | .175% per annum |
| less than 1.35 to 1, but greater than or equal to 1.30 to 1 | .200% per annum |
| less than 1.30 to 1 | .250% per annum |

For purposes of this definition, "Fee Change Date" shall mean, for any Testing Date, the earlier of (i) five Business Days after the Administrative Agent receives the Company's financial statements pursuant to Section 9.01(a) or 9.01(b) hereof for such Testing Date (except that for any Testing Date that is a fiscal year end, for purposes of determining the Applicable Commitment Fee Percentage, the Company may deliver a statement setting forth a calculation of the Fixed Charge Ratio for such fiscal year, certified by the treasurer or a senior financial officer of the Company (and the Applicable Commitment Fee Percentage shall be adjusted accordingly in the event that the Fixed Charge Ratio as set forth in any such statement differs from the Fixed Charge Ratio calculated based on the applicable audited financial statements for such fiscal year)) and (ii) five Business Days after the date on which such financial statements are required to be delivered pursuant to such Section.

Exhibit 10.1

"Applicable Lending Office" shall mean (a) for each Lender and for each Revolving Credit Loan, the "Lending Office" of such Lender (or of an affiliate of such Lender) designated for such Revolving Credit Loan, on the signature pages hereof or such other office of such Lender (or of an affiliate of such Lender) as such Lender may from time to time specify to the Administrative Agent and the Company as the office by which its Revolving Credit Loans are to be made and maintained and (b) for the Swingline Bank, the "Lending Office" of such Lender (or of an affiliate of such Lender) designated for Swingline Loans on the signature pages hereof or such other office located in the City of New York of such Lender (or of an affiliate of such Lender) as such Lender may from time to time specify to the Administrative Agent and the Company as the office by which Swingline Loans are to be made and maintained.

"Applicable Margin" shall mean, for each Type of Loan, a percentage per annum calculated by reference to the Fixed Charge Ratio as at the last day of the most recently ended four consecutive fiscal

quarters of the Company (a "Testing Date"), which if such Fixed Charge Ratio shall fall within any of the ranges set forth in the Schedule A below, then the "Applicable Margin" for each Type of Loan shall be the respective percentage per annum set forth opposite such range in Schedule A below, during the period commencing on the Margin Change Date for such Testing Date to but not including the Margin Change Date for the next succeeding Testing Date (except that notwithstanding the foregoing, (i) during any period prior to the first Margin Change Date occurring after the date hereof, the Applicable Margin in the case of Base Rate Loans shall be zero and the Applicable Margin in the case of Eurodollar Loans shall be 0.625% per annum and (ii) the Applicable Margin for any Loan shall not, as a consequence of the rate changes herein provided, be so changed to less than, in the case of Base Rate Loans, zero and, in the case of Eurodollar Loans, 0.625% per annum for any period during which any Event of Default shall have occurred and be continuing:

SCHEDULE A

| Fixed Charge Ratio Range | Applicable Margin (% p.a.) | |
|---|----------------------------|------------------|
| | Base Rate Loans | Eurodollar Loans |
| greater than or equal to 1.75 to 1 | 0% per annum | .375% per annum |
| less than 1.75 to 1, but greater than or equal to 1.55 to 1 | 0% per annum | .500% per annum |
| less than 1.55 to 1, but greater than or equal to 1.35 to 1 | 0% per annum | .625% per annum |
| less than 1.35 to 1, but greater than or equal to 1.30 to 1 | 0% per annum | .750% per annum |
| less than 1.30 to 1 | 0% per annum | .875% per annum |

For purposes of this definition, "Margin Change Date" shall mean, for any Testing Date, the earlier of (i) five Business Days after the Administrative Agent receives the Company's financial statements pursuant to Section 9.01(a) or 9.01(b) hereof for such Testing Date (except that for any Testing Date that is a fiscal year end, for purposes of determining the Applicable Margin, the Company may deliver a statement setting forth a calculation of the Fixed Charge Ratio for such fiscal year, certified by the treasurer or a senior financial officer of the Company (and the Applicable Margin shall be adjusted accordingly in the event that the Fixed Charge Ratio as set forth in any such statement differs from the Fixed Charge Ratio calculated based on the applicable audited financial statements for such fiscal year)) and (ii) five Business Days after the date on which such financial statements are required to be delivered pursuant to such Section.

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"Applicable Percentage" shall mean, at any time that the Company is Investment Grade, 50%, and, at any other time, 75%.

"B. Dalton" shall mean B. Dalton Bookseller, Inc., a Minnesota corporation.

"Bankruptcy Code" shall mean the Federal Bankruptcy Code of 1978, as amended from time to time.

"Base Rate" shall mean, for any day, a rate per annum equal to the higher of (a) the Federal Funds Rate for such day plus 1/2 of 1% and (b) the Prime Rate for such day. Each change in any interest rate provided for herein based upon the Base Rate resulting from a change in the Base Rate shall take effect at the time of such change in the Base Rate.

"Base Rate Loans" shall mean Loans that bear interest at rates based upon the Base Rate.

"Basic Documents" shall mean, collectively, this Agreement, the Notes, the Letter of Credit Documents and the Security Documents.

"Business Day" shall mean (a) any day on which commercial banks are not authorized or required to close in New York City and (b) if such day relates to a borrowing of, a payment or prepayment of principal or interest on, a Conversion of or into, or an Interest Period for, a

Eurodollar Loan or a notice by the Company with respect to any such borrowing, payment, prepayment, Conversion or Interest Period, any day on which dealings in Dollar deposits are carried out in the London interbank market.

"Capital Expenditures" shall mean, for any period, expenditures made by the Company or any of its Consolidated Subsidiaries to acquire or construct fixed assets, plant and equipment (including renewals, improvements and replacements, but excluding repairs) during such period computed in accordance with GAAP, other than Specified Capital Expenditures.

"Capital Lease Obligations" shall mean, for any Person, all obligations of such Person to pay rent or other amounts under a lease of (or other agreement conveying the right to use) Property to the extent such obligations are required to be classified and accounted for as a capital lease on a balance sheet of such Person under GAAP, and, for purposes of this Agreement, the amount of such obligations shall be the capitalized amount thereof, determined in accordance with GAAP.

"Change of Control" shall mean the occurrence of any of the following:

(a) a majority of the members of the Board of Directors of the Company no longer being composed of: (i) individuals who are members of said Board on the date hereof, (ii) individuals whose election or nomination to said Board was approved by individuals referred to in clause (i) above constituting at the time of such election or nomination at least a majority of said Board or (iii) individuals whose election or nomination to said Board was approved by individuals referred to in clauses (i) and (ii) above constituting at the time of such election or nomination at least a majority of said Board; or

(b) any Unrelated Person or any two or more Unrelated Persons that are deemed to be a "person" under Sections 13(d)(3) and 14(d)(2) of the Securities Exchange Act of 1934, as amended, acquiring, directly or indirectly, effective control (whether through legal or beneficial ownership of capital stock of the Company, by contract or otherwise) of more than 25% of the outstanding Voting Shares.

"Chase" shall mean The Chase Manhattan Bank, or any successor thereto.

"CIBC" shall mean CIBC Inc. and its affiliates.

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"Closing Date" shall mean the date, no later than November 28, 1997, on which the conditions precedent specified in Section 7 hereof have been satisfied and on which the initial extensions of credit hereunder are made.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"Collateral" shall have the meaning assigned to such term in Section 3 of the Security Agreement.

"Collateral Account" shall have the meaning assigned to such term in Section 4.01 of the Security Agreement.

"College" shall mean Barnes & Noble College Bookstores, Inc., a New York corporation.

"Commitments" shall mean the Revolving Credit Commitments and the Swingline Commitment.

"Consolidated Subsidiary" shall mean, for any Person, each Subsidiary (other than an Unrestricted Subsidiary or a Released Guarantor) of such Person (whether now existing or hereafter created or acquired) the financial statements of which shall be (or should have been) consolidated with the financial statements of such Person in accordance with GAAP.

"Continue", "Continuation" and "Continued" shall refer to the continuation pursuant to Section 2.09 hereof of a Eurodollar Loan from one Interest Period to the next Interest Period.

"Convert", "Conversion" and "Converted" shall refer to a conversion pursuant to Section 2.09 hereof of one Type of Revolving Credit Loans into another Type of Revolving Credit Loans, which may be accompanied by the transfer by a Lender (at its sole discretion) of a Revolving Credit Loan from one Applicable Lending Office to another.

"Debt Service" shall mean, for any period, the sum for the Company and its Consolidated Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP) of the following: (a) all Interest Expense for such period plus (b) all payments of principal of Indebtedness (including, without limitation, the principal component of any payments in respect of Capital Lease Obligations, but excluding payments in respect of (i) the Revolving Credit Loans and Swingline Loans, (ii) Reimbursement Obligations, (iii) Indebtedness incurred pursuant to Section 9.07(i) hereof, (iv) loans outstanding under the Existing Credit Agreement and (v) any redemption of the Outstanding Subordinated Notes) scheduled to be made during such period plus (c) all Capital Expenditures during such period.

"Default" shall mean an Event of Default or an event that with notice or lapse of time or both would become an Event of Default.

"Disposition" shall mean any sale, assignment, transfer or other disposition of any Property other than cash (whether now owned or hereafter acquired) by the Company or any of its Subsidiaries (other than an Unrestricted Subsidiary or a Released Guarantor) to any Person

excluding (a) any sale, assignment, transfer or other disposition of any Property sold or disposed of in the ordinary course of business and on ordinary business terms, (b) any sale, assignment or transfer from one Wholly Owned Subsidiary of the Company to another Wholly Owned Subsidiary (other than an Unrestricted Subsidiary or a Released Guarantor) of the Company, (c) any Dividend Payment or Investment permitted under this Agreement, (d) any sale, assignment, transfer or other disposition of any Project and (e) any Disposition made pursuant to Section 9.05(d)(v) hereof.

"Dividend Payment" shall mean dividends (in cash, Property or obligations) on, or other payments or distributions on account of, or the setting apart of money for a sinking or other analogous fund for, or the purchase, redemption, retirement or other acquisition of, any shares of any class of stock of the Company or of any warrants,

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options or other rights to acquire the same, but excluding dividends payable solely in shares of common stock of the Company.

"Dollars" and "\$" shall mean lawful money of the United States of America.

"EBITDA" shall mean, for any period, the sum, for the Company and its Consolidated Subsidiaries (determined on a consolidated basis,

without duplication, in accordance with GAAP), of the following: (a) net income (calculated before income taxes, the LIFO Charge, any fees or premiums paid and attributable to the redemption of the Outstanding Subordinated Notes and any write-off of deferred financing fees) for such period, plus (b) the aggregate amount of depreciation, amortization and taxes for such period, plus (c) Interest Expense for such period, plus (d) any accretion expense with respect to any Equity Rights of the Company and its Consolidated Subsidiaries for such period, plus (e) all non-cash charges taken during such period (including, without limitation, pursuant to Statements No. 13 and 121 of the Financial Standards Accounting Board), plus (f) net proceeds to the Company and its Consolidated Subsidiaries during such period upon exercise of any Equity Rights issued to directors, officers or employees of the Company or any of its Subsidiaries, plus (g) any loss (or minus any income) attributable to equity in Affiliates (other than Unrestricted Subsidiaries) of the Company or any of its Consolidated Subsidiaries for such period, minus (h) all extraordinary non-cash gains for such period.

"EBITDAR" shall mean, for any period, the sum, for the Company and its Consolidated Subsidiaries (determined on a consolidated basis, without duplication, in accordance with GAAP), of the following: (a) EBITDA for such period plus (b) Rental Payments for such period.

"Eligible Assignee" shall mean (i) any commercial bank or other financial institution organized under the laws of the United States of America or any state thereof with assets of at least \$5,000,000,000 and (ii) any commercial bank or other financial institution organized under the laws of any other country that is a member of the Organization for Economic Cooperation and Development, or any political subdivision thereof, with assets of at least \$5,000,000,000 (or the equivalent in other currencies), combined capital and surplus of at least \$1,000,000,000 (or the equivalent in other currencies) and a branch, office or agency located in the United States of America.

"Environmental Claim" shall mean, with respect to any Person, any written or oral notice, claim, demand or other communication (collectively, a "claim") by any other Person alleging or asserting such Person's liability for investigatory costs, cleanup costs, governmental response costs, damages to natural resources or other Property, personal injuries, fines or penalties arising out of, based on or resulting from (a) the presence, or Release into the environment, of any Hazardous Material at any location, whether or not owned by such Person, or (b) circumstances forming the basis of any violation, or alleged violation, by such Person of any Environmental Law. The term "Environmental Claim" shall include, without limitation, any claim by any governmental authority for enforcement, cleanup, removal, response, remedial or other actions or damages pursuant to any Environmental Law, and any claim by any third party seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from the presence of Hazardous Materials or arising from alleged injury or threat of injury to the environment.

"Environmental Laws" shall mean any and all present and future Federal, state, local and foreign laws, rules or regulations, and any orders or decrees, in each case as now or hereafter in effect, relating to the regulation or protection of the environment or to emissions, discharges, releases or threatened releases of pollutants, contaminants, chemicals or toxic or hazardous substances or wastes into the indoor or outdoor environment, including, without limitation, ambient air, soil, surface water, ground water, wetlands, land or subsurface strata, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants or toxic or hazardous substances or wastes.

"Equity Financed" shall mean, in respect of Capital Expenditures or Investments, any Capital Expenditures or Investments to the extent that:

(a) they are financed with the proceeds of an Equity Issuance that occurred not more than 12 months prior to the date

on which such Capital Expenditures or Investments (as the case may be) were made, and

(b) the aggregate amount of all such Capital Expenditures and Investments financed with the proceeds of any single Equity Issuance does not exceed \$35,000,000.

"Equity Issuance" shall mean (a) any issuance or sale by the Company after the date of this Agreement of (i) any capital stock of the Company (including Preferred Stock but excluding any capital stock of the Company issued upon the exercise of the warrants or the options referred to in the parenthetical in clause (ii) below or upon the conversion of any Preferred Stock), (ii) any warrants or options exercisable in respect of capital stock of the Company (other than warrants or options issued to directors, officers or employees of the Company or any of its Subsidiaries) or (iii) any other security or instrument representing an equity interest (or the right to obtain any equity interest) in the Company or (b) the receipt by the Company or any of its Subsidiaries (other than Unrestricted Subsidiaries or Released Guarantors) after the date of this Agreement of any capital contribution (whether or not evidenced by any equity security issued by the recipient of such contribution); provided that Equity Issuance shall not include (x) any such issuance or sale by any Subsidiary of the Company to the Company or any Wholly Owned Subsidiary (other than an Unrestricted Subsidiary) of the Company or (y) any capital contribution by the Company or any Wholly Owned Subsidiary (other than an Unrestricted Subsidiary) of the Company to any Subsidiary (other than an Unrestricted Subsidiary) of the Company.

"Equity Rights" shall mean, with respect to any Person, any outstanding subscriptions, options, warrants, commitments, preemptive rights or agreements of any kind (including, without limitation, any stockholders' or voting trust agreements) for the issuance, sale, registration or voting of, or outstanding securities convertible into, any additional shares of capital stock of any class, or partnership or other ownership interests of any type in, such Person.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time.

"ERISA Affiliate" shall mean any corporation or trade or business that is a member of any group of organizations (a) described in Section 414(b) or (c) of the Code of which the Company is a member and (b) solely for purposes of potential liability under Section 302(c)(11) of ERISA and Section 412(c)(11) of the Code and the lien created under Section 302(f) of ERISA and Section 412(n) of the Code, described in Section 414(m) or (o) of the Code of which the Company is a member.

"Eurodollar Loans" shall mean Revolving Credit Loans the interest rates on which are determined on the basis of rates referred to in the definition of "Eurodollar Rate" in this Section 1.01.

"Eurodollar Rate" shall mean, with respect to any Eurodollar Loan for any Interest Period therefor, the arithmetic mean (rounded upwards, if necessary, to the nearest 1/100 of 1%), as determined by the Administrative

Agent, of the rates per annum (rounded upwards, if necessary, to the nearest 1/16 of 1%) quoted by the respective Reference Banks at approximately 11:00 a.m. London time (or as soon thereafter as practicable) on the date two Business Days prior to the first day of such Interest Period for the offering by the respective Reference Banks to leading banks in the London interbank market of Dollar deposits having a term comparable to such Interest Period and in an amount comparable to the principal amount of the Eurodollar Loan to be made by such Reference Bank for such Interest Period. If any Reference Bank (or a Wholly Owned Subsidiary thereof) is not participating in any Eurodollar Loan during any Interest Period therefor, the Eurodollar Rate for such Revolving Credit Loan for such Interest Period shall be determined by reference to the amount of the Revolving Credit Loan that such Reference Bank would have made or had outstanding had it been participating in such Revolving Credit Loan during such Interest Period. If any Reference Bank does not furnish the Administrative Agent with a quote for purposes of determining the Eurodollar Rate for any Revolving Credit Loan for any Interest Period therefor, the Eurodollar Rate

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for such Interest Period shall be determined by reference to the quote(s) of the other Reference Bank(s).

"Event of Default" shall have the meaning assigned to such term in Section 10 hereof.

"Excess Cash Flow" shall mean, for any period, the excess of (i) the sum of (x) EBITDA for such period, plus (y) non-cash deferred tax charges incurred for such period, over (ii) the sum of the following (without duplication):

(a) Capital Expenditures (other than Equity Financed Capital Expenditures) made during such period to the extent permitted by Section 9.11 hereof, plus

(b) the aggregate amount (without duplication) of Investments made by the Company and its Subsidiaries in cash during such period (other than Equity Financed Investments) that either (x) consist of equity interests or (y) constitute acquisitions of the capital stock or assets of other companies (for which purpose the amount of the Investment shall include the amount of the consideration therefor together with the amount of any liabilities assumed), plus

(c) increases (or minus decreases) in working capital (determined in accordance with GAAP) of the Company and its Subsidiaries (other than Unrestricted Subsidiaries and Released Guarantors) for such fiscal year (excluding, for this purpose, (x) the current portion of any long-term Indebtedness, (y) any short-term Indebtedness and (z) all cash and cash equivalents), plus

(d) increases in long-term assets (or minus increases in long-term liabilities) of the Company and its Subsidiaries (other than Unrestricted Subsidiaries and Released Guarantors) for such period, excluding (i) losses or income attributable to equity interests in Affiliates, (ii) deferred financing fees capitalized as long-term assets (determined in accordance with GAAP), and (iii) the aggregate principal amount of any outstanding Loans, plus

(e) all cash principal of and interest on Indebtedness of the Company or any of its Subsidiaries (other than Unrestricted Subsidiaries and Released Guarantors) paid during such period (other than (i) Indebtedness hereunder, (ii) Indebtedness incurred pursuant to Section 9.07(i) hereof, (iii) Indebtedness outstanding under the Existing Credit Agreement and (iv) the Outstanding Subordinated Notes), plus

(f) all cash income taxes paid by the Company and its Subsidiaries (other than Unrestricted Subsidiaries and Released Guarantors) during such period, plus

(g) the aggregate amount of all payments made by the Company and its Subsidiaries (other than Unrestricted Subsidiaries and Released Guarantors) during such period in respect of Capital Lease Obligations.

"Federal Funds Rate" shall mean, for any day, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day, provided that (a) if the day for which such rate is to be determined is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day and (b) if such rate is not so published for any Business

Day, the Federal Funds Rate for such Business Day shall be the average rate quoted to Chase on such Business Day on such transactions as determined by the Administrative Agent.

"Fee Letter" shall mean the letter dated October 2, 1997 from Chase to the Company providing for certain fees relating to this Agreement and the transactions contemplated hereby.

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"Fixed Charge Ratio" shall mean, as at any date, the ratio of the following:

(a) EBITDA for the period of four consecutive fiscal quarters ending on or most recently ended prior to such date, to

(b) the sum of the following:

(i) Debt Service for such period, plus

(ii) the aggregate amount (without duplication) of Investments in Affiliates for such period that either (x) consist of equity interests or (y) constitute acquisitions of the capital stock or assets of other companies (for which purpose the amount of the Investment shall include the amount of the consideration therefor together with the amount of any liabilities assumed), minus

(iii) the following:

(x) for purposes of Section 9.10(a) hereof, (A) Equity Financed Investments made in such period and (B) Equity Financed Capital Expenditures made in such period, and

(y) for purposes of the definition of "Applicable Margin" in this Section 1.01,

(A) Equity Financed Investments made in such period, but only to the extent:

(1) of the excess of (x) the aggregate amount of all Equity Financed Investments made in such period, together with the aggregate amount of all Investments made in such period in compliance with Sections 9.08(g) and 9.08(j) hereof over (y) the maximum amount of Investments permitted to be made in such period pursuant to Sections 9.08(g) and 9.08(j) hereof, and

(2) such Equity Financed Investments are included in the foregoing clause (b)(ii), and

(B) Equity Financed Capital Expenditures made in such period, but only to the extent of the excess of (x) the aggregate amount of all Equity Financed Capital Expenditures made in such period, together with

the aggregate amount of Capital Expenditures made in such period in compliance with Section 9.11(a) hereof over (y) the maximum amount of Capital Expenditures permitted to be made in such period pursuant to Section 9.11(a) hereof.

"Funded Debt" shall mean, as at any date, without duplication, the aggregate principal amount of the Loans outstanding on such date plus the outstanding principal amount of the Senior Subordinated Debt on such date plus the aggregate amount of Capital Lease Obligations on such date plus the aggregate amount of any Indebtedness of the Company or any of its Subsidiaries (other than Unrestricted Subsidiaries and Released Guarantors) of the type described in clause (a), (b), (d) or (f) (but only insofar as Indebtedness of the type described in clause (f) constitutes a Guarantee of Indebtedness of the type described in clause (a), (b) or (d)) of the definition of "Indebtedness" in this Section 1.01 permitted to be outstanding pursuant to Section 9.07 hereof.

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"GAAP" shall mean generally accepted accounting principles applied on a basis consistent with those which, in accordance with Section 1.02(a) hereof, are to be used in making the calculations for purposes of determining compliance with this Agreement.

"Guarantee" shall mean a guarantee, an endorsement, a contingent agreement to purchase or to furnish funds for the payment or maintenance of, or otherwise to be or become contingently liable under or with respect to, the Indebtedness, other obligations, net worth, working capital or earnings of any Person, or a guarantee of the payment of dividends or other distributions upon the stock or equity interests of any Person, or an agreement to purchase, sell or lease (as lessee or lessor) Property, products, materials, supplies or services primarily for the purpose of enabling a debtor to make payment of such debtor's obligations or an agreement to assure a creditor against loss, and including, without limitation, causing a bank or other financial institution to issue a letter of credit or other similar instrument for the benefit of another Person, but excluding (i) endorsements for collection or deposit in the ordinary course of business and (ii) Rental Payments made to a lessor in the ordinary course of business so long as there is no obligation to any Person (other than such lessor) that may benefit from, or rely on, such Rental Payments. The terms "Guarantee" and "Guaranteed" used as a verb shall have a correlative meaning.

"Hazardous Material" shall mean, collectively, (a) any petroleum or petroleum products, flammable explosives, radioactive materials, asbestos in any form that is or could become friable, urea formaldehyde

foam insulation and transformers or other equipment that contain dielectric fluid containing polychlorinated biphenyls, (b) any chemicals or other materials or substances which are now or hereafter become defined as or included in the definition of "hazardous substances", "hazardous wastes", "hazardous materials", "extremely hazardous wastes", "restricted hazardous wastes", "toxic substances", "toxic pollutants", "contaminants", "pollutants" or words of similar import under any Environmental Law and (c) any other chemical or other material or substance, exposure to which is now or hereafter prohibited, limited or regulated under any Environmental Law.

"Indebtedness" shall mean, for any Person: (a) obligations created, issued or incurred by such Person for borrowed money (whether by loan, the issuance and sale of debt securities or the sale of Property to another Person subject to an understanding or agreement to repurchase such Property from such Person); (b) obligations of such Person to pay the deferred purchase or acquisition price of Property or services, other than trade accounts payable (other than for borrowed money) arising, and accrued expenses incurred, in the ordinary course of business (i) so long as such trade accounts payable are payable within 270 days of the date the respective goods are delivered or the respective services are

rendered or (ii) with respect to trade accounts payable which are payable beyond 270 days of the date the respective goods are delivered or the respective services are rendered, to the extent that the aggregate amount outstanding of such trade accounts payable at any one time does not exceed \$50,000,000; (c) Indebtedness of others secured by a Lien on the Property of such Person, whether or not the respective Indebtedness so secured has been assumed by such Person; (d) obligations (contingent or otherwise) of such Person in respect of letters of credit, bankers' acceptances or similar instruments issued or accepted by banks and other financial institutions for account of such Person; (e) Capital Lease Obligations of such Person; and (f) Indebtedness of others Guaranteed by such Person.

"ING" shall mean ING (U.S.) Capital Corporation and any successor thereto.

"Interest Coverage Ratio" shall mean, as at any date, the ratio of (a) EBITDAR for the period of four consecutive fiscal quarters ending on or most recently ended prior to such date to (b) the sum of Interest Expense for such period plus Rental Payments for such period (to the extent not included in Interest Expense) for such period.

"Interest Expense" shall mean, for any period, interest expense of the Company and its Consolidated Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP), excluding any interest income, any write-off or amortization of deferred financing fees and any fees or premiums paid and attributable to the redemption of the Outstanding Subordinated Notes, but including in any event the following: (a) all interest in respect of Indebtedness and all cash dividends in respect of Preferred Stock accrued or capitalized

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during such period (whether or not actually paid during such period) plus (b) the net amounts payable (or minus the net amounts receivable) under Interest Rate Protection Agreements accrued during such period (whether or not actually paid or received during such period).

"Interest Period" shall mean, with respect to any Eurodollar Loan, each period commencing on the date such Eurodollar Loan is made or Converted from a Base Rate Loan or the last day of the next preceding Interest Period in the case of a Continued Loan and ending on the numerically corresponding day in the first, second, third or sixth calendar month thereafter, as the Company may select as provided in Section 4.05 hereof, except that each Interest Period that commences on the last Business Day of a calendar month (or on any day for which there is no numerically corresponding day in the appropriate subsequent calendar month) shall end on the last Business Day of the appropriate subsequent calendar month. Notwithstanding the foregoing: (i) if any Interest Period for any Revolving Credit Loan would otherwise end after the Revolving Credit Commitment Termination Date, such Interest Period shall end on the Revolving Credit Commitment Termination Date; (ii) each Interest Period that would otherwise end on a day which is not a Business Day shall end on the next succeeding Business Day (or, if such next succeeding Business Day falls in the next succeeding calendar month, on the next preceding Business Day); and (iii) notwithstanding clause (i) above, no Interest Period shall have a duration of less than one month and, if the Interest Period for any Eurodollar Loan would otherwise be a shorter period, such Loan shall not be available hereunder for such period.

"Interest Rate Protection Agreement" shall mean, for any Person, an interest rate swap, cap or collar agreement or similar arrangement between such Person and one or more financial institutions providing for the transfer or mitigation of interest risks either generally or under specific contingencies.

"Investment" shall mean, for any Person: (a) the acquisition (whether for cash, Property, services or securities or otherwise) of

capital stock, bonds, notes, debentures, partnership or other ownership interests or other securities issued by any other Person or any agreement to make any such acquisition (including, without limitation, any "short sale" or any sale of any securities at a time when such securities are not owned by the Person entering into such short sale); (b) the making of any deposit with, or advance, loan or other extension of credit to, any other Person (including the purchase of Property from another Person subject to an understanding or agreement, contingent or otherwise, to resell such Property to such other Person, but excluding any such advance, loan or extension of credit having a term not exceeding 270 days representing the purchase price of inventory or supplies sold by such Person in the ordinary course of business) and (without duplication) the entering into of any commitment to deposit funds with, advance or lend

funds to or otherwise extend credit to such other Person (other than, in the case of the Company or any Subsidiary of the Company, a Guarantee of Indebtedness or other liabilities of any Subsidiary (other than an Unrestricted Subsidiary or a Released Guarantor) of the Company); (c) the entering into of any Guarantee of, or other contingent obligation with respect to, Indebtedness or other liability of any other Person (other than, in the case of the Company or any Subsidiary of the Company, a Guarantee of Indebtedness or other liabilities of any Subsidiary (other than an Unrestricted Subsidiary or a Released Guarantor) of the Company); or (d) the entering into of any Interest Rate Protection Agreement.

"Investment Grade" shall mean that the Company's senior unsecured debt obligations are rated Baa3 or higher by Moody's Investors Service, Inc. and BBB- or higher by Standard & Poor's Corporation.

"Issuing Bank" shall mean Chase, as the Lender that is the issuer of Letters of Credit under Section 2.03 hereof, or any affiliate of Chase designated by Chase to be the "Issuing Bank", together with its successors and assigns in such capacity (provided that the Issuing Bank shall at all times be a Lender or an affiliate of a Lender).

"Letter of Credit" shall have the meaning assigned to such term in Section 2.03 hereof.

"Letter of Credit Documents" shall mean, with respect to any Letter of Credit, collectively, any application therefor and any other agreements, instruments, guarantees or other documents (whether general in application or applicable only to such Letter of Credit) governing or providing for (a) the rights and obligations of the parties

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concerned or at risk with respect to such Letter of Credit or (b) any collateral security for any of such obligations, each as the same may be modified and supplemented and in effect from time to time.

"Letter of Credit Interest" shall mean, for each Lender, such Lender's participation interest (or, in the case of the Issuing Bank, the Issuing Bank's retained interest) in the Issuing Bank's liability under Letters of Credit and such Lender's rights and interests in Reimbursement Obligations and fees, interest and other amounts payable in connection with Letters of Credit and Reimbursement Obligations.

"Letter of Credit Liability" shall mean, without duplication, at any time and in respect of any Letter of Credit, the sum of (a) the undrawn face amount of such Letter of Credit plus (b) the aggregate unpaid principal amount of all Reimbursement Obligations of the Company at such time due and payable in respect of all drawings made under such Letter of Credit. For purposes of this Agreement, a Lender (other than the Issuing Bank) shall be deemed to hold a Letter of Credit Liability in an amount equal to its participation interest in the related Letter of

Credit under Section 2.03 hereof, and the Issuing Bank shall be deemed to hold a Letter of Credit Liability in an amount equal to its retained interest in the related Letter of Credit Liability after giving effect to the acquisition by the Lenders other than the Issuing Bank of their participation interests under said Section 2.03.

"Leverage Ratio" shall mean, at any time, the ratio of (a) Funded Debt at such time to (b) EBITDA for the period of four consecutive fiscal quarters ending on or most recently ended prior to such time.

"License Agreement" shall mean the License Agreement dated as of February 11, 1987 between College and Barnes & Noble Discount Bookstores, Inc. (a predecessor of B. Dalton), as the same shall be modified and supplemented and in effect from time to time.

"Lien" shall mean, with respect to any Property, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such Property. For purposes of this Agreement and the other Basic Documents, a Person shall be deemed to own subject to a Lien any Property that it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement (other than an operating lease) relating to such Property.

"LIFO Charge" shall mean a charge by the Company to its consolidated earnings, before taxes, equal to the before-tax effect on the Company's consolidated earnings as a result of using the last-in first-out accounting method, instead of the first-in first-out accounting method, to calculate its consolidated cost of goods sold, such charge to be determined in accordance with GAAP.

"Loans" shall mean the Revolving Credit Loans and the Swingline Loans.

"Majority Lenders" shall mean, at all times, Lenders having at least 51% of the aggregate unpaid principal amount of the Revolving Credit Loans plus the aggregate amount of all Letter of Credit Liabilities (or, if no Revolving Credit Loans or Letter of Credit Liabilities shall be outstanding, at least 51% of the aggregate amount of the Commitments).

"Margin Stock" shall mean "margin stock" within the meaning of Regulations G, U and X.

"Material Adverse Effect" shall mean a material adverse effect on (a) the Property, operations or financial condition of the Company and its Subsidiaries taken as a whole, (b) the ability of any Obligor to perform its obligations under any material provision of the Basic Documents to which it is a party, (c) the validity or enforceability of any of the Basic Documents taken as a whole, (d) the material rights and remedies of the Lenders and the Administrative Agent under any of the Basic Documents or (e) the timely payment of the principal of or interest on the Loans or the Reimbursement Obligations or other amounts payable in connection therewith.

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"Multiemployer Plan" shall mean a multiemployer plan defined as such in Section 3(37) of ERISA to which contributions have been made by the Company or any ERISA Affiliate and which is covered by Title IV of ERISA.

"Net Available Proceeds" shall mean:

(i) in the case of any Disposition made in any fiscal year of the Company, the amount of the Net Cash Payments received in connection with such Disposition to the extent that they, together with the amount of Net Cash Payments received in connection with all other Dispositions made in such fiscal year, exceed \$30,000,000; and

(ii) in the case of any Equity Issuance, the aggregate amount of all cash received by the Obligors in respect of such Equity Issuance net of reasonable expenses incurred by the Company and its Subsidiaries (other than Unrestricted Subsidiaries) in connection therewith.

"Net Cash Payments" shall mean, with respect to any Disposition,

the aggregate amount of all cash payments received by the Company and its Subsidiaries (other than Unrestricted Subsidiaries and Released Guarantors) directly or indirectly in connection with such Disposition; provided that (a) Net Cash Payments shall be net of (i) the amount of any legal, title and recording tax expenses, commissions and other fees and expenses paid by the Company and its Subsidiaries (other than Unrestricted Subsidiaries and Released Guarantors) in connection with such Disposition and (ii) any Federal, state and local income or other taxes estimated to be payable by the Company and its Subsidiaries (other than Unrestricted Subsidiaries and Released Guarantors) as a result of such Disposition (but only to the extent that such estimated taxes are in fact paid to the relevant Federal, state or local governmental authority within 20 months of the date of such Disposition), (b) Net Cash Payments shall be net of any repayments by the Company or any of its Subsidiaries (other than Unrestricted Subsidiaries and Released Guarantors) of Indebtedness (other than Indebtedness created in anticipation of such Disposition) to the extent that (i) such Indebtedness is secured by a Lien on the Property that is the subject of such Disposition and (ii) the transferee of (or holder of a Lien on) such Property requires that such Indebtedness be repaid as a condition to the purchase of such Property and (c) Net Cash Payments shall not include any Sale Lease-back Proceeds.

"Notes" shall mean the Revolving Credit Notes and the Swingline Note.

"Outstanding Subordinated Notes" shall mean the Indebtedness of the Company in respect of the 11-7/8% Senior Subordinated Notes of the Company due January 15, 2003, issued under an Amended and Restated Indenture dated as of July 23, 1993 between the Company and United States

Trust Company of New York, as Trustee.

"PBGC" shall mean the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

"Permitted Investments" shall mean: (a) direct obligations of the United States of America or any agency thereof or obligations guaranteed by the United States of America or any agency thereof, in each case, maturing within 360 days of the date of acquisition thereof, (b) investments in time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America having capital, surplus and undivided profits aggregating in excess of \$300,000,000 and whose debt is rated "A" (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act of 1933, as amended) or any money-market fund sponsored by any registered broker dealer or mutual fund distributor, (c) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (a) above entered into with a bank meeting the qualifications described in clause (b) above, (d) investments in commercial paper, maturing not more than 270 days after the date of acquisition, issued by a corporation (other than an Affiliate

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or Subsidiary of the Company) organized under the laws of the United States of America or any state thereof or any foreign country recognized by the United States of America with a rating of "P-1" (or higher) according to Moody's Investors Service, Inc. or "A-1" (or higher) according to Standard and Poor's Corporation, (e) investments in municipal securities with a rating of "A" (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act of 1933, as amended), and (f) Dutch auction-rate securities rated "AAA" (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act of 1933, as amended).

"Permitted Management Ownership" shall mean no more than 30% of the common stock of any Subsidiary of the Company created after the date

hereof that is owned by members of the management of such Subsidiary.

"Person" shall mean any individual, corporation, company, voluntary association, partnership, joint venture, trust, unincorporated organization or government (or any agency, instrumentality or political subdivision thereof).

"Plan" shall mean an employee benefit or other plan established or maintained by the Company or any ERISA Affiliate and that is covered by Title IV of ERISA, other than a Multiemployer Plan.

"Post-Default Rate" shall mean, in respect of any principal of any Loan, any Reimbursement Obligation or any other amount under this Agreement, any Note or any other Basic Document that is not paid when due (whether at stated maturity, by acceleration, by optional or mandatory prepayment or otherwise), a rate per annum during the period from and including the due date to but excluding the date on which such amount is paid in full equal to 2% plus the Base Rate as in effect from time to time plus the Applicable Margin for Base Rate Loans (provided that, if the amount so in default is principal of a Eurodollar Loan and the due date thereof is a day other than the last day of the Interest Period therefor, the "Post-Default Rate" for such principal shall be, for the period from and including such due date to but excluding the last day of the Interest Period, 2% plus the interest rate for such Loan as provided in Section 3.02(a)(ii) hereof and, thereafter, the rate provided for above in this definition).

"Preferred Stock" shall mean preferred shares (including preferred shares that are convertible into common shares of the Company) issued by the Company from time to time that satisfies each of the following requirements: (i) the aggregate net proceeds to the Company from the issuance of such preferred shares shall not exceed \$150,000,000; (ii) the preferred shares shall not (without the consent of the Majority Lenders) in any event be redeemable (or callable by the holder) prior to March 31, 2001; (iii) the preferred shares shall constitute stockholders' equity within the meaning of GAAP; and (iv) dividends shall not be payable in cash in respect of such shares at a rate per annum in excess of the applicable interest rate on Base Rate Loans at the time of the issuance of such shares.

"Prime Rate" shall mean the rate of interest from time to time announced by Chase at its principal office in New York City as its prime commercial lending rate.

"Principal Office" shall mean the principal office of Chase in New York City.

"Prior Year Excess Cash Flow" shall mean, at any time, Excess Cash Flow for the period of four consecutive fiscal quarters ending with the most recently ended fiscal quarter.

"Project" shall have the meaning specified in the definition of "Specified Capital Expenditures" in this Section 1.01.

"Property" shall mean any right or interest in or to property of any kind whatsoever, whether real, personal or mixed and whether tangible or intangible.

"Quarterly Dates" shall mean the last Business Day of each March, June, September and December in each

year, the first of which shall be the first such day after the date of this Agreement.

"Reference Banks" shall mean Chase, Canadian Imperial Bank of Commerce and The Bank of New York.

"Regulation A", "Regulation D", Regulation G", "Regulation U"

and "Regulation X" shall mean, respectively, Regulation A, Regulation D, Regulation G, Regulation U and Regulation X of the Board of Governors of the Federal Reserve System (or any successor), as the same may be modified and supplemented and in effect from time to time.

"Regulatory Change" shall mean, with respect to any Lender, any change after the date of this Agreement in Federal, state or foreign law or regulations (including, without limitation, Regulation D) or the adoption or making after such date of any interpretation, directive or request applying to a class of banks including such Lender of or under any Federal, state or foreign law or regulations (whether or not having the force of law and whether or not failure to comply therewith would be unlawful) by any court or governmental or monetary authority charged with the interpretation or administration thereof.

"Reimbursement Obligations" shall mean, at any time, the obligations of the Company then outstanding, or which may thereafter arise in respect of all Letters of Credit then outstanding, to reimburse amounts paid by the Issuing Bank in respect of any drawings under a Letter of Credit.

"Related Businesses" shall have the meaning specified in Section 9.05(d) (iv) of this Agreement.

"Release" shall mean any release, spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching or migration of Hazardous Materials into the indoor or outdoor environment, including, without limitation, the movement of Hazardous Materials through ambient air, soil, surface water, ground water, wetlands, land or subsurface strata.

"Released Guarantors" shall mean Subsidiary Guarantors that have been released, pursuant to Section 6.09 hereof, from their guarantee obligations under Section 6 hereof.

"Rental Payments" shall mean, for any period, for the Company and its Consolidated Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP), all rental payments (including minimum and percentage rent payments) made or accrued during such period in respect of any operating lease or similar arrangement for the use of Property by the Company or any Consolidated Subsidiary (net of any sublease rental income), but excluding payments in respect of common area maintenance, merchants' association dues, advertisements required pursuant to such lease or similar arrangement and allocations for real estate tax assessments.

"Revolving Credit Commitment" shall mean, for each Lender, the obligation of such Lender to make Revolving Credit Loans in an aggregate principal amount at any one time outstanding up to but not exceeding (a) in the case of a Lender that is a party to this Agreement on the date hereof, the amount set forth opposite the name of such Lender on the signature pages hereof under the caption "Revolving Credit Commitment" and (b) in the case of any other Lender, the aggregate amount of Revolving Credit Commitments of other Lenders acquired by it pursuant to Section 12.06 hereof. The original aggregate principal amount of the Revolving Credit Commitments is \$850,000,000.

"Revolving Credit Commitment Percentage" shall mean, with respect to any Lender, the ratio of (a) the amount of the Revolving Credit Commitment of such Lender to (b) the aggregate amount of the Revolving Credit Commitments of all of the Lenders.

"Revolving Credit Commitment Termination Date" shall mean November 18, 2002.

"Revolving Credit Loans" shall mean the loans provided for by Section 2.01(a) hereof, which may be Base Rate Loans and/or Eurodollar Loans.

"Revolving Credit Notes" shall mean the promissory notes provided for by Section 2.08(a) hereof and all promissory notes delivered in substitution or exchange therefor, in each case as the same shall be modified and supplemented and in effect from time to time.

"Riggio" shall mean Mr. Leonard Riggio.

"Sale Lease-back" shall have the meaning specified in the definition of "Specified Capital Expenditures" in this Section 1.01.

"Sale Lease-back Proceeds" shall mean the proceeds from the sale by the Company or one of its Subsidiaries (other than an Unrestricted Subsidiary or a Released Guarantor) of a Project to a lessor in a Sale Lease-back.

"Security Agreement" shall mean a Pledge and Security Agreement, delivered in connection with the Existing Credit Agreement, in the form of Exhibit B-1 hereto between the Company and the Subsidiary Guarantors and the Administrative Agent, as the same shall be modified and supplemented and in effect from time to time.

"Security Agreement Amendment" shall mean an amendment to the Security Agreement substantially in the form of Exhibit B-2 hereto.

"Security Documents" shall mean, collectively, the Security Agreement and all Uniform Commercial Code financing statements required by this Agreement or the Security Agreement to be filed with respect to the security interests created pursuant to the Security Agreement.

"Senior Subordinated Debt" shall mean:

(a) the Outstanding Subordinated Notes, and

(b) Indebtedness of, or any Equity Issuance by, the Company in an aggregate principal amount not to exceed \$210,000,000 incurred or issued in exchange for the Outstanding Subordinated Notes (including fees and premiums payable in connection with such exchange), so long as each of the terms of such Indebtedness or Equity Issuance and each provision of the agreements or instruments evidencing or governing such Indebtedness or Equity Issuance (including, without limitation, as to principal amount, interest or dividend rate, redemption, representations, covenants, events of default and subordination) are (x) substantially identical to those of the Outstanding Subordinated Notes or (y) are more favorable to the Company than those of the Outstanding Subordinated Notes and are not in any material way adverse to the interests of the Administrative Agent and the Lenders hereunder.

"Senior Subordinated Debt Documents" shall mean all documents and agreements executed and delivered in connection with the issuance of any Senior Subordinated Debt, including (without limitation) the Indenture referred to in the definition of "Outstanding Subordinated Notes" in this Section 1.01 and the promissory notes issued thereunder, in each case, as the same shall, subject to Section 9.18 hereof, be modified and supplemented and in effect from time to time.

"Significant Subsidiary" shall mean, with respect to the Company, (a) each Subsidiary that is a "Significant Subsidiary" of the Company within the meaning of Rule 1-02 of Regulation S-X of the Securities and Exchange Commission, and (b) each Subsidiary (other than any Unrestricted Subsidiary or Released Guarantor) the principal business of which is a retail bookstore business.

"Specified Capital Expenditures" shall mean expenditures made by the Company or its Subsidiaries to acquire and develop real property by

building retail bookstores thereon (each such development, a "Project") with a view to transferring title to such developed real property to another Person (other than an Affiliate or Subsidiary of the Company)

within 24 months after the acquisition of such real property and concurrently leasing it back from such Person (a "Sale Lease-back"), provided that if any Project has not been made the subject of a Sale Lease-back within 24 months after the first such expenditures are made with respect to such Project, all of such expenditures made with respect to such Project shall constitute Capital Expenditures (and be deemed to have been made at the later of the end of such 24-month period and the time actually made) for all purposes of this Agreement (and shall not constitute Specified Capital Expenditures) and shall be:

(a) subject to the limitations in Section 9.11(a) hereof, and

(b) included in Capital Expenditures for purposes of clause (a) of the definition of "Excess Cash Flow" in Section 1.01 hereof,

in all cases until such time (if any) as such Project is made the subject of a Sale Lease-back (at which time such expenditures shall again constitute Specified Capital Expenditures).

"Subsidiary" shall mean, with respect to any Person, any corporation, partnership or other entity of which at least a majority of the securities or other ownership interests having by the terms thereof ordinary voting power to elect a majority of the board of directors or other persons performing similar functions of such corporation, partnership or other entity (irrespective of whether or not at the time securities or other ownership interests of any other class or classes of such corporation, partnership or other entity shall have or might have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned or controlled by such Person or one or more Subsidiaries of such Person or by such Person and one or more Subsidiaries of such Person.

"Swingline Commitment" shall mean the obligation of the Swingline Bank to make Swingline Loans in an aggregate amount at any one time outstanding up to the lesser of \$50,000,000 and the then aggregate principal amount of the Revolving Credit Commitments as then in effect.

"Swingline Loans" shall mean the loans provided for by Section 2.01(b) hereof, which shall be Base Rate Loans.

"Swingline Note" shall mean the promissory note provided for by Section 2.08(b) hereof and all promissory notes delivered in substitution or exchange therefor, in each case as the same shall be modified and supplemented and in effect from time to time.

"Type" shall have the meaning assigned to such term in Section 1.03 hereof.

"Unrelated Persons" shall mean any Person other than (a) Riggio, his wife, his siblings, his children or any trust established for the benefit of Riggio, his wife, his siblings or his children and (b) any Person directly or indirectly effectively controlled (whether through legal or beneficial ownership of equity interests in such Person, by

contract or otherwise) by, or by any estate of, any of the Persons referred to in clause (a).

"Unrestricted Subsidiary" shall mean a Subsidiary acquired or established by the Company or any Subsidiary of the Company pursuant to Section 9.05(d)(iv) hereof and designated as an "Unrestricted Subsidiary" by a notice from the Company to the Lenders no later than three Business Days prior to the effective date for such designation.

"U.S. Person" shall have the meaning given to that term in Section 5.07(a) hereof.

"Voting Shares" shall mean shares of capital stock of the Company, of any class or classes (however designated) (a) having by the terms thereof voting power to elect the members of the board of directors of the Company or (b) convertible into shares of capital stock of the Company of the type described in the foregoing clause (a).

"Wholly Owned Subsidiary" shall mean, with respect to any Person, any corporation, partnership or other entity of which all of the equity securities or other ownership interests (other than, in the case of a corporation, directors' qualifying shares) are owned or controlled by such Person or one or more Wholly Owned Subsidiaries of such Person.

1.02 Accounting Terms and Determinations

(a) Except as otherwise expressly provided herein, (i) all accounting terms used herein shall be interpreted, (ii) all financial statements and all certificates and reports as to financial matters required to be delivered to the Lenders hereunder shall (unless otherwise disclosed to the Lenders in writing at the time of delivery thereof in the manner described in subsection (b) below) be prepared and (iii) all calculations made for the purposes of determining compliance with this Agreement shall (except as otherwise expressly provided herein) be made in accordance with or by application of generally accepted accounting principles applied on a basis consistent with those used in the preparation of the most recent financial statements furnished to the Lenders hereunder (or, prior to the delivery of the first financial statements under Section 9.01 hereof, the audited financial statements as of February 1, 1997, referred to in Section 8.02 hereof) unless (x) the Company shall notify the Lenders of its objection thereto at the time of delivery of any financial statements pursuant to Section 9.01 hereof or (y) the Majority Lenders shall notify the Company (through the Administrative Agent) of their objection within 30 days after the delivery of any such financial statements, in either of which events such interpretations, statements, certificates, reports and calculations shall be made in accordance with, or by application of, generally accepted

accounting principles on a basis consistent with those used in the preparation of the most recent financial statements as to which no such objection shall have been made (or, prior to the delivery of the first financial statements under Section 9.01 hereof, the audited financial statements as at February 1, 1997, referred to in Section 8.02 hereof).

(b) The Company shall deliver to the Lenders at the same time as the delivery of any annual or quarterly financial statement under Section 9.01 hereof (i) a description in reasonable detail of any material variation between the application of accounting principles employed in the preparation of such statement and the application of accounting principles employed in the preparation of the next preceding annual or quarterly financial statements as to which no objection has been made in accordance with the last sentence of paragraph (a) above and (ii) reasonable estimates of the difference between such statements arising as a consequence thereof.

(c) The Company will not, and will not permit any of its Subsidiaries (other than an Unrestricted Subsidiary or a Released Guarantor) to, change the last day of its fiscal year from the Saturday falling on or nearest to January 31 of each year, or the last days of the first three fiscal quarters in each of its fiscal years from the Saturday falling on or nearest to the last day of April, July and October of each year, respectively.

1.03 Types. The "Type" of a Revolving Credit Loan refers to whether such Revolving Credit Loan is a Base Rate Loan or a Eurodollar Loan, each of which constitutes a Type of Revolving Credit Loan.

Section 2. Commitments, Loans, Notes and Prepayments.

2.01 Loans

(a) Revolving Credit Loans. Each Lender severally agrees, on the terms and conditions of this Agreement,

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to make loans to the Company in Dollars during the period from and including the Closing Date to but not including the Revolving Credit Commitment Termination Date in an aggregate principal amount at any one time outstanding up to but not exceeding the amount of the Revolving Credit Commitment of such Lender as in effect from time to time, provided that in no event shall the aggregate principal amount of all Revolving Credit Loans, together with the aggregate amount of all Letter of Credit Liabilities and the aggregate amount of all Swingline Loans, exceed the aggregate amount of the Revolving Credit Commitments as in effect from time to time. Subject to the terms and conditions of this Agreement, during such period the Company may borrow, repay and reborrow the

amount of the Revolving Credit Commitments by means of Base Rate Loans and Eurodollar Loans and may Convert Revolving Credit Loans of one Type into Revolving Credit Loans of the other Type (as provided in Section 2.09 hereof) or Continue Revolving Credit Loans that are Eurodollar Loans (as provided in Section 2.09 hereof).

(b) Swingline Loans. The Swingline Bank hereby agrees, on the terms and conditions of this Agreement, to make Swingline Loans to the Company in Dollars during the period from and including the date hereof to but not including the Revolving Credit Commitment Termination Date in an aggregate principal amount at any one time outstanding up to but not exceeding the Swingline Commitment; provided that the aggregate unpaid principal amount of all Swingline Loans and all Revolving Credit Loans, together with the aggregate amount of all Letter of Credit Liabilities, at any one time outstanding may not exceed the aggregate amount of the Revolving Credit Commitments. Subject to the terms of this Agreement, the Company may borrow, repay and reborrow the amount of the Swingline Commitment by means of Swingline Loans.

(c) Limit on Eurodollar Loans. No more than 25 separate Interest Periods in respect of Eurodollar Loans from each Lender may be outstanding at any one time.

2.02 Borrowings of Loans

(a) Revolving Credit Loans. The Company shall give the Administrative Agent (which shall promptly notify the Lenders) notice of each borrowing of Revolving Credit Loans hereunder as provided in Section 4.05 hereof. Not later than 2:00 p.m. New York time on the date specified for each borrowing of Revolving Credit Loans hereunder, each Lender shall make available the amount of the Revolving Credit Loan or Revolving Credit Loans to be made by it on such date to the Administrative Agent at the Principal Office, in Dollars and immediately available funds, for account of the Company. The amount so received by the Administrative Agent shall, subject to the terms and conditions of this Agreement, be made available by the Administrative Agent to the Company by depositing the same, in immediately available funds, in an account of the Company maintained with Chase at the Principal Office designated by the Company.

(b) Swingline Loans.

(i) The Company shall, not later than 3:00 p.m. New York time on the date on which the Company proposes to borrow a Swingline Loan, give the Administrative Agent and the Swingline Bank notice of such borrowing (a "Swingline Borrowing Notice"), which notice shall be irrevocable and effective only upon receipt by the Swingline Bank and shall specify the principal amount of the Swingline Loan to be borrowed (which shall be at least \$1,500,000). Not later than 4:00 p.m. New York time, on the date specified in each Swingline Borrowing Notice hereunder, the Swingline Bank shall, subject to the terms of this Agreement, make the amount of the Swingline Loan to be made by it on such date available to the Company on such date by depositing the same, in immediately available funds, in an

account of the Company maintained with the Swingline Bank at its

principal office in New York City designated by the Company.

(ii) The Company hereby irrevocably authorizes and empowers (which power is coupled with an interest) the Swingline Bank to deliver, at any time and from time to time, on behalf of the Company, to the Administrative Agent under Section 2.02(a) hereof a notice of borrowing of Revolving Credit Loans that are Base Rate Loans in an amount equal to the then unpaid principal amount of Swingline Loans.

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(iii) In the event that the power of the Swingline Bank to give such a notice of borrowing on behalf of the Company is terminated for any reason whatsoever (including, without limitation, a termination resulting from the occurrence of an event specified in clause (f) or (g) of Section 10 hereof with respect to the Company), or the Swingline Bank is otherwise precluded for any reason whatsoever from giving a notice of borrowing on behalf of the Company as provided in the preceding sentence, each Lender shall, upon notice from the Swingline Bank, promptly purchase from the Swingline Bank a participation in (or, if and to the extent specified by the Swingline Bank, a direct interest in) such Swingline Loan in the amount of the Base Rate Loan it would have been obligated to make pursuant to such notice of borrowing. Each Lender shall, not later than 2:00 p.m. New York time on the Business Day on which such notice is given (if such notice is given by 10:00 a.m. New York time) or noon New York time on the next succeeding Business Day (if such notice is given after 10:00 a.m. New York time), make available the amount of the Base Rate Loan to be made by it (or the amount of the participation or direct interest to be purchased by it, as the case may be) to the Administrative Agent at the account specified in Section 2.02(a) hereof and the amount so received by the Administrative Agent shall be made available to the Swingline Bank by depositing the same, in immediately available funds, in an account of the Swingline Bank maintained at the principal office of the Swingline Bank in New York City designated by the Swingline Bank. Promptly following its receipt of any payment in respect of a Swingline Loan, the Swingline Bank shall pay to each Lender that has acquired a participation in such Swingline Loan such Lender's proportionate share of such payment. Anything in this Agreement to the contrary notwithstanding (including, without limitation, in Section 7.02 hereof), the obligation of each Lender to make its Base Rate Loan (or purchase its participation or direct interest in the Swingline Loan, as the case may be) pursuant to this Section

2.02(b)(iii) is unconditional under any and all circumstances whatsoever and shall not be subject to set-off, counterclaim or defense to payment that such Lender may have or have had against the Company, the Administrative Agent, the Swingline Bank or any other Lender and, without limiting any of the foregoing, shall be unconditional irrespective of (A) the occurrence of any Default, (B) the financial condition of the Company, any Subsidiary Guarantor, the Administrative Agent, the Swingline Bank or any other Lender or (C) the termination or cancellation of the Revolving Credit Commitments. The Company agrees that any Lender so purchasing a participation (or direct interest) in such Swingline Loan may exercise all rights of set-off, bankers' lien, counterclaim or similar rights with respect to such participation as fully as if such Lender were a direct holder of a Swingline Loan in the amount of such participation; provided that no Lender shall be obligated to purchase participations or direct interests in any Swingline Loan pursuant to this Section 2.02(b)(iii) if such Swingline Loan was made by the Swingline Bank after it received notice from the Administrative Agent of the occurrence and continuance of a Default.

(iv) The Administrative Agent shall promptly furnish to the Swingline Bank copies of each notice of the existence of any Default or Event of Default received by it from any Lender or any Obligor.

2.03 Letters of Credit. Subject to the terms and conditions of this Agreement, the Revolving Credit Commitments may be utilized, upon the request of the Company, in addition to the Loans provided for by Section 2.01(a) hereof, by the issuance by the Issuing Bank of letters of credit (together with any letters of credit issued by the Issuing Bank under the Existing Credit Agreement (the "Existing Chase Letters of Credit"), collectively, "Letters of Credit") for account of the Company or any of its Subsidiaries (other than an Unrestricted Subsidiary or a Released Guarantor) as specified by the Company, and the Issuing Bank agrees to issue Letters of Credit on the terms and conditions set forth herein, provided that in no event shall (i) the aggregate amount of all Letter of Credit Liabilities, together with the aggregate principal amount of all Revolving Credit Loans and Swingline Loans outstanding, exceed the aggregate amount of the Revolving Credit Commitments as in effect from time to time, (ii) the outstanding aggregate amount of all Letter of Credit Liabilities exceed \$45,000,000 and (iii) the expiration date of any Letter of Credit extend beyond the earlier of the Revolving Credit Commitment Termination Date and the date 12 months following the issuance of such Letter of Credit. The following additional provisions shall apply to Letters of Credit:

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(a) The Company shall give the Administrative Agent at least three Business Days' irrevocable prior notice (effective

upon receipt) specifying the Business Day (which shall be no later than 30 days preceding the Revolving Credit Commitment Termination Date) each Letter of Credit is to be issued and the account party or parties therefor and describing in reasonable detail the proposed terms of such Letter of Credit (including the beneficiary thereof) and the nature of the transactions or obligations proposed to be supported thereby (including whether such Letter of Credit is to be a commercial letter of credit or a standby letter of credit). Upon receipt of any such notice, the Administrative Agent shall advise the Issuing Bank and each Lender of the contents thereof. Any amendment, modification or supplement to any Letter of Credit hereunder shall be made with prior notice to the Administrative Agent and in accordance with clause (k) of this Section 2.03.

(b) On each day during the period commencing with the issuance by the Issuing Bank of any Letter of Credit (or, in the case of any Existing Chase Letter of Credit, the Closing Date) and until such Letter of Credit shall have expired or been terminated, the Revolving Credit Commitment of each Lender shall be deemed to be utilized for all purposes of this Agreement in an amount equal to such Lender's Revolving Credit Commitment Percentage of the then undrawn face amount of such Letter of Credit. Each Lender (other than the Issuing Bank) agrees that, upon the issuance of any Letter of Credit hereunder, it shall automatically and without any further action on the part of the Administrative Agent, the Issuing Bank or such Lender acquire a participation in the Issuing Bank's liability under such Letter of Credit in an amount equal to such Lender's Revolving Credit Commitment Percentage of such liability, and each Lender (other than the Issuing Bank) thereby shall absolutely, unconditionally and irrevocably assume, as primary obligor and not as surety, and shall be unconditionally obligated to the Issuing Bank to pay and discharge when due, its Revolving Credit Commitment Percentage of the Issuing Bank's liability under such Letter of Credit.

(c) Upon receipt from the beneficiary of any Letter of Credit of any demand for payment under such Letter of Credit, the Issuing Bank shall promptly notify the Company (through the Administrative Agent) of the amount to be paid by the Issuing

Bank as a result of such demand and the date on which payment is to be made by the Issuing Bank to such beneficiary in respect of such demand. Notwithstanding the identity of the account party of any Letter of Credit, the Company hereby unconditionally agrees to pay and reimburse the Administrative Agent for account of the Issuing Bank for the amount of each demand for payment under such Letter of Credit at or prior to the date on which payment is to be made by the Issuing Bank to the beneficiary thereunder, without presentment, demand, protest or other formalities of any kind.

(d) Forthwith upon its receipt of a notice referred to in paragraph (c) of this Section 2.03, the Company shall advise

the Administrative Agent whether or not the Company intends to borrow hereunder to finance its obligation to reimburse the Issuing Bank for the amount of the related demand for payment and, if it does, submit a notice of such borrowing as provided in Section 4.05 hereof. In the event that the Company fails to so advise the Administrative Agent, or if the Company fails to reimburse the Issuing Bank for a demand for payment under a Letter of Credit by the date of such payment, the Administrative Agent shall give each Lender prompt notice of the amount of the demand for payment, specifying such Lender's Revolving Credit Commitment Percentage of the amount of the related demand for payment.

(e) Each Lender (other than the Issuing Bank) shall pay to the Administrative Agent for account of the Issuing Bank at the Principal Office in Dollars and in immediately available funds, the amount of such Lender's Revolving Credit Commitment Percentage of any payment under a Letter of Credit upon notice by the Issuing Bank (through the Administrative Agent) to such Lender requesting such payment and specifying such amount. Each such Lender's obligation to make such payments to the Administrative Agent for account of the Issuing Bank under this paragraph (e), and the Issuing Bank's right to receive the same, shall be absolute and unconditional and shall not be affected by any circumstance whatsoever, including, without limitation, the failure of any other Lender to make its payment under this paragraph (e), the

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financial condition of the Company (or any other account party), the existence of any Default or the termination of the Revolving Credit Commitments (provided that the relevant Letter of Credit shall have been issued by the Issuing Bank prior to the Revolving Credit Commitment Termination Date). Each such payment to the Issuing Bank shall be made without any offset, abatement, withholding or reduction whatsoever.

(f) Upon the making of each payment by a Lender to the Issuing Bank pursuant to paragraph (e) above in respect of any Letter of Credit, such Lender shall, automatically and without any further action on the part of the Administrative Agent, the Issuing Bank or such Lender, acquire (i) a participation in an amount equal to such payment in the Reimbursement Obligation owing to the Issuing Bank by the Company hereunder and under the Letter of Credit Documents relating to such Letter of Credit and (ii) a participation in a percentage equal to such Lender's Revolving Credit Commitment Percentage in any interest or other

amounts payable by the Company hereunder and under such Letter of Credit Documents in respect of such Reimbursement Obligation (other than the commissions, charges, costs and expenses payable to the Issuing Bank pursuant to paragraph (g) of this Section 2.03). Upon receipt by the Issuing Bank from or for account of the Company of any payment in respect of any Reimbursement

Obligation or any such interest or other amount (including by way of setoff or application of proceeds of any collateral security) the Issuing Bank shall promptly pay to the Administrative Agent for account of each Lender entitled thereto, such Lender's Revolving Credit Commitment Percentage of such payment, each such payment by the Issuing Bank to be made in the same money and funds in which received by the Issuing Bank. In the event any payment received by the Issuing Bank and so paid to the Lenders hereunder is rescinded or must otherwise be returned by the Issuing Bank, each Lender shall, upon the request of the Issuing Bank (through the Administrative Agent), repay to the Issuing Bank (through the Administrative Agent) the amount of such payment paid to such Lender, with interest at the rate specified in paragraph (j) of this Section 2.03.

(g) The Company shall pay to the Issuing Bank an issuance fee on the daily average undrawn amount of each Letter of Credit for the period from and including the date of issuance of such Letter of Credit (or, in the case of any Existing Chase Letter of Credit, from and including the Closing Date) to and including the date such Letter of Credit is drawn in full, expires or is terminated, at a rate per annum equal to Applicable Margin for Eurodollar Loans (without giving effect to clause (ii) of the definition of "Applicable Margin") as in effect from time to time (such issuance fee to be non-refundable, to be paid in arrears on each Quarterly Date and on the Revolving Credit Commitment Termination Date and to be calculated, for any day, after giving effect to any payments made under such Letter of Credit on such day). The Issuing Bank shall pay to the Administrative Agent for account of each Lender (other than the Issuing Bank), from time to time at reasonable intervals (but in any event at least quarterly), but only to the extent actually received from the Company, an amount equal to such Lender's Revolving Credit Commitment Percentage of all such fees in respect of each Letter of Credit (including, for the period from and after the Closing Date, each Chase Letter of Credit), including any such fee in respect of any period of any renewal or extension thereof. In addition, the Company shall pay to the Issuing Bank a fronting fee on the daily average undrawn amount of each Letter of Credit for the period from and including the date of issuance of such Letter of Credit (or, in the case of any Existing Chase Letter of Credit, from and including the Closing Date) to and including the date such Letter of Credit is drawn in full, expires or is terminated, at a rate per annum equal to 1/10 of 1% (such fronting fee shall be non-refundable, shall be paid in arrears on each Quarterly Date and on the Revolving Credit Commitment Termination Date and shall be calculated, for any day, after giving effect to any

payments made under such Letter of Credit on such day) together with all commissions, charges, costs and expenses in the amounts customarily charged by the Issuing Bank from time to time in like circumstances with respect to the issuance of each Letter of Credit and drawings and other transactions relating thereto.

(h) Promptly following the end of each calendar quarter, the Issuing Bank shall deliver (through

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the Administrative Agent) to each Lender and the Company a notice describing the aggregate amount of all Letters of Credit issued during such quarter. Upon the request of any Lender from time to time, the Issuing Bank shall deliver any other information reasonably requested by such Lender with respect to each Letter of Credit then outstanding.

(i) The issuance by the Issuing Bank of each Letter of Credit shall, in addition to the conditions precedent set forth in Section 7 hereof, be subject to the conditions precedent that (i) such Letter of Credit shall be in such form and contain such terms as shall be satisfactory to the Issuing Bank consistent

with its then current practices and procedures with respect to letters of credit of the same type, and shall support such transactions as shall be consistent with the Company's ordinary course of business and (ii) the Company shall have executed and delivered such applications, agreements and other instruments relating to such Letter of Credit as the Issuing Bank shall have reasonably requested consistent with its then current practices and procedures with respect to letters of credit of the same type, provided that in the event of any conflict between any such application, agreement or other instrument and the provisions of this Agreement or any Security Document, the provisions of this Agreement and the Security Documents shall control.

(j) To the extent that any Lender fails to pay any amount required to be paid pursuant to paragraph (e) or (f) of this Section 2.03 on the due date therefor, such Lender shall pay interest to the Issuing Bank (through the Administrative Agent) on such amount from and including such due date to but excluding the date such payment is made (i) during the period from and including such due date to but excluding the date three Business Days thereafter, at a rate per annum equal to the Federal Funds Rate (as in effect from time to time) and (ii) thereafter, at a rate per annum equal to the Base Rate (as in effect from time to time) plus 2%.

(k) The issuance by the Issuing Bank of any modification or supplement to any Letter of Credit hereunder shall be subject to the same conditions applicable under this Section 2.03 to the issuance of new Letters of Credit, and no such modification or supplement shall be issued hereunder unless either (i) the respective Letter of Credit affected thereby would have complied with such conditions had it originally been issued hereunder in such modified or supplemented form or (ii) the Majority Lenders shall have consented thereto.

(l) Each Lender agrees that on the Closing Date it shall automatically acquire a participation in the Issuing Bank's liability under each Existing Chase Letter of Credit in an amount equal to such Lender's Revolving Credit Commitment Percentage of such liability, and each Lender thereby shall absolutely, unconditionally and irrevocably assume, as primary obligor and not as surety, and shall be unconditionally obligated to the Issuing Bank to pay and discharge when due, its Commitment Percentage of the Issuing Bank's liability under each Existing Chase Letter of Credit.

The Company hereby indemnifies and holds harmless each Lender (including the Issuing Bank) and the Administrative Agent from and against any and all claims and damages, losses, liabilities, costs or expenses which such Lender or the Administrative Agent may incur (or which may be claimed against such Lender or the Administrative Agent by any Person whatsoever) by reason of or in connection with the execution and delivery or transfer of or payment or refusal to pay by the Issuing Bank under any Letter of Credit; provided that the Company shall not be required to indemnify any Lender or the Administrative Agent for any claims, damages, losses, liabilities, costs or expenses to the extent, but only to the extent, caused by (x) the willful misconduct or gross negligence of the Issuing Bank in determining whether a request presented under any Letter of Credit complied with the terms of such Letter of Credit or (y) the Issuing Bank's failure to pay under any Letter of Credit after the presentation to it of a request strictly complying with the terms and conditions of such Letter of Credit. Nothing in this Section 2.03 is intended to limit the other obligations of the Company, any Lender or the Administrative Agent under this Agreement.

(a) The aggregate amount of the Revolving Credit Commitments and the Swingline Commitment shall be automatically reduced to zero on the Revolving Credit Commitment Termination Date.

(b) The Company shall have the right at any time or from time to time (i) so long as no Revolving Credit Loans, Swingline Loans or Letter of Credit Liabilities are outstanding hereunder, to terminate the Revolving Credit Commitments in full and (ii) to reduce the aggregate

unused amount of the Revolving Credit Commitments (for which purpose use of the Revolving Credit Commitments shall be deemed to include the aggregate amount of Letter of Credit Liabilities and Swingline Loans); provided that (x) the Company shall give notice of each such termination or reduction as provided in Section 4.05 hereof and (y) each partial reduction shall be in an aggregate amount equal to \$5,000,000 or any integral multiple of \$5,000,000 in excess thereof.

(c) The Company shall have the right at any time, so long as no Swingline Loans are outstanding, to terminate the Swingline Commitment upon not less than three Business Days' prior notice to the Administrative Agent and the Swingline Bank, which notice shall specify the effective date thereof.

(d) The Commitments once terminated or reduced may not be reinstated.

2.05 Commitment Fees; Excess Usage Fee

(a) The Company shall pay to the Administrative Agent for account of each Lender a commitment fee on the daily average unused amount of the Revolving Credit Commitment of such Lender (for which purpose the aggregate amount of any Letter of Credit Liabilities and the aggregate amount of the Swingline Commitment (whether or not utilized) shall be deemed to be a pro rata (based on the Revolving Credit Commitments) use of each Lender's Revolving Credit Commitment), for the period from and including the Closing Date to but not including the earlier of the date the Revolving Credit Commitments are terminated and the Revolving Credit Commitment Termination Date, at a rate per annum equal to the Applicable Commitment Fee Percentage. Accrued commitment fees payable to the Lenders in respect of the Revolving Credit Commitments shall be payable on each Quarterly Date and on the earlier of the date the Revolving Credit Commitments are terminated in full and the Revolving Credit Commitment Termination Date.

(b) The Company shall pay to the Swingline Bank a commitment fee on the daily average unused amount of the Swingline Commitment, for the period from and including the Closing Date to but not including the earlier of the date the Swingline Commitment is terminated in full and the Revolving Credit Commitment Termination Date, at a rate per annum equal to the Applicable Commitment Fee Percentage. The accrued commitment fee payable to the Swingline Bank shall be payable on each Quarterly Date and on the earlier of the date the Swingline Commitment is terminated in full and the Revolving Credit Commitment Termination Date.

(c) To the extent that the average principal amount of Eurodollar Loans outstanding during any fiscal quarter of the Company (or the portion of the fiscal quarter that occurs prior to the date that the Revolving Credit Commitments are terminated or expire) exceeds 50% of the aggregate amount of the Revolving Credit Commitments on the last day of such fiscal quarter, the Company shall pay to the Administrative Agent, for the account of the Lenders, an excess usage fee on such excess at a rate per annum equal to 0.125%. Accrued excess usage fee shall be payable by the third Business Day following the last Business Day of each fiscal quarter of the Company.

2.06 Lending Offices. The Revolving Credit Loans of each Type made by each Lender shall be made and maintained at such Lender's Applicable Lending Office for Revolving Credit Loans of such Type. The Swingline Loans shall be made and maintained at the Applicable Lending Office of the Swingline Bank for Swingline Loans.

2.07 Several Obligations; Remedies Independent. The failure of any Lender (a "Defaulting Lender") to

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make any Loan to be made by it on the date specified therefor shall not relieve any other Lender of its obligation to make any Loan to be made by it on such date, but neither any Lender nor the Administrative Agent shall be responsible for the failure of any Defaulting Lender to make a Loan to be made by such Defaulting Lender, and no Lender shall have any obligation to the Administrative Agent or any other Lender for the failure by such Defaulting Lender to make any Loan required to be made by such Defaulting Lender. The amounts payable by the Company at any time hereunder and under the Notes to each Lender shall be a separate and independent debt and each Lender shall be entitled to protect and enforce its rights arising out of this Agreement and the Notes, and it shall not be necessary for any other Lender or the Administrative Agent to consent to, or be joined as an additional party in, any proceedings for such purposes.

2.08 Notes

(a) The Revolving Credit Loans made by each Lender shall be evidenced by a single promissory note of the Company substantially in the form of Exhibit A-1 hereto, dated the date hereof, payable to the order of such Lender in a principal amount equal to the amount of its Revolving Credit Commitment as originally in effect and otherwise duly completed.

(b) The Swingline Loans made by the Swingline Bank shall be evidenced by a single promissory note of the Company in substantially the form of Exhibit A-2 hereto, dated the date of this Agreement, payable to the Swingline Bank in a principal amount equal to the amount of the Swingline Commitment as originally in effect and otherwise duly completed. The date and amount of each Swingline Loan and each payment made on account of the principal thereof, shall be recorded by the Swingline Bank on its books and, prior to any transfer of the Swingline Note, endorsed by the Swingline Bank on the schedule attached to such Swingline Note or any continuation thereof; provided that the failure by the Swingline Bank to make any such recordation or endorsement shall not affect any of the obligations of the Company hereunder or under the Swingline Note to make a payment when due.

(c) The date, amount, Type, interest rate and duration of Interest Period (if applicable) of each Revolving Credit Loan made by each Lender to the Company, and each payment made on account of the principal thereof, shall be recorded by such Lender on its books and, prior to any transfer of the Revolving Credit Note evidencing Loans held by it, endorsed by such Lender on the schedule attached to such Revolving Credit Note or any continuation thereof; provided that the failure of such Lender to make any such recordation or endorsement shall not affect the obligations of the Company to make a payment when due of any amount owing hereunder or under such Revolving Credit Note in respect of the Revolving Credit Loans.

(e) No Lender shall be entitled to have its Revolving Credit Notes subdivided by exchange for promissory notes of lesser denominations or otherwise, except in connection with a permitted assignment of all or any portion of such Lender's Commitments, Revolving Credit Loans and Revolving Credit Notes pursuant to Section 12.06(b) hereof.

(f) The Swingline Bank shall not be entitled to have its Swingline Note subdivided, by exchange for promissory notes of lesser denominations or otherwise, except in connection with a permitted assignment of all of any portion of the Swingline Bank's Swingline Commitments, Swingline Loans and Swingline Note pursuant to Section 12.06(g) hereof.

2.09 Optional Prepayments and Conversions or Continuations of Loans. Subject to Section 4.04 hereof, the Company shall have the right to prepay Loans, or to Convert Revolving Credit Loans of one Type into Revolving Credit Loans of another Type or Continue Revolving Credit Loans of one Type as Revolving Credit Loans of the same Type, at any time or from time to time, provided that the Company shall give the Administrative Agent notice of each

such prepayment, Conversion or Continuation as provided in Section 4.05 hereof (and, upon the prepayment date specified in any such notice of prepayment, the amount to be prepaid shall become due and payable hereunder). Notwithstanding the foregoing, and without limiting the rights and remedies of the Lenders under Section 10 hereof,

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in the event that any Event of Default shall have occurred and be continuing, the Administrative Agent may (and at the request of the Majority Lenders shall) suspend the right of the Company to borrow any Revolving Credit Loan as a Eurodollar Loan, to Convert any Revolving Credit Loan into a Eurodollar Loan or to Continue any Revolving Credit Loan as a Eurodollar Loan, in which event all Eurodollar Loans then outstanding shall be Converted (on the last day(s) of the respective Interest Periods therefor) into Base Rate Loans.

2.10 Mandatory Prepayments

(a) Sale of Assets. Without limiting the obligation of the Company to obtain the consent of the Majority Lenders pursuant to Section 9.05 hereof to any Disposition not otherwise permitted hereunder, not later than five Business Days prior to the occurrence of any Disposition, the Company will deliver to the Lenders a statement, certified by a senior officer of the Company, in form and detail reasonably satisfactory to the Administrative Agent, of the anticipated amount of the Net Available Proceeds of such Disposition and no later than the Business Day next succeeding such Disposition, to the extent the Net Available Proceeds thereof (when taken together with the Net Available Proceeds of all prior Dispositions for which a prepayment has not yet been made under this Section 2.10(a)) shall exceed \$5,000,000, the Company shall prepay the Revolving Credit Loans in an aggregate amount, and the Revolving Credit Commitments shall be automatically reduced by an amount, equal to 100% of the Net Available Proceeds of such Disposition (together with 100% of the Net Available Proceeds of all prior Dispositions as to which prepayment has not yet been made under this Section 2.10(a)).

(b) Equity Issuance. Upon any Equity Issuance (other than any issuance of Senior Subordinated Debt) that occurs during the continuance of any Default, the Company shall prepay the Revolving Credit Loans in an aggregate amount equal to the Applicable Percentage of the Net Available Proceeds thereof.

(c) Excess Cash Flow. Not later than the date 90 days after the end of each fiscal year of the Company (beginning with the fiscal year commencing on February 1, 1998) for which Excess Cash Flow is greater than \$25,000,000 (but only if a Default is continuing on such 90th day), the Company shall prepay the Revolving Credit Loans in an aggregate amount equal to 50% of Excess Cash Flow for such fiscal year.

Section 3. Payments of Principal and Interest.

3.01 Repayment of Loans

(a) Revolving Credit Loans. The Company hereby promises to pay to the Administrative Agent for account of each Lender the entire outstanding principal amount of such Lender's Revolving Credit Loans, and each Revolving Credit Loan shall mature, on the Revolving Credit Commitment Termination Date.

(b) Swingline Loans. The Company will pay (or cause to be paid) to the Swingline Bank the principal of each Swingline Loan at or prior to, and each Swingline Loan shall mature at, 1:00 p.m. New York time on the Business Day immediately preceding the Revolving Credit Commitment Termination Date.

3.02 Interest

(a) Revolving Credit Loans. The Company hereby promises to pay

to the Administrative Agent for account of each Lender interest on the unpaid principal amount of each Revolving Credit Loan made by such Lender for the period from and including the date of such Revolving Credit Loan

to but excluding the date such Revolving Credit Loan shall be paid in full, at the following rates per annum:

(i) during such periods as such Revolving Credit Loan is a Base Rate Loan, the Base Rate (as in

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effect from time to time) plus the Applicable Margin; and

(ii) during such periods as such Revolving Credit Loan is a Eurodollar Loan, for each Interest Period relating thereto, the Eurodollar Rate for such Revolving Credit Loan for such Interest Period plus the Applicable Margin.

Notwithstanding the foregoing, the Company hereby promises to pay to the Administrative Agent for account of each Lender interest at the applicable Post-Default Rate on any principal of any Revolving Credit Loan made by such Lender, on any Reimbursement Obligation held by such Lender and on any other amount payable by the Company hereunder or under the Revolving Credit Note held by such Lender to or for account of such Lender, which shall not be paid in full when due (whether at stated maturity, by acceleration, by mandatory prepayment or otherwise), for the period from and including the due date thereof to but excluding the date the same is paid in full. Accrued interest on each Revolving Credit Loan shall be payable (i) in the case of a Base Rate Loan, quarterly on the Quarterly Dates, (ii) in the case of a Eurodollar Loan, on the last day of each Interest Period therefor and, if such Interest Period is longer than three months, at three-month intervals following the first day of such Interest Period, and (iii) in the case of any Revolving Credit Loan, upon the payment or prepayment thereof or the Conversion of such Revolving Credit Loan to a Revolving Credit Loan of another Type (but only on the principal amount so paid, prepaid or Converted), except that interest payable at the Post-Default Rate shall be payable from time to time on demand of the Lenders for whose account such interest is payable.

(b) Swingline Loans. The Company will pay (or cause to be paid) to the Swingline Bank interest on the unpaid principal amount of each Swingline Loan for the period from and including the day such Swingline Loan is made to but excluding the date such Swingline Loan is paid in full at the Federal Funds Rate (as in effect from time to time) plus 3/4 of 1%. Accrued interest on each Swingline Loan shall be payable (i) quarterly on the Quarterly Dates and (ii) upon the payment or prepayment thereof (but only on the portion paid or prepaid). The Company will pay (or cause to be paid) to the Swingline Bank interest at the applicable Post-Default Rate on any principal of or interest on any Swingline Loan which shall not be paid in full when due for the period from and including the date such Swingline Loan shall be due to but excluding the date the same is paid in full. Interest payable at the Post-Default Rate shall be payable from time to time on demand.

(c) Notice of Rates. Promptly after the determination of any interest rate provided for herein or any change therein, the Administrative Agent shall give notice thereof to the Lenders to which such interest is payable and to the Company.

Section 4. Payments; Pro Rata Treatment; Computations; Etc.

4.01 Payments

(a) Except to the extent otherwise provided herein, all payments of principal, interest, Reimbursement Obligations and other amounts to be made by the Company under this Agreement and the Notes, and, except to the extent otherwise provided therein, all payments to be made by the Obligors under any other Basic Document, shall be made in Dollars, in

immediately available funds, without deduction, set-off or counterclaim, to the Administrative Agent at the Principal Office, not later than 1:30 p.m. New York time on the date on which such payment shall become due (each such payment made after such time on such due date to be deemed to have been made on the next succeeding Business Day).

(b) Any Lender or the Swingline Bank for whose account any such payment is to be made may (but shall not be obligated to) debit the amount of any such payment that is not made by such time to any ordinary deposit account of the Company with such Lender or the Swingline Bank (with notice to the Company and the Administrative Agent) and any such debit shall be deemed to be a payment by the Company.

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(c) The Company shall, at the time of making each payment under this Agreement or any Note for account of any Lender, specify to the Administrative Agent (which shall notify the intended recipient(s) thereof) the Loans, Reimbursement Obligations or other amounts payable by the Company hereunder to which such payment is to be applied, in which case such payment shall be, subject to Section 4.02 hereof, so applied (and in the event that the Company fails to so specify, or if an Event of Default has occurred and is continuing, such payment shall be, subject to said Section 4.02, applied in such manner as is determined to be appropriate by the Majority Lenders or, if the Majority Lenders fail to advise the Administrative Agent of their determination promptly following a request from the Administrative Agent for such a determination, by the Administrative Agent).

(d) Each payment received by the Administrative Agent under this Agreement or any Note for account of any Lender or the Swingline Bank shall be paid by the Administrative Agent promptly to such Lender or the Swingline Bank (as the case may be), in immediately available funds, for account of the Applicable Lending Office of such Lender or the Swingline Bank (as the case may be) for the Loan or other obligation in respect of which such payment is made.

(e) If the due date of any payment under this Agreement or any Note would otherwise fall on a day that is not a Business Day, such date shall be extended to the next succeeding Business Day, and interest shall be payable on any principal so extended for the period of such extension.

4.02 Pro Rata Treatment. Except to the extent otherwise provided herein:

(a) each borrowing of Revolving Credit Loans under Section 2.01 hereof shall be made from the Lenders, each payment of commitment fee under Section 2.05 hereof shall be made for account of the Lenders and each termination or reduction of the Commitments under Section 2.04 hereof shall be applied to the respective Commitments of the Lenders, pro rata according to the amounts of their respective Commitments;

(b) the making, Conversion and Continuation of Revolving Credit Loans of a particular Type (other than Conversions provided for by Section 5.04 hereof) shall be made pro rata among the Lenders according to the amounts of their respective Commitments (in the case of making of Revolving Credit Loans) or their respective Revolving Credit Loans (in the case of Conversions and Continuations of Revolving Credit Loans), and Eurodollar Loans having the same Interest Period shall be allocated pro rata among the Lenders according to the amounts of their respective Revolving Credit Loans of such Type;

(c) each payment or prepayment of principal of Revolving Credit Loans shall be made for account of the Lenders pro rata in accordance with the respective unpaid principal amounts of Revolving Credit Loans held by the Lenders; and

(d) each payment of interest on Revolving Credit Loans shall be made for account of the Lenders pro rata in accordance with the amounts of interest on Revolving Credit Loans then due and payable to the respective Lenders.

4.03 Computations. Interest on Eurodollar Loans, Swingline Loans and letter of credit fees shall be computed on the basis of a year of 360 days and actual days elapsed (including the first day but excluding the last day) occurring in the period for which payable, and interest on Base Rate Loans and Reimbursement Obligations and commitment fees shall be computed on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed (including the first day but excluding the last day) occurring in the period for which payable.

4.04. Minimum Amounts. Except for mandatory prepayments made pursuant to Section 2.10 hereof and Conversions or prepayments made pursuant to Section 5.04 hereof, each borrowing, Conversion and partial

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prepayment of principal of Revolving Credit Loans shall be in an aggregate amount equal to \$5,000,000 or any integral multiple of \$1,000,000 in excess thereof (borrowings, Conversions or prepayments of or into Revolving Credit Loans of different Types or, in the case of Eurodollar Loans, having different Interest Periods at the same time hereunder to be deemed separate borrowings, Conversions and prepayments for purposes of the foregoing, one for each Type or Interest Period). Anything in this Agreement to the contrary notwithstanding, the aggregate principal amount of Eurodollar Loans having the same Interest Period shall be in an amount at least equal to \$5,000,000 and, if any Eurodollar Loans having the same Interest Period would otherwise be in a lesser principal amount for any period, such Loans shall be Base Rate Loans during such period.

4.05 Certain Notices. Notices by the Company to the Administrative Agent of terminations or reductions of Commitments and of borrowings, Conversions, Continuations and optional prepayments of Revolving Credit Loans, of Types of Revolving Credit Loans and of the duration of Interest Periods shall be irrevocable and shall be effective only if received by the Administrative Agent not later than 1:00 p.m. (or 3:00 p.m. in the case of a borrowing or prepayment of, Conversions into, Continuations as, or the duration of an Interest Period for, Eurodollar Loans) New York time on the number of Business Days prior to the date of the relevant termination, reduction, borrowing, Conversion, Continuation or optional prepayment or the first day of such Interest Period specified below:

| Notice | Number of Business Days Prior |
|---|-------------------------------------|
| Termination or reduction of Commitments | Three |
| Borrowing or prepayment of, or Conversions into, Base Rate Loans | Same Day |
| Borrowing or prepayment of, Conversions into, Continuations as, or duration of Interest Period for, Eurodollar Loans | Three |

Each such notice of termination or reduction shall specify the amount of the Commitments to be terminated or reduced. Each such notice of borrowing, Conversion, Continuation or optional prepayment shall specify the Type of each Revolving Credit Loan to be borrowed, Converted, Continued or prepaid, the date of borrowing, Conversion, Continuation or optional prepayment (which shall be a Business Day), and, if any such Revolving Credit Loan is to be borrowed or Continued as, or Converted into, a Eurodollar Loan, the duration of the Interest Period for such

Revolving Credit Loan. The Administrative Agent shall promptly notify the Lenders of the contents of each such notice. In the event that the Company fails to select the Type of Revolving Credit Loan, or the duration of any Interest Period for any Eurodollar Revolving Credit Loan, within the time period and otherwise as provided in this Section 4.05, such Revolving Credit Loan (if outstanding as a Eurodollar Loan) will be automatically Converted into a Base Rate Loan on the last day of the then current Interest Period for such Revolving Credit Loan or (if outstanding as a Base Rate Loan) will remain as, or (if not then outstanding) will be made as, a Base Rate Loan.

4.06 Non-Receipt of Funds by the Administrative Agent. Unless the Administrative Agent shall have been notified by a Lender or the Company (the "Payor") prior to the date on which the Payor is to make payment to the Administrative Agent of (in the case of a Lender) the proceeds of a Loan to be made by such Lender, or an amount payable in respect of a participation in a Letter of Credit Liability to be acquired by such Lender, hereunder or (in the case of the Company) a payment to the Administrative Agent for account of one or more of the Lenders

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hereunder (such payment being herein called the "Required Payment"), which notice shall be effective upon receipt, that the Payor does not intend to make the Required Payment to the Administrative Agent, the Administrative Agent may assume that the Required Payment has been made and may, in reliance upon such assumption (but shall not be required to), make the amount thereof available to the intended recipient(s) on such date; and, if the Payor has not in fact made the Required Payment to the Administrative Agent, the recipient(s) of such payment shall, on demand, repay to the Administrative Agent the amount so made available together with interest thereon in respect of each day during the period commencing on the date (the "Advance Date") such amount was so made available by the Administrative Agent until the date the Administrative Agent recovers such amount at a rate per annum equal to the Federal Funds Rate for such day and, if such recipient(s) shall fail promptly to make such payment, the Administrative Agent shall be entitled to recover such amount, on demand, from the Payor, together with interest as aforesaid, provided that if the recipient(s) shall fail to return, and the Payor shall fail to make, the Required Payment to the Administrative Agent within three Business Days of the Advance Date, then the Payor and the recipient(s) shall each be obligated to pay interest on the Required Payment as follows:

(a) if the Required Payment shall represent a payment to be made by the Company to the Lenders, the Company and the recipient(s) shall each be obligated retroactively to the Advance Date to pay interest in respect of the Required Payment at the Post-Default Rate (and, in case the recipient(s) shall return the Required Payment to the Administrative Agent, without limiting the obligation of the Company under Section 3.02 hereof

to pay interest to such recipient(s) at the Post-Default Rate in respect of the Required Payment);

(b) if the Required Payment shall represent proceeds of a Loan to be made by the Lenders to the Company, the Payor and the Company shall each be obligated retroactively to the Advance Date to pay interest in respect of the Required Payment at the rate of interest provided for such Required Payment pursuant to Section 3.02 hereof (and, in case the Company shall return the Required Payment to the Administrative Agent, without limiting any claim the Company may have against the Payor in respect of the Required Payment); and

(c) if the Required Payment shall represent a payment to be made by a Lender to the Issuing Bank in respect of a participation in a Letter of Credit Liability to be acquired by such Lender, the Payor shall be obligated retroactively to the Advance Date to pay interest in respect of the Required Payment at the rate of interest provided for such Required Payment pursuant to Section 3.02 hereof with respect to Base Rate Loans.

Nothing in this Section 4.06 shall require the Company to pay any greater amount in respect of principal of any Loan, interest on any Loan or any Letter of Credit Liability than it would be required to pay hereunder in the absence of this Section 4.06.

4.07 Sharing of Payments, Etc.

(a) The Company agrees that, in addition to (and without limitation of) any right of set-off, banker's lien or counterclaim a Lender or the Swingline Bank may otherwise have, each Lender and the Swingline Bank shall be entitled, at its option, to offset balances held by it for account of the Company at any of its offices, in Dollars or in any other currency, against any principal of or interest on any of such Lender's Revolving Credit Loans, any of the Swingline Loans, any of the Reimbursement Obligations or any other amount payable to such Lender or the Swingline Bank (as the case may be) hereunder, that is not paid when due (regardless of whether such balances are then due to the Company), in which case it shall promptly thereafter notify the Company and the Administrative Agent thereof, provided that such Lender's or the Swingline Bank's (as the case may be) failure to give such notice shall not affect the validity thereof.

(b) If any Lender shall obtain from any Obligor payment of any principal of or interest on any Loan or

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Letter of Credit Liability owing to it or payment of any other amount under this Agreement or any other Basic Document through the exercise of any right of

set-off, banker's lien or counterclaim or similar right or otherwise (other than from the Administrative Agent as provided herein), and, as a result of such payment, such Lender shall have received a greater percentage of the principal of or interest on the Loans or Letter of Credit Liabilities or such other amounts then due hereunder or thereunder by such Obligor to such Lender than the percentage received by any other Lender, it shall promptly purchase from such other Lenders participations in (or, if and to the extent specified by such Lender, direct interests in) the Loans or Letter of Credit Liabilities or such other amounts, respectively, owing to such other Lenders (or in interest due thereon, as the case may be) in such amounts, and make such other adjustments from time to time as shall be equitable, to the end that all the Lenders shall share the benefit of such excess payment (net of any expenses that may be incurred by such Lender in obtaining or preserving such excess payment) pro rata in accordance with the unpaid principal of and/or interest on the Loans or Letter of Credit Liabilities or such other amounts, respectively, owing to each of the Lenders. To such end all the Lenders shall make appropriate adjustments among themselves (by the resale of participations sold or otherwise) if such payment is rescinded or must otherwise be restored.

(c) The Company agrees that any Lender so purchasing such a participation (or direct interest) pursuant to the foregoing clause (b) may exercise all rights of set-off, banker's lien, counterclaim or similar rights with respect to such participation as fully as if such Lender were a direct holder of Loans or other amounts (as the case may be) owing to such Lender in the amount of such participation.

(d) Nothing contained herein shall require any Lender to exercise any such right or shall affect the right of any Lender to exercise, and retain the benefits of exercising, any such right with respect to any other indebtedness or obligation of any Obligor. If, under any applicable bankruptcy, insolvency or other similar law, any Lender receives a secured claim in lieu of a set-off to which this Section 4.07 applies, such Lender shall, to the extent practicable, exercise its rights in respect of such secured claim in a manner consistent with the rights of the Lenders entitled under this Section 4.07 to share in the benefits of any recovery on such secured claim.

Section 5. Yield Protection, Etc.

5.01 Additional Costs

(a) The Company shall pay directly to each Lender from time to time such amounts as such Lender may reasonably and in good faith determine to be necessary to compensate such Lender for any increased costs that such Lender reasonably and in good faith determines are attributable to its making or maintaining of any Eurodollar Loans or its obligation to make any Eurodollar Loans hereunder, or any reduction in any amount receivable by such Lender hereunder in respect of any of such Loans or such obligation (such increases in costs and reductions in amounts receivable being herein called "Additional Costs"), resulting from any Regulatory Change that:

(i) changes the basis of taxation of any amounts

payable to such Lender under this Agreement or its Note in respect of any of such Loans (other than taxes imposed on or measured by the overall net income of such Lender or of its Applicable Lending Office for any of such Loans by the jurisdiction in which such Lender has its principal office or such Applicable Lending Office); or

(ii) imposes or modifies any reserve, special deposit or similar requirements (other than, in the case of any Lender for any period as to which the Company is required to pay any amount under paragraph (e) below, the reserves against "Eurocurrency liabilities" under Regulation D therein referred to) relating to any extensions of credit or other assets of, or any deposits with or other liabilities of, such Lender (including, without limitation, any of such Loans or any deposits referred to in the definition of "Eurodollar Rate" in Section 1.01 hereof), or any commitment of such Lender hereunder (including, without limitation, the Commitments of such Lender); or

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(iii) imposes any other condition affecting this Agreement or its Note (or any of such extensions of credit or liabilities) or its Commitments.

If any Lender requests compensation from the Company under this Section 5.01(a), the Company may, by notice to such Lender (with a copy to the Administrative Agent), suspend the obligation of such Lender thereafter to make or Continue Eurodollar Loans, or to Convert Base Rate Loans into Eurodollar Loans, until the Regulatory Change giving rise to such request ceases to be in effect (in which case the provisions of Section 5.04 hereof shall be applicable), provided that such suspension shall not affect the right of such Lender to receive the compensation so requested to the extent such Lender certifies that such compensation is still payable notwithstanding such suspension.

(b) Without limiting the effect of the provisions of paragraph (a) of this Section 5.01, in the event that, by reason of any Regulatory Change, any Lender either (i) incurs Additional Costs based on or measured by the excess above a specified level of the amount of a category of deposits or other liabilities of such Lender that includes deposits by reference to which the interest rate on Eurodollar Loans is determined as provided in this Agreement or a category of extensions of credit or other assets of such Lender that includes Eurodollar Loans or (ii) becomes subject to restrictions on the amount of such a category of liabilities or assets that it may hold, then, if such Lender so elects by notice to the Company (with a copy to the Administrative Agent), the obligation of such Lender to make or Continue, or to Convert Base Rate Loans into, Eurodollar Loans hereunder shall be suspended until such

Regulatory Change ceases to be in effect (in which case the provisions of Section 5.04 hereof shall be applicable) and the Company shall not be obligated to pay any Additional Costs for which the Lender ceases to be liable or to incur.

(c) Without limiting the effect of the foregoing provisions of

this Section 5.01 (but without duplication), the Company shall pay directly to each Lender from time to time on request such amounts as such Lender may determine reasonably and in good faith to be necessary to compensate such Lender (or, without duplication, the bank holding company of which such Lender is a subsidiary) for any costs that it determines reasonably and in good faith are attributable to the maintenance by such Lender (or any Applicable Lending Office or such bank holding company), pursuant to any law or regulation or any interpretation, directive or request (whether or not having the force of law and whether or not failure to comply therewith would be unlawful) of any court or governmental or monetary authority

(i) following any Regulatory Change, or

(ii) implementing any risk-based capital guideline or other requirement (whether or not having the force of law and whether or not the failure to comply therewith would be unlawful) heretofore or hereafter issued by any government or governmental or supervisory authority implementing at the national level the Basel Accord (including, without limitation, the Final Risk-Based Capital Guidelines of the Board of Governors of the Federal Reserve System (12 C.F.R. Part 208, Appendix A; 12 C.F.R. Part 225, Appendix A) and the Final Risk-Based Capital Guidelines of the Office of the Comptroller of the Currency (12 C.F.R. Part 3, Appendix A)),

of capital in respect of its Commitments or Loans (such compensation to include, without limitation, an amount equal to any reduction of the rate of return on assets or equity of such Lender (or any Applicable Lending Office or such bank holding company) to a level below that which such Lender (or any Applicable Lending Office or such bank holding company) could have achieved but for such law, regulation, interpretation, directive or request). For purposes of this Section 5.01(c) and Section 5.06 hereof, "Basel Accord" shall mean the proposals for risk-based capital framework described by the Basel Committee on Banking Regulations and Supervisory Practices in its paper entitled "International Convergence of Capital Measurement and Capital Standards" dated July 1988, as amended, modified and supplemented and in effect from time to time or any replacement thereof.

(d) Each Lender shall notify the Company and the Administrative Agent of any event occurring after the

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date of this Agreement entitling such Lender to compensation under paragraph (a) or (c) of this Section 5.01 as promptly as practicable, but in any event within 30 days, after such Lender obtains actual knowledge thereof; provided that (i) if any Lender fails to give such notice within 30 days after it obtains actual knowledge of such an event, such Lender shall, with respect to compensation payable pursuant to this Section 5.01 in respect of any costs resulting from such event, only be entitled to payment under this Section 5.01 for costs incurred from and after the date 30 days prior to the date that such Lender does give such notice and (ii) each Lender will designate a different Applicable Lending Office for the Loans of such Lender affected by such event if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the reasonable opinion of such Lender, be disadvantageous to such Lender, except that such Lender shall have no obligation to designate an Applicable Lending Office located in the United States of America. Each Lender will furnish to the Company a certificate setting forth the basis and amount of each request by such Lender for compensation under paragraph (a) or (c) of this Section 5.01. Determinations and allocations by any Lender for purposes of this Section 5.01 of the effect of any Regulatory Change pursuant to paragraph (a) or (b) of this Section 5.01, or of the effect of capital maintained pursuant to paragraph (c) of this Section 5.01, on its costs or rate of return of maintaining Loans or its obligation to make Loans, or on amounts receivable by it in respect of Loans, and of the amounts required to compensate such Lender under this Section 5.01, shall be conclusive, provided that such determinations and allocations are made on a reasonable basis and absent demonstrable error.

(e) Without limiting the effect of the foregoing, the Company shall pay to each Lender on the last day of each Interest Period so long as such Lender is maintaining reserves against "Eurocurrency liabilities" under Regulation D (or, unless the provisions of paragraph (b) above are applicable, so long as such Lender is, by reason of any Regulatory Change, maintaining reserves against any other category of liabilities which includes deposits by reference to which the interest rate on Eurodollar Loans is determined as provided in this Agreement or against any category of extensions of credit or other assets of such Lender which includes any Eurodollar Loans) an additional amount (determined by such Lender and notified to the Company through the Administrative Agent) equal to the product of the following for each Eurodollar Loan for each day during such Interest Period:

(i) the principal amount of such Eurodollar Loan outstanding on such day; and

(ii) the remainder of (x) a fraction the numerator of which is the rate (expressed as a decimal) at which interest accrues on such Eurodollar Loan for such Interest Period as provided in this Agreement (less the Applicable Margin) and the denominator of which is one minus the effective rate (expressed as a decimal) at which such reserve requirements are imposed on such Lender on such day minus (y) such numerator; and

(iii) 1/360.

5.02 Limitations on Types of Loans. Anything herein to the contrary notwithstanding, if, on or prior to the determination of any Eurodollar Rate for any Interest Period:

(a) the Administrative Agent determines reasonably and in good faith, which determination shall be conclusive, that quotations of interest rates for the relevant deposits referred to in the definition of "Eurodollar Rate" in Section 1.01 hereof are not being provided in the relevant amounts or for the relevant maturities for purposes of determining rates of interest for Eurodollar Loans as provided herein; or

(b) the Majority Lenders determine reasonably and in good faith, which determination shall be conclusive, and notify the Administrative Agent that the relevant rates of interest referred to in the definition of "Eurodollar Rate" in Section 1.01 hereof upon the basis of which the rate of interest for Eurodollar Loans for such Interest Period is to be determined are not likely to adequately cover the cost to such Lenders of making or maintaining Eurodollar Loans for such Interest Period;

then the Administrative Agent shall give the Company and each Lender prompt notice thereof and, so long as such

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condition remains in effect, the Lenders shall be under no obligation to make additional Eurodollar Loans, to Continue Eurodollar Loans or to Convert Base Rate Loans into Eurodollar Loans, and the Company shall, on the last day(s) of the then current Interest Period(s) for the outstanding Eurodollar Loans, either prepay such Loans or Convert such Loans into Base Rate Loans in accordance with Section 2.09 hereof.

5.03 Illegality. Notwithstanding any other provision of this Agreement, in the event that it becomes unlawful for any Lender or its Applicable Lending Office to honor its obligation to make or maintain Eurodollar Loans hereunder, then such Lender shall promptly notify the Company thereof (with a copy to the Administrative Agent) and such Lender's obligation to make or Continue, or to Convert Loans of any other Type into, Eurodollar Loans shall be suspended until such time as such Lender may again make and maintain Eurodollar Loans (in which case the provisions of Section 5.04 hereof shall be applicable).

5.04 Treatment of Affected Loans. If the obligation of any Lender to make Eurodollar Loans or to Continue, or to Convert Base Rate Loans into,

Eurodollar Loans shall be suspended pursuant to Section 5.01 or 5.03 hereof, such Lender's Eurodollar Loans shall be automatically Converted into Base Rate Loans on the last day(s) of the then current Interest Period(s) for Eurodollar Loans (or, in the case of a Conversion required by Section 5.01(b) or 5.03 hereof, on such earlier date as such Lender may specify to the Company with a copy to the Administrative Agent) and, unless and until such Lender gives notice as provided below that the circumstances specified in Section 5.01 or 5.03 hereof that gave rise to such Conversion no longer exist:

(a) to the extent that such Lender's Eurodollar Loans have been so Converted, all payments and prepayments of principal that would otherwise be applied to such Lender's Eurodollar Loans shall be applied instead to its Base Rate Loans; and

(b) all Loans that would otherwise be made or Continued by such Lender as Eurodollar Loans shall be made or Continued instead as Base Rate Loans, and all Base Rate Loans of such Lender that would otherwise be Converted into Eurodollar Loans shall remain as Base Rate Loans.

If such Lender gives notice to the Company with a copy to the Administrative Agent that the circumstances specified in Section 5.01 or 5.03 hereof that gave rise to the Conversion or non-Continuation of such Lender's Eurodollar Loans pursuant to this Section 5.04 no longer exist (which such Lender agrees to do promptly upon such circumstances ceasing to exist) at a time when Eurodollar Loans made by other Lenders are outstanding, such Lender's Base Rate Loans shall be automatically Converted, on the first day(s) of the next succeeding Interest Period(s) for such outstanding Eurodollar Loans, to the extent necessary so that, after giving effect thereto, all Revolving Credit Loans held by the Lenders holding Eurodollar Loans and by such Lender are held pro rata (as to principal amounts, Types and Interest Periods) in accordance with their respective Commitments.

5.05 Compensation. The Company shall pay to the Administrative Agent for account of each Lender, upon the request of such Lender through the Administrative Agent, such amount or amounts as shall be sufficient (in the reasonable opinion of such Lender) to compensate it for any loss, cost or expense that such Lender determines is attributable to:

(a) any payment, mandatory or optional prepayment or Conversion of a Eurodollar Loan made by such Lender for any reason (including, without limitation, the acceleration of the Loans pursuant to Section 10 hereof) on a date other than the last day of the Interest Period for such Loan;

(b) any failure by the Company for any reason (including, without limitation, the failure of any of the conditions precedent specified in Section 7 hereof to be satisfied) to borrow a Eurodollar Loan from such Lender on the date for such borrowing specified in the relevant notice of borrowing given under Section 2.02 hereof; or

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(c) any failure for any reason (including, without limitation, as provided in Section 5.02 or 5.03 hereof, but

excluding as a result of the failure by such Lender to make a Loan it is obligated to make hereunder) of a Loan of such Lender to be Continued as or Converted into a Eurodollar Loan on the date for such Continuation or Conversion specified in the relevant notice given under Section 2.09 hereof.

Without limiting the effect of the preceding sentence, such compensation shall include an amount equal to the excess (if any) of (i) the amount of interest that otherwise would have accrued on the principal amount so paid, prepaid or Converted or not borrowed, Continued or Converted for the period from the date of such payment, prepayment, Conversion or

failure to borrow, Continue or Convert to the last day of the then current Interest Period for such Loan (or, in the case of a failure to borrow, Continue or Convert, the Interest Period for such Loan that would have commenced on the date specified for such borrowing, Continuation or Conversion) at the applicable rate of interest for such Loan provided for herein (less, in the case of any failure to borrow a Eurodollar Loan, or to Continue a Loan as or to Convert a Loan into a Eurodollar Loan, solely as a result of the limitation set forth in Section 5.02 or 5.03 hereof, the Applicable Margin for such Loan) over (ii) the amount of interest that otherwise would have accrued on such principal amount at a rate per annum equal to the interest component of the amount such Lender would have bid in the London interbank market for Dollar deposits of leading banks in amounts comparable to such principal amount and with maturities comparable to such period (as reasonably determined by such Lender).

5.06 Additional Costs in Respects of Letters of Credit. Without limiting the obligations of the Company under Section 5.01 hereof (but without duplication), if as a result of any Regulatory Change or any risk-based capital guideline or other requirement heretofore or hereafter issued by any government or governmental or supervisory authority implementing at the national level the Basel Accord, there shall be imposed, modified or deemed applicable any tax, reserve, special deposit, capital adequacy or similar requirement against or with respect to or measured by reference to Letters of Credit issued or to be issued hereunder and the result shall be to increase the cost to any Lender or Lenders of issuing (or purchasing participations in) or maintaining its obligation hereunder to issue (or purchase participations in) any Letter of Credit or reduce any amount receivable by any Lender hereunder in respect of any Letter of Credit (which increases in cost, or reductions in amount receivable, shall be the result of such Lender's or Lenders' reasonable allocation of the aggregate of such increases or reductions resulting from such event), then, upon demand by such Lender or Lenders (through the Administrative Agent), the Company shall pay immediately to the Administrative Agent for account of such Lender or Lenders, from time to time as specified by such Lender or Lenders (through the Administrative Agent), such additional amounts as shall be sufficient to compensate such Lender or Lenders (through the Administrative Agent) for such increased costs or reductions in amount. A statement as to such increased costs or reductions in amount incurred by any such Lender or Lenders, submitted by such Lender or Lenders to the Company shall be conclusive in the absence of demonstrable error as to the amount thereof.

5.07 U.S. Taxes

(a) The Company agrees to pay to each Lender that is not a U.S.

Person such additional amounts as are necessary in order that the net payment of any amount due to such non-U.S. Person hereunder after deduction for or withholding in respect of any U.S. Tax imposed with respect to such payment (or in lieu thereof, payment of such U.S. Tax by such non-U.S. Person), will not be less than the amount stated herein to be then due and payable, provided that the foregoing obligation to pay such additional amounts shall not apply:

(i) to any payment to a Lender hereunder unless such Lender is, on the date hereof (or on the date it becomes a Lender as provided in Section 12.06(b) hereof) and on the date of any change in the Applicable Lending Office of such Lender, either entitled to submit a Form 1001 (relating to such Lender and entitling it to a complete exemption from withholding on all interest to be received by it hereunder in respect of the Loans) or Form 4224 (relating to all interest to be received by such Lender hereunder in respect of the Loans), or

(ii) to any U.S. Tax imposed solely by reason of the failure by such non-U.S. Person to comply with applicable certification, information, documentation or other reporting requirements concerning the nationality, residence, identity or connections with the United States of America of such non-U.S. Person if

such compliance is required by statute or regulation of the United States of America as a precondition to relief or exemption from such U.S. Tax.

For the purposes of this Section 5.07(a), (w) "Form 1001" shall mean Form 1001 (Ownership, Exemption, or Reduced Rate Certificate) of the Department of the Treasury of the United States of America, (x) "Form 4224" shall mean Form 4224 (Exemption from Withholding of Tax on Income Effectively Connected with the Conduct of a Trade or Business in the United States) of the Department of the Treasury of the United States of America (or in relation to either such Form such successor and related forms as may from time to time be adopted by the relevant taxing authorities of the United States of America to document a claim to which such Form relates), (y) "U.S. Person" shall mean a citizen, national or resident of the United States of America, a corporation, partnership or other entity created or organized in or under any laws of the United States of America, or any estate or trust that is subject to Federal income taxation regardless of the source of its income and (z) "U.S. Taxes" shall mean any present or future tax, assessment or other charge or levy imposed by or on behalf of the United States of America or any taxing authority thereof or therein.

(b) Within 30 days after paying any amount to the Administrative Agent or any Lender from which it is required by law to make any deduction or withholding, and within 30 days after it is required by law to remit such deduction or withholding to any relevant taxing or other authority, the Company shall deliver to the Administrative Agent for delivery to such non-U.S. Person evidence satisfactory to such Person of such deduction, withholding or payment (as the case may be).

(c) Each Lender that is a Lender on the Closing Date and is not a U.S. Person agrees to furnish to the Administrative Agent (with a copy to the Company) on the Closing Date an appropriately completed Form 1001 or Form 4224 and each Lender that becomes a Lender after the Closing Date pursuant to Section 12.06(b) hereof and is not a U.S. Person agrees to furnish to the Administrative Agent (with a copy to the Company), promptly after becoming a Lender, an appropriately completed Form 1001 or Form 4224.

5.08 Replacement of Certain Lenders

(a) Provided that no Default shall have occurred and be continuing, the Company may, at any time, replace any Lender (i) that has requested compensation from the Company pursuant to Section 5.01 or 5.06 hereof or (ii) that has given the Company the notice contemplated by Section 5.03 hereof or (iii) which is not a U.S. Person and as to which the Company is obligated to make payments under Section 5.07 hereof, by giving not less than ten Business Days' prior notice to the Administrative Agent (which shall promptly notify such Lender), that it intends to replace such Lender with one or more banks or other financial institutions (including, but not limited to, any other Lender under this Agreement) selected by the Company that (a) have agreed to replace such Lender as provided in this Section 5.08 and (b) are reasonably acceptable to the Administrative Agent (the Administrative Agent agreeing not to unreasonably delay notifying the Company whether a proposed replacement lender is acceptable). Upon the effective date of any replacement under this Section 5.08 and as a condition to such replacement, the replacement lender or lenders shall pay to the Lender being replaced the principal of the Loans held by such Lender and the Company shall pay to such Lender all accrued interest on such Loans and all other amounts owing to such Lender hereunder (including any amounts payable under Section 5.05 hereof as if such Loans were being prepaid by the Company), whereupon each such replacement bank (if not already a Lender) shall become a "Lender" for all purposes of this Agreement.

(b) If any Lender that is a Reference Bank (or a Wholly Owned Subsidiary of a Reference Bank, as the case may be) shall be replaced pursuant to this Section 5.08, such Reference Bank shall thereupon cease to be a Reference Bank and, if as a result of the foregoing, there shall only be two Reference Banks remaining, then the Administrative Agent (after consultation with the Company) shall, by notice to the Company and the Banks, designate another

Lender as a Reference Bank, so that there shall at all times be three Reference Banks.

5.09 Consistent Treatment. Each Lender shall apply the provisions of this Section 5 in substantially the same manner, and to the same extent, as such Lender applies comparable provisions applicable to similarly-situated borrowers.

Section 6. Guarantee

6.01 Guarantee. The Subsidiary Guarantors hereby jointly and severally guarantee to each Lender and the Administrative Agent and their respective successors and assigns the prompt payment in full when due (whether at stated maturity, by acceleration or otherwise) of the principal of and interest on the Revolving Credit Loans made by the Lenders to, and the Revolving Credit Note held by each Lender of, and the principal of and interest on the Swingline Loans made by the Swingline Bank to, and the Swingline Note of, the Company and all other amounts (including, without limitation, Reimbursement Obligations) from time to time owing to the Lenders or the Administrative Agent by the Company under this Agreement and under the Notes and by any Obligor under any of the other Basic Documents, in each case strictly in accordance with the terms thereof (and giving effect to any amendment or modification of such terms), including all amounts which would become due but for the operation of the automatic stay under Section 362(a) of the Bankruptcy Code and the operation of Sections 502(b) and 506(b) of the Bankruptcy Code (such obligations being herein collectively called the "Guaranteed Obligations"). The Subsidiary Guarantors hereby further jointly and severally agree that if the Company shall fail to pay in full when due (whether at stated maturity, by acceleration or otherwise) any of the Guaranteed Obligations, the Subsidiary Guarantors will promptly pay the same, without any demand or notice whatsoever, and that in the case of any extension of time of payment or renewal of any of the Guaranteed Obligations, the same will be promptly paid in full when due (whether at extended maturity, by acceleration or otherwise) in accordance with the terms of such extension or renewal.

6.02 Obligations Unconditional. The obligations of the Subsidiary Guarantors under Section 6.01 hereof are absolute and unconditional, joint and several, irrespective of the value, genuineness, validity, regularity or enforceability of the obligations of the Company under this Agreement, the Notes or any other agreement or instrument referred to herein or therein, or any substitution, release or exchange of any other guarantee of or security for any of the Guaranteed Obligations, and, to the fullest extent permitted by applicable law, irrespective of any other circumstance whatsoever which might otherwise constitute a legal or equitable discharge or defense of a surety or guarantor, it being the intent of this Section 6.02 that the obligations of each of the Subsidiary Guarantors hereunder shall be absolute and unconditional, joint and several, under any and all circumstances. Without limiting the generality of the foregoing, it is agreed that the occurrence of any one or more of the following shall not alter or impair the liability of any of the Subsidiary Guarantors hereunder, which liabilities shall remain absolute and

unconditional as described above:

(i) at any time or from time to time, without notice to the Subsidiary Guarantors, the time for any performance of or compliance with any of the Guaranteed Obligations shall be extended, or such performance or compliance shall be waived;

(ii) any of the acts mentioned in any of the provisions of this Agreement or the Notes or any other agreement or instrument referred to herein or therein shall be done or omitted;

(iii) the maturity of any of the Guaranteed Obligations shall be accelerated, or any of the Guaranteed Obligations shall be modified, supplemented or amended in any respect, or any right under this Agreement or the Notes or any other agreement or instrument referred to herein or therein shall be waived or

any other guarantee of any of the Guaranteed Obligations (including the Guarantee hereunder of any other Subsidiary Guarantor) or any security therefor shall be released or exchanged in whole or in part or

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otherwise dealt with; or

(iv) any lien or security interest granted to, or in favor of, the Administrative Agent or any Lender or Lenders as security for any of the Guaranteed Obligations shall fail to be perfected.

The Subsidiary Guarantors hereby expressly waive diligence, presentment, demand of payment, protest and all notices whatsoever, and any requirement that the Administrative Agent or any Lender exhaust any right, power or remedy or proceed against the Company under this Agreement or the Notes or any other agreement or instrument referred to herein or therein, or against any other Person under any other guarantee of, or security for, any of the Guaranteed Obligations.

6.03 Reinstatements. The obligations of the Subsidiary Guarantors under this Section 6 shall be automatically reinstated if and to the extent that for any reason any payment by or on behalf of the Company in respect of the Guaranteed Obligations is rescinded or must be otherwise restored by any holder of any of the Guaranteed Obligations, whether as a result of any proceedings in bankruptcy or reorganization or otherwise and the Subsidiary Guarantors jointly and severally agree that they will indemnify the Administrative Agent and each Lender on demand for all reasonable costs and expenses (including, without limitation, reasonable fees of counsel) incurred by the Administrative Agent or such Lender in connection with such rescission or restoration, including any

such costs and expenses incurred in defending against any claim alleging that such payment constituted a preference, fraudulent transfer or similar payment under any bankruptcy, insolvency or similar law.

6.04 Subrogation. Each Subsidiary Guarantor hereby jointly and severally agrees that until the payment and satisfaction in full of all Guaranteed Obligations and the expiration and termination of the Commitments of the Lenders under this Agreement, they shall not exercise any right or remedy arising by reason of any performance by them of their guarantee in Section 6.01 hereof, whether by subrogation or otherwise, against the Company or any other guarantor of any of the Guaranteed Obligations or any security for any of the Guaranteed Obligations.

6.05 Remedies. The Subsidiary Guarantors jointly and severally agree that, as between the Subsidiary Guarantors and the Lenders, the obligations of the Company under this Agreement and the Notes may be declared to be forthwith due and payable as provided in Section 10 hereof (and shall be deemed to have become automatically due and payable in the circumstances provided in said Section 10) for purposes of Section 6.01 hereof notwithstanding any stay, injunction or other prohibition preventing such declaration (or such obligations from becoming automatically due and payable) as against the Company and that, in the event of such declaration (or such obligations being deemed to have become automatically due and payable), such obligations (whether or not due and payable by the Company) shall forthwith become due and payable by the Subsidiary Guarantors for purposes of said Section 6.01.

6.06 Continuing Guarantee. The guarantee in this Section 6 is a continuing guarantee, and shall apply to all Guaranteed Obligations whenever arising.

6.07 Rights of Contribution. The Subsidiary Guarantors hereby agree, as between themselves, that if any Subsidiary Guarantor (an "Excess Funding Guarantor") shall pay Guaranteed Obligations in excess of such Excess Funding Guarantor's Pro Rata Share (as defined below) of such Guaranteed Obligations (such excess payment, an "Excess Payment"), each other Subsidiary Guarantor shall, on demand of such Excess Funding Guarantor (but subject to the next sentence hereof), pay to such Excess Funding Guarantor an amount equal to such

other Subsidiary Guarantor's Pro Rata Share (such Pro Rata Share, for the purpose of determining the amount due to the Excess Funding Guarantor under this Section 6.07, to be determined without reference to the Excess Funding Guarantor) of such Excess Payment. The payment obligation of each other Subsidiary Guarantor to an Excess Funding Guarantor under this Section 6.07 shall be subordinate and subject in right of payment to the prior payment in full of the obligations of such Subsidiary Guarantor under the other provisions of this Section 6, and such Excess Funding Guarantor shall not exercise any right or remedy with respect to such Excess Payment until payment and satisfaction

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in full of all of such obligations. For the purposes hereof, "Pro Rata Share" shall mean, with respect to each Subsidiary Guarantor, the ratio (expressed as a percentage and determined as of the Closing Date) of (a) the amount by which the aggregate value of all of the Properties of such Subsidiary Guarantor at their present fair saleable value exceeds the amount of all of the debts and liabilities (including contingent, subordinated, unmatured and unliquidated liabilities, but excluding the obligations of such Subsidiary Guarantor under this Section 6) of such Subsidiary Guarantor to (b) the amount by which the aggregate value of all of the Properties of all of the Subsidiary Guarantors at their present fair saleable value exceeds the amount of all of the debts and liabilities (including contingent, subordinated, unmatured and unliquidated liabilities, but excluding the obligations of such Subsidiary Guarantor under this Section 6) of all of the Subsidiary Guarantors.

6.08 Limitation on Guarantee Obligations. In any action or proceeding involving any state corporate law, or any state or Federal bankruptcy, insolvency, reorganization or other law affecting the rights of creditors generally, if the obligations of any Subsidiary Guarantor under Section 6.01 hereof would otherwise, taking into account the provisions of Section 6.07 hereof, be held or determined to be void, invalid or unenforceable, or subordinated to the claims of any other creditors, on account of the amount of its liability under said Section 6.01, then, notwithstanding any other provision hereof to the contrary, the amount of such liability shall, without any further action by such Subsidiary Guarantor, any Lender, the Administrative Agent or any other Person, be automatically limited and reduced to the highest amount which is valid and enforceable and not subordinated to the claims of other creditors as determined in such action or proceeding.

6.09 Release of Guarantors. A Subsidiary Guarantor shall be released from its guarantee obligations under Section 6 hereof, and its Properties shall be released from the Lien of the Security Agreement, upon the request of the Company, so long as (a) such Subsidiary Guarantor is not B. Dalton Bookseller, Inc., Barnes & Noble Booksellers, Inc. or Doubleday Book Shops, Inc. and (b) the aggregate fair market value of the assets of all such Released Guarantors calculated as of the time of the respective release does not exceed \$150,000,000. In the event that any Subsidiary Guarantor is so released, from and after the date of such release:

(i) all financial reports delivered pursuant to this Agreement shall be prepared as if such Subsidiary was not a Subsidiary of the Company (and, in addition, the Company shall furnish the financial reports currently required under Section 9.01(a) and 9.01(c)); and

(ii) all covenants in Sections 9.10 and 9.11 hereof shall be calculated as if such Subsidiary was not a Subsidiary of the Company.

Section 7. Conditions Precedent.

7.01 Initial Extension of Credit. The obligation of any Lender or the Swingline Bank to make its initial extension of credit hereunder (whether by making a Loan or issuing a Letter of Credit) is subject to (i) the condition precedent that such extension of credit shall be made on or before November 26, 1997 and (ii) the receipt by the Administrative Agent of the following

documents, each of which shall be satisfactory to the Administrative Agent in form and substance:

(a) Corporate Documents. The following documents, each certified as indicated below:

(i) for each Obligor, a copy of the charter, as amended and in effect, of such Obligor certified as of a recent date by the Secretary of State of its jurisdiction of incorporation, and a certificate from such Secretary of State dated as of a recent date as to the good standing of and charter documents filed by such Obligor;

(ii) for each Obligor, a certificate of the Secretary or an Assistant Secretary of such Obligor,

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dated the Closing Date and certifying (A) that attached thereto is a true and complete copy of the by-laws of such Obligor as amended and in effect at all times from the date on which the resolutions referred to in clause (B) were adopted to and including the date of such certificate, (B) that attached thereto is a true and complete copy of resolutions duly adopted by the board of directors of such Obligor authorizing the execution, delivery and performance of such of the Basic Documents to which such Obligor is or is intended to be a party and the extensions of credit hereunder, and that such resolutions have not been modified, rescinded or amended and are in full force and effect, (C) that the charter of such Obligor has not been amended since the date of the certification thereto furnished pursuant to subparagraph (i) above, and (D) as to the incumbency and specimen signature of each officer of such Obligor executing such of the Basic Documents to which such Obligor is intended to be a party and each other document to be delivered by such Obligor from time to time in connection therewith (and the Administrative Agent and each Lender may conclusively rely on such certificate until it receives notice in writing from such Obligor); and

(iii) for each Obligor, a certificate of another officer of such Obligor as to the incumbency and specimen signature of the Secretary or Assistant Secretary, as the case may be, of such Obligor.

(b) Officer's Certificate. A certificate of a senior officer of the Company, dated the Closing Date, to the effect

(x) set forth in the first sentence of Section 7.02 hereof and (y) that this Agreement and the Loans constitute "Senior Indebtedness" under the Senior Subordinated Debt Documents.

(c) Opinion of Counsel to the Obligors. An opinion, dated the Closing Date, of Robinson Silverman Pearce Aronsohn & Berman LLP, counsel to the Obligors, substantially in the form of Exhibit C hereto and covering such other matters as the Administrative Agent may reasonably request (and each Obligor hereby instructs such counsel to deliver such opinions to the Lenders and the Administrative Agent).

(d) Opinion of Special New York Counsel to Chase, CIBC and ING. An opinion, dated the Closing Date, of Mayer, Brown & Platt, special New York counsel to Chase, CIBC and ING, substantially in the form of Exhibit D hereto.

(e) Notes. The Notes, duly completed and executed.

(f) Security Agreement. The Security Agreement Amendment, duly executed and delivered by the Company, the Subsidiary Guarantors and the Administrative Agent, together

with (i) the certificates identified under the name of such Obligor in Annex 1 to the Security Agreement, in each case accompanied by undated stock powers executed in blank and (ii) a consent by College, in form and substance satisfactory to the Administrative Agent, to the creation of a Lien on the License Agreement pursuant to the Security Agreement. In addition, the Company and the Subsidiary Guarantors shall have taken such other action (including, without limitation, delivering to the Administrative Agent, for filing, appropriately completed and duly executed copies of Uniform Commercial Code financing statements) as the Administrative Agent shall have requested in order to perfect the security interests created pursuant to the Security Agreement.

(g) Insurance. Certificates of insurance evidencing the existence of all insurance required to be maintained by the Company pursuant to Section 9.04 hereof.

(h) Repayment of Existing Indebtedness. Evidence that the principal of and interest on, and all other amounts owing (including, without limitation, any contingent or other amounts payable in respect of letters of credit) in respect of, the Indebtedness indicated on Schedule I hereto as being repaid upon the Closing Date shall have been (or shall be simultaneously) repaid in full, that all commitments to extend credit under the agreements evidencing any such Indebtedness shall have been canceled or terminated and

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that any Liens securing any such Indebtedness shall have been released (or arrangements for such release satisfactory to the Administrative Agent shall have been made).

(i) Copies of the License Agreement. A copy, certified as true and correct by a senior officer of the Company, of the License Agreement.

(j) Other Documents. Such other documents as the Administrative Agent or special New York counsel to Chase, CIBC and ING may reasonably request.

The obligation of any Lender or the Swingline Bank to make its initial extension of credit hereunder is also subject to the payment by the Company of such fees and reimbursement for expenses as the Company shall have agreed to pay to any Lender or the Administrative Agent in connection herewith, including, without limitation, the reasonable fees and expenses of Mayer, Brown & Platt, special New York counsel to Chase, CIBC and ING in connection with the negotiation, preparation, execution and delivery of this Agreement and the Notes and the other Basic Documents and the extensions of credit hereunder (to the extent that statements for such fees and expenses have been delivered to the Company), provided that such fees and expenses may be paid with the proceeds of the Loans made hereunder on the Closing Date.

7.02 Initial and Subsequent Extensions of Credit. The obligation of the Lenders and the Swingline Bank to make any Loan or otherwise extend any credit to the Company upon the occasion of each borrowing or other extension of credit hereunder (including the initial borrowing or other extension of credit) is subject to the further conditions precedent that, both immediately prior to the making of such Loan or other extension of credit and also after giving effect thereto and to the intended use thereof:

(a) no Default shall have occurred and be continuing; and

(b) the representations and warranties made by the Obligors in Section 8 hereof, and by each Obligor in each of the other Basic Documents to which it is a party, shall be true and complete on and as of the date of the making of such Loan or other extension of credit with the same force and effect as if made on and as of such date (or, if any such representation or

warranty is expressly stated to have been made as of a specific date, as of such specific date).

Each notice of borrowing or request for the issuance of a Letter of Credit by the Company hereunder shall constitute a certification by the Company to the effect set forth in the preceding sentence (both as of the date of such notice or request and, unless the Company otherwise notifies the Administrative Agent prior to the date of such borrowing or issuance, as of the date of such borrowing or issuance).

Section 8. Representatives and Warranties. Each Obligor represents and warrants to the Administrative Agent and the Lenders that:

8.01 Corporate Existence. Each of the Company and its Subsidiaries (other than Unrestricted Subsidiaries and Released Guarantors): (a) is a corporation, partnership or other entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization; (b) has all requisite corporate or other power, and has all material governmental licenses, authorizations, consents and approvals, necessary to own its assets and carry on its business as now being or as proposed to be conducted; and (c) is qualified to do business and is in good standing in all jurisdictions in which the nature of the business conducted by it makes such qualification necessary and where failure so to qualify could, either individually or in the aggregate, have a Material Adverse Effect.

8.02 Financial Condition. The Company has heretofore furnished to each of the Lenders the consolidated balance sheet of the Company and its Consolidated Subsidiaries as at February 1, 1997, and the related consolidated

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statements of income and cash flows of the Company and its Consolidated Subsidiaries for the fiscal year ended on said date, with the opinion thereon of BDO Seidman, and the unaudited consolidated balance sheet of the Company and its Consolidated Subsidiaries as at August 2, 1997 and the related unaudited consolidated statements of income and cash flows of the Company and the Consolidated Subsidiaries for the six-month period ended on such date. Such financial statements are complete and correct and fairly present the consolidated financial condition of the Company and its Consolidated Subsidiaries as at said date and the consolidated results of their operations for the fiscal year ended on said date, all in accordance with generally accepted accounting principles and practices applied on a consistent basis. None of the Company nor any of its Subsidiaries has on the date hereof any material contingent liabilities, liabilities for taxes, unusual forward or long-term commitments or unrealized or anticipated losses from any unfavorable commitments, except as referred to or reflected or provided for in said financial statements (or in the notes thereto) as at said date. Since February 1, 1997, there has been no material adverse change in the consolidated financial condition or operations of the Company and its Consolidated Subsidiaries taken as a whole from that set forth in said financial statements as at said date.

8.03 Litigation. There are no legal or arbitral proceedings, or any proceedings by or before any governmental or regulatory authority or agency, now pending or (to the knowledge of the Company) threatened against the Company or any of its Subsidiaries that would reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect.

8.04 No Breach. None of the execution and delivery of this Agreement and the Notes and the other Basic Documents, the consummation of the transactions herein and therein contemplated or compliance with the terms and provisions hereof and thereof will conflict with or result in a breach of, or

require any consent under, the charter or by-laws of any Obligor, or any applicable law or regulation, or any order, writ, injunction or decree of any court or governmental authority or agency, or any agreement or instrument to which the Company or any of its Subsidiaries is a party or by which any of them or any of their Property is bound or to which any of them is subject, or constitute a default under any such agreement or instrument, or (except for the Liens created pursuant to the Security Documents) result in the creation or

imposition of any Lien upon any material Property of the Company or any of its Subsidiaries pursuant to the terms of any such agreement or instrument.

8.05 Action. Each Obligor has all necessary corporate power, authority and legal right to execute, deliver and perform its obligations under each of the Basic Documents to which it is a party; the execution, delivery and performance by each Obligor of each of the Basic Documents to which it is a party have been duly authorized by all necessary corporate action on its part (including, without limitation, any required shareholder approvals); and this Agreement has been duly and validly executed and delivered by each Obligor and constitutes, and each of the Notes and the other Basic Documents when executed and delivered by each Obligor party thereto (in the case of the Notes, for value) will constitute, the legal, valid and binding obligation of each Obligor party thereto, enforceable against such Obligors in accordance with its terms, except as such enforceability may be limited by (a) bankruptcy, insolvency, reorganization, moratorium or similar laws of general applicability affecting the enforcement of creditors' rights and (b) the application of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

8.06 Approvals. No authorizations, approvals or consents of, and no filings or registrations with, any governmental or regulatory authority or agency, or any securities exchange, are necessary for the execution, delivery or performance by any Obligor of the Basic Documents to which it is a party or for the legality, validity or enforceability hereof or thereof, except for filings and recordings in respect of the Liens created pursuant to the Security Documents.

8.07 Use of Credit. Neither the Company nor any of its Subsidiaries (other than Unrestricted Subsidiaries) is engaged principally, or as one of its important activities, in the business of extending credit for the purpose, whether immediate, incidental or ultimate, of buying or carrying Margin Stock, and no part of the proceeds of any extension of credit hereunder will be used to buy or carry any Margin Stock.

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8.08 ERISA. As to each Plan, and, to the knowledge of the Company, as to each Multiemployer Plan, (a) such Plan or Multiemployer Plan is in compliance in all material respects with, and has been administered in all material respects in compliance with, the applicable provisions of ERISA, the Code and any other Federal or State law, and (b) no event or condition has occurred and is continuing as to which the Company would be under an obligation to furnish a report to the Lenders under Section 9.01(e) hereof.

8.09 Taxes. The Company and its Consolidated Subsidiaries are members of an affiliated group of corporations filing consolidated returns for Federal income tax purposes, of which the Company is the "common parent" (within the meaning of Section 1504 of the Code) of such group. The Company and its Consolidated Subsidiaries have filed all Federal income tax returns and all other material tax returns that are required to be filed by them and have paid all taxes due pursuant to such returns or pursuant to any assessment received by the Company or any of its Consolidated Subsidiaries. The charges, accruals and reserves on the books of the Company and its Consolidated Subsidiaries in respect of taxes and other governmental charges are, in the opinion of the Company, adequate.

8.10 Investment Company Act. Neither the Company nor any of its Subsidiaries is an "investment company", or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

8.11 Public Utility Holding Company Act. Neither the Company nor any of its Subsidiaries is a "holding company", or an "affiliate" of a "holding company" or a "subsidiary company" of a "holding company", within the meaning of the Public Utility Holding Company Act of 1935, as amended.

8.12 Material Agreements and Liens.

(a) Part A of Schedule I hereto is a complete and correct list, as of the date of this Agreement, of each credit agreement, loan agreement, indenture, securities purchase agreement, letter of credit or other arrangement providing for or otherwise relating to any Indebtedness or any extension of credit (or commitment for any extension of credit), other than any trade accounts payable (except trade accounts payable for borrowed money), to, or guarantee of any of the foregoing by, the Company or any of its Subsidiaries (other than any guarantees by any Obligor of obligations of Subsidiary Guarantors under leases), and the aggregate principal or face amount outstanding or that may become outstanding under each such arrangement is correctly described in Part A of said Schedule I.

(b) Part B of Schedule I hereto is a complete and correct list, as of the date of this Agreement, of each Lien securing Indebtedness of any Person and covering any Property of the Company or any of its Subsidiaries, and the aggregate Indebtedness secured (or which may be secured) by each such Lien and the Property covered by each such Lien is correctly described in Part B of said Schedule I.

8.13 Environmental Matters. Each of the Company and its Subsidiaries (other than Unrestricted Subsidiaries) has obtained all permits, licenses and other authorizations required under all applicable Environmental Laws to carry on its business as now being or as proposed to be conducted, except to the extent failure to have any such permit, license or authorization would not, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Each of such permits, licenses and authorizations is in

full force and effect, and each of the Company and its Subsidiaries (other than Unrestricted Subsidiaries) is in compliance with the terms and conditions thereof and is also in compliance with all other limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules and timetables contained in any applicable Environmental Law or in any regulation, code, plan, order, decree, judgment, injunction, notice or demand letter issued, entered, promulgated or approved thereunder, except to the extent failure to comply therewith would not, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. In addition, no notice, notification, demand, request for information, citation, summons or order has been issued, no complaint has been filed, no penalty

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has been assessed and no investigation or review is pending or (to the knowledge of the Company) threatened by any governmental or other entity with respect to any alleged failure by the Company or any of its Subsidiaries (other than Unrestricted Subsidiaries) to have any permit, license or other authorization required under any applicable Environmental Law in connection with the conduct of the business of the Company or any of its Subsidiaries (other than Unrestricted Subsidiaries) or with respect to any generation, treatment, storage, recycling, transportation, discharge or disposal, or any Release of any Hazardous Materials generated by the Company or any of its Subsidiaries (other than Unrestricted Subsidiaries).

8.14 Capitalization. The authorized capital stock of the Company consists, on the Closing Date, of an aggregate of 100,000,000 shares of common stock, par value \$.001 per share, and 5,000,000 shares of preferred stock, par value \$.001 per share, of which 67,875,339 shares of common stock are duly and validly issued and outstanding as of October 31, 1997 and each of which shares of common stock is fully paid and nonassessable, and no shares of preferred stock have been issued. As of the Closing Date, (x) except for outstanding employee and director stock options, there are no outstanding Equity Rights with respect to the Company and (y) there are no outstanding obligations of the Company or any of its Subsidiaries to repurchase, redeem, or otherwise acquire any shares of capital stock of the Company.

8.15 Subsidiaries, Etc.

(a) Set forth in Part A of Schedule II hereto is a complete and correct list, as of the date of this Agreement, of all of the Subsidiaries of the Company, together with, for each such Subsidiary, (i) the jurisdiction of organization of such Subsidiary, (ii) each Person holding ownership interests in such Subsidiary and (iii) the nature of the ownership interests held by each

such Person and the percentage of ownership of such Subsidiary represented by such ownership interests. Except as disclosed in Part A of Schedule II hereto, as of the date of this Agreement (x) each of the Company and its Subsidiaries owns, free and clear of Liens (other than Liens created pursuant to the Security Documents), and has the unencumbered right to vote, all outstanding ownership interests in each Person shown to be held by it in Part A of Schedule II hereto, (y) all of the issued and outstanding capital stock of each such Person

organized as a corporation is validly issued, fully paid and nonassessable and (z) there are no outstanding Equity Rights with respect to such Person.

(b) Set forth in Part B of Schedule II hereto is a complete and correct list, as of the date of this Agreement, of all Investments (other than Permitted Investments and Investments disclosed in Part A of said Schedule II hereto) held by the Company or any of its Subsidiaries in any Person and, for each such Investment, (x) the identity of the Person or Persons holding such Investment and (y) the nature of such Investment. Except as disclosed in Part B of Schedule II hereto, as of the date of this Agreement, each of the Company and its Subsidiaries owns, free and clear of all Liens (other than Liens created pursuant to the Security Documents), all such Investments.

(c) None of the Subsidiaries of the Company is, on the date of this Agreement, subject to any indenture, agreement, instrument or other arrangement of the type described in Section 9.17 hereof.

8.16 True and Complete Disclosure. The information, reports, financial statements, exhibits and schedules furnished in writing by or on behalf of any Obligor or any of its Subsidiaries to the Administrative Agent or any Lender in connection with the negotiation, preparation or delivery of this Agreement and the other Basic Documents or included herein or therein or delivered pursuant hereto or thereto, when taken as a whole, do not, as of the date hereof, contain any untrue statement of material fact or omit to state any material fact necessary to make the statements herein or therein, in light of the circumstances under which they were made, not misleading. All written information furnished after the date hereof by the Company and its Subsidiaries to the Administrative Agent and the Lenders in connection with this Agreement and the other Basic Documents and the transactions contemplated hereby and thereby will be true, complete and accurate in every material respect, or (in the case of projections) based on reasonable estimates, on the date as of which such information is stated or certified. To the Company's knowledge, there is no fact peculiar to the Company or any of its Subsidiaries (other than Unrestricted Subsidiaries) that could

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have a Material Adverse Effect that has not been disclosed herein, in the other Basic Documents or in a report, financial statement, exhibit, schedule, disclosure letter or other writing furnished to the Lenders for use in connection with the transactions contemplated hereby or thereby.

Section 9. Covenants of the Company. Each Obligor covenants and agrees with the Lenders and the Administrative Agent that, so long as any Commitment, Loan or Letter of Credit Liability is outstanding and until payment in full of all amounts payable by the Company hereunder:

9.01 Financial Statements; Information; Etc. The Company will deliver the Agent in sufficient quantities for it to deliver to each of the Lenders:

(a) as soon as available and in any event within 45

days after the end of each of the first three fiscal quarters of the Company, the Company's quarterly report on Form 10-Q for such fiscal quarter, which includes consolidated financial statements of the Company and its Consolidated Subsidiaries for such fiscal quarter;

(b) as soon as possible and in any event:

(i) within 90 days after the end of each fiscal year of the Company, the Company's annual report on Form 10-K for such fiscal year, and consolidated financial statements of the Company and its

Consolidated Subsidiaries for such fiscal year, accompanied by an opinion thereon of independent certified public accountants of recognized national standing, which opinion shall state that the consolidated financial statements fairly present the consolidated financial position and results of operations of the Company and its Consolidated Subsidiaries;

(ii) within 45 days after the end of each of the first three fiscal quarters of each fiscal year, and within 90 days after the end of each fiscal year, a certificate of the Company signed by a senior financial officer (including the treasurer) of the Company setting forth the information called for by Exhibit E hereto;

(c) promptly upon their becoming available, copies of all registration statements and regular periodic reports (which shall include form 8-Ks), if any, which the Company shall have filed with the Securities and Exchange Commission (or any governmental agency substituted therefor) or any national securities exchange;

(d) promptly upon the mailing thereof to the public shareholders of the Company, if any, generally or to holders of Senior Subordinated Debt generally, copies of all financial statements, reports and proxy statements so mailed;

(e) as soon as possible, and in any event within ten days after the Company knows or has reason to believe that any of the events or conditions specified below with respect to any Plan or Multiemployer Plan has occurred or exists, a statement signed by a senior financial officer (including the treasurer) of the Company setting forth details respecting such event or condition and the action, if any, that the Company or its ERISA Affiliate proposes to take with respect thereto (and a copy of any report or notice required to be filed with or given to PBGC by the Company or an ERISA Affiliate with respect to such event or condition):

(i) any reportable event, as defined in

Section 4043(b) of ERISA and the regulations issued thereunder, with respect to a Plan, as to which PBGC has not by regulation waived the requirement of Section 4043(a) of ERISA that it be notified within 30 days of the occurrence of

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such event (provided that such statement shall be required for a failure to meet the minimum funding standard of Section 412 of the Code or Section 302 of ERISA, including, without limitation, the failure to make on or before its due date a required installment under Section 412(m) of the Code or Section 302(e) of ERISA, regardless of the issuance of any waivers in accordance with Section 412(d) of the Code unless the present value of unfunded vested benefits under the applicable Plan, as determined under PBGC Reg. Sec. 2615.16(b), is less than \$5,000,000); and any request for a waiver under Section 412(d) of the Code for any Plan;

(ii) the distribution under Section 4041 of ERISA of a notice of intent to terminate any Plan or any action taken by the Company or an ERISA Affiliate to terminate any Plan;

(iii) the institution by PBGC of proceedings under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the receipt by the Company or any ERISA Affiliate of

a notice from a Multiemployer Plan that such action has been taken by PBGC with respect to such Multiemployer Plan;

(iv) the complete or partial withdrawal from a Multiemployer Plan by the Company or any ERISA Affiliate that results in liability under Section 4201 or 4204 of ERISA (including the obligation to satisfy secondary liability as a result of a purchaser default) or the receipt by the Company or any ERISA Affiliate of notice from a Multiemployer Plan that it is in reorganization or insolvency pursuant to Section 4241 or 4245 of ERISA or that it intends to terminate or has terminated under Section 4041A of ERISA;

(v) the institution of a proceeding by a fiduciary of any Multiemployer Plan against the Company or any ERISA Affiliate to enforce Section 515 of ERISA, which proceeding is not dismissed within 60 days; and

(vi) the adoption of an amendment to any Plan that, pursuant to Section 401(a)(29) of the Code or

Section 307 of ERISA, would result in the loss of tax-exempt status of the trust of which such Plan is a part if the Company or an ERISA Affiliate fails to timely provide security to the Plan in accordance with the provisions of said Sections;

(f) promptly after the Company knows or has reason to believe that any Default has occurred, a notice of such Default specifying that such notice is a "Notice of Default" and describing the same in reasonable detail and, together with such notice or as soon thereafter as possible, a description of the action that the Company has taken or proposes to take with respect thereto; and

(g) from time to time such other information regarding the Property, financial condition or operations of the Company or any of its Subsidiaries (including, without limitation, any Plan or Multiemployer Plan and any reports or other information required to be filed under ERISA) as any Lender or the Administrative Agent may reasonably request.

The Company will furnish to the Agent with sufficient copies for the Agent to deliver to each Lender, at the time it furnishes each set of financial statements pursuant to paragraph (a) or (b) above, a certificate of a senior financial officer (including the treasurer) of the Company (i) to the effect that no Default has occurred and is continuing (or, if any Default has occurred and is continuing, describing the same in reasonable detail and describing the action that the Company has taken or proposes to take with respect thereto) and (ii) setting forth in reasonable detail the computations necessary to determine whether the Company is in compliance with Sections 9.10 and 9.11 hereof as of the end of the respective quarterly fiscal period or fiscal year.

9.02 Litigation. The Company will promptly give to each Lender notice of all legal or arbitral proceedings,

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and of all proceedings by or before any governmental or regulatory authority or agency, and any material development in respect of such legal or other proceedings (excluding, in any event, proceedings related to the promulgation of laws or regulations of general applicability), affecting the Company or any of its Subsidiaries, except proceedings which would not reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect. Without limiting the generality of the foregoing, the Company will give to each Lender notice of the assertion of any Environmental Claim by any Person against, or with respect to the activities of, the Company or any of its Subsidiaries and notice of any alleged violation of or non-compliance by the Company or any of its Subsidiaries with any applicable Environmental Law or any permit, license or authorization required under any such Environmental Law, other than any

Environmental Claim or alleged violation that, and any such non-compliance that, would not reasonably be expected to have, either individually or in the

aggregate, a Material Adverse Effect.

9.03 Existence, Etc. The Company will, and will cause each of its Subsidiaries (other than Unrestricted Subsidiaries and Released Guarantors) to:

(a) preserve and maintain its legal existence and (unless the loss of the same would not have a material adverse effect on the Company or such Subsidiary, as the case may be) all of its material rights, privileges, licenses and franchises (provided that nothing in this Section 9.03 shall prohibit any transaction expressly permitted by Section 9.05 hereof);

(b) comply with the requirements of all applicable laws, rules, regulations and orders of governmental or regulatory authorities if failure to comply with such requirements could, either individually or in the aggregate, have a Material Adverse Effect;

(c) pay and discharge all taxes, assessments and governmental charges or levies imposed on it or on its income or profits or on any of its Property prior to the date on which penalties attach thereto, except for any such tax, assessment, charge or levy the payment of which is being contested in good faith and by proper proceedings and against which adequate reserves are being maintained in accordance with GAAP;

(d) maintain all of its Properties used or useful in its business in good working order and condition, ordinary wear and tear excepted;

(e) keep adequate records and books of account, in which complete entries will be made in accordance with generally accepted accounting principles consistently applied; and

(f) permit the Administrative Agent (and, if any Default shall be continuing, any representatives of any Lender), during normal business hours and upon reasonable prior written notice (and in any event no less than two Business Days prior notice), to examine, copy and make extracts from its books and records, to inspect any of its Properties, and to discuss its business and affairs with its officers, all to the extent reasonably requested (as to both the manner of such examination, copying, extracting, inspection or discussion, and the scope thereof) by such Lender or the Administrative Agent (as the case may be).

9.04 Insurance. The Company will, and will cause each of its Subsidiaries to, keep insured by financially sound and reputable insurers or, to the extent consistent with the practice of corporations of similar size engaged in the retailing business, through self-insurance all Property of a character usually insured by corporations engaged in the same or similar business similarly situated against loss or damage of the kinds and in the amounts, and with such deductibles and limits on coverage, as are customarily insured against by such corporations and carry such other insurance as is usually carried by such corporations.

9.05 Prohibition of Fundamental Changes

(a) The Company will not, and will not permit any of its Subsidiaries (other than Unrestricted Subsidiaries

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and Released Guarantors) to, enter into any transaction of merger or consolidation or amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution).

(b) The Company will not, and will not permit any of its Subsidiaries

(other than Unrestricted Subsidiaries and Released Guarantors) to, acquire any business or Property from, or capital stock of, or be a party to any acquisition of, any Person.

(c) The Company will not, and will not permit any of its Subsidiaries (other than Unrestricted Subsidiaries and Released Guarantors) to, convey, sell, lease, transfer or otherwise dispose of, in one transaction or a series of transactions, any part of its business or Property, whether now owned or hereafter acquired (including, without limitation, receivables and leasehold interests).

(d) Notwithstanding the foregoing paragraphs of this Section 9.05:

(i) any Subsidiary of the Company may be merged or consolidated with or into the Company, if the Company shall be the continuing or surviving corporation, or with or into any other Subsidiary (other than an Unrestricted Subsidiary or a Released Guarantor) of the Company;

(ii) the Company or any of its Subsidiaries may purchase inventory and other Property to be sold or used in the ordinary course of business, make Investments permitted by Section 9.08 hereof, make Capital Expenditures permitted by Section 9.11 hereof and make Dividend Payments pursuant to Section 9.09 hereof;

(iii) the Company or any of its Subsidiaries may convey, sell, lease, transfer or otherwise dispose of (x) obsolete or worn-out Property, tools or equipment no longer used or useful in its business so long as the aggregate fair market value thereof sold in any single fiscal year by the Company and its Subsidiaries (other than Unrestricted Subsidiaries and Released Guarantors) shall not exceed \$20,000,000, and (y) any inventory or other Property sold or disposed of in the ordinary course of business and on ordinary business terms;

(iv) the Company or any Subsidiary of the Company may acquire, or otherwise make Investments in, the capital stock of, Equity Rights in, and/or assets of, companies the principal business of which is substantially related or complementary to the existing lines of business of the Company and its Subsidiaries (including the financing of customer purchases) ("Related Businesses"), to the extent permitted by paragraph (j) of Section 9.08 hereof; and

(v) the Company or any Subsidiary of the Company may convey, sell, lease, transfer or otherwise dispose of, in one transaction or a series of transactions, (x) any Equity Right in any Released Guarantor or Unrestricted Subsidiary and (y) any Equity Right held by the Company or such Subsidiary in any Person that is not a Subsidiary of the Company.

9.06 Limitation on Liens. The Company will not, and will not permit any of its Subsidiaries (other than an Unrestricted Subsidiary or a Released Guarantor) to, create, incur, assume or suffer to exist any Lien upon any of its Property, whether now owned or hereafter acquired, except:

(a) Liens created pursuant to the Security Documents or pursuant to a mortgage granted for the benefit of the Lenders pursuant to Section 9.11(c) hereof;

(b) Liens in existence on the date hereof and listed in Part B of Schedule I hereto;

(c) Liens imposed by any governmental authority for taxes, assessments or charges not yet due or

which are being contested in good faith and by appropriate proceedings if, unless the amount thereof is not material with respect to it or its

financial condition, adequate reserves with respect thereto are maintained on the books of the Company or the affected Subsidiaries, as the case may be, in accordance with GAAP;

(d) carriers', warehousemen's, mechanics', materialmen's, repairmen's, landlord's or other like Liens arising in the ordinary course of business which are not overdue for a period of more than 60 days or which are being contested in good faith and by appropriate proceedings and Liens securing judgments but only to the extent for an amount and for a period not resulting in an Event of Default under Section 10(h) hereof;

(e) pledges or deposits under worker's compensation, unemployment insurance and other social security legislation;

(f) deposits to secure the performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;

(g) easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business and encumbrances consisting of zoning restrictions, easements, licenses, restrictions on the use of Property or minor imperfections in title thereto which, in the aggregate, are not material in amount, and which do not materially interfere with the ordinary conduct of the business of the Company or any of its Subsidiaries;

(h) Liens upon Property acquired after the date hereof (by purchase, construction or otherwise) by the Company or any of its Subsidiaries, each of which Liens was created solely for the purpose of securing Indebtedness representing, or incurred to finance, refinance or refund, the cost (including the cost of construction) of such Property; provided that (i) no such Lien shall extend to or cover any Property of the Company or such Subsidiary other than the Property so acquired and improvements thereon and (ii) the principal amount of Indebtedness secured by any such Lien shall at no time exceed 90% of the fair market value (as determined in good faith by a senior financial officer (including the treasurer) of the Company) of such Property at the time it was acquired (by purchase, construction or otherwise);

(i) Liens on Margin Stock held by the Company or any of its Subsidiaries (other than any capital stock of the Company or any of its Subsidiaries); and

(j) any extension, renewal or replacement of the foregoing; provided that the Liens permitted by this paragraph shall not extend to or cover any additional Indebtedness or Property (other than a substitution of like Property).

9.07 Indebtedness. The Company will not, and will not permit any of its Subsidiaries to, create, incur or suffer to exist any Indebtedness except:

(a) Indebtedness to the Lenders hereunder;

(b) Indebtedness outstanding on the date hereof and listed in Part A of Schedule I hereto;

(c) the Senior Subordinated Debt;

(d) Indebtedness of Subsidiaries of the Company to the Company or to other Subsidiaries of the Company (other than Unrestricted Subsidiaries);

(e) Capital Lease Obligations to the extent permitted by Section 9.11 hereof;

(f) Indebtedness of Unrestricted Subsidiaries;

(g) Indebtedness of Released Guarantors;

(h) additional Indebtedness of the Company and its Subsidiaries secured by Liens permitted under Section 9.06(h) hereof in an aggregate amount up to but not exceeding \$40,000,000 at any one time outstanding; and

(i) additional unsecured Indebtedness of the Company and its Subsidiaries in an aggregate principal amount up to but not exceeding \$100,000,000 at any one time outstanding during the period from (and including) October 1 in any year to January 31 of the immediately following year; provided that, in each case, the principal amount (together with any interest thereon) of such additional unsecured Indebtedness shall be repaid in full by the January 31 immediately following such October 1.

9.08 Investments. The Company will not, and will not permit any of its Subsidiaries to, make or permit to remain outstanding any Investments except:

(a) Investments outstanding on the date hereof and identified in Part B of Schedule II hereto;

(b) Investments constituting (i) operating deposit accounts with banks and (ii) accounts receivable arising in the ordinary course of business on ordinary business terms that are not overdue;

(c) Permitted Investments (provided that any Permitted Investment of the type described in clause (d) of the definition thereof in Section 1.01 hereof that ceases to be rated "P-1" (or higher) according to Moody's Investors Service, Inc. or "A-1" (or higher) according to Standard and Poor's Corporation must be liquidated by the Company within 60 days thereafter);

(d) Investments by the Company and its Subsidiaries in capital stock of Subsidiaries of the Company to the extent outstanding on the Closing Date and advances made after such date by the Company and its Subsidiaries to Subsidiaries of the Company (other than Unrestricted Subsidiaries and Released Guarantors) in the ordinary course of business;

(e) Interest Rate Protection Agreements for an aggregate notional amount not exceeding \$300,000,000 at any one time;

(f) loans and advances to employees not to exceed \$5,000,000 in the aggregate as to the Company and its

Subsidiaries at any one time outstanding;

(g) loans and advances by the Company and its Subsidiaries to Unrestricted Subsidiaries and Released Guarantors so long as the aggregate amount thereof at any one time outstanding shall not exceed (i) during the period commencing on the date hereof and ending on the last day of the fiscal year of the Company ending on or nearest to January 31, 1999, \$50,000,000, (ii) during the period commencing on the first day of the fiscal year of the Company commencing on or nearest to February 1, 1999 and ending on the last day of such fiscal year, \$60,000,000 and (iii) thereafter, \$75,000,000;

(h) Investments by Unrestricted Subsidiaries;

(i) Investments by Released Guarantors;

(j) in addition to Investments made in any Released Guarantor prior to the time it became a Released Guarantor, additional Investments by the Company and its Subsidiaries, so long as the aggregate amount paid by the Company and its Subsidiaries for all such Investments (whether in the form of cash or other consideration or in the form of liabilities assumed), net of debt Investments that have been repaid, does not exceed the sum of:

(i) \$150,000,000, plus

(ii) for any period of four consecutive fiscal quarters of the Company, the excess (if any) of (x) 50% of Prior Year Excess Cash Flow for such period over (y) the sum of (A) the aggregate amount of Dividend Payments made pursuant to Section 9.09(b) hereof, to the extent paid in reliance on Excess Cash Flow for such period as contemplated by clause (y) thereof, plus (B) the amount of Capital Expenditures made by the Company and its Subsidiaries pursuant to Section 9.11(a)(iii) hereof in such period;

provided that if (x) not later than five Business Days prior to any Investment pursuant to this paragraph (i) where the aggregate amount of such Investment (including liabilities assumed) exceeds \$20,000,000, the Company will deliver to the Agent in sufficient quantities for it to deliver to the Lenders a certificate of a senior financial officer of the Company to the effect that, after giving effect to such Investment, the Company will be in compliance with Section 9.10 hereof, such certificate to be in form and detail (including calculations)

reasonably satisfactory to the Administrative Agent;

(k) Equity Financed Investments;

(l) Investments to the extent made in capital stock of the Company; and

(m) Investments made pursuant to Section 9.11(a)(ii) hereof.

9.09 Dividend Payments. The Company will not directly or indirectly, through a Subsidiary or otherwise, declare or make any Dividend Payment at any time; provided that the Company may declare and make Dividend Payments in cash:

(a) to any employee of the Company or any of its Subsidiaries upon the termination of such employee's employment with the Company or such Subsidiary; to the extent that (i) the aggregate amount of such Dividend Payments does not exceed \$1,000,000 in any fiscal year of the Company and (ii) on the date of any such Dividend Payment and after giving effect thereto, no Default shall have occurred and be continuing;

(b) at any time after January 31, 1998, so long as on the date of such Dividend Payment and after giving effect thereto:

(i) no Default shall have occurred and be continuing; and

(ii) the aggregate amount of Dividend Payments made pursuant to this clause (b) shall not exceed the sum of the following: (x) \$50,000,000, plus (y) 50% of cumulative Excess Cash Flow for the period commencing on February 2, 1997, minus (z) the aggregate amount of Investments made pursuant to Section 9.08(j)(ii) hereof and the aggregate amount of Capital Expenditures made pursuant to Section 9.11(a)(iii) hereof; and

(c) in respect of any Preferred Stock so long as on the date of any such Dividend Payment and after giving effect thereto, no Default shall have occurred and be continuing.

9.10 Financial Covenants

(a) Fixed Charge. The Company will not permit the Fixed Charge Ratio for the last day of any fiscal quarter of the Company ending on or nearest to the respective dates set forth below to be less than the ratio set forth below opposite such date.

| Fiscal Quarter-end | Ratio |
|---|-----------|
| October 31, 1997 | .92 to 1 |
| January 31, 1998 | 1.20 to 1 |
| April 30, 1998 | 1.05 to 1 |
| July 31, 1998 | 1.05 to 1 |
| October 31, 1998 | 1.05 to 1 |
| January 31, 1999 | 1.20 to 1 |
| April 30, 1999 | 1.20 to 1 |
| July 31, 1999 | 1.20 to 1 |
| October 31, 1999 | 1.20 to 1 |
| January 31, 2000, and each fiscal quarter thereafter | 1.25 to 1 |

(b) Interest Coverage Ratio. The Company will not permit the Interest Coverage Ratio for the last day of any fiscal quarter of the Company ending on or nearest to the respective dates set forth below to be less than the ratio set forth below opposite such date:

| Fiscal Quarter-end | Ratio |
|--------------------|-----------|
| October 31, 1997 | 1.40 to 1 |
| January 31, 1998 | 1.40 to 1 |
| April 30, 1998 | 1.40 to 1 |
| July 31, 1998 | 1.40 to 1 |
| October 31, 1998 | 1.40 to 1 |
| January 31, 1999 | 1.45 to 1 |
| April 30, 1999 | 1.45 to 1 |
| July 31, 1999 | 1.45 to 1 |

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| | |
|---|-----------|
| October 31, 1999 | 1.45 to 1 |
| January 31, 2000, and each fiscal quarter thereafter | 1.50 to 1 |

(c) Leverage Ratio. The Company will not permit the Leverage Ratio on the last day of any fiscal quarter of the Company ending on or nearest to the respective dates set forth below to exceed the ratio set forth below opposite such date:

| Fiscal Quarter-end | Ratio |
|--------------------|-----------|
| October 31, 1997 | 4.20 to 1 |
| January 31, 1998 | 2.10 to 1 |
| April 30, 1998 | 3.00 to 1 |
| July 31, 1998 | 3.00 to 1 |
| October 31, 1998 | 3.00 to 1 |
| January 31, 1999 | 2.25 to 1 |
| April 30, 1999 | 2.50 to 1 |
| July 31, 1999 | 2.50 to 1 |
| October 31, 1999 | 2.50 to 1 |
| January 31, 2000 | 2.00 to 1 |
| April 30, 2000 | 2.25 to 1 |
| July 31, 2000 | 2.25 to 1 |
| October 31, 2000 | 2.25 to 1 |
| January 31, 2001 | 1.75 to 1 |
| April 30, 2001 | 2.25 to 1 |
| July 31, 2001 | 2.25 to 1 |
| October 31, 2001 | 2.25 to 1 |
| January 31, 2002 | 1.75 to 1 |
| April 30, 2002 | 2.25 to 1 |
| July 31, 2002 | 2.25 to 1 |

9.11 Capital Expenditures; Sale Lease-backs; Etc.

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(a) Limit on Capital Expenditures. The Company will not permit the aggregate amount of Capital Expenditures (other than Equity Financed Capital Expenditures) in any fiscal year of the Company to exceed the sum of the following:

(i) for each fiscal year ending on or nearest to the respective dates set forth below, the amount set forth opposite such date:

| Fiscal Year End | Amount |
|------------------|---------------------|
| January 31, 1997 | \$150,000,000 |
| January 31, 1998 | \$150,000,000 |
| January 31, 1999 | \$175,000,000 |
| January 31, 2000 | \$190,000,000 |
| January 31, 2001 | \$190,000,000 |
| January 31, 2002 | \$190,000,000; plus |

(ii) for such fiscal year, an amount not to exceed 75% of the aggregate amount of Capital Expenditures permitted by clause (i) of this Section

9.11(a) for the immediately preceding fiscal year (the "Carryforward Amount") and not made in such immediately preceding fiscal year (or, instead of using the Carryforward Amount to make additional Capital Expenditures in such fiscal year, all or any portion of the Carryforward Amount may be used to make Investments in such fiscal year); plus

(iii) for any period of four consecutive fiscal quarters of the Company, an additional amount not to exceed the excess (if any) of (x) 50% of Prior Year Excess Cash Flow for such period over (y) the sum of (A) the aggregate amount of Dividend Payments made pursuant to Section 9.09(b) hereof, to the extent paid in reliance on Excess Cash Flow for such period as contemplated by clause (y) thereof, plus (B) the amount of Investments made by the Company and its Subsidiaries pursuant to Section 9.08(j)(ii) hereof in such fiscal year.

For purposes of making determinations under this Section 9.11(a), any Capital Expenditures shall be allocated first to Equity Financed Capital Expenditures (to the extent permitted under the definition of "Equity Financed" in Section 1.01 hereof) and then to the maximum amount of Capital Expenditures permitted under this Section 9.11(a).

(b) Specified Capital Expenditures. The Company shall not permit the aggregate amount of expenditures with respect to Projects that have not yet been made the subject of a Sale Lease-back to exceed \$50,000,000 at any time.

(c) Mortgages. If any Project shall not have become the subject of a Sale Lease-back within 24 months after the first Capital Expenditures are made with respect to such Project, the Company shall, within 30 days after the end of such 24th month, deliver or cause to be delivered to the Administrative Agent one or more mortgages or deeds of trust and related fixture filings, in form and substance satisfactory to the Administrative Agent, covering the real property and fixtures (other than leased fixtures) included in such Project and securing the obligations of the Obligors hereunder and under the Notes, and shall cause the same to be duly recorded in the appropriate offices so that such mortgage or deed of trust constitutes a first priority mortgage Lien in and to all of such real property and fixtures. Any such mortgage or deed of trust shall provide that, so long as no Default is continuing, (i) the Lenders shall release such mortgage or deed of trust to permit the sale of such real property and (ii) the proceeds of any such sale need not be applied to the obligations of the Company hereunder.

9.12 Subordinated Indebtedness. Neither the Company nor any of its Subsidiaries will defease, purchase,

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redeem, retire, exchange any securities for or otherwise acquire for value, or set apart any money or obligations for a sinking, defeasance or other analogous fund for, the purchase, redemption, retirement or other acquisition of, or make any voluntary payment or prepayment of the principal of or interest on, or any other amount owing in respect of, the Senior Subordinated Debt, except for (a) regularly scheduled payments of principal and interest in respect thereof required to be made pursuant to the Senior Subordinated Debt Documents to the extent permitted to be made by the subordination provisions thereof and (b) the redemption of the Outstanding Subordinated Notes contemplated by Section 9.15 hereof.

9.13 Lines of Business. The Company will not, and will not permit any of its Subsidiaries to, engage in any line or lines of business activity other than those engaged in by them on the Closing Date, any Related Businesses and any other lines of business (in, or in connection with, any medium) related to, or complementary with, the selling of books.

9.14 Transactions with Affiliates. Except as expressly permitted by this Agreement, the Company will not, and will not permit any of its Subsidiaries to, directly or indirectly:

(a) make any Investment in an Affiliate of the Company or in any of its Subsidiaries;

(b) transfer, sell, lease, assign or otherwise dispose of any Property to any such Affiliate;

(c) merge into or consolidate with or purchase or acquire Property from any such Affiliate; or

(d) enter into any other transaction directly or indirectly with or for the benefit of any such Affiliate (including, without limitation, Guarantees and assumptions of obligations of any such Affiliate);

provided that (i) any Affiliate of the Company or any of its Subsidiaries who is an individual may serve as a director, officer or employee of the Company or any of its Subsidiaries and receive reasonable compensation for his or her services in such capacity, (ii) the Company and its Subsidiaries may enter into transactions (other than Investments by the Company or any of its Subsidiaries in any Affiliate of the Company or any of its Subsidiaries) in the ordinary course of business if the monetary or business consideration arising therefrom would be substantially as advantageous to the Company and its Subsidiaries as the monetary or business consideration which would obtain in a comparable transaction with a Person not an Affiliate of the Company or any of its Subsidiaries, (iii) Investments may be made in Affiliates to the extent permitted under Section 9.08 hereof and (iv) any Unrestricted Subsidiary or Released Guarantor may enter into any transaction with a Person not an Affiliate of the Company.

9.15 Use of Proceeds. The Company will use the proceeds of the Loans hereunder solely to repay Indebtedness as contemplated by Section 7.01(h) hereof, to finance Capital Expenditures permitted by Section 9.11 hereof, to acquire Related Businesses and make other Investments as contemplated by Section 9.08 hereof, to redeem up to \$190,000,000 face amount of the Outstanding Subordinated Notes (and to pay any related fees and premiums), and for general corporate purposes, including, without limitation, in connection with the activities contemplated or permitted by this Agreement to be undertaken by the Company and its Subsidiaries (in compliance with all applicable legal and regulatory requirements); provided that (a) \$200,000,000 of the Commitments shall be used solely to redeem Outstanding Subordinated Notes (and to pay any related fees and premiums), and (b) neither the Administrative Agent nor any Lender shall have any responsibility as to the use of any of such proceeds.

9.16 Certain Obligations Respecting Subsidiaries

(a) Subject to Section 9.05 hereof, the Company will, and will cause each of its Subsidiaries (other than Unrestricted Subsidiaries and Released Guarantors) to, take such action from time to time as shall be necessary to ensure that each of its Subsidiaries (other than Unrestricted Subsidiaries and Released Guarantors) is, except for any Permitted Management Ownership, a Wholly Owned Subsidiary.

(b) Without limiting the generality of the foregoing (but subject to Section 9.05 hereof), the Company will not, and will not permit any of its Subsidiaries (other than any Unrestricted Subsidiary or Released Guarantor) to, convey, sell, transfer or otherwise dispose of any shares of capital stock of any Subsidiary (other than an Unrestricted Subsidiary or a Released Guarantor) owned by them, nor permit any such Subsidiary (other than an Unrestricted Subsidiary or a Released Guarantor) to issue any shares of capital stock of any class whatsoever to any Person (other than to the Company or another Obligor), except for any Permitted Management Ownership. In the event that any such additional shares of stock (other than any shares representing any Permitted

Management Ownership) shall be issued by any such Subsidiary, the respective Obligor agrees forthwith to deliver to the Administrative Agent pursuant to the Security Agreement the certificates representing such shares of stock, accompanied by undated stock powers executed in blank and shall take such other action as the Administrative Agent shall request to perfect the security interest created therein pursuant to the Security Agreement.

9.17 Additional Subsidiary Guarantors. In the event that the Company shall, after the date hereof, hold or acquire any Subsidiary (other than an Unrestricted Subsidiary or a Released Guarantor) that is not a Subsidiary Guarantor hereunder, the Company will, and will cause each of its Subsidiaries to, cause such Subsidiary (a) to execute and deliver a written instrument in form and substance satisfactory to the Administrative Agent pursuant to which such Subsidiary shall become a "Subsidiary Guarantor" and, thereby, an "Obligor" hereunder and (b) to deliver such proof of corporate action, incumbency of officers, opinions of counsel and other documents as is consistent with that delivered by each Obligor pursuant to Section 7.01 hereof on the Closing Date or as the Majority Lenders or the Administrative Agent shall have reasonably requested.

9.18 Modifications of Certain Documents

(a) The Company will not consent to any modification, supplement or waiver of any provision of the Senior Subordinated Debt Documents unless the same (x) results in more favorable terms or conditions for the Company and (y) would not reasonably be expected to have a material adverse effect on the interests of the Administrative Agent or the Lenders.

(b) The Company will not consent to any modification, supplement or waiver of any of the provisions of the License Agreement that would reasonably be expected to have a material adverse effect on the interests of the Administrative Agent or the Lenders.

9.19 Sales of Accounts. At all times during which the Company is not Investment Grade, the Company will not, and will not permit any of its Subsidiaries (other than Unrestricted Subsidiaries and Released Guarantors) to, sell with or without recourse, or discount or otherwise sell for less than the face value thereof, any of their notes or accounts receivable (or any portion thereof), except for compromises made in the ordinary course of business.

9.20 Release of Collateral. At any time that the Company is Investment Grade, the Agent shall, at the request of the Company, release all of the Collateral from the Lien of the Security Agreement.

Section 10. Events of Defaults. If one or more of the following events (herein called "Events of Default") shall occur and be continuing:

(a) The Company shall: (i) default in the payment of any principal of any Loan or any Reimbursement Obligation when due (whether at stated maturity or upon mandatory or optional prepayment); or (ii) default in the payment of any interest on any Loan, any fee or any other amount payable by it hereunder or under any other Basic Document when due and such default shall have continued unremedied for three or more Business Days; or

(b) The Company or any of its Significant Subsidiaries shall default in the payment when due of any principal of or interest on any of its Indebtedness aggregating \$25,000,000 or more (other than the

Indebtedness referred to in paragraph (a) above); or any event specified in any note, agreement, indenture or other document evidencing or relating to any such Indebtedness or any event specified in any Interest Rate Protection Agreement shall occur if the effect of such event is to cause, or (with the giving of any notice or the lapse of time or both) to permit the holder or holders of such Indebtedness (or a trustee or agent on behalf of such holder or holders) to cause,

such Indebtedness to become due, or to be prepaid in full (whether by redemption, purchase, offer to purchase or otherwise), prior to its stated maturity or to have the interest rate thereon reset to a level so that securities evidencing such Indebtedness trade at a level specified in relation to the par value thereof or, in the case of an Interest Rate Protection Agreement, to permit the payments owing under such Interest Rate Protection Agreement to be liquidated; or

(c) Any representation, warranty or certification made or deemed made herein or in any other Basic Document (or in any modification or supplement hereto or thereto) by any Obligor, or any certificate furnished to any Lender or the Administrative Agent pursuant to the provisions hereof or thereof, shall prove to have been false or misleading as of the time made, deemed made or furnished in any material respect, and (if such false or misleading representation is reasonably likely to be capable of being promptly made to be no longer false and misleading by actions of the Company) the same shall continue unremedied for at least 30 days after any executive officer of the Company knows or has reason to believe that such representation, warranty or certification is false or misleading; or

(d) (i) The Company shall default in the performance of any of its obligations under any of Sections 9.01(f), 9.03(a), 9.05, 9.06, 9.07, 9.08, 9.09, 9.10, 9.11, 9.12 or 9.14 hereof; or (ii) any Obligor shall default in the performance of any of its obligations under Section 4.02 or 5.02 of the Security Agreement; or (iii) any Obligor shall default in the performance of any of its other obligations in this Agreement or any other Basic Document and such default (if remediable) shall continue unremedied for a period of 30 days after notice thereof to the Company by the Administrative Agent or any Lender (through the Administrative Agent); or

(e) The Company or any of its Significant Subsidiaries shall admit in writing its inability to, or be generally unable to, pay its debts as such debts become due; or

(f) The Company or any of its Significant Subsidiaries shall (i) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee, examiner or liquidator of itself or of all or a substantial part of its Property, (ii) make a general assignment for the benefit of its creditors, (iii) commence a voluntary case under the Bankruptcy Code, (iv) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, liquidation, dissolution, arrangement or winding-up, or composition or readjustment of its debts, (v) fail to controvert in a timely and appropriate manner, or acquiesce in writing to, any petition filed against it in an involuntary case under the Bankruptcy Code or (vi) take any corporate action for the purpose of effecting any of the foregoing; or

(g) A proceeding or case shall be commenced, without the application or consent of the Company or any of its Significant Subsidiaries, in any court of competent jurisdiction, seeking (i) its reorganization, liquidation, dissolution, arrangement or winding-up, or the composition or readjustment of its debts, (ii) the appointment of a receiver, custodian, trustee, examiner, liquidator or the like of the Company or such Significant Subsidiary or of all or any substantial part of its Property, or (iii) similar relief in respect of the Company or such Significant Subsidiary under any law relating to bankruptcy, insolvency, reorganization, winding-up, or composition or adjustment of debts, and such proceeding or case shall continue undismissed, or an order, judgment or decree approving or ordering any of the foregoing (other than an order for relief in an involuntary case under the Bankruptcy Code) shall be entered and continue unstayed and in effect, for a period of 60 or more days; or an order for relief against the Company or such Significant Subsidiary shall be entered in an involuntary case under the Bankruptcy Code; or

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(h) A judgment or judgments for the payment of money in excess of \$25,000,000 in the aggregate (exclusive of judgment amounts to the extent covered by insurance where the insurer has admitted liability in respect of such judgment) shall be rendered by one or more courts, administrative tribunals or other bodies having jurisdiction against the Company or any of its Significant Subsidiaries and the same shall not be discharged (or provision shall not be made for such discharge), or a stay of execution thereof shall not be procured, within 45 days from the date of entry thereof and the Company or the relevant Significant Subsidiary shall not, within said period of 45 days, or such longer period during which execution of the same shall have been stayed, appeal therefrom and cause the execution thereof to be stayed during such appeal; or

(i) An event or condition specified in Section 9.01(e) hereof shall occur or exist with respect to any Plan or Multiemployer Plan and, as a result of such event or condition, together with all other such events or conditions, the Company or any ERISA Affiliate shall incur a liability to a Plan, a Multiemployer Plan or PBGC (or any combination of the foregoing) which has a Material Adverse Effect; or

(j) There shall have been asserted against the Company or any of its Significant Subsidiaries claims or liabilities, whether accrued, absolute or contingent, based on or arising from the generation, storage, transport, handling or disposal of Hazardous Materials by the Company or any of its Subsidiaries or Affiliates, or any predecessor in interest of the Company or any of its Subsidiaries or Affiliates, or relating to any site or facility owned, operated or leased by the Company or any of its Subsidiaries or Affiliates, which claims or liabilities (insofar as they are payable by the Company or any of its Significant Subsidiaries but after deducting any portion thereof which is reasonably expected to be paid by other Persons jointly and severally liable therefor), in the judgment of the Majority Lenders are reasonably likely to be determined adversely to the Company or any of its Significant Subsidiaries, and the amount thereof is, either individually or in the aggregate, reasonably likely to have a Material Adverse Effect; or

(k) Any Change of Control shall occur; or

(l) Except for expiration in accordance with its terms, any of the Security Documents shall be terminated or shall cease to be in full force and effect, for whatever reason; or at any time after the Closing Date the Administrative Agent shall not have (for the benefit of the Lenders), as collateral security for the Secured Obligations referred to in the Security Agreement, a valid prior perfected first Lien on and security interest in the Properties intended to be covered by the Security Documents, in each case subject to no equal or prior

Liens; or any of the Guarantees set forth in Section 6 hereof shall cease to be in full force and effect for any reason;

THEREUPON: (1) in the case of an Event of Default other than one referred to in paragraph (e), (f) or (g) of this Section 10 with respect to any Obligor, the Administrative Agent may and, upon request of the Majority Lenders, shall, by notice to the Company, terminate the Commitments and/or declare all or any portion the principal amount then outstanding of, and the accrued interest on, the Loans, the Reimbursement Obligations and all other amounts payable by the Obligor hereunder and under the Notes (including, without limitation, any amounts payable under Section 5.05 or 5.06 hereof) to be forthwith due and payable, whereupon such amounts shall be immediately due and payable without presentment, demand, protest or other formalities of any kind, all of which are hereby expressly waived by each Obligor; and (2) in the case of the occurrence

of an Event of Default referred to in paragraph (e), (f) or (g) of this Section 10 with respect to any Obligor, the Commitments shall automatically be terminated and the principal amount then outstanding of, and the accrued interest on, the Loans, the Reimbursement Obligations and all other amounts payable by the Obligors hereunder and under the Notes (including, without limitation, any amounts payable under Section 5.05 or 5.06 hereof) shall automatically become immediately due and payable without presentment, demand, protest or other formalities of any kind, all of which are hereby expressly waived by each Obligor.

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In addition, if the Administrative Agent (or the Majority Lenders through the Administrative Agent) so requests by notice to the Company upon or following a declaration by the Administrative Agent pursuant to the preceding paragraph that the principal amount then outstanding of, and accrued interest on, the Loans and Reimbursement Obligations and all other amounts payable by the Company hereunder and under the Notes have become due and payable, the Company shall (and, in the case of any Event of Default referred to in paragraph (e), (f) or (g) of this Section 10 with respect to any Obligor, forthwith, without any demand or the taking of any other action by the Administrative Agent or such Lenders) provide cover for the Letter of Credit Liabilities by paying to the Administrative Agent immediately available funds in an amount equal to the then aggregate undrawn face amount of all Letters of Credit, which funds shall be held by the Administrative Agent in the Collateral Account subject to and in accordance with the terms of the Security Agreement.

Section 11. The Administrative Agent

11.01 Appointment, Powers and Immunities. Each Lender hereby

irrevocably (subject to Section 11.08 hereof) appoints and authorizes the Administrative Agent to act as its agent hereunder and under the other Basic Documents with such powers as are specifically delegated to the Administrative Agent by the terms of this Agreement and of the other Basic Documents, together with such other powers as are reasonably incidental thereto. The Administrative Agent (which term as used in this sentence and in Section 11.05 and the first sentence of Section 11.06 hereof shall include reference to its affiliates and its own and its affiliates' officers, directors, employees and agents): (a) shall have no duties or responsibilities except those expressly set forth in this Agreement and in the other Basic Documents, and shall not by reason of this Agreement or any other Basic Document be a trustee for any Lender; (b) shall not be responsible to the Lenders for any recitals, statements, representations or warranties contained in this Agreement or in any other Basic Document, or in any certificate or other document referred to or provided for in, or received by any of them under, this Agreement or any other Basic Document, or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement, any Note or any other Basic Document or any other document referred to or provided for herein or therein or for any failure by the Company or any other Person to perform any of its obligations hereunder or thereunder; (c) shall not be required (except to the extent expressly required under Section 11.03 hereof) to initiate or conduct any litigation or collection proceedings hereunder or under any other Basic Document; and (d) shall not be responsible for any action taken or omitted to be taken by it hereunder or under any other Basic Document or under any other document or instrument referred to or provided for herein or therein or in connection herewith or therewith, except for its own gross negligence or willful misconduct. The Administrative Agent may employ agents and attorneys-in-fact and shall not be responsible for the negligence or misconduct of any such agents or attorneys-in-fact selected by it in good faith. The Administrative Agent may deem and treat the payee of any Note as the holder thereof for all purposes hereof unless and until a notice of the assignment or transfer thereof shall have been filed with the Administrative Agent, together with the consent of the Company to such assignment or transfer (to the extent provided in Section 12.06(b) hereof).

11.02 Reliance by Administrative Agent. The Administrative Agent shall

be entitled to rely upon any certification, notice or other communication (including, without limitation, any thereof by telephone, telecopy, telex, telegram or cable) reasonably believed by it to be genuine and correct and to have been signed or sent by or on behalf of the proper Person or Persons, and upon advice and statements of legal counsel, independent accountants and other experts selected by the Administrative Agent. As to any matters not expressly provided for by this Agreement or any other Basic Document, the Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder or thereunder in accordance with instructions given by the Majority Lenders, and such instructions of the Majority Lenders and any action taken or failure to act pursuant thereto shall be binding on all of the Lenders.

11.03 Defaults. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of a Default (other than the non-payment of principal of or interest on Loans, Reimbursement Obligations

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or of commitment fees) unless the Administrative Agent has received notice from a Lender or the Company specifying such Default and stating that such notice is a notice of default. In the event that the Administrative Agent receives such a notice of the occurrence of a Default, the Administrative Agent shall give prompt notice thereof to the Lenders (and shall give each Lender prompt notice of each such non-payment). The Administrative Agent shall (subject to Sections 11.07 and 12.04 hereof) take such action with respect to such Default as shall be directed by the Majority Lenders, provided that, unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable in the best interest of the Lenders except to the extent that this Agreement expressly requires that such action be taken, or not be taken, only with the consent or upon the authorization of the Majority Lenders or all of the Lenders.

11.04 Rights as a Lender. With respect to its Commitments and the Loans made by it, Chase (and any successor acting as Administrative Agent) in its capacity as a Lender hereunder shall have the same rights and powers hereunder as any other Lender and may exercise the same as though it were not acting as the Administrative Agent, and the term "Lender" or "Lenders" shall, unless the context otherwise indicates, include the Administrative Agent in its individual capacity. Chase (and any successor acting as Administrative Agent) and its affiliates may (without having to account therefor to any Lender) accept deposits from, lend money to, make investments in and generally engage in any kind of banking, trust or other business with the Obligors (and any of their Subsidiaries or Affiliates) as if it were not acting as the Administrative Agent, and Chase and its affiliates may accept fees and other consideration from the Obligors for services in connection with this Agreement or otherwise without having to account for the same to the Lenders.

11.05 Indemnification. The Lenders agree to indemnify the Administrative Agent (to the extent not reimbursed under Section 12.03 hereof, but without limiting the obligations of the Company under said Section 12.03) ratably in accordance with the aggregate principal amount of the Loans and Reimbursement Obligations held by the Lenders (or, if no Loans or Reimbursement Obligations are at the time outstanding, ratably in accordance with their respective Commitments), for any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind and nature whatsoever that may be imposed on, incurred by or asserted against the Administrative Agent (including by any Lender) arising out of or by reason of any investigation in or in any way relating to or arising out of this Agreement or any other Basic Document or any other documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby (including, without limitation, the costs and expenses that the Company is obligated to pay under Section 12.03 hereof, but excluding, unless a Default has occurred and is continuing, normal administrative costs and expenses incident to the performance of its agency duties hereunder) or the enforcement of any of the terms hereof or thereof or of any such other documents, provided that no Lender shall be liable for any of the foregoing to the extent they arise from the gross negligence or willful

misconduct of the party to be indemnified.

11.06 Non-Reliance on Administrative Agent and Other Lenders. Each Lender agrees that it has, independently and without reliance on the Administrative Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own credit analysis of the Company and its Subsidiaries and decision to enter into this Agreement and that it will, independently and without reliance upon the Administrative Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own analysis and decisions in taking or not taking action under this Agreement. The Administrative Agent shall not be required to keep itself informed as to the performance or observance by any Obligor of this Agreement or any of the other Basic Documents or any other document referred to or provided for herein or therein or to inspect the Properties or books of the Company or any of its Subsidiaries. Except for notices, reports and other documents and information expressly required to be furnished to the Lenders by the Administrative Agent hereunder, the Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the affairs, financial condition or business of the Company or any of its Subsidiaries (or any of their affiliates) that may come into the possession of the Administrative Agent or any of its affiliates.

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11.07 Failure to Act. Except for action expressly required of the Administrative Agent hereunder and under the other Basic Documents, the Administrative Agent shall in all cases be fully justified in failing or refusing to act hereunder and thereunder unless it shall receive further assurances to its satisfaction from the Lenders of their indemnification obligations under Section 11.05 hereof against any and all liability and expense that may be incurred by it by reason of taking or continuing to take any such action.

11.08 Resignation or Removal of Administrative Agent. Subject to the appointment and acceptance of a successor Administrative Agent as provided below, the Administrative Agent may resign at any time by giving notice thereof to the Lenders and the Company, and the Administrative Agent may be removed at any time with or without cause by the Majority Lenders. Upon any such resignation or removal, the Majority Lenders shall have the right (after consultation with and, if no Default is then continuing, approval by, the Company) to appoint a successor Administrative Agent; provided that such successor Administrative Agent shall have total assets in excess of \$50,000,000,000. If no successor Administrative Agent shall have been so appointed by the Majority Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent's giving of notice of resignation or the Majority Lenders' removal of the retiring Administrative Agent, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent, that shall be a bank that has an office in New York, New York and shall have total assets in excess of \$50,000,000,000. Upon the acceptance of any appointment as Administrative Agent hereunder by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. After any retiring Administrative Agent's resignation or removal hereunder as Administrative Agent, the provisions of this Section 11 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as the Administrative Agent.

11.09 Agency Fee. So long as the Commitments are in effect and until payment in full of the principal of and interest on the Loans and all other amounts payable by the Company hereunder, the Company will pay to the Administrative Agent an agency fee in the amount specified in the Fee Letter, payable annually in advance commencing on the date of execution and delivery of this Agreement by all parties hereto and on each anniversary thereof. Such fee, once paid, shall be non-refundable.

11.10 Consents under Basic Documents. Except as otherwise provided in

Section 12.04 hereof with respect to this Agreement, the Administrative Agent may, with the prior consent of the Majority Lenders (but not otherwise), consent to any modification, supplement or waiver under any of the Basic Documents, provided that, without the prior consent of each Lender, the Administrative Agent shall not (except as provided herein or in the Security Documents) release any collateral or otherwise terminate any Lien under any Basic Document providing for collateral security, or agree to additional obligations being secured by such collateral security (unless the Lien for such additional obligations shall be junior to the Lien in favor of the other obligations secured by such Basic Document).

Section 12. Miscellaneous

12.01 Waiver. No failure on the part of the Administrative Agent or any Lender to exercise and no delay in exercising, and no course of dealing with respect to, any right, power or privilege under this Agreement or any Note shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege under this Agreement or any Note preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

12.02 Notices. All notices, requests and other communications provided for herein and under the Security Documents (including, without limitation, any modifications of, or waivers, requests or consents under, this

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Agreement) shall be given or made in writing (including, without limitation, by telex or telecopy) delivered to the intended recipient at the "Address for

Notices" specified below its name on the signature pages hereof (below the name of the Company, in the case of any Subsidiary Guarantor); or, as to any party, at such other address as shall be designated by such party in a notice to each other party. Except as otherwise provided in this Agreement, all such communications shall be deemed to have been duly given when transmitted by telex or telecopier or personally delivered by hand or overnight courier or, in the case of a notice sent by first class certified mail, postage prepaid, three days after mailing in each case given or addressed as aforesaid.

12.03 Expenses, Etc. The Company agrees to pay or reimburse each of the Lenders and the Administrative Agent for paying: (a) all reasonable out-of-pocket costs and expenses of the Administrative Agent (including, without limitation, the reasonable fees and expenses of Mayer, Brown & Platt, special New York counsel to Chase, CIBC and ING), in connection with (i) the negotiation, preparation, execution and delivery of this Agreement and the other Basic Documents and the extensions of credit hereunder, (ii) any modification, supplement or waiver of any of the terms of this Agreement or any of the other Basic Documents and (iii) any release of Collateral pursuant to Section 9.20 hereof; (b) all costs and expenses of the Lenders and the Administrative Agent (including, without limitation, reasonable counsels' fees) in connection with (i) any Default, any waiver whatsoever thereof, and any enforcement or collection proceedings resulting therefrom or in connection with the negotiation of any restructuring or "work-out" (whether or not consummated) of the obligations of the Company hereunder or under any of the other Basic Documents and (ii) the enforcement of this Section 12.03; and (c) all transfer, stamp, documentary or other similar taxes, assessments or charges levied by any governmental or revenue authority in respect of this Agreement or any of the other Basic Documents or any other document referred to herein or therein and all costs, expenses, taxes, assessments and other charges incurred in connection with any filing, registration, recording or perfection of any security interest contemplated by any Basic Document or any other document referred to therein.

The Company hereby agrees to indemnify the Administrative Agent and each Lender and their respective directors, officers, employees, attorneys and agents from, and hold each of them harmless against, any and all losses, liabilities, claims, damages or expenses incurred by any of them (including, without limitation, any and all losses, liabilities, claims, damages or expenses incurred by the Administrative Agent to any Lender, whether or not the Administrative Agent or any Lender is a party thereto but excluding costs or expenses incurred in connection with

negotiating, documenting or effecting any assignment or participation made pursuant to Section 12.06 hereof) arising out of or by reason of any investigation or litigation or other proceedings (including any threatened investigation or litigation or other proceedings) relating to the extensions of credit hereunder or any actual or proposed use by the Company or any of its Subsidiaries of the proceeds of any of the extensions of credit hereunder, including, without limitation, the reasonable fees and disbursements of counsel incurred in connection with any such investigation or litigation or other proceedings (but excluding any such losses, liabilities, claims, damages or expenses incurred by reason of the gross negligence or willful misconduct of the Person to be indemnified), and each Obligor party hereto hereby agrees not to assert any claim against the Administrative Agent, any Lender, any of their affiliates or any of their respective directors, officers, employees,

attorneys and agents, on any theory of liability, for special, indirect, consequential or punitive damages arising out of or otherwise relating to any of the transactions contemplated herein or in any other Basic Document. Without limiting the generality of the foregoing, the Company will (i) indemnify the Administrative Agent for any payments that the Administrative Agent is required to make under any indemnity issued to any bank referred to in Section 4.02 of the Security Agreement to which remittances in respect to Accounts, as defined therein, are to be made and (ii) indemnify the Administrative Agent and each Lender from, and hold the Administrative Agent and each Lender harmless against, any losses, liabilities, claims, damages or expenses described in the preceding sentence (but excluding, as provided in the preceding sentence, any loss, liability, claim, damage or expense incurred by reason of the gross negligence or willful misconduct of the Person to be indemnified) arising under any Environmental Law as a result of the past, present or future operations of the Company or any of its Subsidiaries (or any predecessor in interest to the Company or any of its Subsidiaries), or the past, present or future condition of any site or facility owned, operated or leased by the Company or any of its Subsidiaries (or any such predecessor in interest), or any Release or threatened Release of any Hazardous Materials from any such site or facility, including any such Release or threatened Release which shall occur during any period when the

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Administrative Agent or any Lender shall be in possession of any such site or facility following the exercise by the Administrative Agent or any Lender of any of its rights and remedies hereunder or under any of the Security Documents unless such Release is solely the direct result of avoidable conduct on the part of the Administrative Agent or such Lender.

12.04 Amendments, Etc. .Except as otherwise expressly provided in this Agreement, any provision of this Agreement may be modified or supplemented only by an instrument in writing signed by the Company, the Administrative Agent and the Majority Lenders, or by the Company and the Administrative Agent acting with the consent of the Majority Lenders, and any provision of this Agreement may be waived by the Majority Lenders or by the Administrative Agent acting with the consent of the Majority Lenders; provided that:

(a) no modification, supplement or waiver shall, unless by an instrument signed by all of the Lenders or by the Administrative Agent acting with the consent of all of the Lenders (i) increase or extend the term of the Commitments, or extend the time or waive any requirement for the reduction or termination of the Commitments, (ii) extend any date fixed for the payment of principal of or interest on any Loan, the Reimbursement Obligations or any fee hereunder (other than any fee payable solely for account of the Administrative Agent, the Swingline Bank or the Issuing Bank), (iii) reduce the amount of

any such payment of principal or Reimbursement Obligations, (iv) reduce the rate at which interest is payable thereon or any fee is payable hereunder (other than any fee payable solely for account of the Administrative Agent, the Swingline Bank or the Issuing Bank), (v) increase the rights or reduce the obligations

of the Company to prepay Loans, (vi) alter the terms of any of Sections 4.02, 4.07 and 11.10 hereof or this Section 12.04, (vii) modify the definitions of the terms "Majority Lenders" or modify in any other manner the number or percentage of the Lenders required to make any determinations or waive any rights hereunder or to modify any provision hereof, (viii) waive any of the conditions precedent set forth in Section 7 hereof, (ix) release any Subsidiary Guarantor from any of its obligations under Section 6 hereof (except as provided in Section 6.09 hereof) or (x) permit any Obligor to sell all or substantially all of its Property (except as expressly provided in this Agreement); and

(b) any modification of any of the rights or obligations of the Administrative Agent, the Swingline Bank or the Issuing Bank hereunder shall require the consent of the Administrative Agent, the Swingline Bank or the Issuing Bank (as the case may be).

12.05 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

12.06 Assignments and Participations

(a) No Obligor may assign any of its rights or obligations hereunder or under the Notes without the prior consent of all of the Lenders and the Administrative Agent.

(b) Each Lender may, at any time or from time to time, assign to one or more other Eligible Assignees or other Lenders all or any portion of its Revolving Credit Loans, its Revolving Credit Notes, its Commitments, and its Letter of Credit Interest (but only with the consent of the Company and the Administrative Agent (which consents shall not be unreasonably withheld or delayed) and, in the case of a Revolving Credit Commitment or a Letter of Credit Interest, the Issuing Bank and, in the case of a Revolving Credit Commitment, the Swingline Bank); provided that (i) no such consent by the Company shall be required if any Event of Default shall have occurred and be continuing at the time of such assignment; (ii) any such partial assignment (other than any such assignment to another Lender) shall be in an amount at least equal to \$10,000,000 and, after giving effect thereto, the assignor shall have a Revolving Credit Commitment at least equal to \$10,000,000; and (iii) each such assignment shall be made in such manner so that the same portion of the assigning Lender's Revolving Credit Loans, Revolving Credit Note, Revolving Credit Commitment, and Letter of Credit Interest is assigned to the respective assignee. Upon execution

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and delivery by the assignee to the Company, the Administrative Agent and the Issuing Lender of an instrument in writing pursuant to which such assignee agrees to become a "Lender" hereunder (if not already a Lender) having the Commitments, Loans and, if applicable, Letter of Credit Interest specified in such instrument, and upon consent thereto by the Company, the Administrative Agent and the Issuing Lender, to the extent required above, the assignee shall have, to the extent of such assignment (unless otherwise provided in such assignment with the consent of the Company, the Administrative Agent and the Issuing Bank), the obligations, rights and benefits of a Lender hereunder holding the Commitments, Loans and, if applicable, Letter of Credit Interest (or portions thereof) assigned to it (in addition to the Commitments, Loans and Letter of Credit Interest, if any, theretofore held by such assignee) and the assigning Lender shall, to the extent of such assignment, be released from the Commitments (or portion thereof) so assigned. Upon each such assignment the assigning Lender shall pay the Administrative Agent an assignment fee of \$3,500.

(c) A Lender may, at any time or from time to time, sell or agree to sell to one or more other Persons a participation in all or any part of any Loans or Letter of Credit Interest held by it, or in its Commitments, in which event each purchaser of a participation (a

"Participant") shall be entitled to the rights and benefits of the provisions of Sections 9.01(g), 5.05, 5.06, 5.07 and 12.03 hereof with respect to its participation in such Loans, Letter of Credit Interest and Commitments as if (and the Company shall be directly obligated to such Participant under such provisions as if) such Participant were a "Lender" for purposes of said Section, but, except for the rights of the Lenders under Section 4.06(c) hereof, shall not have any other rights or benefits under this Agreement or any Note or any other Basic Document (the Participant's rights against such Lender in respect of such participation to be those set forth in the agreements executed by such Lender in favor of the Participant). All amounts payable by the Company to any Lender under Section 5 hereof in respect of the Loans and Letter of Credit Interest held by it, and its Commitments, shall be determined as if such Lender had not sold or agreed to sell any participations in such Loans, Letter of Credit Interest and Commitments, and as if such Lender were funding each of such Loan, Letter of Credit Interest and Commitments in the same way that it is funding the portion of such Loan, Letter of Credit Interest and Commitments in which no participations have been sold. In no event shall a Lender that sells a participation agree with the Participant to take or refrain from taking any action hereunder or under any other Basic Document except that such Lender may agree with the Participant that such Lender will not, without the consent of the Participant, agree to (i) increase or extend the term, or extend the time or waive any requirement for the reduction or termination, of such Lender's Commitments, (ii) extend any date fixed for the payment of principal of or interest on the related Loan or Loans, Reimbursement Obligations or any portion of any fee hereunder payable to the Participant, (iii) reduce the amount of any such payment of principal, (iv) reduce the rate at which interest is payable thereon, or any fee

hereunder payable to the Participant, to a level below the rate at which the Participant is entitled to receive such interest or fee, (v) increase the rights or reduce the obligations of the Company to prepay the related Loans or (vi) consent to any modification, supplement or waiver of this Agreement or any of the other Basic Documents to the extent that the same, under Section 11.10 or 12.04 hereof, requires the consent of each Lender.

(d) In addition to the assignments and participations permitted by the foregoing provisions of this Section 12.06, any Lender may assign and pledge all or any portion of its Loans and its Note to any Federal Reserve Bank as collateral security pursuant to Regulation A and any Operating Circular issued by such Federal Reserve Bank, and such Loans and Note shall be fully transferrable as provided therein. No such assignment shall release the assigning Lender from its obligations hereunder.

(e) A Lender may furnish any information concerning the Company or any of its Subsidiaries in the possession of such Lender from time to time to assignees and participants (including prospective assignees and participants), subject, however, to the provisions of Section 12.13 hereof.

(f) Anything in this Section 12.06 to the contrary notwithstanding, neither the Company nor any of its Subsidiaries or Affiliates may acquire (whether by assignment, participation or otherwise), and no Lender shall assign or participate to the Company or any of its Subsidiaries or Affiliates, any interest in any Commitments, Loan or Reimbursement Obligation without the prior consent of each Lender.

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(g) The Swingline Bank may not assign or sell participations in all or any part of its Swingline Loans, the Swingline Note or the Swingline Commitment; provided that the Swingline Bank may assign to another Lender all of its obligations, rights and benefits in respect of the Swingline Loans, the Swingline Note and the Swingline Commitment with the consent of the Company (such consent not to be unreasonably withheld or delayed). The Company may, from time to time, upon at least 30 days prior notice, replace the Lender then acting as Swingline Bank with one

or more other Lenders, or add one or more other Lenders as additional Swingline Banks (and, if so replaced with more than one other Lender, or any other Swingline Banks are so added, such Lenders acting as Swingline Bank shall enter into arrangements to ensure compliance with the terms and conditions hereof relating to the Swingline Commitment). Upon the effectiveness of any such assignment, the assignee shall have the obligations, rights and benefits of the Swingline Bank hereunder, and the Swingline Bank shall be released from the Swingline Commitment.

12.07 Survival. The obligations of the Company under Sections 5.01, 5.05, 5.06, 5.07 and 12.03 hereof, the obligations of each Subsidiary Guarantor under Section 6.03 hereof, and the obligations of the Lenders under Section 11.05 and Section 12.13 hereof shall survive the repayment of the Loans and Reimbursement Obligations and the termination of the Commitments for a period of two years (provided that any claim or demand made by the Administrative Agent or any Lender with respect to any such obligation prior to the end of such two-year period shall survive the expiration of such period). In addition, each representation and warranty made, or deemed to be made by a notice of any extension of credit (whether by means of a Loan or a Letter of Credit), herein or pursuant hereto shall survive the making of such representation and warranty for a period of two years (provided that any claim or demand made by the Administrative Agent or any Lender with respect to any such representation or warranty prior to the end of such two-year period shall survive the expiration of such period), and no Lender shall be deemed to have waived, by reason of making any extension of credit hereunder (whether by means of a Loan or a Letter of Credit), any Default which may arise by reason of such representation or warranty proving to have been false or misleading, notwithstanding that such Lender or the Administrative Agent may have had notice or knowledge or reason to believe that such representation or warranty was false or misleading at the time such extension of credit was made.

12.08 Captions. The table of contents and captions and section headings appearing herein are included solely for convenience of reference and are not intended to affect the interpretation of any provision of this Agreement.

12.09 Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and any of the parties hereto may execute this Agreement by signing any such counterpart.

12.10 Governing Law; Submission to Jurisdiction. This Agreement and the Notes shall be governed by, and construed in accordance with, the law of the State of New York. Each Obligor hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York state court sitting in New York City for the purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. Each Obligor irrevocably waives, to the fullest extent permitted by applicable law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum.

12.11 Waiver of Jury Trial. EACH OF THE OBLIGORS, THE ADMINISTRATIVE AGENT, THE LENDERS, THE ISSUING BANK AND THE SWINGLINE BANK HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

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Exhibit 10.1

12.12 Complete Agreement. This Agreement, the Notes and the other Basic Documents contain the entire and exclusive agreement of the parties hereto with reference to the matters discussed herein or therein. This Agreement and the other Basic Documents supersede all prior drafts and communications with respect thereto.

12.13 Confidentiality. Each Lender and the Administrative Agent agrees (on behalf of itself and each of its affiliates, directors, officers, employees and representatives) to use such precautions as it uses to maintain the confidentiality of its own confidential information, and in accordance with safe

and sound banking practices, any information supplied to it by the Company or any of its Subsidiaries pursuant to this Agreement that is not publicly available, provided that nothing herein shall limit the disclosure of any such information (i) to the extent required by statute, rule, regulation or judicial process, (ii) to counsel for any of the Lenders or the Administrative Agent, (iii) to bank examiners, auditors or accountants, (iv) to the Administrative Agent or any other Lender, (v) in connection with any litigation to which any one or more of the Lenders or the Administrative Agent is a party, (vi) to a subsidiary or affiliate of such Lender or (vii) to any assignee or participant (or prospective assignee or participant) so long as such assignee or participant (or prospective assignee or participant) first executes and delivers to the respective Lender and the Company a confidentiality agreement in a form reasonably acceptable to the Company and such Lender.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the day and year first above written.

BARNES & NOBLE, INC.

By _____
Title:

Address for Notices:

122 Fifth Avenue
New York, New York 10011

Attention: Chief Financial Officer

Telecopier No.: (212) 675-0413

Telephone No.: (212) 633-3300

With a copy to:

Robinson Silverman Pearce Aronsohn
& Berman LLP
1290 Avenue of the Americas
New York, New York 10104

Attention: Michael N. Rosen, Esq.

Telecopier No.: (212) 541-4630

Telephone No.: (212) 541-2200

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Exhibit 10.1

SUBSIDIARY GUARANTORS

B. DALTON BOOKSELLER, INC.

By _____
Title:

BARNES & NOBLE BOOKSELLERS, INC.

By _____
Title:

BARNESANDNOBLE.COM INC.

By _____
Title:

MARBORO BOOKS CORP.

By _____
Title:

DOUBLEDAY BOOK SHOPS, INC.

By _____
Title:

CCI HOLDINGS, INC.

By _____
Title:

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Exhibit 10.1

LENDERS

THE CHASE MANHATTAN BANK

Revolving Credit Commitment
\$70,000,000

By _____
Title:

Lending Office for all Loans:

One Chase Manhattan Plaza
New York, New York 10081

Address for Notices:

1411 Broadway
New York, New York 10018

Attention: Ms. Maria B. Florez

Telecopier No.: (212) 391-2465

Telephone No.: (212) 391-7642

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Exhibit 10.1

LENDERS

CIBC INC.

Revolving Credit Commitment
\$45,000,000

By _____
Title:

Lending Office for all Loans:

c/o Canadian Imperial Bank of Commerce
Two Paces West, Suite 1200
2727 Paces Ferry Road
Atlanta, Georgia 30339

Address for Notices:

c/o Canadian Imperial Bank of Commerce
Two Paces West, Suite 1200
2727 Paces Ferry Road
Atlanta, Georgia 30339

Attention: Ms. Kim Perrone

Telecopier No.: (404) 319-4950

Telephone No.: (404) 319-4829

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Exhibit 10.1

LENDERS

ING (U.S.) CAPITAL CORPORATION

Revolving Credit Commitment
\$45,000,000

By _____
Title:

Lending Office for all Loans:

135 East 57th Street
New York, New York 10022-2101

Address for Notices:

135 East 57th Street
New York, New York 10022-2101

Attention: Mr. Alex J. van der Laan

Telecopier No.: (212) 758-7925

Telephone No.: (212) 409-1851

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Exhibit 10.1

LENDERS

THE BANK OF NOVA SCOTIA

Revolving Credit Commitment
\$35,000,000

By _____
Title: Authorized Signatory

Lending Office for all Loans:

The Bank of Nova Scotia
One Liberty Plaza

New York, New York 10006

Address for Notices:

One Liberty Plaza
New York, New York 10006

Attention: Ms. Meredith Wedeking

Telecopier No.: (212) 225-5090

Telephone No.: (212) 225-5017

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Exhibit 10.1

LENDERS

FIRST UNION NATIONAL BANK

Revolving Credit Commitment
\$35,000,000

By _____
Title: Vice President

Lending Office for all Loans:

190 River Road, 2nd Floor
Summit, NJ 07901

Attention: Robert H. Doherty, SVP

Telecopier No.: (908) 598-3085

Telephone No.: (908) 598-3076

Address for Notices:

190 River Road, 2nd Floor
Summit, NJ 07901

Attention: Mary Tenore

Telecopier No.: (908) 598-3084

Telephone No.: (908) 598-3065

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Exhibit 10.1

LENDERS

THE INDUSTRIAL BANK OF JAPAN, LIMITED

Revolving Credit Commitment
\$35,000,000

By _____
Title:

Lending Office for all Loans:

The Industrial Bank of Japan, Limited
New York Branch
1251 Avenue of the Americas
New York, NY 10020-1104

Address for Notices:

1251 Avenue of the Americas
New York, NY 10020-1104

Attention: Mr. J. Kenneth Biegen

Telecopier No.: (212) 282-4488

Telephone No.: (212) 282-3460

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Exhibit 10.1

LENDERS

COOPERATIEVE CENTRALE RAIFFEISEN-
BOERENLEENBANK B.A., "RABOBANK
NEDERLAND", NEW YORK BRANCH

Revolving Credit Commitment
\$35,000,000

By _____
Title:

By _____
Title:

Lending Office for all Loans:

245 Park Avenue
New York, New York 10167
Attention: Corporate Services Dept.
Fax: (212) 818-0233
Phone: (212) 916-7800

Address for Notices:

245 Park Avenue
New York, NY 10167

Attention: Dana W. Hemenway

Telecopier No.: (212) 916-7837

Telephone No.: (212) 916-7924

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Exhibit 10.1

LENDERS

SUMMIT BANK

Revolving Credit Commitment
\$35,000,000

By _____
Title:

Lending Office for all Loans:

750 Walnut Avenue, 3rd Floor
Cranford, N.J. 07016

Attention: Dave Lyons
Fax: 908-709-6433
Phone: 908-709-5361

Address for Notices:

750 Walnut Avenue, 3rd Floor
Cranford, N.J. 07016

Attention: Carolyn Swiss
Telecopier No.: 201-641-4462
Telephone No.: 201-229-5288

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Exhibit 10.1

LENDERS

BANK OF MONTREAL

Revolving Credit Commitment
\$25,000,000

By _____
Title:

Lending Office for all Loans:
Bank of Montreal
115 South LaSalle Street
13th Floor West
Chicago, IL 60603

Attention: Robert Cannon
Fax: (312) 750-1789
Phone: (312) 750-3475

Address for Notices:
Bank of Montreal
115 South LaSalle Street
11th Floor West
Chicago, IL 60603

Attention: Ninfa Arenas

Telecopier No.: (312) 750-4345
Telephone No.: (312) 750-3453

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Exhibit 10.1

LENDERS

THE BANK OF NEW YORK

Revolving Credit Commitment
\$25,000,000

By _____
Title:

Lending Office for all Loans:

1 Wall Street
New York, New York 10286

Address for Notices:

1 Wall Street
New York, New York 10286

Attention: Howard F. Bascom, Jr.

Telecopier No.: (212) 635-1481

Telephone No.: (212) 635-7894

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Exhibit 10.1

LENDERS

BANK OF TOKYO-MITSUBISHI TRUST COMPANY

Revolving Credit Commitment
\$25,000,000

By _____
Title:

Lending Office for all Loans:

Bank of Tokyo-Mitsubishi Trust Company
1251 Avenue of the Americas
New York, New York 10020

Attention: Lillian Kim
Fax: (212) 782-6445
Phone: (212) 782-4225

Address for Notices:

Bank of Tokyo-Mitsubishi Trust Company
1251 Avenue of the Americas
New York, New York 10020

Attention: Rolando Uy

Telecopier No.: (212) 766-3127
Telephone No.: (201) 413-8570

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Exhibit 10.1

LENDERS

CORESTATES BANK, N.A.

Revolving Credit Commitment
\$25,000,000

By _____
Title:

Lending Office for all Loans:

Corestates Bank, N.A.
1345 Chestnut Street
Philadelphia, PA 19101-7618

Address for Notices:

1345 Chestnut Street
Philadelphia, PA 19101-7618

Attention: Mr. John A. Ginter

Telecopier No.: (215) 973-7671

Telephone No.: (215) 973-2253

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Exhibit 10.1

LENDERS

CREDIT LYONNAIS NEW YORK BRANCH

Revolving Credit Commitment
\$25,000,000

By _____
Title:

Lending Office for all Loans:

Credit Lyonnais New York Branch
1301 Avenue of the Americas
New York, New York 10019

Address for Notices:

1301 Avenue of the Americas
New York, New York 10019

Attention: Silvana Burdick

Telecopier No.: (212) 459-3179

Telephone No.: (212) 261-7343

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Exhibit 10.1

LENDERS

DEUTSCHE BANK AG, NEW YORK BRANCH AND/OR
CAYMAN ISLANDS BRANCH

Revolving Credit Commitment
\$25,000,000

By _____
Title:

By _____
Title:

Lending Office for all Loans:
31 West 52nd Street
24th Floor
New York, NY 10019

Address for Notices:

31 West 52nd Street

24th Floor
New York, NY 10019

Attention: Ms. Susan M. O'Connor

Telecopier No.: (212) 469-7936

Telephone No.: (212) 469-8208

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Exhibit 10.1

LENDERS

MELLON BANK, N.A.

Revolving Credit Commitment
\$25,000,000

By _____
Title:

Lending Office for all Loans:

Mellon Bank, N.A.
Loan Administration
Room 1203 Three Mellon Bank Center
Pittsburgh, PA 15259-0003

Address for Notices:

One Mellon Bank Center
Room 151-4535
Pittsburgh, PA 15258-0001

Attention: Ms. Maribeth Donnelly

Telecopier No.: (412) 236-1914

Telephone No.: (412) 236-2472

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Exhibit 10.1

LENDERS

SAKURA BANK LTD.

Revolving Credit Commitment
\$25,000,000

By _____
Title: Vice President

Lending Office for all Loans:

277 Park Avenue
New York, NY 10172

Attention: Patricia Walsh
Fax: (212) 756-6781
Phone: (212) 756-6788

Address for Notices:

277 Park Avenue
New York, NY 10172

Attention: Stephen Chan

Telecopier No.: (212) 888-7651
Telephone No.: (212) 756-6774

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Exhibit 10.1

LENDERS

THE SUMITOMO TRUST & BANKING CO., LTD
NEW YORK BRANCH

Revolving Credit Commitment
\$25,000,000

By _____
Title:

Lending Office for all Loans:

The Sumitomo Trust & Banking Company., Ltd.
New York Branch
527 Madison Avenue
New York, NY 10022

Address for Notices:

527 Madison Avenue
New York, New York 10022

Attention: Mr. Hiro Mizuno

Telecopier No.: (212) 418-4848

Telephone No.: (212) 326-0751

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Exhibit 10.1

LENDERS

THE TOKAI BANK, LIMITED
NEW YORK BRANCH

Revolving Credit Commitment
\$25,000,000

By _____
Title:

Lending Office for all Loans:

55 East 52nd Street
New York, New York 10055

Attention: Haruyo Niki
Fax: 212-832-1428
Phone: 212-339-1123

Address for Notices:

55 East 52nd Street
New York, New York 10055

Attention: Eva Cordova
Telecopier No.: 212-754-2171

Telephone No.: 212-339-1145

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Exhibit 10.1

LENDERS

WELLS FARGO BANK N.A.

Revolving Credit Commitment
\$25,000,000

By _____
Title:

By _____
Title:

Lending Office for all Loans:

420 Montgomery Street 9th Fl.
San Francisco, CA 95163

Address for Notices:

420 Montgomery Street, 9th Floor
San Francisco, CA 95163

Attention: Theresa Croce

Telecopier No.: (415) 989-4319

Telephone No.: (415) 396-3629

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Exhibit 10.1

LENDERS

SUNTRUST BANK, ATLANTA

Revolving Credit Commitment
\$20,000,000

By _____
Title:

By _____
Title:

Lending Office for all Loans:

SunTrust Bank, Atlanta
25 Park Place, 21st Floor
Atlanta, GA 30303

Attention: Kara King
Fax: (404) 575-2730
Phone: (404) 230-5413

Address for Notices:

SunTrust Bank, Atlanta
25 Park Place, 21st Floor
Atlanta, GA 30303

Attention: Kara King

Fax: (404) 575-2730
Phone: (404) 230-5413

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Exhibit 10.1

LENDERS

ABN-AMRO BANK, N.V.
New York Branch

Revolving Credit Commitment
\$15,000,000

By _____
Title:

By _____
Title:

Lending Office for all Loans:

500 Park Avenue
New York, New York 10022

Address for Notices:

500 Park Avenue
New York, New York 10022

Attention: Scott Boras

Telecopier No.: (212) 446-4203

Telephone No.: (212) 446-4274

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Exhibit 10.1

LENDERS

DG BANK Deutsche Genossenschaftsbank

Revolving Credit Commitment
\$15,000,000

By _____
Title:

By _____
Title:

Lending Office for all Loans:

Cayman Islands

Attention: Norah McCann
Fax: (212) 745-1556
Phone: (212) 745-1584

Address for Notices:

609 Fifth Avenue
NY, NY 10017
Attention: Sabine Wendt

Telecopier No.: (212) 745-1556
Telephone No.: (212) 745-1559

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Exhibit 10.1

LENDERS

FIRST HAWAIIAN BANK

Revolving Credit Commitment
\$15,000,000

By _____
Title:

Lending Office for all Loans:

999 Bishop Street, 11th Floor
Honolulu, Hawaii 96813

Address for Notices:

999 Bishop Street, 11th Floor
Honolulu, Hawaii 96813

Attention: Scott Nahme

Telecopier No.: (808) 525-6372

Telephone No.: (808) 525-8781

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Exhibit 10.1

LENDERS

FIRST NATIONAL BANK OF MARYLAND

Revolving Credit Commitment
\$15,000,000

By _____
Title:

Lending Office for all Loans:

25 S.Charles St.
Baltimore, Md. 21201
Attention: Stewart T. Shettle

Fax: 410-545-2047
Phone: 410-244-4104

Address for Notices:

25 S.Charles St.
Baltimore, Md. 21201
Attention: Stewart T. Shettle

Telecopier No.: 410-545-2047
Telephone No.: 410-244-4104

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LENDERS

FLEET NATIONAL BANK

Revolving Credit Commitment
\$15,000,000

By _____
Title:

Lending Office for all Loans:

Fleet Bank
MAOF0320
One Federal Street
Boston, MA 02110-2010

Attention: Thomas J. Bullard
Fax: (617) 346-0689
Phone: (617) 346-0146

Address for Notices:
Fleet Bank
MAOF0320
One Federal Street
Boston, MA 02110-2010

Attention: Thomas J. Bullard
Telecopier No.: (617) 346-0689
Telephone No: (617) 346-0146

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LENDERS

THE FUJI BANK, LIMITED
NEW YORK BRANCH

Revolving Credit Commitment
\$15,000,000

By _____
Title:

Lending Office for all Loans:

The Fuji Bank, Limited
New York Branch
Two World Trade Center
New York, New York 10048

Address for Notices:

Two World Trade Center
New York, New York 10048

Attention: Mark Hanslin

Telecopier No.: (212) 912-0516

Telephone No.: (212) 898-2073

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LENDERS

HIBERNIA NATIONAL BANK

Revolving Credit Commitment
\$15,000,000

By _____
Title:

Lending Office for all Loans:

313 Carondelet Street
New Orleans, LA 70130

Address for Notices:

313 Carondelet Street
New Orleans, LA 70130

Attention: Ms. Stephanie Freeman
Banking Officer

Telecopier No.: (504) 533-5344

Telephone No.: (504) 533-3345

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LENDERS

IBJ SCHRODER BANK & TRUST COMPANY

Revolving Credit Commitment
\$15,000,000

By _____
Title:

Lending Office for all Loans:

One State Street
New York, New York 10004

Address for Notices:

One State Street
New York, New York 10004

Attention: Mark H. Minter

Telecopier No.: (212) 858-2768

Telephone No.: (212) 858-2255

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LENDERS

MERITA BANK LTD
NEW YORK BRANCH

Revolving Credit Commitment
\$15,000,000

By _____

Title:

By _____
Title:

Lending Office for all Loans:

Merita Bank Ltd.
New York Branch
437 Madison Avenue
New York, NY 10022

Address for Notices:

437 Madison Avenue
New York, NY 10022

Attention: Frank Maffei

Telecopier No.: (212) 318-9318

Telephone No.: (212) 318-9561

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Exhibit 10.1

LENDERS

THE MITSUBISHI TRUST AND
BANKING CORPORATION

Revolving Credit Commitment
\$15,000,000

By _____
Title:

Lending Office for all Loans:

520 Madison Avenue
New York, New York 10022

Address for Notices:

520 Madison Avenue
New York, New York 10022

Attention: Bea Kossodo

Telecopier No.: (212) 644-6825

Telephone No.: (212) 891-8363

-98-

Exhibit 10.1

LENDERS

SANWA BANK LTD

Revolving Credit Commitment
\$15,000,000

By _____
Title:

Lending Office for all Loans:
The Sanwa Bank Ltd, New York Branch

Attention: Paul Judicke
Fax: (212) 754-1304
Phone: (212) 339-6366

Address for Notices:

The Sanwa Bank, Ltd., New York Branch
55 East 52nd Street
New York, NY 10055
Attention: R. Hara

Telecopier No.: (212) 754-2368
Telephone No.: (212) 339-6390

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Exhibit 10.1

LENDERS

THE SUMITOMO BANK, LIMITED,
NEW YORK BRANCH

Revolving Credit Commitment
\$15,000,000

By _____
Title:

Lending Office for all Loans:

277 Park Avenue
New York, New York 10172

Address for Notices:

277 Park Avenue
New York, New York 10172

Attention: Mr. Michael B. Novellino

Telecopier No.: (212) 224-5188

Telephone No.: (212) 224-4142

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Exhibit 10.1

LENDERS

THE TOYO TRUST & BANKING CO., LTD.

Revolving Credit Commitment
\$15,000,000

By _____
Title:

Lending Office for all Loans:
666 Fifth Avenue
New York, NY 10103

Attention: Paul St. Mauro, AVP
Fax: (212) 307-3498
Phone: (212) 307-3411

Address for Notices:
666 Fifth Avenue
New York, NY 10103

Attention: Paul St. Mauro, AVP

Telecopier No.: (212) 307-3498
Telephone No.: (212) 307-3411

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Exhibit 10.1

LENDERS

WACHOVIA BANK, N.A.

Revolving Credit Commitment
\$15,000,000

By _____
Title:

Lending Office for all Loans:
Wachovia Bank, N.A.

Attention: Lisa M. Shawl
Fax: (404) 332-6898
Phone: (404) 332-6580

Address for Notices:
191 Peachtree Street
28th Floor
Atlanta, GA 30303

Attention: Demetria Chastang

Telecopier No.: (404) 332-6898
Telephone No.: (404) 332-1114

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Exhibit 10.1

LENDERS

THE YASUDA TRUST & BANKING COMPANY,
LIMITED

Revolving Credit Commitment
\$10,000,000

By _____
Title:

Lending Office for all Loans:
Suite 801
666 Fifth Avenue
New York, NY 10103

Attention: J. Powers
Fax: (212) 373-5796
Phone: (212) 373-5729

Address for Notices:
Suite 801

666 Fifth Avenue
New York, NY 10103

Attention: R. Ortiz

Telecopier No.: (212) 373-5797
Telephone No.: (212) 373-5755

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Exhibit 10.1

Swingline Commitment
\$50,000,000

SWINGLINE BANK

THE CHASE MANHATTAN BANK

By _____
Title:

Lending Office for all Loans:

One Chase Manhattan Plaza
New York, New York 10081

Address for Notices:

1411 Broadway
New York, New York 10018

Attention: Ms. Maria B. Florez

Telecopier No.: (212) 391-2465

Telephone No.: (212) 391-7642

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Exhibit 10.1

ADMINISTRATIVE AGENT

THE CHASE MANHATTAN BANK ,
as Administrative Agent

By _____
Title:

Lending Office for all Loans:

One Chase Manhattan Plaza
New York, New York 10081

Address for Notices:

1411 Broadway
New York, New York 10018

Attention: Ms. Maria B. Florez

Telecopier No.: (212) 391-2465

Telephone No.: (212) 391-7642

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MATERIAL AGREEMENTS AND LIENS

Part A -- Material Agreements

| Credit Institution ----- | Type of Agreement ----- | Aggregate Principal Balance or Face Amount Outstanding ----- | Amount of Unused Commitment ----- |
|---|---|---|--|
| United States Trust Company of New York, as Trustee | Amended and Restated Indenture of Barnes & Noble, Inc., dated as of 7/23/93, for 11-7/8% Senior Subordinated Notes | \$190,000,000 | 0 |

Part B - Liens

| Corporation ----- | Description ----- | Secured Party ----- |
|--|--|---|
| Barnes & Noble, Inc. ----- | Security interest in one Xerox 1090 together with any and all additions, substitutions, accessories or other or different equipment added to or replacing part of the specified equipment and all proceeds. | Xerox Corporation 835 Hope Street P.O. Box 4901, MS 1-1 Stamford, CT 06907 |
| | Security interest in all right, title and interest in, to and under (1) Computer Equipment Purchase Agreement C0149/L, dated 1/25/95, between debtor and secured party; (2) all payments due and to become due under such Agreement; and (3) all computer and peripheral equipment subject to such Agreement. | Hitachi Data Systems Corp. 750 Central Expressway Santa Clara, CA 95056 |
| Barnes & Noble Booksellers, Inc. ----- | Security interest in all contracts, permits, plans and specifications and other instruments and agreements relating to the construction of a bookstore located at 100 Dorset Street South Burlington, Vermont. | Key Bank of Vermont 149 Bank Street Burlington, VT 05402 |

SUBSIDIARIES AND INVESTMENTS

Part A - Subsidiaries

| Subsidiary | Jurisdiction of Organization | Registered Owner (and Percentage of Ownership) | Shares Outstanding |
|---|------------------------------|--|--|
| B. Dalton Bookseller, Inc. | Minnesota | Barnes & Noble, Inc. (100%) | 360 shares of common stock, par value \$100.00 per share |
| Barnes & Noble Booksellers, Inc. | Delaware | Barnes & Noble, Inc. (100%) | 100 shares of common stock, par value \$1.00 per share |
| Marboro Books Corp. | New York | Barnes & Noble, Inc. (100%) | 10 shares of common stock, no par value |
| Doubleday Book Shops, Inc. | Delaware | B. Dalton Bookseller, Inc. (100%) | 1,000 shares of common stock, par value \$1.00 per share |
| CCI Holdings, Inc. | Texas | Barnes & Noble, Inc. (100%) | 3,000 shares of common stock, par value \$1.00 |
| Barnes and Noble.com Inc. | Delaware | Barnes & Noble, Inc. (100%) | 100 shares of common stock, par value \$1.00 |
| Calmark Limited (Unrestricted Subsidiary) | United Kingdom | Barnes & Noble, Inc. (80%) | 600,000 shares of common stock, par value (pounds)1.00 |

Part B - Investments

- Note payable to Barnes & Noble, Inc., dated March 13, 1996, issued by Calendar Club Inc. (n/k/a CCI Holdings, Inc.) in the principal amount of \$3,000,000 due February 13, 2005, which note has been assumed by and is an obligation of Calendar Club L.L.C., a Delaware limited liability company (the "LLC").
- Note payable to Barnes & Noble, Inc., dated March 13, 1996, issued by the LLC in the principal amount of \$1,500,000, due February 13, 2005.
- CCI Holdings, Inc.'s 50% membership interest in the LLC.
- Limited partnership interest in Parkway Plaza Associates, a New York limited partnership.
- 20% interest in Chapters Inc. an Ontario corporation.

PROMISSORY NOTE

\$70,000,000

November 18, 1997
New York, New York

FOR VALUE RECEIVED, BARNES & NOBLE, INC., a Delaware corporation (the "Company"), hereby promises to pay to THE CHASE MANHATTAN BANK (the "Lender"), for account of its respective Applicable Lending Offices provided for by the Amended and Restated Credit Agreement referred to below, at the principal office of The Chase Manhattan Bank at One Chase Manhattan Plaza, New York, New York 10081, the principal sum of SEVENTY MILLION DOLLARS (\$70,000,000) (or such lesser amount as shall equal the aggregate unpaid principal amount of the Revolving Credit Loans made by the Lender to the Company under the Amended and Restated Credit Agreement), in lawful money of the United States of America and in immediately available funds, on the dates and in the principal amounts provided in the Amended and Restated Credit Agreement, and to pay interest on the unpaid principal amount of each such Revolving Credit Loan, at such office, in like money and funds, for the period commencing on the date of such Revolving Credit Loan until such Revolving Credit

Loan shall be paid in full, at the rates per annum and on the dates provided in the Amended and Restated Credit Agreement.

The date, amount, Type, interest rate and duration of Interest Period (if applicable) of each Revolving Credit Loan made by the Lender to the Company, and each payment made on account of the principal thereof, shall be recorded by the Lender on its books and, prior to any transfer of this Note, endorsed by the Lender on the schedule attached hereto or any continuation thereof, provided that the failure of the Lender to make any such recordation or endorsement shall not affect the obligations of the Company to make a payment when due of any amount owing under the Amended and Restated Credit Agreement in respect of the Revolving Credit Loans made by the Lender.

This Note is one of the Revolving Credit Notes referred to in the Amended and Restated Credit Agreement dated as of November 18, 1997 (as modified and supplemented and in effect from time to time, the "Amended and Restated Credit Agreement") between the Company, the Subsidiaries of the Company identified on the signature pages thereof under the caption "SUBSIDIARY GUARANTORS", the lenders named therein and The Chase Manhattan Bank, as Administrative Agent, and evidences Revolving Credit Loans made by the Lender thereunder. Terms used but not defined in this Note have the respective meanings assigned to them in the Amended and Restated Credit Agreement.

The Amended and Restated Credit Agreement provides for the acceleration of the maturity of this Note upon the occurrence of certain events and for prepayments of Revolving Credit Loans upon the terms and conditions specified therein.

Except as permitted by Sections 12.06(b) and 12.06(d) of the Amended and Restated Credit Agreement, this Note may not be assigned by the Lender to any other Person.

This Note shall be governed by, and construed in accordance with, the law of the State of New York.

BARNES & NOBLE, INC.

By _____
Title:

SCHEDULE OF LOANS

This Note evidences Revolving Credit Loans made, Continued or Converted under the within-described Amended and Restated Credit Agreement to the Company, on the dates, in the principal amounts, of the Types, bearing interest at the rates and having Interest Periods (if applicable) of the durations set forth below, subject to the payments, Continuations, Conversions and prepayments of principal set forth below:

| Date Made, Continued or Converted | Principal Amount of Loan | Type of Loan | Interest Rate | Duration of Interest Period | Amount Paid, Prepaid, Continued or Converted | Unpaid Principal Amount | Notation Made by |
|---|--------------------------------|-----------------|------------------|-----------------------------------|--|-------------------------------|---------------------|
| ----- | | | | | | | |

[Form of Swingline Note]

PROMISSORY NOTE

\$ _____

November __, 1997
New York, New York

FOR VALUE RECEIVED, BARNES & NOBLE, INC., a Delaware corporation (the "Company"), hereby promises to pay to _____ (the "Swingline Bank"), for account of its respective Applicable Lending Offices provided for by the Amended and Restated Credit Agreement referred to below, at the principal office of The Chase Manhattan Bank at One Chase Manhattan Plaza, New York, New York 10001 the principal sum of _____ Dollars (or such lesser amount as shall equal the aggregate unpaid principal amount of the Swingline Loans made by the Swingline Bank to the Company under the Amended and Restated Credit Agreement), in lawful money of the United States of America and in immediately available funds, on the dates and in the principal amounts provided in the Amended and Restated Credit Agreement, and to pay interest on the unpaid principal amount of each such Swingline Loan, at such office, in like money and funds, for the period commencing on the date of such Swingline Loan until such Swingline Loan shall be paid in full, at the rates per annum and on the dates provided in the Amended and Restated Credit Agreement.

The date, amount, interest rate and maturity date of each Swingline Loan made by the Swingline Bank to the Company, and each payment made on account of the principal thereof, shall be recorded by the Swingline Bank on its books and, prior to any transfer of this Note, endorsed by the Swingline Bank on the schedule attached hereto or any continuation thereof, provided that the failure of the Swingline Bank to make any such recordation or endorsement shall not affect the obligations of the Company to make a payment when due of any amount owing under the Amended and Restated Credit Agreement in respect of the Swingline Loans made by the Swingline Bank.

This Note is the Swingline Note referred to in the Amended and Restated Credit Agreement dated as of November __, 1997 (as modified and supplemented and in effect from time to time, the "Amended and Restated Credit Agreement") between the Company, the Subsidiaries of the Company identified on the signature pages thereof under the caption "SUBSIDIARY GUARANTORS", the lenders named therein and The Chase Manhattan Bank, as Administrative Agent, and evidences Swingline Loans made by the Swingline Bank thereunder. Terms used but not defined in this Note have the respective meanings assigned to them in the Amended and Restated Credit Agreement.

The Amended and Restated Credit Agreement provides for the acceleration of the maturity of this Note upon the occurrence of certain events and for prepayments of Swingline Loans upon the terms and conditions specified therein.

Except as permitted by Sections 12.06(d) and 12.06(g) of the Amended and Restated Credit Agreement, this Note may not be assigned by the Swingline Bank to any other Person.

This Note shall be governed by, and construed in accordance with, the law of the State of New York.

BARNES & NOBLE, INC.

By _____
Title:

SCHEDULE OF LOANS

This Note evidences Swingline Loans made under the within-described Amended and Restated Credit Agreement to the Company, on

the dates, in the principal amounts, bearing interest at the rates and maturing on the dates set forth below, subject to the payments of principal set forth below:

| Date Made | Principal Amount of Loan | Interest Rate | Maturity Date | Amount Paid | Unpaid Principal Amount | Notation Made by |
|-----------|--------------------------|---------------|---------------|-------------|-------------------------|------------------|
|-----------|--------------------------|---------------|---------------|-------------|-------------------------|------------------|

EXHIBIT C

[Form of Opinion of Counsel to the Obligors]

November __, 1997

To the Lenders party to the Amended and Restated Credit Agreement referred to below and The Chase Manhattan Bank, as Administrative Agent

Ladies and Gentlemen:

We have acted as counsel to Barnes & Noble, Inc. (the "Company") and its subsidiaries in connection with the Amended and Restated Credit Agreement (the "Credit Agreement") dated as of November __, 1997, among the Company, the Subsidiaries of the Company identified on the signature pages thereof under the caption "SUBSIDIARY GUARANTORS", the lenders named therein and The Chase Manhattan Bank, as Administrative Agent, providing for extensions of credit to be made by said lenders to the Company in an aggregate amount not exceeding \$850,000,000. Terms defined in the Credit Agreement are used herein as defined therein.

In rendering the opinions expressed below, we have examined (a) the Basic Documents and (b) the originals or conformed copies of such corporate records, agreements and instruments of the obligors, certificates of public officials and of officers of the Obligors, and such other documents and records, and such matters of law, as we have deemed appropriate as a basis for the opinions hereinafter expressed. In our examination, we have assumed the genuineness of all signatures, the authenticity of documents submitted to us as originals and the conformity with authentic original documents of all documents submitted to us as copies. When relevant facts were not independently established, we have relied upon statements of governmental officials and upon representations made in or pursuant to the Basic Documents and certificates and statements of appropriate representatives of the obligors.

In rendering the opinions expressed below, we have assumed that, other than with respect to the Obligors, all of the documents referred to in this opinion have been duly authorized by, have been duly executed and delivered by, and constitute legal, valid, binding and enforceable obligations of, all of the parties to such documents, that all signatories to such documents have been duly authorized and that all such parties are duly organized and validly existing and have the power and authority (corporate or other) to execute, deliver and perform such documents.

Based upon and subject to the foregoing and subject also to the comments and qualifications set forth below, and having considered such questions of law as we have deemed necessary as a basis for the opinions expressed below, we are of the opinion that:

1. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware and has the necessary corporate power to make and perform the Credit Agreement and the Notes and the other Basic Documents to which it is a party and to borrow under the Credit Agreement. Each Subsidiary Guarantor is a corporation duly incorporated, validly existing and in good standing under the laws of the respective state indicated opposite its name in Schedule II to the Credit Agreement. The Company is duly qualified to transact business in the State of New York and, to our knowledge, the Subsidiary Guarantors are duly qualified to transact business in all such jurisdictions where failure so to qualify would reasonably be expected to have a material adverse effect on the financial condition or operations of the Company and its Consolidated Subsidiaries taken as a whole. Each Subsidiary Guarantor has the necessary corporate power to make and perform the Credit Agreement

and the other Basic Documents to which it is a party.

2. The making and performance by each Obligor of the Credit Agreement and the other Basic Documents to which it is a party including, in the case of the Company, the Notes and the borrowings by the Company under the Credit Agreement have been duly authorized by all necessary corporate action, and do not and will not violate any provision of any applicable law or regulation or any provision of the charter or by-laws of any Obligor or result in the breach of, or constitute a default or require any consent under, or (except for the Liens created pursuant to the Security Documents) result in the creation of any Lien upon any material Property of the Company or any Subsidiary Guarantor pursuant to, any indenture or other material agreement or instrument known to us to which the Company or any Subsidiary Guarantor is a party or by which the Company or any Subsidiary Guarantor or its Properties may be bound.

3. The Credit Agreement, the Security Agreement, and the Security Agreement Amendment constitute, and the Notes when executed and delivered for value will constitute, legal, valid and binding obligations of the respective Obligor enforceable in accordance with their respective terms, except as such enforceability may be limited by (a) bankruptcy, insolvency, reorganization, moratorium or other similar laws of general applicability affecting the enforcement of creditors' rights and (b) the application of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law), and except that no opinion is expressed as to Section 4.07(c) or Section 11 (other than Section 11.09) of the Credit Agreement.

We express no opinion as to the effect, or applicability, upon the obligations of any Subsidiary Guarantor under the Credit Agreement, the Security Agreement, and the Security Agreement Amendment of any Federal or state law relating to fraudulent conveyances or transfers. In

addition, we express no opinion as to (i) whether a Federal or state court outside of the State of New York would give effect to the choice of New York law provided for in the Credit Agreement and the Notes and in the other Basic Documents, (ii) the second sentence of Section 12.10 of the Credit Agreement, insofar as such sentence relates to the subject matter jurisdiction of the United States District Court for the Southern District of New York to adjudicate any controversy related to the Credit Agreement or the Notes or (iii) the waiver of inconvenient forum set forth in Section 12.10 of the Credit Agreement with respect to proceedings in the United States District Court for the Southern District of New York. We also wish to point out that the obligations of the Obligors under the Security Agreement and the Security Agreement Amendment may be subject to possible limitations upon the exercise of remedial or procedural provisions contained in the Security Agreement and the Security Agreement Amendment, provided that such limitations do not, in our opinion, make the remedies and procedures which will be afforded to the Administrative Agent and the Lenders inadequate for the practical realization of the substantive benefits purported to be provided to the Administrative Agent and the Lenders by the Security Agreement and the Security Agreement Amendment. Finally, we wish to point out that provisions of the Basic Documents which permit the Administrative Agent or any Lender to take action or make determinations, or to benefit from indemnities and similar undertakings of the Obligors, may be subject to a requirement that such action be taken or such determinations be made, and

that any action or inaction by the Administrative Agent or any Lender which may give rise to a request for payment under such an undertaking be taken or not taken, on a reasonable basis and in good faith.

4. There are no legal or arbitral proceedings, and no proceedings by or before any governmental or regulatory authority or agency, pending or (to our knowledge) threatened against the Company or any Subsidiary Guarantor that would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

5. No authorizations, consents, approvals, licenses, filings or registrations with any governmental or regulatory authority or agency are required in connection with the execution, delivery or performance by any Obligor of the Basic Documents to which it is a party, except the filings and recordings of Liens to be created pursuant to the Security Documents.

6. The Security Agreement (as amended by the Security Agreement Amendment) is effective to create, in favor of the Administrative Agent for the benefit of the Lenders thereunder, a valid security interest (to the

extent that Article 9 of the Uniform Commercial Code is applicable thereto) in the right, title and interest of the Obligors in the Collateral (as defined in the Security Agreement), as collateral security for the payment of the Secured Obligations (as so defined), except that the security interest in Collateral in which any obligor acquires rights after the commencement of a case against it under the Bankruptcy Code will be limited by Section 552 of the Bankruptcy Code. By virtue of the

filings described in Annex 1 attached hereto, all such security interests which can be perfected by a Uniform Commercial Code filing in the United States of America will have been, upon such filings being completed, so perfected. We express no opinion as to the right, title or interest of any obligor in any of the Collateral.

7. The issued and outstanding shares of capital stock of each Issuer under and as defined in the Security Agreement (as amended by the Security Agreement Amendment) is correctly described in Annex 1 thereto, and represented by the certificates therein identified. The security interest in the Pledged Stock under and as defined in the Security Agreement (as amended by the Security Agreement Amendment) represented by each such certificate constitutes a valid, perfected security interest so long as the Administrative Agent holds such certificates.

In rendering the foregoing opinions, we have assumed, without independent investigation, that (i) the Company has not issued the Notes and no Subsidiary Guarantor has guaranteed the Secured Obligations with actual intent to hinder, delay or defraud their respective present or future creditors, (ii) upon issuance of the Notes by the Company and the guarantee by the Subsidiary Guarantors, neither the Company nor any Subsidiary Guarantors was insolvent or engaged, or about to engage, in a business or transaction for which the property remaining with the Company or any Subsidiary Guarantors, as the case may be, was unreasonably small capital, or intended to incur, or believed that it was incurring, debts beyond its ability to pay as they become due, and (iii) each of the Company and each Subsidiary Guarantor will satisfy in full any final judgment against it in any action for money damages that either results from an action pending against it on the date the Notes and the guarantee were issued or docketed against it on such date.

The foregoing opinions are limited to matters involving the Federal laws of the United States, the laws of the State of New York and, to the extent necessary, the General Corporation Law of the State of Delaware, and we do not express any opinion as to the laws of any other jurisdiction.

This opinion letter is provided to you by us pursuant to Section 7.01(c) of the Credit Agreement and may not be relied upon by any other person or for any purpose other than in connection with the transactions contemplated by the Basic Documents without our prior written consent in each instance.

Very truly yours,

ANNEX 1

Jurisdictions of filings of
U.C.C. Financing Statements

| Obligor ----- | Jurisdiction of Filings ----- |
|-------------------------------------|---|
| 1. Barnes & Noble, Inc. | 1. (a) Secretary of State of the State of New York (b) Nassau County Clerk (c) New York County Clerk |
| 2. B. Dalton Bookseller, Inc. | 2. (a) Secretary of State of the State of New York (b) Nassau County Clerk (c) New York County Clerk (d) Secretary of State of the State of New Jersey (e) Middlesex County Clerk |
| 3. Barnes & Noble Booksellers, Inc. | 3. (a) Secretary of State of the State of New York (b) Nassau County Clerk (c) New York County Clerk |
| 4. Marboro Books Corp. | 4. (a) Secretary of State of the State of New York (b) Nassau County Clerk (c) New York County Clerk (d) Secretary of State of the State of New Jersey (e) Bergen County Clerk |
| 5. Doubleday Book Shops, Inc. | 5. (a) Secretary of State of the State of New York (b) Nassau County Clerk (c) New York County Clerk |
| 6. CCI Holdings, Inc. | 6. (a) Secretary of State of the State of New York (b) Nassau County Clerk (c) New York County Clerk (d) Secretary of State of the State of Texas (e) Travis County Clerk |
| 7. Barnes and Noble Online, Inc. | 7. (a) Secretary of State of the State of New York (b) Nassau County Clerk (c) New York County Clerk (d) Secretary of State of the State of New Jersey (e) Bergen County Clerk |

EXHIBIT D

[Form of Opinion of Special New York Counsel
to Chase, CIBC and ING]

November __, 1997

To: The Lenders party to the
Credit Agreement referred to
below and The Chase Manhattan Bank
as Administrative Agent

Re: Barnes & Noble, Inc.

Ladies and Gentlemen:

We have acted as special New York counsel to The Chase Manhattan
Bank, CIBC Inc. and ING (U.S.) Capital Corporation in connection with
the Amended and Restated Credit Agreement dated as of November __, 1997

(the "Amended and Restated Credit Agreement") between Barnes & Noble, Inc. (the "Company"), the Subsidiaries of the Company identified on the signature pages thereof under the caption "SUBSIDIARY GUARANTORS" (the "Subsidiary Guarantors"), the Lenders identified in the Amended and Restated Credit Agreement (the "Lenders") and The Chase Manhattan Bank, as Administrative Agent. All capitalized terms defined in the Amended and Restated Credit Agreement are used with the same meanings, unless otherwise defined, in this opinion letter.

In rendering the opinions expressed below, we have examined (a) the Amended and Restated Credit Agreement, the Note, the Security Agreement and the Security Agreement Amendment (collectively, the "Loan Documents") and (b) such corporate records of the Obligor and such other documents as we have deemed necessary as a basis for the opinions expressed below. In our examination, we have assumed the genuineness of all signatures, the authenticity of documents submitted to us as originals and the conformity with authentic original documents of all documents submitted to us as copies. When relevant facts were not independently established, we have relied upon statements of governmental officials and upon representations made in or pursuant to the Loan Documents and certificates of appropriate representatives of the Obligor.

In rendering the opinions expressed below, we have assumed that all of the documents referred to in this opinion have been duly authorized by, have been or (in the case of the Notes) will be duly executed and delivered by, and (except, to the extent set forth below, as to the Obligor) constitute legal, valid, binding and enforceable obligations of, all of the parties to such documents, that all signatories to such documents have been duly authorized and that all such parties are duly organized and validly existing and have the power and authority (corporate or other) to execute, deliver and perform such documents.

Based upon and subject to the foregoing and subject also to the comments and qualifications set forth below, and having considered such questions of law as we have deemed necessary as a basis for the opinions expressed below, we are of the opinion that:

1. The Amended and Restated Credit Agreement constitutes, and the Notes when duly executed and delivered for value will constitute, the legal, valid and binding obligations of the Company, enforceable against it in accordance with their respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting the rights of creditors generally and except as the enforceability of such Loan Documents is subject to the application of general principles of equity (regardless of

whether considered in a proceeding in equity or at law), including without limitation (a) the possible unavailability of specific performance, injunctive relief or any other equitable remedy and (b) concepts of materiality, reasonableness, good faith and fair dealing.

2. The Amended and Restated Credit Agreement constitutes the legal, valid and binding obligation of each Subsidiary Guarantor, enforceable against it in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting the rights of creditors generally and except as the enforceability of the Amended and Restated Credit Agreement is subject to the application of general principles of equity (regardless of whether considered in a proceeding in equity or at law), including without limitation (a) the possible unavailability of specific performance, injunctive relief or any other equitable remedy and (b) concepts of materiality, reasonableness, good faith and fair dealing.

3. The Security Agreement and the Security Agreement Amendment constitute the legal, valid and binding obligation of each Obligor, enforceable against it in accordance with its terms, except (a) as may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting the rights of creditors generally, (b) as the enforceability of the Security Agreement and the Security Agreement Amendment is subject to the application of general principles

of equity (regardless of whether considered in a proceeding in equity or at law), including without limitation (1) the possible unavailability of specific performance, injunctive relief or any other equitable remedy and (2) concepts of materiality, reasonableness, good faith and fair dealing and (c) that the enforceability of the obligations of the Obligors under the Security Agreement and the Security Agreement Amendment may be subject to possible limitations upon the exercise of remedial or procedural provisions contained in the Security Agreement (as amended by the Security Agreement Amendment), provided that (subject to clauses (a) and (b) above) such limitations do not, in our opinion, make the remedies and procedures afforded to the Administrative Agent and the Lenders

inadequate for the practical realization of the substantive benefits purported to be provided to the Administrative Agent and the Lenders by the Security Agreement and the Security Agreement Amendment.

The foregoing opinions are also subject to the following comments and qualifications:

(a) The enforceability of Section 12.03 of the Amended and Restated Credit Agreement may be limited by laws rendering unenforceable indemnification contrary to Federal or state securities laws and the public policy underlying such laws.

(b) The enforceability of provisions in the Loan Documents to the effect that terms may not be waived or modified except in writing may be limited under certain circumstances.

(c) We express no opinion as to (i) the effect of the laws of any jurisdiction in which any Lender is located (other than the State of New York) that limits the interest, fees or other charges it may impose, (ii) Section 4.07(c) of the Amended and Restated Credit Agreement or the last sentence of Section 2.02(b), (iii) the second sentence of Section 12.10 of the Amended and Restated Credit Agreement insofar as such sentence relates to the subject matter jurisdiction of the United States District Court for the Southern District of New York to adjudicate any controversy related to the Loan Documents and (iv) the waiver of inconvenient forum set forth in Section 12.10 of the Amended and Restated Credit Agreement with respect to proceedings in the United States District Court for the Southern District of New York.

(d) We express no opinion as to the applicability to the obligations of the Subsidiary Guarantors (or the enforceability of such obligations) of Section 548 of the Bankruptcy Code or Article 10 of the New York Debtor and Creditor Law, or any other provision of law, relating to fraudulent conveyances, transfers or obligations. Nevertheless, we have assumed, without independent verification, that you have made or caused to be made such valuations and projections as you have deemed necessary to demonstrate and satisfy yourselves that, after giving effect to the respective guarantee, each Subsidiary Guarantor will not (i) be insolvent, (ii) have liabilities (including contingent, unmatured and subordinated liabilities) that are beyond its ability to pay as such liabilities mature or (iii) have an unreasonably small capital with which to conduct its business.

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The foregoing opinions are limited to matters involving the federal laws of the United States of America and the laws of the State of New York, and we do not express any opinion as to the laws of any other jurisdiction.

This opinion letter is provided to you by us pursuant to Section 7.01(d) of the Amended and Restated Credit Agreement and may not be relied upon by any other person or for any purpose other than in connection with the transactions contemplated by the Loan Documents without our prior written consent in each instance.

Very truly yours,

EXHIBIT E

[Form of Compliance Certificate]

QUARTERLY REPORT

Re: Amended and Restated Credit Agreement dated as of November __, 1997 (as modified and supplemented and in effect from time to time, the "Amended and Restated Credit Agreement") between Barnes & Noble, Inc., the Subsidiary Guarantors party thereto, certain lenders and The Chase Manhattan Bank , as Administrative Agent for said lenders

This Certificate is delivered pursuant to paragraph (b) (ii) of Section 9.01 of the above-referenced Amended and Restated Credit Agreement and has been prepared in accordance with the terms and provisions of said Amended and Restated Credit Agreement. Terms used herein and defined in the Amended and Restated Credit Agreement shall have their respective defined meanings when used herein. Section references used in Annex A hereto refer to sections of the Amended and Restated Credit Agreement. Entries on Annex A hereto shall relate to the fiscal periods referred to in the Amended and Restated Credit Agreement for determination thereof and represent descriptive references only to the corresponding components set forth in the relevant sections of the Amended and Restated Credit Agreement (and the definitions therein ancillary thereto). This Certificate relates to the fiscal period of the Company ending _____.

The Company hereby certifies that the information contained on Annex A hereto is true and correct in all material respects and that no Default has occurred and is continuing.

BARNES & NOBLE, INC.

By _____
Title:

Date: _____

Annex A
to QUARTERLY
REPORT

QUARTERLY REPORT

For the period ending _____

Section 9.07(h). Purchase Money Debt.

- (a) Outstanding amount of purchase money debt at period-end date: _____
- (b) maximum permitted amount: \$40,000,000

Section 9.07(i) Unsecured Debt.

- (a) Outstanding amount of additional unsecured debt at period-end date: _____
- (b) maximum permitted amount: \$100,000,000

Section 9.08(j) Additional Equity Investments.

- (a) Equity Investments in Unrestricted Subsidiaries made fiscal year-to-date: _____
- (b) maximum permitted amount: _____

Section 9.10(a). Fixed Charge Ratio.

- (a) EBITDA for the period of four consecutive fiscal quarters ending on or most recently ended prior to period-end date:

Earnings before Income Taxes _____
 Consolidated Company
 Adjustments, primarily
 investments _____
 Gross Interest Expense _____

-1-

Net Interest Expense _____

Interest Income _____

Deferred Fees _____

Other non cash charges _____

Proceeds from Exercise
 of Employee Stock Options _____

Depreciation and Amortization _____

Deferred Fee Amortization _____

EBITDA _____

- (b) Debt Service for such period:

Interest Expense _____

Capital Expenditures _____

Investments _____

Debt Service _____

- (c) aggregate amount (without duplication) of Investments in Affiliates for such period that either (x) consist of equity interests or (y) constitute acquisitions of the capital stock or assets of other companies: _____

- (d) Equity Financed Investments and Capital Expenditures (up to \$25,000,000) _____

- (e) sum of (b) plus (c) minus (d): _____

- (f) Fixed Charge Ratio equals (a) divided by (d): _____
- (g) minimum permitted ratio: _____

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Section 9.10(b). Interest Coverage Ratio.

- (a) EBITDAR for the period of four consecutive fiscal quarters ending on or most recently ended prior to period-end date:
 - EBITDA _____
 - Rents _____
 - EBITDAR _____
- (b) Interest Expense for such period: _____
- (c) Rental Payments for such period (to the extent not included in Interest Expense) for such period _____
- (d) sum of (b) plus (c): _____
- (e) Interest Coverage Ratio equals (a) divided by (d): _____
- (f) minimum permitted ratio: _____

Section 9.10(c). Leverage.

- (a) Funded Debt:
 - Subordinated Debentures _____
 - Senior Facilities _____
 - LOC's _____
 - Other _____
 - Funded Debt _____
- (b) EBITDA for the period of four consecutive fiscal quarters ending on or most recently

-3-

- ended prior to period-end date: _____
- (c) Leverage Ratio equals (a) divided by (b): _____
- (d) maximum permitted ratio: _____

Section 9.11(a). Capital Expenditures.

- (a) Capital Expenditures made to date in this Fiscal Year: _____

(b) maximum permitted amount: _____

Section 9.11(b) . Specified Capital Expenditures.

(a) Expenditures with respect
to Projects not yet flipped: _____

(b) maximum permitted amount: \$50,000,000

AMENDMENT TO PLEDGE AND SECURITY AGREEMENT

AMENDMENT TO PLEDGE AND SECURITY AGREEMENT, dated as of November 18, 1997, between BARNES & NOBLE, INC., a corporation duly organized and validly existing under the laws of the State of Delaware (the "Company"); each of the Subsidiaries of the Company identified under the caption "SUBSIDIARY GUARANTORS" on the signature pages hereof (individually, a "Subsidiary Guarantor" and, collectively, the "Subsidiary Guarantors" and, together with the Company, the "Obligors"); and THE CHASE MANHATTAN BANK, as agent for the lenders or other financial institutions or entities party, as lenders, to the Credit Agreement referred to below (in such capacity, together with its successors in such capacity, the "Administrative Agent").

The Company, the Subsidiary Guarantors, certain lenders and the Administrative Agent are parties to a Amended and Restated Credit Agreement dated as of November 18, 1997 (as modified and supplemented and in effect from time to time, the "Amended and Restated Credit Agreement"), providing, subject to the terms and conditions thereof, for extensions of credit (by making of loans and issuing letters of credit) to be made by said lenders to the Company in an aggregate principal or face amount not exceeding \$850,000,000 (as that amount may be increased as provided therein). The Obligors and the Agent wish to amend the Security Agreement referred to in the Amended and Restated Credit Agreement in certain respects and, accordingly, agree as follows:

Section 2. Definitions. Except as otherwise defined in this Amendment, terms defined in the Amended and Restated Credit Agreement are used herein as defined therein.

Section 3. Amendments. Subject to the satisfaction of the conditions precedent specified in Section 3 below, but effective as of the date hereof the Security Agreement shall be amended as follows:

a. Amount of Credit Agreement. The second paragraph of the Security Agreement is amended by replacing the reference to "\$550,000,000" with a reference to "\$850,000,000."

b. Name Change. The Administrative Agent has changed its name from The Chase Manhattan Bank (National Association) to The Chase Manhattan Bank and each reference in the Security Agreement to The Chase Manhattan Bank (National Association) shall be deemed to be a reference to The Chase Manhattan Bank.

c. Annex 1. Annex 1 to the Security Agreement shall be amended in its entirety to read as Annex 1 hereto.

d. Annex 2. Annex 2 to the Security Agreement shall be amended in its entirety to read as Annex 2 hereto.

e. Annex 3. Annex 3 to the Security Agreement shall be amended in its entirety to read as Annex 3 hereto.

f. Annex 4. Annex 4 to the Security Agreement shall be amended in its entirety to read as Annex 4 hereto.

g. Annex 5. Annex 4 to the Security Agreement shall be amended in its entirety to read as Annex 5 hereto.

h. Amendment and Restatement of Credit Agreement. Each reference in the Security Agreement to the Credit Agreement shall be deemed to be a reference to the Amended and Restated Credit Agreement.

Section 4. Conditions Precedent. As provided in Section 2 above, the amendments set forth in Section 2 shall become effective, as of the date hereof, upon the due execution and delivery of this Amendment by the

Obligors and the Agent.

Section 5. Miscellaneous. Except as herein provided, the Security Agreement shall remain unchanged and in full force and effect. This Amendment may be executed in any number of counterparts, all of which taken together shall constitute one and the same amandatory instrument and any of the parties hereto may execute this Amendment by signing any such counterpart. This Amendment shall be governed by, and construed in accordance with, the internal laws of the State of New York.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered as of the day and year first above written.

BARNES & NOBLE, INC.

By _____
Title:

SUBSIDIARY GUARANTORS

B. DALTON BOOKSELLER, INC.

By _____
Title:

BARNES & NOBLE BOOKSELLERS, INC.

By _____
Title:

BARNESANDNOBLE.COM, INC.

By _____
Title:

MARBORO BOOKS CORP.

By _____
Title:

DOUBLEDAY BOOK SHOPS, INC.

By _____
Title:

CCI HOLDINGS, INC.

By _____
Title:

By _____
Title:

Exhibit 10.3

ANNEX 1

PLEDGED STOCK

BARNES & NOBLE, INC.

| Issuer ----- | Certificate Nos. ----- | Registered Owner ----- | Number of Shares ----- |
|-------------------------------------|------------------------------|------------------------------|--|
| B. Dalton Bookseller, Inc. | C-1 | Barnes & Noble, Inc. | 360 shares of common stock, par value \$100 |
| Barnes & Noble Superstores, Inc. | 1 | Barnes & Noble, Inc. | 100 shares of common stock, par value \$1 |
| Marboro Books Corp. | 4 | Barnes & Noble, Inc. | 10 shares of common stock, no par value |
| CCI Holdings, Inc. | 1 | Barnes & Noble, Inc. | 3,000 shares of common stock, par value \$1 |

B. DALTON BOOKSELLER, INC.

| | | | |
|-------------------------------|---|----------------------------------|--|
| Doubleday Book Shops, Inc. | 5 | B. Dalton Bookseller, Inc. | 1,000 shares of common stock, par value \$1 |
|-------------------------------|---|----------------------------------|--|

BARNES & NOBLE SUPERSTORES, INC.

None

MARBORO BOOKS CORP.

None

DOUBLEDAY BOOK SHOPS, INC.

None

CCI HOLDINGS, INC.

None

LIST OF PATENTS AND PATENT APPLICATIONS

BARNES & NOBLE, INC.

| File | Patent | Country | Registration No. | Date |
|------|--------|---------|------------------|------|
|------|--------|---------|------------------|------|

NONE

B. DALTON BOOKSELLER, INC.

| File | Patent | Country | Registration No. | Date |
|------|--------|---------|------------------|------|
|------|--------|---------|------------------|------|

NONE

BARNES & NOBLE SUPERSTORES, INC.

| File | Patent | Country | Registration No. | Date |
|------|--------|---------|------------------|------|
|------|--------|---------|------------------|------|

NONE

MARBORO BOOKS CORP.

| File | Patent | Country | Registration No. | Date |
|------|--------|---------|------------------|------|
|------|--------|---------|------------------|------|

NONE

DOUBLEDAY BOOK SHOPS, INC.

| File | Patent | Country | Registration No. | Date |
|------|--------|---------|------------------|------|
|------|--------|---------|------------------|------|

NONE

CCI HOLDINGS, INC.

| File | Patent | Country | Registration No. | Date |
|------|--------|---------|------------------|------|
|------|--------|---------|------------------|------|

NONE

TRADEMARK AND SERVICE MARK REGISTRATIONS AND
APPLICATIONS FOR TRADEMARK AND SERVICE MARK REGISTRATIONS

A. U.S. Trademarks

BARNES & NOBLE, INC.

| Mark | Application (A) Registration (R) or Series No. (S) | Registration or Filing Date |
|-------|--|--------------------------------|
| ----- | | |
| None | | |

B. DALTON BOOKSELLER, INC.

| Mark | Application (A) Registration (R) or Series No. (S) | Registration or Filing Date |
|-----------------------------|--|--------------------------------|
| ----- | | |
| Books Dalton (Design) | 1,643,985 (R) | 05-07-91 |
| Books Dalton | 1,667,902 (R) | 12-10-91 |
| B. Dalton Jr. | 1,684,036 (R) | 04-21-92 |
| B. Dalton Jr. (Design) | 1,667,039 (R) | 12-03-91 |
| The Wordpublisher (Design) | 1,607,811 (R) | 07-24-90 |
| Book\$avers | 1,597,933 (R) | 05-22-90 |
| P.B. Pages | 1,814,553 (R) | 12-28-93 |
| B. Dalton's | 1,293,494 (R) | 09-04-84 |
| Barnes & Noble Jr. (Design) | 1,609,403 (R) | 08-07-90 |
| Barnes & Noble Jr. | 1,606,005 (R) | 07-10-90 |
| B. Dalton Bookseller | 846,824 (R) | 03-26-68 |
| B. Dalton | 1,158,498 (R) | 06-23-81 |
| Hooked on Books | 1,147,660 (R) | 02-24-81 |

Exhibit 10.3

| | | |
|---|---------------|----------|
| People Who Know Books Know B. Dalton | 1,306,552 (R) | 11-20-84 |
| Amaranth Press | 1,404,928 (R) | 08-12-86 |
| Reader's Express | 1,646,374 (R) | 05-28-91 |
| Pickwick | 1,047,832 (R) | 09-07-86 |
| Lamp of Learning (Design) | 1,607,811 (R) | 07-24-90 |

BARNES & NOBLE SUPERSTORES, INC.

| Mark | Application (A) Registration (R) or Series No. (S) | Registration or Filing Date |
|-------------------|--|--------------------------------|
| Bookstar (Design) | 1,558,604 (R) | 09-26-89 |

MARBORO BOOKS CORP.

| Mark | Application (A) Registration (R) or Series No. (S) | Registration or Filing Date |
|------|--|--------------------------------|
|------|--|--------------------------------|

None

CCI HOLDINGS, INC.

| Mark | Application (A) Registration (R) or Series No. (S) | Registration or Filing Date |
|------|--|--------------------------------|
|------|--|--------------------------------|

None

DOUBLEDAY BOOK SHOPS, INC.

| Mark | Application (A) Registration (R) or Series No. (S) | Registration or Filing Date |
|------|--|--------------------------------|
|------|--|--------------------------------|

| | | |
|--|---------------------|----------|
| The Old Corner Bookstore | (Mass.) 0025314 (R) | 12-11-94 |
| Books of All Publishers Since 1910 (and Design) | 1,516,823 (R) | 12-13-88 |

Exhibit 10.3

B. U.S. Tradenames

Barnes & Noble
Marboro Books
Bookstop

Exhibit 10.3

Foreign Trademarks

BARNES & NOBLE, INC.

| Mark | Application (A) Registration (R) | Country | Registration or Filing Date (F) |
|------|-------------------------------------|---------|------------------------------------|
|------|-------------------------------------|---------|------------------------------------|

NONE

B. DALTON BOOKSELLER, INC.

| Mark | Application (A) Registration (R) | Country | Registration or Filing Date (F) |
|------|-------------------------------------|---------|------------------------------------|
|------|-------------------------------------|---------|------------------------------------|

NONE

BARNES & NOBLE SUPERSTORES, INC.

| Mark | Application (A) Registration (R) | Country | Registration or Filing Date (F) |
|------|-------------------------------------|---------|------------------------------------|
|------|-------------------------------------|---------|------------------------------------|

NONE

MARBORO BOOKS CORP.

| Mark | Application (A) Registration (R) | Country | Registration or Filing Date (F) |
|------|-------------------------------------|---------|------------------------------------|
|------|-------------------------------------|---------|------------------------------------|

NONE

DOUBLEDAY BOOK SHOPS, INC.

| Mark | Application (A) Registration (R) | Country | Registration or Filing Date (F) |
|------|-------------------------------------|---------|------------------------------------|
|------|-------------------------------------|---------|------------------------------------|

NONE

CCI HOLDINGS, INC.

| Mark | Application (A) Registration (R) | Country | Registration or Filing Date (F) |
|------|-------------------------------------|---------|------------------------------------|
|------|-------------------------------------|---------|------------------------------------|

NONE

LIST OF CONTRACTS, LICENSES AND OTHER AGREEMENTS
RELATING TO INTELLECTUAL PROPERTY

BARNES & NOBLE, INC.

License Agreement dated as of February 11, 1989 between Barnes & Noble College Bookstores, Inc. and Barnes & Noble Discount Bookstores, Inc. (a predecessor of B. Dalton Bookseller, Inc.)

B. DALTON BOOKSELLER, INC.

- - - - -

Letter Agreement dated as of February 21, 1989 from Scribner's Book Companies, Inc. and MacMillan, Inc. to B. Dalton Bookseller, Inc.

BARNES & NOBLE SUPERSTORES, INC.

- - - - -

NONE

MARBORO BOOKS CORP.

- - - - -

NONE

DOUBLEDAY BOOK SHOPS, INC.

- - - - -

Trade Mark and Service Mark License dated as of May 31, 1990 between Bantam Doubleday Dell Publishing Group, Inc. and Doubleday Book Shops, Inc.

CCI HOLDINGS, INC.

- - - - -

NONE

LIST OF LOCATIONS

BARNES & NOBLE, INC.

- - - - -

- 1. 122 Fifth Avenue
New York, NY 10011
- 2. 1400 Old Country Road
Westbury, New York 11590

BARNES & NOBLE SUPERSTORES, INC.

- - - - -

- 1. 122 Fifth Avenue
New York, NY 10011
- 2. 1400 Old Country Road
Westbury, New York 11590

MARBORO BOOKS CORP.

- - - - -

- 1. 122 Fifth Avenue
New York, NY 10011
- 2. 1400 Old Country Road
Westbury, New York 11590

B. DALTON BOOKSELLER, INC.

- - - - -

- 1. 122 Fifth Avenue
New York, NY 10011
- 2. 1400 Old Country Road
Westbury, NY 11590

3. Center Point Industrial Park
12 South Middlesex Avenue
Cranbury, NJ 08512

4. 21 South Middlesex Avenue
Cranbury, NJ 08512

5. 40 Commerce Drive
South Brunswick, NJ 08846

CCI HOLDINGS, INC.

- - - - -

- 1. 122 Fifth Avenue
New York, NY 10011
- 2. 1400 Old Country Road
Westbury, NY 11590

3. One Pond Road
Rockleigh, NJ 07647

3. 11600 Manchaca Road
Austin, TX 78748

DOUBLEDAY BOOK SHOPS, INC.

1. 122 Fifth Avenue
New York, NY 10011

2. 1400 Old Country Road
Westbury, New York 11590

BARNES & NOBLE, INC.
EMPLOYEES' RETIREMENT PLAN

Effective as of January 1, 1987
Amended and Restated as of January 1, 1998

BARNES & NOBLE, INC.
EMPLOYEES' RETIREMENT PLAN

INTRODUCTION

B. Dalton Bookseller, Inc., prior to 1987 a wholly-owned subsidiary of Dayton-Hudson Corporation, established the B. Dalton Company Employees' Retirement Plan as of January 1, 1987 ("B. Dalton Plan"). Effective January 1, 1992, the Pension Plan for Employees of Doubleday Book Shops, Inc. was merged into the B. Dalton Plan.

As of January 1, 1994, sponsorship of the B. Dalton Plan was transferred from B. Dalton Bookseller, Inc. to Barnes & Noble, Inc.. The B. Dalton Plan was amended and restated in its entirety and renamed the Barnes & Noble, Inc. Employees' Retirement Plan effective as of January 1, 1994 ("Plan").

This amendment and restatement of the Plan is effective as of January 1, 1998 and incorporates the provisions of the Retirement Protection Act of 1994 as part of the General Agreement on Tariffs and Trade.

Except as otherwise herein specified, the rights and benefits of any Participant who retires or whose employment is terminated are determined in accordance with the provisions of the Plan in effect and operative at the time of such retirement or termination.

BARNES & NOBLE, INC.
EMPLOYEES' RETIREMENT PLAN

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BARNES & NOBLE, INC.
EMPLOYEES' RETIREMENT PLAN

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BARNES & NOBLE, INC.
EMPLOYEES' RETIREMENT PLAN

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Exhibit 10.8

BARNES & NOBLE, INC.
EMPLOYEES' RETIREMENT PLAN

ARTICLE 1. DEFINITIONS

- 1.01 "Accrued Benefit" means, as of any date of determination, the normal retirement Pension of a Participant computed under Section 4.01 on the basis of the Participant's Final Average Compensation, the number of years of Credited Service and other applicable components of the Plan formula, as of that date.
- 1.02 "Actuarial Equivalent" means the equivalent value when computed on the basis of the IRS Mortality Table and IRS Interest Rate, except as otherwise specified in the Plan or Appendix A.
- 1.03 "Administrator" means the Company in its role described in Article 7.
- 1.04 "Affiliate" means any company not participating in the Plan which is (i) a member of a controlled group of corporations (as defined in Section 414(b) of the Code) which also includes as a member the Employer; (ii) any trade or business under common control (as defined in Section 414(c) of the Code) with the Employer; (iii) any organization (whether or not incorporated) which is a member of an affiliated service group (as defined in Section 414(m) of the Code) which includes the Employer; or (iv) any other entity required to be aggregated with the Employer pursuant to regulations under Section 414(o) of the Code. Notwithstanding the foregoing sentence, for purposes of Section 4.06, Section 3.01(e) (iii), and Section 3.02(c) (iii), the definitions in Sections 414(b) and (c) of the Code shall be modified as provided in Section 415(h) of the Code.

Page 2

- 1.05 "Annuity Starting Date" means, unless the Plan expressly provides otherwise, the first day of the first period for which an amount is due as an annuity or any other form.
- 1.06 "Beneficiary" means the person or persons named by a Participant by written designation filed with the Administrator to receive payments after the Participant's death.
- 1.07 "Board of Directors" means the Board of Directors of the Company, as from time to time constituted, or any executive committee thereof authorized to act for said Board of Directors.
- 1.08 "Break in Service" means a period which constitutes a break in an Eligible Employee's Years of Vesting Service, as provided in

Section 3.01(c).

1.09 "Certified Earnings" means the basic cash remuneration paid to an Eligible Employee for services rendered to the Employer, determined prior to any pre-tax contributions under a "qualified cash or deferred arrangement" (as defined under Section 401(k) of the Code and its applicable regulations) or under a "cafeteria plan" (as defined under Section 125 of the Code and its applicable regulations), including salary, hourly wages, commissions, overtime pay, and bonus pay, but excluding (a) expense allowances or reimbursements, payments or contributions to or for the benefit of the Participant under this Plan or any other employee benefit plan, deferred compensation payments under any deferred compensation plan, merchandise discounts or benefits in the form or use of property, except to the extent such amounts are required to be included in determining the Eligible Employee's regular rate of pay under the Federal Fair Labor Standards Act for purposes of computing his overtime pay, (b) any bonus paid to the Eligible Employee under a plan or policy of the Employer that is paid in a calendar year other than the

Page 3

calendar year in which such bonus would normally be paid under such plan or policy, or (c) amounts paid by any entity other than the Employer.

However, effective on and after January 1, 1989 and before January 1, 1994, Certified Earnings taken into account for any purpose under the Plan, including the determination of Final Average Compensation, shall not exceed \$200,000 per year. Except as provided below, as of January 1 of each calendar year on and after January 1, 1990 and before January 1, 1994, the applicable limitation as determined by the Commissioner of Internal Revenue for that calendar year shall become effective as the maximum

Certified Earnings to be taken into account for Plan purposes for that calendar year only in lieu of the \$200,000 limitation set forth above. Commencing with the Plan Year beginning in 1994, Certified Earnings taken into account for any purpose under the Plan, including the determination of Final Average Compensation, shall not exceed \$150,000, as adjusted in accordance with Sections 401(a)(17)(B) and 415(d)(1)(A) of the Code.

1.10 "Code" means the Internal Revenue Code of 1986, as amended from time to time.

1.11 "Company" means prior to January 1, 1994, B. Dalton Bookseller, Inc., and thereafter, Barnes & Noble, Inc. and any successor thereof by merger, purchase, or otherwise.

1.12 "Covered Compensation" means, for any Participant, the average, rounded to the nearest \$3,000, of the taxable wage bases in effect under Section 230 of the Social Security Act for each year in the 35-year period ending with the calendar year in which the Participant attains (or will attain) his Social Security Retirement Age. In determining a Participant's Covered Compensation for any Plan Year, the taxable wage base for the current Plan Year and any subsequent Plan Year

Page 4

shall be assumed to be the same as the taxable wage base in effect as of the beginning of the Plan Year for which the determination is made.

1.13 "Credited Service" means service recognized for purposes of computing the amount of any benefit, determined as provided in Section 3.02.

1.14 "Effective Date" means January 1, 1987.

1.15 "Eligible Employee" means any Employee who receives from an

Employer compensation other than a pension, severance pay, retainer or fee under contract, but excluding any individual classified by the Employer as a Leased Employee or independent contractor, regardless of their classification by the Internal Revenue Service for tax withholding purposes, any person who is included in a unit of Employees covered by a collective bargaining agreement which does not provide for his membership in the Plan, any non-resident alien with no U.S.-source income (as described in Code Section 861(a)(3)), and any Employee whose services are performed outside the continental United States (including Alaska and Puerto Rico) or Hawaii, or whose base of operations is outside the continental U.S. (including Alaska and Puerto Rico) or Hawaii.

- 1.16 "Employee" means any person who is employed by an Employer.
- 1.17 "Employer" means the Company with respect to its employees; or any other company participating in the Plan as provided in Section 10.03 with respect to its employees.
- 1.18 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

Page 5

- 1.19 "Final Average Compensation" means the average annual Certified Earnings of a Participant during the five consecutive Plan Years in the last ten or fewer Plan Years during which he completes at least 1,000 Hours of Service in each such Plan Year affording the highest such average, or during all of the Plan Years in which he completes 1,000 Hours of Service, if less than five years. The Plan Year in which the Participant first completes an Hour of Service and/or the Plan Year in which he incurs a Termination of Employment shall be included in the determination of Final Average Compensation, even if he completed less than 1,000 Hours of Service in each of such Plan Years, if the inclusion of Certified Earnings in either or both of such Plan Years results in a higher Final Average Compensation, provided that such Plan Years are within the last ten consecutive Plan Years.
- 1.20 "Five Percent Owner" means with respect to a corporation, any person who owns (or is considered as owning within the meaning of Code Section 318) more than 5 percent of the outstanding stock of the corporation or stock possessing more than 5 percent of the total voting power of the corporation.
- 1.21 "Funding Agent" means the trustee or trustees or the legal reserve life insurance company by whom the funds of the Plan are held, as provided in Article 8.
- 1.22 "Highly Compensated Employee" means with respect to a Plan Year commencing on or after January 1, 1997, any employee of the Employer or an Affiliate (whether or not eligible for the Plan) who:

- (a) was a Five Percent Owner for such Plan Year or the prior Plan Year, or

Page 6

- (b) for the preceding Plan Year received Statutory Compensation in excess of \$80,000 (as adjusted by the Secretary of the Treasury from time to time), and, if the Employer so elects, was among the highest 20 percent of employees for the preceding Plan Year when ranked by Statutory Compensation paid for that year excluding, for purposes of determining the number of such employees, such employees as the Administrator may determine on a consistent basis pursuant to Section 414(q) of the Code. For this purpose,

"Statutory Compensation" shall mean the wages, salaries, and other amounts paid in respect of an

employee for services actually rendered to an Employer or an Affiliate and including amounts excluded from the income of an employee pursuant to Sections 125, 402(e)(3), 402(h)(1)(B), and 403(b) of the Code, but excluding deferred compensation, stock options, and other distributions which receive special tax benefits under the Code.

Notwithstanding the foregoing, employees who are nonresident aliens and who receive no earned income from the Employer or an Affiliate which constitutes income from sources within the United States shall be disregarded for all purposes of this Section.

The provisions of this Section shall be further subject to such additional requirements as shall be described in Section 414(q) of the Code and its applicable regulations, which shall override any aspects of this Section inconsistent therewith.

- 1.23 "Hour of Service" means, with respect to any applicable computation period,
- (a) each hour for which the Employee is paid or entitled to payment for the performance of duties for the Employer or an Affiliate,
 - (b) each hour for which an Employee is paid or entitled to payment by the Employer or an Affiliate on account of a period during which no duties are performed, whether or not the
 - (c) employment relationship has terminated, due to vacation, holiday, illness, incapacity (including disability), layoff, jury duty, military duty or leave of absence, but not more than 501 hours for any single continuous period,
 - (d) each hour for which back pay, irrespective of mitigation of damages, is either awarded or agreed to by the Employer or an Affiliate, excluding any hour credited under (a) or (b), which shall be credited to the computation period or periods to which the award, agreement or payment pertains, rather than to the computation period in which the award, agreement or payment is made,
 - (e) solely for purposes of determining whether an Employee has incurred a Break in Service under the Plan, each hour for which an Employee would normally be credited under paragraph (a) or (b) above during a period of Parental Leave but not more than 501 hours for any single continuous period. In the case in which hours cannot be determined, eight hours of service per day of such absence shall be credited. However, the number of hours credited to an Employee under this paragraph (d) during the computation period in which the Parental Leave began, when added to the hours credited to an Employee under paragraphs (a) through (c) above during that computation period, shall not exceed 501. If the number of hours credited under this paragraph (d) for the computation period in which the Parental Leave began is zero, the provisions of this paragraph (d) shall apply as though the Parental Leave began in the immediately following computation period, and
 - (e) solely for purposes of determining whether an Employee has incurred a Break in Service under the Plan, each hour for which an Employee would normally be credited under paragraph (a) or (b) above during a period of leave for the birth, adoption or placement of a child, to care for a spouse or an immediate family member with a serious illness or

for the Employee's own illness pursuant to the Family and Medical Leave Act of 1993 and its regulations.

For purposes of paragraph (b), a payment shall be deemed to be made by or due from an Employer or Affiliate regardless of whether such payment is made by or due from an Employer or Affiliate directly, or indirectly through, among others, a trust fund or insurer to which the Employer or Affiliate contributes or pays premiums, and regardless of whether contributions made or due to the trust fund, insurer or other entity are for the benefit of particular Employees or are on behalf of a group of Employees in the aggregate.

No more than 501 hours shall be credited under paragraph (b) above for the non-performance of duties for any single continuous period (whether or not such period occurs in a single computation period).

No hours shall be credited on account of any period during which the Employee performs no duties and receives payment solely for the purpose of complying with unemployment compensation, workers' compensation or disability insurance laws.

The Hours of Service credited shall be determined as required by Title 29 of the Code of Federal Regulations, Section 2530.200b-2(b) and (c). In crediting Hours of Service hereunder, each Employee for whom the Employer or Affiliate does not maintain hourly work records and who completes at least one Hour of Service (pursuant to paragraphs (a), (b), or (c) above)

during any week shall be credited with 45 Hours of Service for such week. For each other Employee, Hours of Service shall be credited based on the number of hours actually worked.

- 1.24 "IRS Interest Rate" means the annual rate of interest on 30-year Treasury Securities as published by the Commissioner in the calendar month preceding the applicable Stability Period.
- 1.25 "IRS Mortality Table" means the mortality table prescribed by the Secretary of the Treasury under Section 417(e) (3) (A) (ii) (I) of the Code as in effect on the first day of the applicable Stability Period.
- 1.26 "Leased Employee" means any person as so defined in Section 414(n) of the Code.
- 1.27 "Limitation Year" means the calendar year.
- 1.28 "Normal Retirement Age" means an Eligible Employee's 65th birthday or the fifth anniversary of the date he becomes a Participant, if later.
- 1.29 "Normal Retirement Date" means the last day of the calendar month in which an Eligible Employee reaches his Normal Retirement Age.
- 1.30 "Parental Leave" means a period in which the Eligible Employee is absent from work immediately following his or her active employment because of the Eligible Employee's pregnancy, the birth of the Eligible Employee's child, the placement of a child with the Eligible Employee in connection with the adoption of that child by the Eligible Employee, or for purposes of caring for that child for a period beginning immediately following birth or placement.
- 1.31 "Participant" means any person included in the membership of the Plan, as provided in Article 2.

- 1.32 "Pension" means annual payments under the Plan as provided in Article 5.
- 1.33 "Plan" means the Barnes & Noble, Inc. Employees' Retirement Plan, as set forth in this document or as amended from time to time.
- 1.34 "Plan Year" means the calendar year.
- 1.35 "Protected Benefit" means, as of any date of determination, the Accrued Benefit of a Participant and
- (a) any right of the Participant under the terms of the Plan as of such date to have such Accrued Benefit commence on a date other than the Normal Retirement Date,
 - (b) any right of the Participant under the terms of the Plan as of such date to have such Accrued Benefit payable in an optional form of payment, and
 - (c) the methodology under the terms of the Plan as of such date for determining the amount of benefit payable as a result of the exercise of any right of the Participant expressed in paragraph (a) or (b) above.

For the sole purposes of paragraph (c) above, any provision of the Plan that requires payment of a Participant's Pension in a form other than that described in Section 5.01(a) shall be considered to be the exercise of a right by the Participant therefor.

- 1.36 "Qualified Joint and Survivor Annuity" means an annuity described in Section 5.01(b).
- 1.37 "Social Security Retirement Age" means age 65 with respect to a Participant who was born before January 1, 1938; age 66 with respect to a Participant who was born after December 31,

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1937 and before January 1, 1955; and age 67 with respect to a Participant who was born after December 31, 1954.

- 1.38 "Spousal Consent" means the irrevocable, written consent given by a Participant's spouse to an election made by the Participant of a specified form of Pension, a designation of a specified Beneficiary as provided in Article 5, or the waiver of the spouse's benefit payable under Section 4.05. The specified form or specified Beneficiary shall not be changed unless further Spousal Consent is given, unless the spouse expressly waives the right to consent to any future changes. Spousal Consent shall be duly witnessed by a notary public and shall acknowledge the effect on the spouse of the Participant's election. The requirement for Spousal Consent may be waived by the Administrator in the event that the Participant establishes to its satisfaction that he has no spouse, that such spouse cannot be located, that a legal separation has occurred or under such other circumstances as may be permitted under applicable Treasury Department regulations. Spousal Consent shall be applicable only to the particular spouse who provides such consent.
- 1.39 "Stability Period" means the Plan Year in which occurs the Annuity Starting Date for the distribution.
- 1.40 "Suspendible Month" means a month in which the Participant completes at least 40 Hours of Service with the Employer or an Affiliate.

1.41 "Termination of Employment" means the date the Employee's employment with the Employer and all Affiliates ceases, as determined by the Employer, due to his resignation, discharge, retirement, death, failure to return to active service at the end of an authorized leave of absence or the authorized extension(s) thereof, failure to return to service when duly called following a

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temporary layoff, or the occurrence of any event or circumstance under the policy of the Employer or Affiliate, or predecessor employer, in effect from time to time that results in the termination of the Employer/Employee relationship; provided, however, that a Termination of Employment shall not be deemed to have occurred while an Employee, prior to his Normal Retirement Date, is receiving, or fulfilling a six-month waiting period to be eligible to receive, payments under a long-term disability plan of the Employer (assuming the Employee makes timely application therefor).

1.42 "Trustee" means the trustee or trustees in the separate trust forming part of this Plan and any additional or successor Trustees as may be appointed by the Company pursuant to Article 8.

1.43 "Trust Fund" means the aggregate of assets described in Article 8.

1.44 "Year of Eligibility Service" means the period of service recognized for purposes of determining eligibility for membership in the Plan, determined as provided in Section 2.02.

1.45 "Years of Vesting Service" means the period of service recognized for purposes of determining eligibility for a vested Pension under the Plan, determined as provided in Section 3.01.

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ARTICLE 2. PARTICIPATION

2.01 Participation Requirements

Every person who was a Participant in the Plan on December 31, 1997 shall continue to be a Participant on January 1, 1998. Every other Employee shall become a Participant in the Plan as of the first day of the calendar month coinciding with or immediately following (a) the date he completes one Year of Eligibility Service or (b) his 21st birthday, whichever is later, provided he is then an Eligible Employee.

2.02 Determination of Eligibility Service

Solely for purposes of this Article, a Year of Eligibility Service shall be the 12-month period beginning on the date an Eligible Employee first completes an Hour of Service upon hire or rehire, or any Plan Year beginning after that date, in which he completes at least 1,000 Hours of Service. In the event an Eligible Employee incurs a Break in Service prior to his completing one Year of Eligibility Service, upon his reemployment, he shall be credited with one Year of Eligibility Service for the 12-month period beginning on the date he first completes an Hour of Service after he incurs a Break in Service or any Plan Year beginning after that date, in which he completes at least 1,000 Hours of Service.

2.03 Events Affecting Participation

A person's participation in the Plan shall end when he is no longer employed by the Employer or an Affiliate if he is not entitled to either an immediate or a deferred Pension under the

Plan. Participation shall continue while on approved leave of absence from service or during a period while he is not an Eligible Employee but is in the employ of the Employer or an Affiliate, but no Years of Vesting Service or Credited Service shall be counted for that period, except as

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specifically provided in Article 3 and Section 4.07, and such person's benefit shall be determined in accordance with the provisions of the Plan in effect on the date he ceased to be an Eligible Employee.

2.04 Participation upon Reemployment

If an Eligible Employee's participation in the Plan ends and he again becomes an Eligible Employee, he shall be considered a new Eligible Employee for all purposes of the Plan, except as provided in Section 3.03.

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ARTICLE 3. SERVICE

3.01 Years of Vesting Service

- (a) A Plan Year in which an Eligible Employee completes at least 1,000 Hours of Service counts as a full Year of Vesting Service. Except as provided below, no Years of Vesting Service is counted for any Plan Year in which an Eligible Employee completes less than 1,000 Hours of Service, except that the Plan Year during which he first completed an Hour of Service and the Plan Year containing his Termination of Employment shall be aggregated for the purpose of determining if the Eligible Employee shall be credited with an additional Year of Vesting Service, provided the Eligible Employee works at an annualized rate of 1,000 Hours of Service in the Plan Year in which his Termination of Employment occurs.
- (b) Service rendered prior to January 1, 1989 shall be recognized for vesting purposes to the extent that such service was recognized for such purpose under the terms of the Plan as in effect prior to such date.
- (c) An Eligible Employee shall incur a one-year Break in Service for any Plan Year after the year in which an Eligible Employee first becomes employed during which he does not complete more than 500 Hours of Service. If an Eligible Employee who has not completed the vesting requirements for a vested Pension has a Break in Service in which the number of consecutive one-year Breaks in Service equals or exceeds five, the service rendered before his most recent Break in Service shall be excluded from his Years of Vesting Service. If an Eligible Employee terminates his employment with the Employer and all Affiliates and is reemployed after having a Break in Service, his service before the Break in Service shall be excluded from his Years of Vesting Service, except as provided in Section 3.03. A period during which an Eligible

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Employee is on a leave of absence approved by the Employer or on temporary layoff shall not be considered as a Break in Service, provided he returns to work at the end of an approved leave of absence or upon recall when notified after a temporary layoff.

- (d) If an Eligible Employee shall have been absent from the service

of the Employer because of service in the Armed Forces of the United States and if he shall have returned to the service of the Employer having applied to return while his reemployment rights were protected by law, that absence shall not count as a Break in Service, but instead shall be counted as Years of

Vesting Service.

(e) Each of the following periods of service shall be counted in a person's Years of Vesting Service to the extent that it would be recognized under paragraphs (a) through (c) above with respect to Eligible Employees:

- (i) a period of service as an Employee, but not an Eligible Employee, of the Employer,
- (ii) a period of service as an employee of an Affiliate (excluding any period of service prior to the date the entity became an Affiliate, unless otherwise provided by the Board of Directors), and
- (iii) in the case of a person who is a Leased Employee before or after a period of service as an Eligible Employee or a period of service described in (i) or (ii) above, a period during which he has performed services for the Employer or an Affiliate as a Leased Employee.

The Break in Service rules of Sections 3.01 and 3.03 shall be applied as though all such periods of service were service as an Eligible Employee.

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(f) Notwithstanding any provision of this Section 3.01 to the contrary, all Years of Vesting Service calculations for an Eligible Employee hired prior to January 1, 1976 shall be made using the elapsed time method described in IRS Regulation Section 1.410(a)-7T. Service with regard to an individual hired prior to January 1, 1976 shall begin on the date the Eligible Employee first completes an Hour of Service and ends on the Eligible Employee's severance date. For purposes of this Section 3.01(f), "severance date" means the earlier of (i) the date an Eligible Employee quits, retires, is discharged or dies or (ii) the first anniversary of the date on which an Eligible Employee is first absent from service, with or without pay, for any other reason such as vacation, sickness, disability, layoff or leave of absence. If the employment of an Eligible Employee hired prior to January 1, 1976 is terminated and he is later reemployed within one year, the period between his severance date and the date of his reemployment shall be included in his Years of Vesting Service. However, if his employment is terminated during a period of absence from service for reasons such as vacation, sickness, disability, layoff or leave of absence approved by the Employer, service shall be counted for the period from his severance date to the date of his reemployment only if he is reemployed within one year of

the first day of that absence. For purposes of this Section 3.01(f), a Break in Service shall occur if an Eligible Employee is not reemployed within one year after a severance date; provided, however, that is an Eligible Employee's employment is terminated or if the Eligible Employee is otherwise absent from work because of Parental Leave (as defined in Section 1.30), a Break in Service shall occur only if the Eligible Employee is not reemployed or does not return to active service within two years of his severance date; and provided further that the first year of such absence for Parental Leave, measured from his severance date, shall not be considered in determining the Eligible Employee's "period of Break in Service" for purposes of Section 3.01(c).

3.02 Credited Service

- (a) A full year of Credited Service shall be counted for each Plan Year during which an Eligible Employee completes 1,000 Hours of Service as an Eligible Employee. If an Eligible Employee does not complete 1,000 Hours of Service during the Plan Years in which he first completes an Hour of Service or incurs his Termination of Employment, he shall receive credit for a fractional year equal to the actual number of months worked during such Plan Years, provided that he was working at the rate of 1,000 Hours of Service per Plan Year. For purposes of the preceding sentence, an Eligible Employee shall receive credit for a month of service, provided he has worked 15 or more days during such month.
- (b) Credited Service shall include, to the extent required by law, any period of absence from service with the Employer due to service in the Armed Forces of the United States which is counted in an Eligible Employee's Years of Vesting Service as provided in Section 3.01(d) and which occurs after the date the Employee meets the requirements to be an Eligible Employee.
- (c) Credited Service shall not be credited for any period in which a Participant is (i) not an Eligible Employee but is in the employ of the Employer, or (ii) in the employ of an Affiliate, or (iii) performing services for the Employer or an Affiliate as a Leased Employee.
- (d) Notwithstanding any provision of this Section 3.02 to the contrary, all Credited Service calculations for a Participant employed by the Company prior to January 1, 1976 shall be made using the elapsed time method as described in IRS Regulation Section 1.410(a)-7T. Service with regard to an individual hired prior to January 1, 1976 shall begin on the date the Eligible Employee first completes an Hour of Service and ends on the Eligible Employee's severance date. For purposes of this Section 3.02(d), "severance date" means the earlier of (i) the date an

Eligible Employee quits, retires, is discharged or dies or (ii) the first anniversary of the date on which an Eligible Employee is first absent from service, with or without pay, for any other reason such as vacation, sickness, disability, layoff or leave of absence.

3.03 Restoration of Retired Participant or Other Former Eligible Employee to Service

- (a) If a Participant in receipt of a Pension is restored to service with the Employer as an Eligible Employee, the following shall apply:
- (i) His Pension shall continue through the month in which he completes at least 960 Hours of Service, after which (A) if his restoration to service occurs after his Normal Retirement Date, his Pension shall be suspended during each Suspendible Month (unless the provisions of Sections 4.02(c) and 5.04(b) are applicable), and any optional benefit shall remain in effect, unless the Participant shall elect otherwise; if the Participant had commenced payment prior to his Normal Retirement Date, however, any additional Pension he accrues after his restoration to service shall be paid to his surviving spouse in accordance with the provisions of Section 4.05 if he should die in active service, and (B) if his restoration to service occurs before his Normal Retirement

Date, his Pension shall be suspended during each Suspendible Month (unless the provisions of Sections 4.02(c) and 5.04(b) are applicable), and any election of an optional benefit in effect shall be void.

- (ii) Any Years of Vesting Service and Credited Service to which he was entitled when he retired or terminated service shall be restored to him.
- (iii) Upon later retirement or termination his Pension shall be based on the benefit formula then in effect and his Certified Earnings and Credited Service before and after the period when he was not in the service of the Employer reduced by an amount that is the

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Actuarial Equivalent of the benefits, if any, he received before the earlier of the date of his restoration to service or his Normal Retirement Date.

- (iv) The part of the Participant's Pension upon later retirement payable with respect to Credited Service rendered before his previous Termination of Employment shall never be less than the amount of his previous Pension modified to reflect any option in effect on his later retirement.
- (v) Upon later retirement of a Participant in service after his Normal Retirement Date, payment of the Participant's Pension shall resume no later than the third month after the latest Suspendible Month during the period of restoration, and shall be adjusted, if necessary, in compliance with Title 29 of the Code of Federal Regulations, Section 2530.203-3 in a consistent and nondiscriminatory manner.
- (vi) If a monthly Pension payment is made for a calendar month and it is determined after the Participant's later retirement and subsequent recommencement of benefits that such payment was subject to permanent withholding pursuant to the provisions of this paragraph (a), the amount of such payment shall be applied as an offset against subsequent monthly payments unless the Participant has previously repaid the overpayment. However, the amount of any such offset shall not exceed, in any month after the Participant attains Normal Retirement Age, 25 percent of the monthly total benefit payment that would have been paid but for the offset.
- (vii) The Employer shall notify a Participant of any suspension under subparagraph (i) above. The notice shall conform to the requirements of Section 2530.203-3(b)(4) of the Department of Labor Regulations. The provisions of this Section shall be administered in accordance with Section 2530.203-3 of the Department of Labor Regulations.

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- (b) If a Participant entitled to but not in receipt of a Pension, or a former Participant, or an Eligible Employee who was never a Participant is reemployed without having had a Break in Service, his Years of Vesting Service and Credited Service shall be determined as provided in Sections 3.01 and 3.02, and if reemployed as an Eligible Employee, he shall, in the case of a former Participant, immediately be restored as a Participant as of his date of reemployment, and in the case of an Eligible Employee who was never a Participant, become a Participant in accordance with Section 2.01. However, if a former Participant received a lump sum settlement in lieu of a Pension, the Credited Service to which he was entitled at the time of his termination of service shall be restored to him in accordance with the

provisions of Section 3.03(c) (ii).

- (c) If a Participant entitled to but not in receipt of a Pension or a former Participant who received a lump sum settlement in lieu of a Pension is reemployed after having had a Break in Service, the following shall apply:
- (i) The Years of Vesting Service to which he was previously entitled shall be restored to him, and if reemployed as an Eligible Employee, he shall immediately be restored as a Participant as of his date of reemployment.
 - (ii) Any Credited Service to which the Participant was entitled at the time of his termination of service shall be restored to him, except that if he received a lump sum settlement by the end of the second Plan Year following the Plan Year in which he incurred a Termination of Employment, that Credited Service shall not be restored to him.
 - (iii) Upon later termination or retirement of a Participant whose previous Credited Service has been restored under this paragraph (c), his Pension shall be based on the benefit formula then in effect and his Certified Earnings and Credited Service before and after the period when he was not in the service of the Employer, and shall be reduced, if applicable, but not below zero, by an amount of Actuarial Equivalent value to any lump

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sum settlement received upon his prior termination. However, in no event shall the reduction provided for in the preceding sentence exceed the portion of the Participant's Pension based on the period of Credited Service included in the calculation of the lump sum payment.

- (d) If a former Participant who is not entitled to a Pension is restored to service, either as an Eligible Employee or as an Employee, after having had a Break in Service, the following shall apply:
- (i) He shall again become a Participant as of his date of restoration to service as an Eligible Employee.
 - (ii) Upon his restoration to membership, the Years of Vesting Service to which he was previously entitled shall be restored to him if the total number of consecutive one-year Breaks in Service does not equal or exceed five.
 - (iii) Any Credited Service to which the Participant was entitled at the time of his Termination of Employment of service which is included in the Years of Vesting Service so restored shall be restored to him.
 - (iv) Upon later termination or retirement of a Participant whose previous Credited Service has been restored under this paragraph (d), his Pension, if any, shall be based on the benefit formula then in effect and his Certified Earnings and Credited Service before and after the period when he was not an Eligible Employee.
- (e) If an Eligible Employee who was never a Participant is restored to service with the Employer, after having had a Break in Service, the Years of Vesting Service to which he was previously entitled under Section 3.01(e) shall be restored to him if he would be entitled to nonforfeitable benefits under the Plan if he were a Participant, or otherwise, if the total number of consecutive one-year Breaks in Service does not equal or exceed five.

ARTICLE 4. ELIGIBILITY FOR AND AMOUNT OF BENEFITS

4.01 Normal Retirement

(a) The right of a Participant to his normal retirement Pension shall be nonforfeitable as of his Normal Retirement Age. A Participant who has attained his Normal Retirement Age may retire from service with the Employer and all Affiliates and receive a normal retirement Pension beginning on his Normal Retirement Date, or he may postpone his retirement and remain in service after his Normal Retirement Date, in which event the provisions of Section 4.02 shall be applicable.

(b) Subject to the provisions of Section 5.01, the annual normal retirement Pension payable upon retirement on a Participant's Normal Retirement Date (provided he is alive on such date) shall be equal to .7 percent of the Participant's Final Average Compensation not in excess of Covered Compensation, plus 1.3 percent of such Final Average Compensation in excess of Covered Compensation, multiplied by the number of years of his Credited Service up to 35 such years; provided, however, that the annual normal retirement Pension of a Participant who is affected by the imposition of the \$150,000 limitation on Certified Earnings provided in Section 1.09 shall be equal to the greater of (i) the Participant's Pension calculated under the provisions of the Plan as determined with regard to such imposition or (ii) a Pension equal to the Participant's Accrued Benefit determined as of December 31, 1993 plus the Participant's Accrued Benefit based solely on service after such date under

the provisions of the Plan as determined with regard to such imposition. For purposes of the Plan, the Accrued Benefit as of December 31, 1993 shall be determined with regard to the \$200,000 limitation on Certified Earnings provided in Section 1.09, but not less than the Participant's Accrued Benefit determined as of December 31, 1988. However, the annual normal retirement Pension shall never be less than the greatest

annual amount of reduced early retirement Pension which the Participant could have received under Section 4.03 before his Normal Retirement Date and no increase in Covered Compensation shall decrease a Participant's Accrued Benefit under the Plan.

(c) Except as otherwise provided in Section 401(1) of the Code and applicable regulations thereunder, the cumulative permitted disparity fraction for purposes of computing a Participant's normal retirement Pension shall not exceed 35.

(d) Notwithstanding the foregoing, the minimum monthly Pension payable to a Participant shall be equal to \$2.00 multiplied by his years of Credited Service.

4.02 Late Retirement

(a) If a Participant postpones his retirement as provided in Section 4.01(a), upon his Termination of Employment from the Employer and all Affiliates, he shall be entitled to a late retirement Pension beginning on the first day of the calendar month after the Administrator receives his written application to retire, which shall be his late retirement date.

(b) A Participant who remains in service after his Normal Retirement Date shall be entitled to a monthly retirement Pension for each month during the postponement period which

does not constitute a Suspendible Month. Upon later retirement, the Participant shall be entitled to an immediate late retirement Pension beginning on the Participant's late retirement date (provided he is alive on such date), and subject to the provisions of Section 5.01, shall be equal to the amount determined in accordance with Section 4.01 based on the Participant's Credited Service and Final Average Compensation as of his late retirement date reduced by an amount that is the Actuarial Equivalent of any benefits he previously received pursuant to the preceding sentence;

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provided that if the Participant's actual late retirement date is later than the first day of the first Plan Year following his Normal Retirement Date, his late retirement Pension shall be recomputed as of the first day of each subsequent Plan Year before the Participant's actual late retirement date (and as of his actual late retirement date) as if each such date were Participant's late retirement date; and provided further that no reduction hereunder as of the date of any such recomputation shall reduce the Participant's late retirement Pension below the amount of late retirement Pension payable to the Participant prior to such recomputation.

- (c) (i) In the event a Participant's Pension is required to begin under Section 5.04(b) prior to January 1, 1998 and while the Participant is in active service, such required beginning date shall not be the Participant's Annuity Starting Date for purposes of Article 5 and the Participant shall receive a late retirement Pension commencing on or before such required beginning date in an amount determined as if he had retired on such date. The Pension payable to the Participant during his period of active service shall be in the form of a single life annuity. Upon subsequent retirement, the Participant's Pension shall be paid in accordance with the Participant's form of payment election made pursuant to Article 5.
- (ii) In the event a Participant's Pension is required to begin under Section 5.04(b) on or after January 1, 1998 and while the Participant in active service, such beginning date shall be the Participant's Annuity Starting Date for purposes of Article 5, and his Pension shall be paid in accordance with the Participant's form of payment election made pursuant to Article 5.
- (iii) As of each succeeding December 31 prior to the Participant's actual late retirement date (and as of his actual late retirement date), the Participant's Pension shall be recomputed to reflect additional accruals. The Participant's recomputed Pension shall then be reduced by the Actuarial Equivalent of the

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total payments of his late retirement Pension which were paid prior to each such recomputation to arrive at the Participant's late retirement Pension; provided that no such reduction shall reduce the Participant's late retirement Pension below the amount of late retirement Pension payable to the

Participant prior to the recomputation of such Pension.

(a) A Participant who has not reached his Normal Retirement Date but who, prior to his Termination of Employment from the Employer and all Affiliates, has reached his 55th birthday and completed five Years of Vesting Service may retire from service with the Employer and all Affiliates and receive an early retirement Pension beginning on the first day of the calendar month after the Administrator receives his written application to retire, which shall be his early retirement date (provided he is living on such date).

(b) The early retirement Pension shall be a deferred Pension beginning on the Participant's Normal Retirement Date, and subject to the provisions of Section 5.01, shall be equal to his Accrued Benefit. However, the Participant may elect to receive an early retirement Pension beginning on the first day of any calendar month before his Normal Retirement Date, provided that an early payment date shall be subject to the notice and timing requirements described in Section 5.03(b). In that case, the Participant's Pension shall be reduced pursuant to Table 2 of Appendix A.

4.04 Vesting

(a) A Participant shall be 100 percent vested in, and have a nonforfeitable right to, his Accrued Benefit upon completion of five Years of Vesting Service, counted since the first day of the Plan Year in which his 18th birthday occurs if the Participant was hired on or after January 1, 1990. If

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the Participant's employment is subsequently terminated for reasons other than retirement or death, he shall be eligible to receive his vested Pension after the Administrator receives his written application for the Pension.

(b) Notwithstanding the foregoing, a Participant who was an Eligible Employee of the Employer on the Effective Date and whose accrued benefit under the Dayton Hudson Corporation Retirement Plan was transferred to the Plan shall be 100 percent vested in, and have a nonforfeitable right to, his Accrued Benefit under the Plan.

(c) The vested Pension shall begin on the Participant's Normal Retirement Date, and subject to the provisions of Section 5.01, shall be equal to his Accrued Benefit. However, the Participant may elect to have his vested Pension begin on the first day of any calendar month before his Normal Retirement Date (provided

he is living on such date). In that case, the Participant's Pension shall be reduced pursuant to Table 2 of Appendix A.

4.05 Spouse's Pension

(a) If a married Participant:

- (i) dies in active service after reaching age 55 and completing 15 years of Credited Service, or
- (ii) dies in active service prior to reaching age 55 and completing 15 years of Credited Service but after having met the requirements for a Pension pursuant to Section 4.01, 4.02, 4.03 or 4.04, or
- (iii) dies after retiring on any Pension, or after terminating service with entitlement to a vested Pension, but in either case before his Annuity Starting Date,

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a spouse's Pension shall be payable to his surviving spouse for life provided that he and his spouse have been married

throughout the one-year period ending on the date of his death.

- (b) The spouse's Pension shall commence on what would have been the Participant's Normal Retirement Date (or the first day of the month following his date of death, if later). However, the Participant's spouse may elect to begin receiving payments as of the first day of any month following the Participant's date of death and prior to what would have been his Normal Retirement Date, provided such election is made on a form provided by the Administrator during the 90-day period ending on the date the payments to the spouse commence.
- (c) (i) The spouse's Pension payable to the eligible spouse, if any, of a married Participant described in paragraph (a)(i) above shall be equal to 50 percent of the monthly Pension the Participant would have received if he had a Termination of Employment on the day before his death and elected to have his Pension commence on his Normal Retirement Date in the form of a single life annuity. This spouse's Pension shall be payable for the life of the eligible spouse and shall not be reduced for commencement prior to what would have been the Participant's Normal Retirement Date.
- (ii) Before reduction in accordance with paragraph (d) below (with regard to a Participant who has had a Termination of Employment), the spouse's Pension payable to the eligible spouse, if any, of a Participant described in paragraph (a)(ii) or (a)(iii) above, shall be equal to the amount of benefit the spouse would have received if the Pension to which the Participant was entitled at his date of death had commenced on his Normal Retirement Date (or the first day of the month following his date of death, if later) in the form of a Qualified Joint and Survivor Annuity and the Participant had died immediately thereafter. However, if within the 90 day period prior to his Annuity Starting Date a

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Participant has elected an optional form of Pension which provides for monthly payments to his spouse for life in an amount equal to at least 50 percent but not more than 100 percent of the monthly amount payable under the option for the life of the Participant and such option is the Actuarial Equivalent of the Qualified Joint and Survivor Annuity, such optional form of Pension shall be used for computing the spouse's Pension instead of the Qualified Joint and Survivor Annuity. The spouse's Pension shall be further adjusted to reflect its commencement prior to the Participant's Normal Retirement Date as follows:

- (A) if the spouse of a Participant who dies after having met the requirements for early retirement elects early commencement in accordance with paragraph (b) above, the amount of the Pension payable to the spouse will be based on the amount of early retirement Pension to which the Participant would have been entitled if he had requested benefit commencement at that earlier date, reduced in accordance with Section 4.03(b); and
- (B) if the spouse of any other Participant who dies prior to his Annuity Starting Date elects early commencement in accordance

with paragraph (b) above, the amount of the Pension payable to the spouse shall be based on the amount of vested Pension to which the Participant would have been entitled if he had requested benefit commencement at that earlier date, reduced in accordance with Section 4.04(c).

(d) With respect to a Participant who has incurred a Termination of Employment and whose spouse would have been entitled to a

spouse's Pension under this Section had the Participant's death occurred prior to his Annuity Starting Date, the Pension subsequently payable to such Participant or the spouse's Pension payable to his spouse after his death, whichever is applicable, shall be reduced by the applicable percentage shown in the following table for each full month that the

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provisions of this Section 4.05 are in effect with respect to the Participant after his Termination of Employment and prior to the Participant's Annuity Starting Date or his date of death, if earlier. Notwithstanding the foregoing, no such reduction shall be made with respect to any period before the later of (i) the date the Administrator furnishes the Participant the notice of his right to waive the spouse's Pension in accordance with paragraph (e) below or (ii) the commencement of the election period specified in paragraph (f) below.

Monthly Reduction for Spouse's Coverage After
Retirement or
Other Termination of Service

| Age | Reduction |
|---------------------|-----------|
| 55 but less than 65 | .05% |
| 45 but less than 55 | .03% |
| less than 45 | .01% |

(e) The Employer shall furnish to each Participant a written explanation in nontechnical language which describes (i) the terms and conditions of the spouse's Pension, including an explanation of the relative financial effect on the Participant's Pension of an election to waive the spouse's Pension, (ii) the Participant's right to make, and the effect of, an election to waive the spouse's Pension, (iii) the rights of the Participant's spouse, and (vi) the right to make, and the effect of, a revocation of such an election. The Employer shall furnish the written explanation of the spouse's Pension to each Participant as soon as practicable following the date the Participant incurs a Termination of Employment, but in no case later than one year after such date. The written explanation described above shall be furnished to a Participant even though he is not married.

(f) An election to waive the spouse's Pension provided under this Section, or any revocation of that election, may be made at any time during the period beginning on the date of the Participant's Termination of Employment and ending on the Participant's Annuity Starting Date or his date of death, if

earlier. Any election to waive the spouse's Pension or any revocation of that election

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shall be made on a form provided by the Administrator, and shall be

effective when received by the Administrator. Any election to waive the spouse's Pension shall be effective only if it includes Spousal Consent to such election.

4.06 Maximum Benefit Limitation

Notwithstanding any provision of the Plan to the contrary, the maximum annual Pension payable to a Participant under the Plan shall be subject to the limitations set forth in Section 415 of the Code and any regulations issued thereunder. If the Pension begins before the Participant's 62nd birthday, the dollar limitation described in Section 415(b)(1)(A) of the Code shall be the Actuarial Equivalent of the maximum benefit payable at age 62. If the Pension begins after the Participant's Social Security Retirement Age, such dollar limitation shall be the Actuarial Equivalent of the maximum benefit payable at the Social Security Retirement Age. If the Pension is payable neither as a life annuity nor as a qualified joint and survivor annuity with the Participant's spouse as beneficiary, the maximum limitation shall be the Actuarial Equivalent of the maximum limitation otherwise applicable. Actuarial Equivalent for the purposes of this Section 4.06 shall be determined in accordance with Section 415(b) of the Code and the regulations or rulings issued thereunder and using the Plan's early retirement, late retirement or optional benefit factors as appropriate, or if less, using factors calculated from the IRS Mortality Table, if applicable, and (i) with respect to an adjustment required under Section 415(b)(2)(B) or (C) of the Code, the IRS Interest Rate if the Pension is subject to the provisions of Section 417(e)(3) of the Code or 5 percent otherwise; and (ii) with respect to an adjustment required under Section 415(b)(2)(D) of the Code, an interest rate of 5 percent.

If a Participant is a participant in any qualified defined contribution plan required to be taken into account for purposes of applying the combined plan limitations contained in Section 415(e) of

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the Code, then for any year the sum of the defined benefit plan fraction and the defined contribution plan fraction, as such terms are defined in said Section 415(e),

shall not exceed 1.0. If for any year the foregoing combined plan limitation would be exceeded, the benefit provided under this Plan shall be reduced to the extent necessary to meet that limitation.

As of January 1 of each calendar year commencing on or after January 1, 1988, the dollar limitation as determined by the Commissioner of Internal Revenue for that calendar year shall become effective as the maximum permissible dollar amount of Pensions payable under the Plan during the Limitation Year ending within that calendar year, including Pensions payable to Participants who retired prior to that Limitation Year.

4.07 Transfers and Employment with an Affiliate

- (a) If an Eligible Employee (i) becomes employed by the Employer in any capacity other than as an Eligible Employee as defined in Article 1, (ii) becomes employed by an Affiliate, or (iii) becomes a Leased Employee, he shall retain any Credited Service he has under this Plan. Upon his later retirement or termination of employment with the Employer or Affiliate (or upon benefit commencement in the case of a Leased Employee), any benefits to which the Eligible Employee is entitled under the Plan shall be determined under the Plan provisions in effect on the date he ceases to be an Eligible Employee as defined in Article 1, and only on the basis of his Credited Service accrued and Certified Earnings paid while he was an Eligible Employee as defined in Article 1.

(b) Subject to the Break in Service provisions of Article 3, in the case of a person who (i) was originally employed by the Employer in any capacity other than as an Eligible Employee as defined in Article 1, (ii) was originally employed by an Affiliate, or (iii) was originally providing services to the Employer as a Leased Employee, and thereafter becomes

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an Eligible Employee, upon his later retirement or termination of employment, the benefits payable under the Plan shall be computed under the Plan provisions in effect at that time, and only on the basis of the Credited Service accrued and Certified Earnings paid while he is an Eligible Employee as defined in Article 1.

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ARTICLE 5. PAYMENT OF PENSIONS

5.01 Automatic Form of Payment

- (a) If the Participant is not married on his Annuity Starting Date, his Pension shall be payable in monthly installments ending with the last monthly payment before death, unless the Participant has elected an optional benefit as provided in Section 5.02.
- (b) If the Participant is married on his Annuity Starting Date, and if he has not elected an optional form of benefit as provided in Section 5.02, the Pension payable shall be in the form of a Qualified Joint and Survivor Annuity that is the Actuarial Equivalent of the Pension otherwise payable, providing for a reduced Pension payable to the Participant during his life, and after his death providing that one-half of that reduced Pension will continue to be paid during the life of, and to, the spouse to whom he was married on his Annuity Starting Date. Notwithstanding the preceding, if an option described in Section 5.02 provides for payments continuing after the Participant's death for the life of a Beneficiary at a rate of at least 50 percent but not more than 100 percent of the Pension payable for the life of the Participant and if such option, with the spouse to whom the Participant is married on his Annuity Starting Date named as Beneficiary, would be of greater actuarial value than the joint and survivor annuity described above, such option with such spouse as Beneficiary shall be the Qualified Joint and Survivor Annuity.
- (c) In any case, a lump sum payment that is the Actuarial Equivalent shall be made in lieu of all benefits if the present value of the Pension payable to or on the behalf of the Participant determined as of the Participant's Normal Retirement Date or actual Termination of Employment, if later, amounts to \$3,500 (effective January 1, 1998, \$5,000 or less). In determining the amount of a lump sum payment payable under this

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paragraph to a Participant whose Annuity Starting Date is on or after January 1, 1998, (i) Actuarial Equivalent shall mean a benefit, in the case of a lump sum benefit payable prior to a Participant's Normal Retirement Date, of equivalent value to the benefit which would otherwise have been provided commencing at the Participant's Normal Retirement Date, and (ii) the Actuarial Equivalent shall be determined by using the IRS Mortality Table and the

IRS Interest Rate. Unless otherwise permitted by applicable law, the determination as to whether a lump sum payment is due shall be made as soon as practicable following the Participant's termination of service or death. Any lump sum benefit payable shall

be made as soon as practicable following such determination and in any event prior to the date Pension payments would have otherwise commenced as an annuity.

In the event a Participant is not entitled to any Pension upon his Termination of Employment, he shall be deemed cashed-out under the provisions of this paragraph (c) as of the date he terminated service. However, if a Participant described in the preceding sentence is subsequently restored to service, the provisions of Section 3.03 shall apply to him without regard to such sentence.

5.02 Optional Forms of Payment

Any Participant may, subject to the provisions of Section 5.03, elect to convert the Pension otherwise payable to him into an optional benefit that is the Actuarial Equivalent, as provided in one of the options named below.

Ten-Year Certain and Life
Option

A modified Pension payable during the Participant's life; if the Participant dies within 120 months of his Annuity

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Starting Date, the balance of those monthly payments shall be paid to the Beneficiary named by him when he elected the option; provided that if the Beneficiary does not survive the 120-month period, a lump sum payment that is the Actuarial Equivalent as determined in Table 1 of Appendix A of the remaining payments shall be paid to the estate of the last to survive of the Participant and the Beneficiary.

50% Joint & Survivor
Option

A modified Pension payable during the Participant's life and after his death payable at 50 percent of the rate of his modified Pension during the life of, and to, the Beneficiary named by him when he elected the option. The Pension payable to the Participant shall be determined by multiplying the amount that would be paid to the Participant as a single

life annuity by a reduction factor of 90 percent, increased by 1/2 of 1 percent (but not to more than 100 percent) for each year by which the Beneficiary is older than the Participant and decreased by 1/2 of 1 percent for each year the Beneficiary is younger than the Participant.

75% Joint & Survivor
Option

A modified Pension payable during the Participant's life and after his death payable

at 75 percent of the rate of his modified Pension during the life of, and to, the Beneficiary named by him when he elected the option. The Pension payable to the Participant shall be determined by multiplying the amount that would be paid to the Participant

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as a single life annuity by a reduction factor of 85 percent, increased by 1/2 of 1 percent (but not to more than 100 percent) for each year by which the Beneficiary is older than the Participant and decreased by 1/2 of 1 percent for each year the Beneficiary is younger than the Participant.

100% Joint & Survivor
Option

A modified Pension payable during the Participant's life and Option after his death payable at 100 percent of the rate of his modified Pension during the life of, and to, the Beneficiary named by him when he elected the option. The Pension payable to the Participant shall be determined by multiplying the amount that would be paid to the Participant as a single life annuity by a reduction

factor of 80 percent, increased by 1/2 of 1 percent (but not to more than 100 percent) for each year by which the Beneficiary is older than the Participant and decreased by 1/2 of 1 percent for each year the Beneficiary is younger than the Participant.

Lump Sum or Installment
Option

If the total present value of the Pension payable is more than \$3,500 (\$5,000 effective January 1, 1998) but less than \$7,000, the Participant may elect either a single cash lump sum or monthly installments over a period to be selected by the Participant. In determining the amount of a lump sum optional benefit available under this Section to a Participant whose Annuity Starting Date is on or after January 1, 1998, (a) Actuarial Equivalent shall mean a benefit, in the case of a lump sum benefit payable

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prior to a Participant's Normal Retirement Date, of equivalent value to the benefit which would otherwise have been provided commencing at the Participant's Normal Retirement Date, and (b) Actuarial Equivalent shall be determined on the basis of the IRS Mortality Table and the IRS Interest Rate.

If a Participant dies after Pension payments have commenced, any payments continuing on to his spouse or Beneficiary shall be distributed at least as rapidly as under the method of distribution being used as of the Participant's date of death.

5.03 Election of Options

- (a) A married Participant's election of any option shall only be effective if Spousal Consent to the election is received by the Administrator, unless:
- (i) the option provides for monthly payments to his spouse for life after the Participant's death, in an amount equal to at least 50 percent but not more than 100 percent of the monthly amount payable under the option to the Participant, and
 - (ii) the option is of actuarial equivalent value to the Qualified Joint and Survivor Annuity.
- (b) The Employer shall furnish to each Participant, no less than 30 days and no more than 90 days, before his Annuity Starting Date a written explanation in nontechnical language of the terms and conditions of the Pension payable to the Participant in the normal and optional forms described in Sections 5.01 and 5.02. Such explanation shall include a general description of the eligibility conditions for, and the material features and relative values of, the optional forms of Pensions under the Plan, any rights the Participant may have to defer commencement of his Pension, the

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requirement for Spousal Consent as provided in paragraph (a) above, and the right of the Participant to make, and to revoke, elections under Section 5.02.

- (c) A Participant's Annuity Starting Date may not occur less than 30 days after receipt of the notice described in paragraph (b). An election under Section 5.02 shall be made on a form provided by the Administrator and may be made during the 90-day period ending on the Participant's Annuity Starting Date, but not prior to the date the Participant receives the written explanation described in paragraph (b).
- (d) Notwithstanding the provisions of paragraph (c) above, a Participant may, after having received the notice, affirmatively elect to have his benefit commence sooner than 30 days following his receipt of the notice, provided all of the following requirements are met:
- (i) the Administrator clearly informs the Participant that he has a period of at least 30 days after receiving the notice to decide when to have his benefits begin, and if applicable, to choose a particular optional form of payment;
 - (ii) the Participant affirmatively elects a date for his

benefits to begin, and if applicable, an optional form of payment, after receiving the notice;

- (iii) the Participant is permitted to revoke his election until the later of his Annuity Starting Date or seven days following the day he received the notice;
 - (iv) payment does not commence less than seven days following the day after the notice is received by the Participant; and
 - (v) the Participant's Annuity Starting Date is after the date the notice is provided.
- (e) An election of an option under Section 5.02 may be revoked on a form provided by the Administrator, and subsequent elections and revocations may be made at any time and from time

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to time during the election period specified in paragraph (c) or (d) above, whichever is applicable. An election of an optional benefit shall be effective on the Participant's Annuity Starting Date and may not be modified or revoked after his Annuity Starting Date unless otherwise provided under paragraph (d) above. A revocation of any election shall be effective when the completed form is filed with the Administrator. If a Participant who has elected an optional benefit dies before the date the election of the option becomes effective, the election shall be revoked except as provided in Section 4.05(c). If the Beneficiary designated under an option dies before the date the election of the option becomes effective, the election shall be revoked.

5.04 Commencement of Payments

- (a) Except as otherwise provided in Article 4 or this Article 5, payment of a Participant's Pension shall begin as soon as administratively practicable following the latest of (i) the Participant's 65th birthday, (ii) the fifth anniversary of the date on which he became a Participant, or (iii) the Participant's Termination of Employment, (but not more than 60 days after the close of the Plan Year in which the latest of (i), (ii) or (iii) occurs); provided, however, that if the amount of the payment to be made cannot be determined by 60 days following the Plan Year in which the latest of (i), (ii), or (iii) occur, a payment retroactive to that date shall be made.
- (b) Notwithstanding the preceding paragraph and except as provided below, in the case of a Participant in active service who owns either (i) more than 5 percent of the outstanding stock of the Employer or (ii) stock possessing more than 5 percent of the total combined voting power of all stock of the Employer, the Participant's Pension shall begin not later than the April 1 following the calendar year in which he attains age 70 1/2. On and after the first day of the Plan Year beginning in 1989, payment in active service of any Participant's Pension shall begin not

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later than April 1 of the calendar year following the calendar year in which he attains age 70 1/2, provided that such commencement in active service shall not be required with respect to a Participant who attains age 70 1/2 prior to January 1, 1988 and who is not a 5-percent owner as described above.

5.05 Distribution Limitation

Notwithstanding any other provision of this Article 5, all distributions from this Plan shall conform to the regulations issued under Section 401(a)(9) of the Code, including the incidental death benefit provisions of Section 401(a)(9)(G) of the Code. Further, such regulations shall override any Plan provision that is inconsistent with Section 401(a)(9) of the Code. For purposes of Section 401(a)(9) of the Code, the life expectancies of Participants and their spouses shall not be recalculated.

5.06 Direct Rollover of Certain Distributions

- (a) This Section applies to certain distributions made on or after January 1, 1993. Notwithstanding any provision of the Plan to the contrary that would otherwise limit a distributee's election under this Article, a distributee may elect, at the time and in the manner prescribed by the Administrator, to have any portion of an eligible rollover distribution paid directly to an eligible retirement plan specified by the distributee in a direct rollover.
- (b) The following definitions apply to the terms used in this Section:
- (i) An "eligible rollover distribution" is any distribution of all or any portion of the balance to the credit of the distributee, except that an eligible rollover distribution does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the distributee
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- or the joint lives (or joint life expectancies) of the distributee and the distributee's designated beneficiary, or for a specified period of ten years or more; any distribution to the extent such distribution is required under Section 401(a)(9) of the Code; and the portion of any distribution that is not includible in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities);
- (ii) An "eligible retirement plan" is an individual retirement account described in Section 408(a) of the Code, an individual retirement annuity described in Section 408(b) of the Code, an annuity plan described in Section 403(a) of the Code, or a qualified trust described in Section 401(a) of the Code, that accepts the distributee's eligible rollover distribution. However, in the case of an eligible rollover distribution to the surviving spouse, an eligible retirement plan is an individual retirement account or individual retirement annuity;
- (iii) A "distributee" includes an Eligible Employee or former Eligible Employee. In addition, the Eligible Employee's or former Eligible Employee's surviving spouse and the Eligible Employee's or former Eligible Employee's spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Section 414(p) of the Code, are distributees with regard to the interest of the spouse or former spouse; and
- (iv) A "direct rollover" is a payment by the Plan to the eligible retirement plan specified by the distributee.

In the event that the provisions of this Section 5.06 or any part thereof cease to be required by law as a result of subsequent legislation or otherwise, this Section or any

applicable part thereof shall be ineffective without the necessity of further amendments to the Plan.

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ARTICLE 6. CONTRIBUTIONS

6.01 Employer's Contributions

It is the intention of the Employer to continue the Plan and make the contributions that are necessary to maintain the Plan on a sound actuarial basis and to meet the minimum funding standards prescribed by law. However, subject to the provisions of Article 10, the Employer may discontinue its contributions for any reason at any time.

6.02 Return of Contributions

- (a) The Employer's contributions to the Plan are conditioned upon their deductibility under Section 404 of the Code. If all or part of the Employer's deductions for contributions to the Plan are disallowed by the Internal Revenue Service, the portion of the contributions to which that disallowance applies shall be returned to the Employer without interest, but reduced by any investment loss attributable to those contributions. The return shall be made within one year after the date of the disallowance of deduction.
- (b) The Employer may recover without interest the amount of its contributions to the Plan made on account of a mistake in fact, reduced by any investment loss attributable to those contributions, if recovery is made within one year after the date of those contributions.

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ARTICLE 7. ADMINISTRATION OF PLAN

7.01 Plan Sponsor and Plan Administrator

The Company shall be the "plan administrator" and the "plan sponsor" of the Plan, as such terms are used in ERISA and the Code.

7.02 Administrative Responsibilities

- (a) Except as expressly otherwise provided herein, the Company shall be the named fiduciary that has the authority to control and manage the administration and operation of the Plan, and shall have the sole and complete discretion to interpret and administer the terms of the Plan and to determine eligibility for benefits and the amount of any such benefits pursuant to the terms of the Plan, and in so doing the Company may correct defects, supply omissions and reconcile inconsistencies to the extent necessary to effectuate the Plan, and such actions shall be binding and conclusive on all persons. The Company shall prescribe such forms, make such rules, regulations, interpretations and computations and shall take such other action to administer the Plan as it may deem appropriate. In administering the Plan, the Company shall act in a nondiscriminatory manner to the extent required by Section 401(a) and related provisions of the Code and shall at all times discharge its duties with respect to the Plan in accordance with the standards set forth in Section 404(a)(1) of ERISA.

(b) Except in cases where the Plan expressly requires action on behalf of the Company to be taken by the Board of Directors, action on behalf of the Company may be taken by any of the following:

- (i) the Board of Directors;
- (ii) the chief executive officer of the Company; or

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(iii) any person or persons or committee to whom responsibilities for the operation and administration of the Plan are allocated, by resolution of the Board of Directors or by written instrument executed by the chief executive officer of the Company and filed with its permanent records, but action of such person or persons or committee shall be within the scope of said allocation.

7.03 Delegation of Responsibilities

The Company may engage such attorneys, actuaries, accountants, consultants or other persons to render advice or to perform services with regard to any of its responsibilities under the Plan as it shall determine to be necessary or appropriate. The duties and responsibilities of the Company under the Plan shall be carried out by the directors, officers and employees of the Company, acting on behalf of the Company in their capacities as directors, officers and employees and not as individual fiduciaries.

7.04 Certified Earnings and Bonding

Except to the extent permitted by applicable regulations, no Eligible Employee shall receive any compensation from the Plan for his services rendered to the Plan. The Company shall purchase such bonds as may be required under ERISA.

7.05 Service in More Than One Fiduciary Capacity

Any individual, entity or group of persons may serve in more than one fiduciary capacity with respect to the Plan and/or the funds of the Plan.

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7.06 Indemnification

In addition to any other applicable arrangements for indemnification, the Employers jointly and severally agree to indemnify and hold harmless, to the extent permitted by law, each director, officer, and employee of the Employers against any and all liabilities, losses, costs, or expenses (including legal fees) of whatsoever kind and nature which may be imposed on, incurred by, or asserted against such person at any time by reason of such person's services as a fiduciary in connection with the Plan, but only if such person did not act dishonestly, or in bad faith, or in willful violation of the law or regulations under which such liability, loss, cost, or expense arises.

7.07 Establishment of Rules

Subject to the limitations of the Plan, the Administrator from time to time shall establish rules for the administration of the

Plan and the transaction of Plan business. The Administrator shall have discretionary authority to interpret the Plan and to make factual determinations (including but not limited to, determination of an individual's eligibility for Plan participation, the right and amount of any benefit payable under the Plan and the date on which any individual ceases to be a Participant). The determination of the Administrator as to the interpretation of the Plan or any disputed question shall be conclusive and final to the extent permitted by applicable law.

7.08 Correction of Errors

It is recognized that in the operation and administration of the Plan certain mathematical and accounting errors may be made or mistakes may arise by reason of factual errors in information supplied to the Company or Funding Agent. The Company shall have power to cause such equitable adjustments to be made to correct for such errors as the Company in its discretion considers appropriate. Such adjustments shall be final and binding on all persons.

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7.09 Prudent Conduct

The Administrator shall use that degree of care, skill, prudence and diligence that a prudent man acting in a like capacity and familiar with such matters would use in a similar situation.

7.10 Actuary

As an aid to the Administrator in fixing the rate of contributions payable to the Plan, the actuary designated by the Company shall make annual actuarial valuations of the contingent assets and liabilities of the Plan, and shall submit to the Company the rates of contribution recommended for use.

7.11 Maintenance of Accounts

The Administrator shall maintain accounts showing the fiscal transactions of the Plan and shall keep in convenient form such data as may be necessary for actuarial valuations of the Plan.

7.12 Records

Each Employer, each fiduciary with respect to the Plan, and each other person performing any functions in the operation or administration of the Plan or the management or control of the assets of the Plan shall keep such records as may be necessary or appropriate in the discharge of their respective functions hereunder, including records required by ERISA or any other applicable law. Records shall be retained as long as necessary for the proper administration of the Plan and at least for any period required by ERISA or other applicable law.

7.13 Appointment of Investment Manager

The Company, in its sole discretion, shall determine the investment policy for the Plan. However, the Company may, in its sole discretion, appoint one or more investment managers to

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manage the assets of the Plan (including the power to acquire and dispose of all or part of such assets) as the Company shall designate. In that event, the authority over and responsibility for the management of the assets so designated shall be the sole responsibility of that investment manager.

For purposes of this Article, the term "investment manager" means an individual who:

- (a) Has the power to manage, acquire or dispose of any asset of the Plan;
- (b) Is (i) registered as an investment advisor under the Investment Advisors Act of 1940, (ii) is a bank, as defined in that Act, or (iii) is an insurance company qualified to perform services described in paragraph (a) above; and
- (c) Has acknowledged in writing that he is a fiduciary with respect to the Plan.

7.14 Expenses of Administration

All expenses that arise in connection with the administration of the Plan, including but not limited to the compensation of the Trustee, administrative expenses and proper charges and disbursements of the Trustee and compensation and other expenses and charges of any enrolled actuary, counsel, accountant, specialist, or other person who has been retained by the Company in connection with the administration thereof, shall be paid from the funds of the Plan held by the Trustee under the trust agreement adopted for use in implementing the Plan, to the extent not paid by the Employer.

7.15 Claims and Review Procedures

- (a) Applications for benefits and inquiries concerning the Plan (or concerning present or future rights to benefits under the Plan) shall be submitted to the Company in writing. An application

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for benefits shall be submitted on the prescribed form and shall be signed by the Participant, or in the case of a benefit payable after his death, by his Beneficiary.

- (b) In the event that an application for benefits is denied in whole or in part, the Company shall notify the applicant in writing of the denial and of the right to review of the denial. The written notice shall set forth, in a manner calculated to be understood by the applicant, specific reasons for the denial, specific references to the provisions of the Plan on which the denial is based, a description of any information or material necessary for the applicant to perfect the application, an explanation of why the material is necessary, and an explanation of the review procedure under the Plan. The written notice shall be given to the applicant within a reasonable period of time (not more than 90 days) after the Company received the application, unless special circumstances require further time for processing and the applicant is advised of the extension. In no event shall the notice be given more than 180 days after the Company received the application.
- (c) The Company shall from time to time appoint a committee (the "Review Panel") that shall consist of three individuals who may, but need not, be Eligible Employees. The Review Panel shall be the named fiduciary that has the authority to act with respect to any appeal from a denial of benefits or a determination of benefit rights.
- (d) An applicant whose application for benefits was denied in whole or part, or the applicant's duly authorized representative, may appeal the denial by submitting to the Review Panel a request for a review of the application

within 60 days after receiving written notice of the denial from the Company. The Company shall give the applicant or his representative an opportunity to review pertinent materials, other than legally privileged documents, in preparing the request for a review. The request for a review shall be in writing and addressed

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to the Review Panel. The request for a review shall set forth all of the grounds on which it is based, all facts in support of the request and any other matters that the applicant deems pertinent. The Review Panel may require the applicant to submit such additional facts, documents or other materials as it may deem necessary or appropriate in making its review.

- (e) The Review Panel shall act on each request for a review within 60 days after receipt, unless special circumstances require further time for processing and the applicant is advised of the extension. In no event shall the decision on review be rendered more than 120 days after the Review Panel received the request for a review. The Review Panel shall give prompt written notice of its decision to the applicant and or the Company. In the event that the Review Panel confirms the denial of the application for benefits in whole or in part, the notice shall set forth, in a manner calculated to be understood by the applicant, the specific reasons for the decision and specific references to the provisions of the Plan on which the decision is based.
- (f) The Review Panel shall adopt such rules, procedures and interpretations of the Plan as it deems necessary or appropriate in carrying out its responsibilities under this Section 7.15. In carrying out such responsibilities, the Review Panel shall have the sole and complete discretion to interpret and administer the terms of the Plan and to determine eligibility for benefits and the amount of any such benefits pursuant to the terms of the Plan, and in so doing the Review Panel may correct defects, supply omissions and reconcile inconsistencies to the extent necessary to effectuate the Plan, and such actions shall be binding and conclusive on all persons.
- (g) No legal action for benefits under the Plan shall be brought unless and until the claimant (i) has submitted a written application for benefits in accordance with paragraph (a), (ii) has been

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notified by the Company that the application is denied, (iii) has filed a written request for a review of the application in accordance with paragraph (d) and (iv) has been notified in writing that the Review Panel has affirmed the denial of the application; provided, however, that legal action may be brought after the Company or the Review Panel has failed to take any action on the claim within the time prescribed by paragraphs (b) and (e) above.

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ARTICLE 8. MANAGEMENT OF FUNDS

8.01 Funding Agent

- (a) All the funds of the Plan shall be held by a Funding Agent appointed from time to time by the Company under a trust

instrument or an insurance or annuity contract adopted, or as amended, by the Company for use in providing the benefits of the Plan and paying its expenses not paid directly by the Company. The Company shall have the right to determine the form and substance of each trust agreement and group annuity contract under which any part of the funds of the Plan is held, subject only to the requirement that they are not inconsistent with the provisions of the Plan. Any such trust agreement may contain provisions pursuant to which the trustee will make investments on direction of a third party. The Company shall have no liability for the payment of benefits under the Plan nor for the administration of the funds paid over to the Funding Agent.

(b) The Company shall issue such written directions to the Funding Agent as are necessary to accomplish distributions to the Participants and Beneficiaries in accordance with the provisions of the Plan.

(c) The Funding Agent shall be entitled to receive such reasonable compensation for its services as may be agreed upon with the Company. The Funding Agent shall also be entitled to reimbursement for all reasonable and necessary costs, expenses, and disbursements incurred by it in the performance of its services. Such compensation and reimbursements shall be paid from the Trust Fund if not paid directly by the Company.

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8.02 Exclusive Benefit Rule

Except as otherwise provided in the Plan, no part of the corpus or income of the funds of the Plan shall be used for, or diverted to, purposes other than for the exclusive benefit of Participants and other persons entitled to benefits under the Plan and paying Plan expenses not otherwise paid by the Employer, before the satisfaction of all liabilities with respect to them. No person shall have any interest in or right to any part of the earnings of the funds of the Plan, or any right in, or to, any part of the assets held under the Plan, except as and to the extent expressly provided in the Plan.

8.03 Funding Policy

The Company shall adopt a procedure, and revise it from time to time as it shall consider advisable, for establishing and carrying out a funding policy and method consistent with the objectives of the Plan and the requirements of ERISA. It shall advise each Funding Agent of the funding policy in effect from time to time.

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ARTICLE 9. GENERAL PROVISIONS

9.01 Nonalienation

Except as required by any applicable law, no benefit under the Plan shall in any manner be anticipated, assigned or alienated, and any attempt to do so shall be void. However, payment shall be made in accordance with the provisions of any judgment, decree, or order which:

(a) creates for, or assigns to, a spouse, former spouse, child or other dependent of a Participant the right to receive all or a portion of the Participant's benefits under the Plan for the purpose of providing child support, alimony

payments or marital property rights to that spouse, child or dependent,

- (b) is made pursuant to a State domestic relations law,
- (c) does not require the Plan to provide any type of benefit, or any option, not otherwise provided under the Plan, and
- (d) otherwise meets the requirements of Section 206(d) of ERISA, as amended, as a "qualified domestic relations order", as determined by the Administrator.

If the present value of any series of payments meeting the criteria set forth in clauses (a) through (d) above amounts to \$3,500 or less, a lump sum payment that is the Actuarial Equivalent, determined in the manner described in Section 5.01(c), shall be made in lieu of the series of payments.

9.02 Conditions of Employment Not Affected by Plan

Participation in the Plan shall not confer any legal rights upon any Eligible Employee or other person for a continuation of employment, nor shall it interfere with the right of the Employer (which right is hereby reserved) to discharge any Eligible Employee and to treat him without regard to the effect which that treatment might have upon him as a

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Participant or potential Participant of the Plan.

9.03 Facility of Payment

If in the opinion of the Administrator a Participant or other person entitled to a benefit hereunder is unable to care for his affairs because of illness or accident or because he is a minor, the Administrator may direct that any benefit due him, unless claim shall have been made for the benefit by a duly appointed guardian or other legal representative, be paid to his spouse, a child, a parent or other blood relative, or any other person or institution then in the opinion of the Administrator caring for or maintaining the Participant or other person during this period, or to a person with whom he resides. Any payment so made shall be a complete discharge of the liabilities of the Plan for that benefit.

9.04 Information

Each Participant or other person entitled to a benefit, before any benefit shall be payable to him or on his account under the Plan, shall file with the Company the information that it shall require to establish his rights and benefits under the Plan.

9.05 Top-Heavy Provisions

- (a) The following definitions apply to the terms used in this Section:
 - (i) "applicable determination date" means the last day of the preceding Plan Year;
 - (ii) "top-heavy ratio" means the ratio of (A) the present value of the cumulative Accrued Benefits under the Plan for key employees to (B) the present value of the cumulative Accrued Benefits under the Plan for all key employees and non-key employees; provided, however, that if an individual has not performed services for the Employer at

any time during the five-year period ending on the applicable determination date, any accrued benefit for such individual (and the account of such individual) shall not be taken into account;

- (iii) "applicable valuation date" means the date within the preceding Plan Year as of which annual Plan costs are or would be computed for minimum funding purposes;
- (iv) "key employee" means an employee who is in a category of employees determined in accordance with the provisions of Section 416(i)(1) and (5) of the Code and any regulations thereunder, and where applicable, on the basis of the Eligible Employee's remuneration (which, with respect to any Eligible Employee, shall mean the wages, salaries, and other amounts paid in respect of such Eligible Employee by the Employer or an Affiliate for personal services actually rendered, determined before any pre-tax contributions under a "qualified cash or deferred arrangement", as defined in Section 401(k) of the Code and its applicable regulations, or under a "cafeteria plan", as defined in Section 125 of the Code and its applicable regulations, and shall include, but not by way of limitation, bonuses, overtime payments, and commissions, and shall exclude deferred compensation, stock options, and other distributions which receive special tax benefits under the Code);
- (v) "non-key employee" means any employee who is not a key employee;
- (vi) "average remuneration" means the average annual remuneration of a Participant for the five consecutive years of his Years of Vesting Service during which he received the greatest aggregate remuneration, as limited by Section 401(a)(17) of the Code, from the Employer or an Affiliate, excluding any remuneration for service after the last Plan Year with respect to which the Plan is top-heavy;
- (vii) "required aggregation group" means each other qualified plan of the Employer or an Affiliate (including plans that terminated within the five-year period ending on the

determination date) in which there are members who are key employees or which enables the Plan to meet the requirements of Section 401(a)(4) or 410 of the Code; and

- (viii) "permissive aggregation group" means each plan in the required aggregation group and any other qualified plan(s) of the Employer or an Affiliate in which all members are non-key employees, if the resulting aggregation group continues to meet the requirements of Sections 401(a)(4) and 410 of the Code.
- (b) For purposes of this Section, the Plan shall be "top-heavy" with respect to any Plan Year if as of the applicable determination date the top-heavy ratio exceeds 60 percent. The top-heavy ratio shall be determined as of the applicable valuation date in accordance with Section 416(g)(3) and (4)(B) of the Code on the basis of the UP-1984 Mortality Table and an interest rate of 5 percent per year compounded annually. For purposes of determining whether the Plan is top-heavy, the present value of Accrued Benefits under the Plan will be combined with the present value of accrued benefits or account balances under each other plan in the required aggregation group, and in the Employer's discretion, may be combined with the present value of accrued benefits or account balances under any other qualified plan(s) in the permissive aggregation group. The

accrued benefit of a non-key employee under the Plan or any other defined benefit plan in the aggregation group shall be (i) determined under the method, if any, that uniformly applies for accrual purposes under all plans maintained by the Employer or an Affiliate, or (ii) if there is no such method, as if such benefit accrued not more rapidly than the slowest accrual rate permitted under the fractional rule described in Section 411(b)(1)(C) of the Code.

- (c) The following provisions shall be applicable to Participants for any Plan Year with respect to which the Plan is top-heavy:

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- (i) In lieu of the vesting requirements specified in Section 4.04, a Participant shall be vested in, and have a nonforfeitable right to, a percentage of his Accrued Benefit determined in accordance with the provisions of Section 1.01 and subparagraph (ii) below, as set forth in the following vesting schedule:

| Years of Vesting Service ----- | Percentage Vested ----- |
|--------------------------------------|-------------------------------|
| Less than 2 years | 0% |
| 2 years | 20 |
| 3 years | 40 |
| 4 years | 60 |
| 5 or more years | 100 |

- (ii) The Accrued Benefit of a Participant who is a non-key employee shall not be less than 2 percent of his average remuneration multiplied by the number of years of his Years of Vesting Service, not in excess of 10, during the Plan Years for which the Plan is top-heavy. That minimum benefit shall be payable at a Participant's Normal Retirement Date. If payments commence at a time other than the Participant's Normal Retirement Date, the minimum Accrued Benefit shall be the Actuarial Equivalent of that minimum benefit.
- (iii) The multiplier "1.25" in Sections 415(e)(2)(B)(i) and (3)(B)(i) of the Code shall be reduced to "1.0", and the dollar amount "\$51,875" in Section 415(e)(6)(B)(i)(I) of the Code shall be reduced to "\$41,500".
- (d) If the Plan is top-heavy with respect to a Plan Year and ceases to be top-heavy for a subsequent Plan Year, the following provisions shall be applicable:
- (i) The Accrued Benefit in any such subsequent Plan Year shall not be less than the minimum Accrued Benefit provided in paragraph (c)(ii) above, computed as of the end of the most recent Plan Year for which the Plan was top-heavy.

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- (ii) If a Participant has completed three years of Years of Vesting Service on or before the last day of the most recent Plan Year for which the Plan was top-heavy, the vesting schedule set forth in paragraph (c)(i) above shall continue to be applicable.
- (iii) If a Participant has completed at least two, but less than three, years of Years of Vesting Service on or before the last day of the most recent Plan Year for which the Plan was top-heavy, the vesting provisions of Section 4.04 shall again be applicable; provided, however, that in no event shall the vested percentage of a Participant's Accrued Benefit be less than the percentage determined under paragraph (c)(i)

above as of the last day of the most recent Plan Year for which the Plan was top-heavy.

9.06 Offsets

Notwithstanding the foregoing provisions, the monthly amounts otherwise payable hereunder shall be reduced by the amount (expressed on a comparable basis that is an Actuarial Equivalent) of the monthly pension, if any, to which the Participant is entitled under any other pension plan that meets the requirements of Section 401(a) of the Code, or any comparable section or sections of any future legislation that amends, supplements, or supersedes said section, and that is financed in whole or in part by an Employer but only to the extent such other pension is attributable to employer contributions and to the same period of service for which the pension is being paid under this Plan.

9.07 Construction

- (a) The Plan shall be construed, regulated and administered under ERISA as in effect from time to time, and the laws of the State of New York, except where ERISA controls.
- (b) The masculine pronoun shall mean the feminine where appropriate, and vice versa.

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- (c) The titles and headings of the Articles and Sections in this Plan are for convenience only. In case of ambiguity or inconsistency, the text rather than the titles or headings shall control.

9.08 Prevention of Escheat

If the Administrator cannot ascertain the whereabouts of any person to whom a payment is due under the Plan, the Administrator may, no earlier than three years from the date such payment is due, mail a notice of such due and owing payment to the last known address of such person as shown on the records of the Administrator or the Employer. If such person has not made written claim therefor within three months of the date of the mailing, the Administrator may, if it so elects and upon receiving advice from counsel to the Plan, direct that such payment and all remaining payments otherwise due such person be canceled on the records of the Plan and the amount thereof applied to reduce the contributions of the Employer. Upon such cancellation, the Plan shall have no further liability therefor except that, in the event such person or his Beneficiary later

notifies the Administrator of his whereabouts and requests the payment or payments due to him under the Plan, the amount so applied shall be paid to him in accordance with the provisions of the Plan.

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ARTICLE 10. AMENDMENT, MERGER, AND TERMINATION

10.01 Amendment of Plan

The Company, by action of its Board of Directors or by action of a person so authorized by resolution of the Board of Directors, reserves the right at any time and from time to time, and retroactively if deemed necessary or appropriate, to amend in whole or in part any or all of the provisions of the Plan. However, no amendment shall make it possible for any part of the funds of the Plan to be used for, or diverted to, purposes other

than for the exclusive benefit of persons entitled to benefits under the Plan, before the satisfaction of all liabilities with respect to them. No amendment shall be made which has the effect of decreasing the Protected Benefit of any Participant or of reducing the nonforfeitable percentage of the Accrued Benefit of a Participant below the nonforfeitable percentage computed under the Plan as in effect on the date on which the amendment is adopted, or if later, the date on which the amendment becomes effective.

10.02 Merger, Consolidation, or Transfer

The Board of Directors may, in its sole discretion, merge this Plan with another qualified plan, subject to any applicable legal requirements. However, the Plan may not be merged or consolidated with, and its assets or liabilities may not be transferred to, any other plan unless each person entitled to benefits under the Plan would, if the resulting plan were then terminated, receive a benefit immediately after the merger, consolidation, or transfer which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation, or transfer if the Plan had then terminated.

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10.03 Additional Participating Employers

- (a) If any company is now or becomes a subsidiary or associated company of an Employer, the Board of Directors may include the employees of that company in the

membership of the Plan upon appropriate action by that company necessary to adopt the Plan. In that event, or if any persons become Eligible Employees of an Employer as the result of merger or consolidation or as the result of acquisition of all or part of the assets or business of another company, the Board of Directors shall determine to what extent, if any, credit and benefits shall be granted for previous service with the subsidiary, associated or other company, but subject to the continued qualification of the trust for the Plan as tax-exempt under the Code.

- (b) Any subsidiary or associated company may terminate its participation in the Plan upon appropriate action by it, in which event the funds of the Plan held on account of Participants in the employ of that company shall be determined by the Administrator and shall be applied as provided in Section 10.04 if the Plan should be terminated, or shall be segregated by the Trustee as a separate trust, pursuant to certification to the Trustee by the Administrator, continuing the Plan as a separate plan for the employees of that company under which the board of directors of that company shall succeed to all the powers and duties of the Board of Directors, including the appointment of the administrator.

10.04 Termination of Plan

The Company, by action of its Board of Directors, may terminate the Plan for any reason at any time. In case of termination of the Plan, the rights of Participants to their Protected Benefits as of the date of the termination, to the extent then funded or protected by law, if greater, shall be nonforfeitable. The funds of the Plan shall be used for the exclusive benefit of persons entitled to benefits under the Plan as of the date of termination, except as provided in Section 6.02.

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However, any funds not required to satisfy all liabilities of the Plan

for benefits because of erroneous actuarial computation shall be returned to the Employer. The Administrator shall determine on the basis of actuarial valuation the share of the funds of the Plan allocable to each person entitled to benefits under the Plan in accordance with Section 4044 of ERISA, or corresponding provision of any applicable law in effect at the time. In the event of a partial termination of the Plan, the provisions of this Section shall be applicable to the Participants affected by that partial termination.

10.05 Limitation Concerning Highly Compensated Employees or Highly Compensated Former Employees

- (a) The provisions of this Section shall apply (i) in the event the Plan is terminated, to any Participant who is a Highly Compensated Employee or highly compensated former employee (as those terms are defined in Section 414(q) of the Code) of the Employer or an Affiliate and (ii) in any other event, to any Participant who is one of the 25 Highly Compensated Employees or highly compensated former employees of the Employer or Affiliate with the greatest compensation in any Plan Year. The amount of the annual payments to any one of the Participants to whom this Section applies shall not be greater than an amount equal to the annual payments that would be made on behalf of the Participant during the year under a single life annuity that is the Actuarial Equivalent of the sum of the Participant's Accrued Benefit and the Participant's other benefits under the Plan.
- (b) If, (i) after payment of Pension or other benefits to any one of the Participants to whom this Section applies, the value of Plan assets equals or exceeds 110 percent of the value of current liabilities (as that term is defined in Section 412(l)(7) of the Code) of the Plan, (ii) the value of the Accrued Benefit and other benefits of any one of the Participants to whom this Section applies is less than 1 percent of the value of current liabilities of

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the Plan, or (iii) the value of the benefits payable to a Participant to whom this Section applies does not exceed the amount described in Section 411(a)(11)(A) of the Code, the provisions of paragraph (a) above will not be applicable to the payment of benefits to such Participant.

- (c) Notwithstanding paragraph (a) of this Section, in the event the Plan is terminated, the restriction of this Section shall not be applicable if the benefit payable to any Highly Compensated Employee and any highly compensated former employee is limited to a benefit that is nondiscriminatory under Section 401(a)(4) of the Code.
- (d) If it should subsequently be determined by statute, court decision acquiesced in by the Commissioner of Internal Revenue, or ruling by the Commissioner of Internal Revenue, that the provisions of this Section are no longer necessary to qualify the Plan under the Code, this Section shall be ineffective without the necessity of further amendment to the Plan.

10.06 Doubleday Book Shops, Inc.

Appendix B constitutes an integral part of the Plan and is

applicable with respect to (i) those Participants included in the Plan who are employees of Doubleday Book Shops, Inc., and (ii) those former employees of Doubleday Book Shops, Inc. with continuing rights under the Pension Plan for Eligible Employees of Doubleday Book Shops, Inc. as of December 31, 1991. Such employees and former employees are subject to all the terms and

conditions of the Plan, except as otherwise provided by Appendix B.

APPENDIX A. ACTUARIAL FACTORS
TABLE 1
TEN-YEAR CERTAIN & LIFE FACTOR REDUCTION CHART

| Nearest Age | Factor |
|-------------|--------|
| 65 | .930 |
| 64 | .935 |
| 63 | .940 |
| 62 | .945 |
| 61 | .950 |
| 60 | .955 |
| 59 | .960 |
| 58 | .965 |
| 57 | .970 |
| 56 | .975 |
| 55 | .980 |
| 54 | .985 |
| 53 | .990 |
| 52 | .995 |
| 51 or less | 1.000 |

APPENDIX A
(cont'd)

TABLE 2

REDUCTION FACTORS IF BENEFITS BEGIN BEFORE NORMAL RETIREMENT DATE

LIFE ONLY BENEFITS

(Interpolate for ages less than a whole year.)

| Age | Reduction Factor | Age | Reduction Factor |
|-----|------------------|-----|------------------|
| 64 | .933 | 44 | .194 |
| 63 | .867 | 43 | .179 |
| 62 | .800 | 42 | .165 |
| 61 | .733 | 41 | .153 |
| 60 | .667 | 40 | .141 |
| 59 | .633 | 39 | .131 |
| 58 | .600 | 38 | .121 |
| 57 | .567 | 37 | .112 |
| 56 | .533 | 36 | .104 |
| 55 | .500 | 35 | .097 |
| 54 | .456 | 34 | .090 |
| 53 | .417 | 33 | .083 |
| 52 | .381 | 32 | .077 |
| 51 | .349 | 31 | .072 |
| 50 | .320 | 30 | .067 |
| 49 | .293 | 29 | .062 |
| 48 | .270 | 28 | .058 |
| 47 | .248 | 27 | .054 |
| 46 | .228 | 26 | .050 |
| 45 | .210 | 25 | .047 |

APPENDIX B. PROVISIONS APPLICABLE TO EMPLOYEES OF DOUBLEDAY BOOK SHOPS, INC.

This Appendix B constitutes an integral part of the Plan and is applicable with respect to (i) those Participants included in the Plan who are employees of Doubleday Book Shops, Inc., and (ii) those former employees of Doubleday Book Shops, Inc. with continuing rights under the Pension Plan for Eligible Employees of Doubleday Book Shops, Inc. as of December 31, 1991. Such employees and former employees are subject to all the terms and conditions of the Plan, except as otherwise provided by this Appendix B. Section references in this Appendix B correspond to appropriate Sections of the Plan.

ARTICLE 1. DEFINITIONS

- 1.02 "Actuarial Equivalent" means a benefit of equivalent value, determined using a 7 percent interest rate and the UP-1984 Mortality Table. For purposes of determinations under Section 4.04, the applicable factors set forth in Table 2 of this Appendix B shall be used. For purposes of determinations under Section 5.02, the Actuary shall use the applicable factors set forth in Table 1 of this Appendix B
- 1.09 "Compensation" shall include amounts received by an Eligible Employee from an Affiliate, provided such compensation would otherwise meet the definition of Certified Earnings in Section 1.09 of the Plan.
- 1.15 "Eligible Employee" means an Employee:
- (a) who is not included in a unit of Employees covered by a collective bargaining agreement between employee representatives and an Employer if such retirement benefits were the

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subject of good faith bargaining, unless such agreement expressly provides for the inclusion of such persons as Participants in the Plan;

- (b) who is not covered under another defined benefit retirement program as an employee employed by an Affiliate; or
 - (c) who is not classified by Doubleday Book Shops, Inc. as a leased employee (as defined in Section 414(n)(2) of the Code) or as an independent contractor, regardless of his or her classification by the Internal Revenue Service for tax withholding purposes.
- 1.16 "Employee" means any person employed by Doubleday Book Shops, Inc., excluding demonstrators. A "full-time Employee" means an Employee who, on the basis of his regular stated work schedule, is classified as a full-time Employee. A "part-time Employee" means an Employee who, on the basis of his regular stated work schedule, is classified as a part-time Employee.
- 1.19 "Final Average Compensation" The "Final Average Compensation" for purposes of determining the normal monthly retirement pension (as defined in Section 4.01 of this Appendix B) is the average of such Participant's Compensation for those five consecutive Plan Years within the last ten Plan Years preceding the calendar year in which the Participant's Termination of Employment occurs (as defined in Section 1.36 of this Appendix B) with the Employer and all Affiliates that produces the highest average. If such Participant has less than five consecutive full calendar years of employment with the Employer and all Affiliates, Final Average Compensation shall be computed with respect to his actual full calendar years of employment with the Employer and all Affiliates.

- 1.41 "Termination of Employment" of a full-time Employee shall be deemed to occur on the earlier of:
- (a) his resignation, discharge, retirement, or death; or
 - (b) the first anniversary of the first date of a period in which the full-time Employee is absent from work (with or without pay) with the Employer for any other reason (e.g., vacation, holiday, disability, leave of absence, or layoff).

The "Termination of Employment" of a part-time Employee shall be deemed to occur on the earliest of his resignation, discharge, retirement, or death.

ARTICLE 2. PARTICIPATION

2.01 Participation Requirements

- (a) Each Employee of Doubleday Book Shops, Inc. who was a participant in the Pension Plan for Employees of Doubleday Book Shops, Inc. on December 31, 1991 will become a Participant of the Plan on January 1, 1992, provided he is an Eligible Employee on such date. As of January 1, 1992, Participants in the Plan shall include all retired or terminated participants with entitlement to benefits under the Pension Plan for Employees of Doubleday Book Shops, Inc. on December 31, 1991. Any retirement benefit which would have been payable to or on behalf of any such retired or terminated participants under the Pension Plan for Employees of Doubleday Book Shops, Inc. shall be payable from the Plan.
- (b) On and after January 1, 1992, any Employee of Doubleday Book Shops, Inc. shall become a Participant in the Plan on the date he first completes an Hour of Service or the date he becomes an Eligible Employee, if later.

ARTICLE 3. SERVICE

3.01 Years of Vesting Service

- (a) "Year of Vesting Service" means with respect to an employee of Doubleday Book Shops, Inc.:
 - (i) with respect to a part-time Employee, a Plan Year in which such Employee has completed 1,000 or more Hours of Service; and
 - (ii) with respect to a full-time Employee, a 12-month period of uninterrupted employment rendered by such Employee with the Employer during the period beginning on the date the Employee first completes an Hour of Service and ending on the Employee's Termination of Employment;

subject, however, to the service rules of Section 3.01 of the Plan and the following provisions of this Section 3.01.

If a full-time Employee's employment is terminated and he is later reemployed within one year, the period between his Termination of Employment and the date of his reemployment shall be included in Years of Vesting Service. However, if his employment is terminated during a period of absence from service for reasons such as vacation, sickness, disability, layoff, or leave of absence approved by the Employer, the period from his Termination of Employment to the date of his reemployment shall be counted in his Years of Vesting Service only if he is reemployed within one year of the first day of such absence.

(b) Notwithstanding the foregoing provisions of this Section 3.01, an Employee of Doubleday Book Shops, Inc. shall not be deemed to have incurred a One Year Break in Service if the Employee is absent from work because of:

(i) Service in the Armed Forces of the United States;

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(ii) An authorized leave of absence for sickness, vacation or sabbatical granted in writing and for a period not in excess of two years, or a temporary layoff for less than 12 months. Leaves of absence shall be authorized in a nondiscriminatory manner; or

(iii) Disability, other than permanent and total disability, as defined in Section 4.09 of this Appendix B, causing an absence.

(c) Service rendered prior to April 1, 1990 to Doubleday & Company, Inc. or any affiliated entity thereof within the meaning of Sections 414(b), (c), (m), and (o) of the Code shall be recognized for vesting purposes under the terms of the Pension Plan for Employees of Doubleday & Company, Inc. and its Associated Employers as in effect on March 31, 1990.

3.02 Credited Service

Credited Service for purposes of this Appendix B means all Years of Vesting Service rendered as an Employee of Doubleday Book Shops, Inc., except as provided below. Any period between a Termination of Employment (as defined in Section 1.41 of this Appendix B) and a reemployment date which is counted as Years of Vesting Service as provided in Section 3.01 of this Appendix B shall not be counted as Credited Service, except that Credited Service shall include any period of absence from service with the Employer due to service in the Armed Forces of the United States which is counted in a Participant's Years of Vesting Service as provided in the Plan. An Employee's Credited Service rendered prior to a Termination of Employment will not be restored to him upon subsequent reemployment if the Employee received a lump sum amount as provided in Section 5.01(c).

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3.03 Reemployment

(a) If a Participant is reemployed by Doubleday Book Shops, Inc. and works at least eight days during a calendar month, any pension payments he is currently receiving shall be discontinued. After said month and prior to the month following his subsequent Termination of Employment, pension payments that the Participant would otherwise be entitled to receive shall be permanently withheld for each calendar month in which he works at least eight days.

(b) If a Participant's employment with Doubleday Book Shops, Inc. continues after he attains Normal Retirement Age, his pension payments will be permanently withheld for each calendar month in which he works at least eight days.

(c) If a Participant who was an employee of Doubleday Book Shops, Inc. is rehired by any other Employer, the provisions set forth in Section 3.03 of the Plan shall control.

3.04 Change in Employment Status

(a) If an Employee employed by Doubleday Book Shops, Inc. on a full-time basis becomes employed on a part-time basis,

his Years of Vesting Service prior to the date of such change in status shall be determined under the provisions of Section 3.01 of this Appendix B as applicable to a full-time Employee and his subsequent Years of Vesting Service shall be determined under the provisions of Section 3.01 of this Appendix B as applicable to a part-time Employee; provided, however, that in determining his Years of Vesting Service with respect to the Plan Year in which such change in status occurs, 190 Hours of Service will be counted for each month (or part thereof) of employment prior to the date such change took place.

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- (b) If an Employee of Doubleday Book Shops, Inc. who is employed on a part-time basis becomes employed on a full-time basis, his Years of Vesting Service prior to the first day of the Plan Year coincident with or next following such change in status shall be determined under the provisions of Section 3.01 of this Appendix B as applicable to a part-time Employee and his subsequent Years of Vesting Service shall be determined under the provisions of Section 3.01 of this Appendix B as applicable to a full-time Employee; provided, however, that in the Plan Year in which such change in status occurs, such Employee will be credited with one full Year of Vesting Service if he completes 1,000 Hours of Service in such Plan Year. If the Employee is not credited with one full Year of Vesting Service in such Plan Year in accordance with the prior sentence, his Years of Vesting Service for the Plan Year in which the change in status occurred shall equal the Years of Vesting Service that would have been counted if the Employee had remained a full-time Employee up to the earlier of the end of such Plan Year or his Termination of Employment.

ARTICLE 4. ELIGIBILITY FOR AND AMOUNT OF BENEFITS

4.01 Normal Retirement

- (a) The normal retirement Pension of a Participant attributable to his period of employment as an Employee of Doubleday Book Shops, Inc. shall be a monthly amount, payable at his Normal Retirement Date, equal to:

1/12 of 1.1 percent of Final Average Compensation up to Covered Compensation for each year of Credited Service (maximum 30 years) plus 1.67% of Final Average Compensation greater than Covered Compensation for each year of Credited Service (maximum 30 years).

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4.03 Early Retirement

If a Participant elects to begin payment of his early retirement Pension prior to his Normal Retirement Date, the Pension payable with respect to his period of employment as an Employee of Doubleday Book Shops, Inc. shall be equal to his accrued monthly Pension, as determined under this Appendix B, reduced by 5 percent for each full year that the date the Participant's early retirement benefit commences precedes his Normal Retirement Date, with pro rata reductions hereunder based on fractions of a year.

4.05 Spouse's Pension

- (a) If a Participant who:
- (i) is an Employee of Doubleday Book Shops, Inc.
dies in active service prior to his Annuity Starting Date

having met the requirement for any pension benefit under Article 4;

- (ii) was an Employee of Doubleday Book Shops, Inc. dies after Termination of Employment but prior to his Annuity Starting Date with entitlement to a pension benefit under Article 4; or
- (iii) was an Employee of Doubleday Book Shops, Inc. dies while accruing service under Section 4.09 of this Appendix B and prior to his Annuity Starting Date having met the requirement for any pension benefit under Article 4;

his eligible surviving spouse (if any) shall be entitled to a monthly Pension payable for life. The first payment of such survivor Pension benefit shall be made on the first day of the month following what would have been the Participant's Normal Retirement Date or his date of death, if later. However, the eligible surviving spouse may elect to begin receiving payments on the first day of the month coinciding with or following the month in which the Participant would have attained age 55 and prior to his Normal Retirement Date or the date of the Participant's death, if

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later. The last monthly payment shall be made as of the first day of the month in which the eligible surviving spouse's death occurs.

The amount of each monthly payment shall be equal to the amount of benefit the eligible surviving spouse would have received if the Pension benefit to which the Participant was entitled to as of his date of death had commenced on his Normal Retirement Date (or his date of death, if later) in the form of a Qualified Joint and Survivor Annuity and the Participant had died immediately thereafter. If the eligible surviving spouse elects an earlier commencement date, the amount of each payment shall be further adjusted to reflected commencement prior the Participant's Normal Retirement Date as follows:

- (i) If the Participant's death occurred after he attained age 55 and the eligible surviving spouse elects early commencement, the monthly Pension payable to the eligible surviving spouse shall be based on the amount of the benefit determined under Section 4.01 of this Appendix B to which the Participant would have been entitled if he had requested benefit commencement in the form of a Qualified Joint and Survivor Annuity at that earlier date, reduced as provided in Section 4.03 of this Appendix.
- (ii) If the Participant's death occurred before he attained age 55 and the eligible surviving spouse elects a commencement date on or after the date the Participant would have attained age 55, the monthly pension payable to the eligible surviving spouse shall be based on the amount of benefit determined under Section 4.01 of this Appendix B to which the Participant would have been entitled if he had commenced payment in the form of a Qualified Joint and Survivor Annuity at that earlier date, reduced in accordance with the provisions of Section 4.04 of this Appendix.

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- (b) A Participant described in paragraph (a) may not elect to waive the survivor annuity coverage under paragraph (a).

4.08 Protection of Benefits Accrued Prior to January 1, 1992

Notwithstanding any provisions to the contrary, each Participant who was a participant in the Pension Plan for Employees of

Doubleday Book Shops, Inc. on December 31, 1991 and who became a Participant in the Plan on January 1, 1992 shall not have his benefit (including optional forms of benefit and other benefits protected under Internal Revenue Code Section 411(d)(6) and regulations thereunder) accrued as of December 31, 1991 under the terms of the Pension Plan for Employees of Doubleday Book Shops, Inc. as in effect on such date reduced or eliminated.

4.09 Disability Retirement

In the event a Participant, while he is an Employee of Doubleday Book Shops, Inc., becomes permanently and totally disabled before his Normal Retirement Date so that he is no longer able to continue in employment in the same or similar capacity, such Participant shall continue to be credited with Years of Vesting Service and years of Credited Service for all Plan purposes while he is permanently and totally disabled, but his Final Average Compensation shall be calculated as of the date he becomes permanently and totally disabled. Such Participant shall receive his retirement benefit as of his Normal Retirement Date unless he elects in writing to the Administrator that such benefit commence at an early retirement date. A Participant shall be deemed "permanently and totally disabled" if the Participant is entitled to and is receiving disability benefits under the Social Security Act.

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ARTICLE 5. PAYMENT OF PENSIONS

5.02 Optional Forms of Payment

In lieu of the amount and form of Pension payable to him under the Plan, and subject to any Spousal Consent required, a Participant may, under such rules as the Employer may prescribe, elect to have his Pension attributable to his employment as an Employee of the Doubleday Book Shops, Inc. (as determined under this Appendix B) paid under any of the following options:

- (a) The Ten-Year Certain and Life Option available under the Plan, determined by multiplying the amount that would be paid to him on a life only basis by the applicable reduction factor from Table 1 of this Appendix B.
- (b) A Five-Year Certain and Life Option that is a modified Pension payable during the Participant's life; if the Participant dies within 60 months of his Annuity Starting Date, the balance of those monthly payments shall be paid to the Beneficiary named by him when he elected the option. The monthly amount payable under this option will be determined by multiplying the amount that would be paid to the Participant on a life-only basis by the applicable reduction factor from Table 1 of this Appendix B.
- (c) The 50% Joint and Survivor Option available under the Plan, determined by multiplying the amount that would be paid to him on a life only basis by a reduction factor which is 90 percent, increased by 3/10 of 1 percent (but not more than 100 percent) for each year the contingent annuitant is older than the Participant, and decreased by 3/10 of 1 percent for each year the contingent annuitant is younger than the Participant.
- (d) The 100% Joint and Survivor Option available under the Plan, determined by multiplying the amount that would be paid to him on a life-only basis by a reduction factor which is 82 percent, increased by 6/10 of 1 percent (but not more than 100 percent) for each year the contingent annuitant is older than the Participant, and decreased by 6/10 of 1 percent for each year the contingent

annuitant is younger than the Participant.

In the event the Beneficiary named under the provisions of paragraph (a) or (c) above fails to survive the Participant and the Participant has not designated a contingent beneficiary, the Beneficiary shall be deemed to be in the order of sequence below: (1) the Participant's eligible surviving spouse, if any, (2) his children then living, (3) his brothers or sisters then living, or (4) his estate. If the designated Beneficiary survives the Participant but dies prior to receiving the full number of payments under the five- or ten-year certain and life option and the Participant has not designated a contingent Beneficiary, distribution of the remaining payments will be made to the Beneficiary's estate.

APPENDIX A

TABLE 1

FIVE- OR TEN-YEAR CERTAIN AND LIFE FACTOR REDUCTION CHART

| Participant's Attained Age | Five-Year Certain & Life | Ten-Year Certain & Life | Participant's Attained Age | Five-Year Certain & Life | Ten-Year Certain & Life |
|-------------------------------|-----------------------------|----------------------------|-------------------------------|-----------------------------|----------------------------|
| 70 | .957 | .864 | 49 | .998 | .981 |
| 69 | .962 | .877 | 48 | .999 | .982 |
| 68 | .966 | .889 | 47 | 1.000 | .983 |
| 67 | .970 | .901 | 46 | 1.000 | .984 |
| 66 | .974 | .911 | 45 | 1.000 | .985 |
| 65 | .977 | .921 | 44 | 1.000 | .986 |
| 64 | .980 | .929 | 43 | 1.000 | .987 |
| 63 | .982 | .937 | 42 | 1.000 | .988 |
| 62 | .984 | .943 | 41 | 1.000 | .989 |
| 61 | .986 | .949 | 40 | 1.000 | .990 |
| 60 | .987 | .954 | 39 | 1.000 | .991 |
| 59 | .988 | .959 | 38 | 1.000 | .992 |
| 58 | .990 | .963 | 37 | 1.000 | .993 |
| 57 | .990 | .966 | 36 | 1.000 | .994 |
| 56 | .991 | .969 | 35 | 1.000 | .995 |
| 55 | .992 | .972 | 34 | 1.000 | .996 |
| 54 | .993 | .974 | 33 | 1.000 | .997 |
| 53 | .994 | .976 | 32 | 1.000 | .998 |
| 52 | .995 | .978 | 31 | 1.000 | .999 |
| 51 | .996 | .979 | 30 and less | 1.000 | 1.000 |
| 50 | .997 | .980 | | | |

APPENDIX B

TABLE 2

REDUCTION FACTORS IF DEFERRED VESTED PARTICIPANT'S BENEFITS BEGIN
BEFORE NORMAL RETIREMENT DATE
(interpolate for ages less than a whole year)

| Participant's Attained Age | Factor | Participant's Attained Age | Factor |
|-------------------------------|--------|-------------------------------|--------|
| 65 | 1.000 | 44 | .139 |
| 64 | .893 | 43 | .128 |
| 63 | .799 | 42 | .118 |
| 62 | .717 | 41 | .109 |
| 61 | .645 | 40 | .101 |
| 60 | .582 | 39 | .093 |
| 59 | .526 | 38 | .087 |
| 58 | .476 | 37 | .080 |
| 57 | .432 | 36 | .074 |
| 56 | .393 | 35 | .069 |

| | | | |
|----|------|----|------|
| 55 | .358 | 34 | .064 |
| 54 | .326 | 33 | .059 |
| 53 | .298 | 32 | .055 |
| 52 | .272 | 31 | .051 |
| 51 | .250 | 30 | .048 |
| 50 | .229 | 29 | .044 |
| 49 | .210 | 28 | .041 |
| 48 | .193 | 27 | .038 |
| 47 | .177 | 26 | .036 |
| 46 | .163 | 25 | .033 |
| 45 | .150 | | |

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data of Barnes & Noble, Inc. and its wholly owned subsidiaries (collectively, the Company) set forth on the following pages should be read in conjunction with the consolidated financial statements and notes included elsewhere in this report. The Company's fiscal year is comprised of 52 or 53 weeks, ending on the Saturday closest to the last day of January. The Statement of Operations Data for the 52 weeks ended January 31, 1998 (fiscal 1997), the 53 weeks ended February 1, 1997 (fiscal 1996) and the 52 weeks ended January 27, 1996 (fiscal 1995) and the Balance Sheet Data as of January 31, 1998 and February 1, 1997 are derived from, and are qualified by reference to, audited consolidated financial statements which are included elsewhere in this report. The Statement of Operations Data for the 52 weeks ended January 28, 1995 (fiscal 1994) and January 29, 1994 (fiscal 1993) and the Balance Sheet Data as of January 27, 1996, January 28, 1995 and January 29, 1994 are derived from audited consolidated financial statements not included in this report. Certain prior-period amounts have been reclassified for comparative purposes.

| FISCAL YEAR (Thousands of dollars, except per share data) | 1997 | 1996 | 1995 | 1994 | 1993 |
|---|--------------|------------|------------|------------|------------|
| STATEMENT OF OPERATIONS DATA: | | | | | |
| Revenues | | | | | |
| Barnes & Noble stores(1) | \$ 2,245,531 | 1,861,177 | 1,349,830 | 952,697 | 614,646 |
| B. Dalton stores(2) | 509,389 | 564,926 | 603,204 | 646,876 | 688,220 |
| BarnesandNoble.com | 14,601 | -- | -- | -- | -- |
| Other | 27,331 | 22,021 | 23,866 | 23,158 | 34,520 |
| Total revenues | 2,796,852 | 2,448,124 | 1,976,900 | 1,622,731 | 1,337,386 |
| Cost of sales and occupancy | 2,019,291 | 1,785,392 | 1,444,555 | 1,192,123 | 989,526 |
| Gross profit | 777,561 | 662,732 | 532,345 | 430,608 | 347,860 |
| Selling and administrative expenses | 540,423 | 465,687 | 383,692 | 316,457 | 267,699 |
| Depreciation and amortization | 76,951 | 59,806 | 47,881 | 36,617 | 29,077 |
| Pre-opening expenses | 12,918 | 17,571 | 12,160 | 9,021 | 8,940 |
| Restructuring charge(3) | -- | -- | 123,768 | -- | -- |
| Operating profit (loss) | 147,269 | 119,668 | (35,156) | 68,513 | 42,144 |
| Interest expense, net and amortization of deferred financing fees(4) | 37,666 | 38,286 | 28,142 | 22,955 | 25,807 |
| Earnings (loss) before provision (benefit) for income taxes and extraordinary charge | 109,603 | 81,382 | (63,298) | 45,558 | 16,337 |
| Provision (benefit) for income taxes | 44,935 | 30,157 | (10,322) | 20,085 | 8,584 |
| Earnings (loss) before extraordinary charge | 64,668 | 51,225 | (52,976) | 25,473 | 7,753 |
| Extraordinary charge(5) | 11,499 | -- | -- | -- | -- |
| Net earnings (loss) (6) | \$ 53,169 | 51,225 | (52,976) | 25,473 | 7,753 |
| Earnings (loss) per common share(7) | | | | | |
| Basic | | | | | |
| Earnings (loss) before extraordinary charge | \$ 0.96 | 0.77 | (0.85) | 0.42 | 0.15 |
| Extraordinary charge | \$ 0.17 | -- | -- | -- | -- |
| Net earnings (loss) | \$ 0.79 | 0.77 | (0.85) | 0.42 | 0.15 |
| Diluted | | | | | |
| Earnings (loss) before extraordinary charge | \$ 0.93 | 0.75 | (0.85) | 0.41 | 0.15 |
| Extraordinary charge | \$ 0.17 | -- | -- | -- | -- |
| Net earnings (loss) | \$ 0.76 | 0.75 | (0.85) | 0.41 | 0.15 |
| Weighted average common shares outstanding(7) | | | | | |
| Basic | 67,237,000 | 66,103,000 | 62,434,000 | 59,970,000 | 52,039,000 |
| Diluted | 69,836,000 | 67,886,000 | 62,434,000 | 61,560,000 | 52,255,000 |

Selected Consolidated Financial Data Continued

| FISCAL YEAR (Thousands of dollars, except per share data) | 1997 | 1996 | 1995 | 1994 | 1993 |
|--|------|------|------|------|------|
| STORE OPERATING DATA: | | | | | |

| | | | | | |
|--|--------------|-----------|-----------|-----------|---------|
| Stores open at end of period | | | | | |
| Barnes & Noble stores(1) | 483 | 431 | 358 | 268 | 203 |
| B. Dalton stores(2) | 528 | 577 | 639 | 698 | 734 |
| Total | 1,011 | 1,008 | 997 | 966 | 937 |
| Comparable store sales increase (decrease) (8) | | | | | |
| Barnes & Noble stores(1) | 9.4% | 7.3% | 6.9% | 12.6% | 8.6% |
| B. Dalton stores(2) | (1.1) | (1.0) | (4.3) | (2.3) | (0.3) |
| Capital Expenditures | \$ 121,903 | 171,885 | 154,913 | 88,763 | 81,116 |
| BALANCE SHEET DATA (AT END OF PERIOD): | | | | | |
| Working capital | \$ 264,719 | 212,692 | 226,500 | 155,976 | 182,403 |
| Total assets | \$ 1,591,171 | 1,446,647 | 1,315,342 | 1,026,418 | 895,863 |
| Long-term debt, less current portions | \$ 284,800 | 290,000 | 262,400 | 190,000 | 190,000 |
| Shareholders' equity | \$ 531,755 | 455,989 | 400,235 | 358,173 | 328,841 |

- (1) Also includes 20 Bookstop and 25 Bookstar stores.
- (2) Also includes 18 Doubleday Book Shops, nine Scribner's Bookstores and seven smaller format bookstores operated under the Barnes & Noble trade name representing the Company's original retail strategy.
- (3) Restructuring charge includes restructuring and asset impairment losses recognized upon adoption of Statement of Financial Accounting Standards No. 121, "Impairment of Long-Lived Assets and Assets to be Disposed Of."
- (4) Interest expense for fiscal 1997, 1996, 1995, 1994, and 1993 is net of interest income of \$446, \$2,288, \$2,138, \$3,008 and \$1,838, respectively.
- (5) Reflects a net extraordinary charge during fiscal 1997 due to the early extinguishment of debt, consisting of: (i) a pre-tax charge of \$11,281 associated with the redemption premium on the Company's senior subordinated notes; (ii) the associated write-off of \$8,209 of unamortized deferred finance costs; and (iii) the related tax benefits of \$7,991 on the extraordinary charge.
- (6) Net earnings (loss) does not give effect to preferred stock dividends.
- Holder of the Company's Series C Preferred Stock were entitled to dividends of \$4,466 during fiscal 1993. Such accumulated dividends were paid from the proceeds of the Company's initial public offering completed on October 4, 1993 (IPO). Accumulated dividends on all other series of preferred stock outstanding were converted into common stock or waived during fiscal 1993.
- (7) All share and per-share amounts have been restated to give effect to a two-for-one stock split completed by the Company during fiscal 1997, and to reflect the adoption, in fiscal 1997, of Statement of Financial Accounting Standards No. 128, "Earnings per Share" for all periods presented. Fiscal 1993 earnings per share were computed on a pro forma basis and give effect to certain employee stock options using the treasury stock method, the number of shares issued upon the conversions of preferred stock and the exercise of warrants in connection with the IPO and the number of shares issued equal in value to the redemption price of the Series C Preferred Stock, including accumulated and unpaid dividends.
- (8) Comparable store sales increase (decrease) is calculated on a 52-week basis, and includes sales of stores that have been open for 12 months for B. Dalton stores and 15 months for Barnes & Noble stores (due to the high sales volume associated with grand openings). Comparable store sales for fiscal years 1997 and 1996 include relocated Barnes & Noble stores and exclude B. Dalton stores which the company has closed or has a formal plan to close.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company's fiscal year is comprised of 52 or 53 weeks, ending on the Saturday closest to the last day of January. As used in this section, "fiscal 1997" represents the 52 weeks ended January 31, 1998, "fiscal 1996" represents the 53 weeks ended February 1, 1997 and "fiscal 1995" represents the 52 weeks ended January 27, 1996.

GENERAL

Barnes & Noble, Inc. (Barnes & Noble or the Company), the world's

largest bookseller*, as of January 31, 1998 operates 483 "super" stores, 65 of which were opened in fiscal 1997, under the Barnes & Noble Booksellers, Bookstop and Bookstar trade names, and 528 mall bookstores under the B. Dalton Booksellers, Doubleday Book Shops and Scribner's Bookstore trade names. Barnes & Noble publishes books under its own imprint for exclusive sale through its retail stores and mail-order catalogs. The Company is also the exclusive bookseller in America Online's Marketplace (keyword: BarnesandNoble) and maintains its own Web site (BarnesandNoble.com), operating the "world's largest bookseller online." The Company employed approximately 27,200 full- and part-time booksellers and created nearly 3,200 new jobs nationwide during fiscal 1997 primarily due to its Barnes & Noble store expansion.

Barnes & Noble is the largest operator of book "super" stores in the United States* with 483 Barnes & Noble stores located in 48 states and the District of Columbia as of January 31, 1998. With more than 30 years of

bookselling experience, management has a strong sense of customers' changing needs and the Company leads book retailing with a "community store" concept. Barnes & Noble's typical store offers a comprehensive title base, a cafe, a children's section, a music department and a calendar of ongoing events, including author appearances and children's activities, that make each Barnes & Noble store an active part of its community. Management estimates that as much as 80% of the sales generated by a new Barnes & Noble store is incremental to the community in which the store is located, representing a combination of previously unfulfilled and newly created demand.

Barnes & Noble stores range in size from 10,000 to 60,000 square feet depending upon market size, and each store features an authoritative selection of books, ranging from 60,000 to 175,000 titles. The comprehensive title selection is diverse and reflects local interests. To further this diversity, Barnes & Noble emphasizes books published by small and independent publishers and university presses. Bestsellers represent only 3% of Barnes & Noble store sales. In addition to the extensive on-site selection, each store can fill customers' special order requests from the more than one million books in print.

Barnes & Noble stores opened during fiscal 1997 added 1.6 million square feet to the Barnes & Noble base, bringing the total square footage to 10.8 million square feet, a 16% increase over the prior year. Barnes & Noble stores generated more than 80% of the Company's total revenues in fiscal 1997. The Company plans to open approximately 60 Barnes & Noble stores in 1998 which are expected to average 26,000 square feet in size.

At the end of fiscal 1997, the Company operated 528 B. Dalton stores in 45 states and the District of Columbia. B. Dalton stores employ merchandising strategies that target the "middle-American" consumer book market, offering a wide range of bestsellers and general-interest titles. Doubleday and Scribner's bookstores utilize a more upscale format aimed at the "carriage trade" in higher-end shopping malls and place a greater emphasis on hardcover and gift books. Most B. Dalton stores range in size from 2,800 to 6,000 square feet, and while they are appropriate to the size of adjacent mall tenants, the opening of superstores in nearby locations continues to have a significant impact on B. Dalton stores.

The Company is continuing to execute its strategy to maximize returns from its B. Dalton division in response to declining sales attributable primarily to superstore competition and, to a lesser extent, weaker overall consumer traffic in shopping malls. Part of the Company's strategy has been to close underperforming stores, which has resulted in the closing of more than 50 B. Dalton stores per year since 1989.

The Company has also been expanding the size of some of its new B. Dalton stores and is seeking better locations within malls. A new B. Dalton prototype was developed for this purpose in 1993 and, since that time, more than 100 new or converted stores have been opened and are performing, on average, better than the remaining store base.

* based upon sales reported in trade publications and public filings

Complementing its leadership position as the world's largest bookseller, Barnes & Noble is the world's largest supplier of books through catalogs*. The

Company mails over 15 million catalogs each year and maintains a list of over one million customers worldwide. Barnes & Noble's extensive catalog mailings have created substantial global name recognition which has benefited both the retail stores and the online business.

During 1997, the Company, through its wholly owned subsidiary BarnesandNoble.com Inc., became the exclusive bookseller in America Online's Marketplace, linking the world's largest bookseller with the world's most popular Internet online service. The exclusive four-year agreement gives BarnesandNoble.com an extensive presence throughout America Online. The Company further extended its brand awareness by launching its own web site (BarnesandNoble.com) through which it has entered into thousands of strategic online alliances and affiliations, including Lycos, Web Crawler, ZDNet, The New York Times and Disney. The Company believes that it brings significant competitive advantages to the online bookselling market, including its distribution expertise, proprietary title database, large customer base and brand recognition.

The Company further differentiates its product offerings from those of its competitors by publishing books under its own Barnes & Noble Books imprint for exclusive sale in its retail stores, direct-mail catalogs and through BarnesandNoble.com. With publishing and distribution rights to over 1,500 titles, Barnes & Noble Books offers customers high-quality books at excellent values and generates attractive gross margins.

The Company also maintains an equity investment in Chapters Inc., an Ontario company which is publicly traded on the Toronto Stock Exchange. Chapters is the largest book retailer in Canada and the third largest in North America*, operating 347 bookstores, including 29 superstores, as of the end of fiscal 1997.

RESULTS OF OPERATIONS

The Company's revenues, operating profit (loss), comparable store sales, store openings, store closings and number of stores open at year end are set forth below:

| FISCAL YEAR (Thousands of dollars) | 1997 | 1996 | 1995 |
|---------------------------------------|--------------|-----------|-----------|
| REVENUES | | | |
| Retail business | \$ 2,782,251 | 2,448,124 | 1,976,900 |
| BarnesandNoble.com | 14,601 | -- | -- |
| Total | \$ 2,796,852 | 2,448,124 | 1,976,900 |
| Operating profit (loss) | | | |
| Retail business | \$ 162,664 | 119,668 | (35,156) |
| BarnesandNoble.com | (15,395) | -- | -- |
| Total | \$ 147,269 | 119,668 | (35,156) |
| COMPARABLE STORE SALES | | | |
| INCREASE (DECREASE) (1) | | | |
| Barnes & Noble stores(2) | 9.4% | 7.3% | 6.9% |
| B. Dalton stores(3) | (1.1) | (1.0) | (4.3) |
| STORES OPENED | | | |
| Barnes & Noble stores(2) | 65 | 91 | 97 |
| B. Dalton stores(3) | 4 | 10 | 10 |
| Total | 69 | 101 | 107 |
| STORES CLOSED | | | |
| Barnes & Noble stores(2) | 13 | 18 | 7 |
| B. Dalton stores(3) | 53 | 72 | 69 |
| Total | 66 | 90 | 76 |
| NUMBER OF STORES OPEN AT YEAR END | | | |
| Barnes & Noble stores(2) | 483 | 431 | 358 |
| B. Dalton stores(3) | 528 | 577 | 639 |

| | | | |
|---|-------|-------|-------|
| Total | 1,011 | 1,008 | 997 |
| | ===== | ===== | ===== |
| SQUARE FEET OF SELLING SPACE AT YEAR END (IN MILLIONS) | | | |
| Barnes & Noble stores(2) | 10.8 | 9.3 | 7.0 |
| B. Dalton stores(3) | 2.0 | 2.2 | 2.4 |
| | ----- | ----- | ----- |
| Total | 12.8 | 11.5 | 9.4 |
| | ===== | ===== | ===== |

(1) Comparable store sales for B. Dalton stores are determined using stores open at least 12 months. Comparable store sales for Barnes & Noble stores are determined using stores open at least 15 months, due to the high sales volume associated with grand openings. Comparable store sales increase (decrease) is computed on a 52-week basis for fiscal 1996.

(2) Also includes 20 Bookstop and 25 Bookstar stores.

(3) Also includes 18 Doubleday Book Shops, nine Scribner's Bookstores and seven smaller format bookstores operated under the Barnes & Noble trade name representing the Company's original retail strategy.

* based upon sales reported in trade publications and public filings

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The following table sets forth, for the periods indicated, the percentage relationship that certain items bear to total revenues of the Company:

| FISCAL YEAR | 1997 | 1996 | 1995 |
|---|--------|--------|--------|
| - - - - - | ----- | ----- | ----- |
| Revenues | 100.0% | 100.0% | 100.0% |
| Cost of sales and occupancy | 72.2 | 72.9 | 73.1 |
| | ----- | ----- | ----- |
| Gross margin | 27.8 | 27.1 | 26.9 |
| Selling and administrative expenses | 19.3 | 19.0 | 19.4 |
| Depreciation and amortization | 2.8 | 2.5 | 2.4 |
| Pre-opening expenses | 0.4 | 0.7 | 0.6 |
| Restructuring charge | -- | -- | 6.3 |
| | ----- | ----- | ----- |
| Operating margin(1) | 5.3 | 4.9 | (1.8) |
| Interest expense, net and amortization of deferred financing fees | 1.4 | 1.6 | 1.4 |
| | ----- | ----- | ----- |
| Earnings (loss) before provision (benefit) for income taxes and extraordinary charge(1) | 3.9 | 3.3 | (3.2) |
| Provision (benefit) for income taxes(1) | 1.6 | 1.2 | (0.5) |
| | ----- | ----- | ----- |
| Earnings (loss) before extraordinary charge(1) | 2.3 | 2.1 | (2.7) |
| Extraordinary charge | 0.4 | -- | -- |
| | ----- | ----- | ----- |
| Net earnings (loss) | 1.9% | 2.1% | (2.7)% |
| | ===== | ===== | ===== |

(1) If operating margin, earnings (loss) before provision (benefit) for income taxes and extraordinary charge, provision (benefit) for income taxes and earnings (loss) before extraordinary charge were presented before the effects of the restructuring charge of \$123,768 during fiscal 1995, the percentage relationship that these items would bear to total revenues of the Company would be 4.5%, 3.1%, 1.4% and 1.7%, respectively.

52 WEEKS ENDED JANUARY 31, 1998 COMPARED WITH 53 WEEKS ENDED FEBRUARY 1, 1997

Revenues

The Company's revenues increased 14.2% during fiscal 1997 to \$2.797 billion from \$2.448 billion during fiscal 1996. Fiscal 1996 includes 53 weeks; excluding the impact of the 53rd week, revenues increased 16.0%. Fiscal 1997 revenues from Barnes & Noble stores, which contributed 80.3% of total revenues, increased 20.7% to \$2.246 billion from \$1.861 billion in fiscal 1996.

The increase in revenues was primarily due to the 9.4% increase in Barnes & Noble comparable store sales and the opening of an additional 65 Barnes & Noble stores during 1997. This increase was slightly offset by declining

revenues of B. Dalton stores which closed 53 stores and posted a comparable store sales decline of 1.1%. BarnesandNoble.com, the Company's new online subsidiary, also contributed to the increase in revenue, posting \$14.6 million of revenues during its first partial year of operations.

Cost of Sales and Occupancy

The Company's cost of sales and occupancy includes costs such as rental expense, common area maintenance, merchant association dues, lease-required advertising and adjustments for LIFO.

Cost of sales and occupancy increased 13.1% during fiscal 1997 to \$2.019 billion from \$1.785 billion in fiscal 1996 resulting in an increase in the Company's gross margin rate to 27.8% in fiscal 1997 from 27.1% in fiscal 1996. The gross margin expansion reflects more direct buying, reduced costs of shipping and handling, and improvements in merchandise mix.

Selling and Administrative Expenses

Selling and administrative expenses increased \$74.7 million, or 16.0% to \$540.4 million in fiscal 1997 from \$465.7 million in fiscal 1996. Selling and administrative expenses increased to 19.3% of revenues during fiscal 1997 from 19.0% during fiscal 1996 primarily as a result of the start-up expenses from BarnesandNoble.com. Excluding BarnesandNoble.com, selling and administrative expenses would have declined to 18.9% of revenues, reflecting operating leverage improvement.

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Depreciation and Amortization

Depreciation and amortization increased \$17.2 million, or 28.8%, to \$77.0 million in fiscal 1997 from \$59.8 million in fiscal 1996. The increase was primarily the result of the new Barnes & Noble stores opened during fiscal 1997 and fiscal 1996.

Pre-Opening Expenses

Pre-opening expenses declined in fiscal 1997 to \$12.9 million from \$17.6 million in fiscal 1996 reflecting fewer new stores compared with prior years.

Operating Profit

Operating profit increased to \$147.3 million in fiscal 1997 from \$119.7 million in fiscal 1996. Despite the \$15.4 million operating loss from BarnesandNoble.com, operating margin improved to 5.3% of revenues during fiscal 1997 from 4.9% of revenues during fiscal 1996. Excluding BarnesandNoble.com, operating margin for the retail business improved to 5.8% of revenues.

Interest Expense, Net and Amortization of Deferred Financing Fees

Interest expense, net of interest income, and amortization of deferred financing fees decreased \$0.6 million in fiscal 1997 to \$37.7 million from \$38.3 million in fiscal 1996. The decline was primarily due to lower borrowings under the Company's senior credit facilities.

Provision for Income Taxes

Barnes & Noble's effective tax rate was 41.0% during fiscal 1997 compared with 37.1% during fiscal 1996. The fiscal 1996 provision reflected a non-recurring \$3.0 million rehabilitation tax credit.

Extraordinary Charge

As a result of obtaining a new senior credit facility during fiscal 1997, the Company called its outstanding \$190 million, 11 7/8% senior subordinated notes on January 15, 1998, at a call premium of 5.9375%. The extraordinary charge reflects (on an after-tax basis) such call premium along with the write-off of related deferred financing fees.

Earnings

Fiscal 1997 earnings before extraordinary charge increased \$13.4 million, or 26.2%, to \$64.7 million (or \$0.93 per diluted share) from \$51.2 million (or \$0.75 per diluted share) during fiscal 1996. The extraordinary charge in fiscal 1997 of \$11.5 million equated to \$0.17 per diluted share resulting in net earnings during fiscal 1997 of \$53.2 million (or \$0.76 per diluted share).

All share and per-share amounts contained in this annual report have been restated to reflect a two-for-one split of the Company's common stock in September of 1997, and the adoption of Statement of Financial Accounting Standards No. 128, "Earnings per Share" (SFAS 128). Implementation of SFAS 128 did not have a material effect on the Company's diluted earnings per share. SFAS 128 requires the disclosure of basic earnings per share in addition to diluted earnings per share.

53 WEEKS ENDED FEBRUARY 1, 1997, COMPARED WITH 52 WEEKS ENDED JANUARY 27, 1996

Revenues

The Company's revenues increased 23.8% during fiscal 1996 to \$2.448 billion from \$1.977 billion during fiscal 1995. Fiscal 1996 includes 53 weeks; excluding the impact of the 53rd week, revenues increased 21.5%. During fiscal 1996, revenues from Barnes & Noble stores rose 37.9% to \$1.861 billion from \$1.350 billion during fiscal 1995 and contributed 76.0% of total revenues, up from 68.3% during fiscal 1995. B. Dalton stores generated revenues of \$564.9 million (or 23.1% of total revenues) during fiscal 1996, down from \$603.2 million (or 30.5% of total revenues) during fiscal 1995.

The increase in revenues was primarily attributable to an increase in sales from Barnes & Noble stores. The Company opened 91 Barnes & Noble stores and closed 18 during fiscal 1996 (12 of which were relocated), increasing square footage by 33% in fiscal 1996. Comparable store sales for Barnes & Noble stores, which excludes the impact of the 53rd week of sales, increased 7.3% during fiscal 1996, in comparison to 6.9% during fiscal 1995. During fiscal 1996,

revenues of B. Dalton stores declined, primarily due to the 72 store closings and a comparable store sales decrease of 1.0%.

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Cost of Sales and Occupancy

The Company's cost of sales and occupancy includes costs such as rental expense, common area maintenance, merchant association dues, lease-required advertising and adjustments for LIFO.

Cost of sales and occupancy increased 23.6% during fiscal 1996 to \$1.785 billion from \$1.445 billion during fiscal 1995, but decreased as a percentage of revenues to 72.9% during fiscal 1996 from 73.1% during fiscal 1995 due to improvements in merchandise mix, as well as increases in merchandise margins due to more direct purchasing. Excluding the impact of LIFO, cost of sales and occupancy as a percentage of revenues declined to 72.9% in fiscal 1996 from 73.4% in fiscal 1995.

Selling and Administrative Expenses

Selling and administrative expenses increased \$82.0 million, or 21.4% to \$465.7 million during fiscal 1996 from \$383.7 million during fiscal 1995. The Company's operating leverage continued to improve as selling and administrative expenses decreased as a percentage of revenues to 19.0% during fiscal 1996 from 19.4% during fiscal 1995.

Depreciation and Amortization

Depreciation and amortization increased \$11.9 million, or 24.9%, to \$59.8 million during fiscal 1996 from \$47.9 million during fiscal 1995. The increase was primarily a result of the addition of 91 Barnes & Noble stores during fiscal 1996.

Pre-Opening Expenses

Pre-opening expenses increased \$5.4 million, or 44.5%, to \$17.6 million during fiscal 1996 from \$12.2 million during fiscal 1995. As the Company amortizes pre-opening expenses over the respective store's first 12 months of operation, the increase reflects the opening of 109 new Barnes & Noble stores during the second half of fiscal 1995 and the first half of fiscal 1996 compared with 68 stores in the corresponding period of the previous year.

Operating Profit (Loss)

Operating profit, before the effects of the \$123.8 million restructuring charge in fiscal 1995, increased \$31.1 million, or 35.0% to \$119.7 million during fiscal 1996 from \$88.6 million during fiscal 1995. As a percentage of revenues, operating profit increased to 4.9% during fiscal 1996 from 4.5% during fiscal 1995 (before the effects of the restructuring charge), reflecting improved operating leverage.

Interest Expense, Net and Amortization of Deferred Financing Fees

Interest expense, net of interest income, and amortization of deferred financing fees increased \$10.2 million, or 36.0%, to \$38.3 million during fiscal 1996 from \$28.1 million during fiscal 1995. The increase resulted from a rise in borrowings under the Company's credit facility to finance working capital and capital expenditures. The impact of the increased borrowings was partially offset by a reduction in the Company's weighted-average interest rate on its short-term borrowings.

Provision (Benefit) for Income Taxes

The Company's income tax provision during fiscal 1996 was \$30.2 million compared with \$26.1 million in fiscal 1995 (before the effects of the \$123.8 million restructuring charge). Barnes & Noble's effective tax rate was 37.1% during fiscal 1996 and 43.2% during fiscal 1995 (before the effects of the restructuring charge). Such rates exceeded the federal statutory rate primarily due to the combined effects of goodwill amortization and state and local taxes. The fiscal 1996 provision also reflects a non-recurring \$3.0 million rehabilitation tax credit.

Net Earnings (Loss)

As a result of the factors discussed above, the Company's net earnings in fiscal 1996 increased to \$51.2 million from \$34.3 million in fiscal 1995 (before the effects of the \$123.8 million restructuring charge). Fiscal 1996 earnings increased due to the continuing improvement in Barnes & Noble operating profits combined with accelerating revenues over which to spread overhead costs.

Net earnings per diluted share were \$0.75 during fiscal 1996 compared with \$0.53 during fiscal 1995 (before the effects of the restructuring charge). Net earnings increased 49.3% while earnings per diluted share increased 41.5% due to an increase in the diluted weighted-average shares outstanding to 67.9 million shares during fiscal 1996 from 64.3 million shares during fiscal 1995, reflecting the full-year impact of 5.0 million common shares issued in October of 1995.

SEASONALITY

The Company's business, like that of many retailers, is seasonal, with the major portion of sales and operating profit realized during the quarter which includes the Christmas selling season. The growth in Barnes & Noble stores continues to reduce such seasonal fluctuation. During fiscal 1997, the Company reported operating profit in all four quarters for the first time since the Company began its "super" store expansion.

LIQUIDITY AND CAPITAL RESOURCES

Working capital requirements are generally at their highest during the Company's fiscal quarter ending on or about January 31 due to the higher

payments to vendors for holiday season merchandise purchases and the replenishment of merchandise inventories following this period of increased sales. In addition, the Company's sales and merchandise inventory levels will fluctuate from quarter-to-quarter as a result of the number and timing of new store openings, as well as the amount and timing of sales contributed by new stores.

Cash flows from operating activities, funds available under its revolving credit facility and vendor financing continue to provide the Company with liquidity and capital resources for store expansion, seasonal working capital requirements and capital investments.

Cash Flow. Cash flows provided from (used by) operating activities were \$169.2 million, \$119.5 million and (\$56.8) million during fiscal 1997, 1996, and 1995, respectively. The increased cash flow in fiscal 1997 was primarily due to the improvement in net earnings. In fiscal 1996, improvement in cash flows from operations was the result of increased net earnings and more efficient working capital management; revenues increased 23.8% while inventory levels declined 1.1% through faster inventory turns.

The weighted-average age per square foot of the Company's 483 Barnes & Noble stores was 2.8 years as of January 31, 1998 and is expected to increase to approximately 3.3 years by January 30, 1999. As the relatively young Barnes & Noble stores mature, and as the number of new stores opened during the fiscal year decreases as a percentage of the existing store base, the increasing operating profits of Barnes & Noble stores are expected to generate a greater portion of cash flows required for working capital, including new store inventories and capital expenditures. Earnings before interest, taxes, depreciation and amortization (EBITDA) increased \$44.7 million or 24.9% to \$224.2 million in fiscal 1997 from \$179.5 million in fiscal 1996. This improvement was achieved despite the start-up losses of BarnesandNoble.com.

Capital Structure. Strong cash flows from operations, coupled with improved working capital management, strengthened the Company's balance sheet during fiscal 1997. The Company's shareholders' equity increased 16.6% to \$531.8 million (net of the \$11.5 million extraordinary charge) as of January 31, 1998, from \$456.0 million as of February 1, 1997, and return on beginning equity increased to 14.2% in fiscal 1997 (excluding the extraordinary charge) from 12.8% during fiscal 1996. The Company's market capitalization more than doubled during fiscal 1997, reflecting the market's recognition of the Company's strong performance.

On November 18, 1997, the Company obtained an \$850 million senior credit facility (the New Facility) with a syndicate led by The Chase Manhattan Bank. The New Facility, structured as a five-year revolving credit, refinanced an existing \$450 million revolving credit and \$100 million term loan facility (the Old Facility). Net proceeds are available for general corporate purposes and were used to redeem all of the Company's outstanding \$190 million, 11 7/8% senior subordinated notes on January 15, 1998.

The New Facility permits borrowings at various interest rate options based on the prime rate or London Interbank Offer Rate (LIBOR) depending upon certain financial tests and significantly reduces the interest rate margins over LIBOR contained in the Old Facility. In addition, the agreement requires the

Company to pay a commitment fee up to 0.25% of the unused portion depending upon certain financial tests. The New Facility contains covenants, limitations and events of default typical of credit facilities of this size and nature.

The amount outstanding under the Company's New Facility has been classified as long-term debt in the accompanying consolidated balance sheets due to both the terms of the New Facility and the Company's intent and ability to maintain principal amounts outstanding through November 2002.

Borrowings under the Company's senior credit facilities averaged \$184.5 million, \$186.6 million and \$62.0 million and peaked at \$304.9 million, \$292.8 million and \$152.2 million during fiscal 1997, 1996 and 1995, respectively.

Capital Investment. Capital expenditures totaled \$121.9 million, \$171.9

million and \$154.9 million during fiscal 1997, 1996

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and 1995, respectively. Capital expenditures in fiscal 1998, primarily for approximately 60 new Barnes & Noble stores as well as computer hardware and software associated with the Company's new store point-of-sale system, are expected to be between \$150 million and \$175 million, although commitment to such expenditures has not yet been made.

Based on current operating levels and the store expansion planned for the next fiscal year, management believes cash flows generated from operating activities, short-term vendor financing and its borrowing capacity under its revolving credit facility will be sufficient to meet the Company's working capital and debt service requirements, and support the development of its short- and long-term strategies for at least the next 12 months.

Year 2000. The Company is continuing its comprehensive evaluation of all computer systems and microprocessors and is in the process of replacing, modifying and/or converting those systems which are not year 2000 compliant. The incremental cost over the next two years is being determined as part of the continuing evaluation. Management does not expect such costs to have a material adverse impact on the financial position or results of operations of the Company.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains certain forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) and information relating to the Company that are based on the beliefs of the management of the Company as well as assumptions made by and information currently available to the management of the Company. When used in this annual report, the words "anticipate," "believe," "estimate," "expect," "intend," "plan" and similar expressions, as they relate to the Company or the management of the Company, identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events, the outcome of which is subject to certain risks, including among others general economic and market

conditions, decreased consumer demand for the Company's products, possible disruptions in the Company's computer or telephone systems, increased or unanticipated costs or effects associated with year 2000 compliance by the Company or its service or supply providers, possible work stoppages, or increases in labor costs, possible increases in shipping rates or interruptions in shipping service, effects of competition, possible disruptions or delays in the opening of new stores or the inability to obtain suitable sites for new stores, higher than anticipated store closing or relocation costs, higher interest rates, the performance of the Company's online initiatives such as BarnesandNoble.com, unanticipated increases in merchandise or occupancy costs, and other factors which may be outside of the Company's control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described therein as anticipated, believed, estimated, expected, intended or planned. Subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements in this paragraph.

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CONSOLIDATED STATEMENTS OF OPERATIONS

| Fiscal Year (Thousands of dollars, except per share data) | 1997 | 1996 | 1995 |
|--|--------------|-----------|-----------|
| Revenues | \$ 2,796,852 | 2,448,124 | 1,976,900 |
| Cost of sales and occupancy | 2,019,291 | 1,785,392 | 1,444,555 |
| Gross profit | 777,561 | 662,732 | 532,345 |

| | | | |
|---|------------|------------|------------|
| Selling and administrative expenses | 540,423 | 465,687 | 383,692 |
| Depreciation and amortization | 76,951 | 59,806 | 47,881 |
| Pre-opening expenses | 12,918 | 17,571 | 12,160 |
| Restructuring charge | -- | -- | 123,768 |
| | ----- | ----- | ----- |
| Operating profit (loss) | 147,269 | 119,668 | (35,156) |
| Interest (net of interest income of \$446, \$2,288 and \$2,138, respectively) and amortization of deferred financing fees | 37,666 | 38,286 | 28,142 |
| | ----- | ----- | ----- |
| Earnings (loss) before provision (benefit) for income taxes and extraordinary charge | 109,603 | 81,382 | (63,298) |
| Provision (benefit) for income taxes | 44,935 | 30,157 | (10,322) |
| | ----- | ----- | ----- |
| Earnings (loss) before extraordinary charge | 64,668 | 51,225 | (52,976) |
| Extraordinary charge due to early extinguishment of debt, net of tax benefits of \$7,991 | 11,499 | -- | -- |
| | ----- | ----- | ----- |
| Net earnings (loss) | \$ 53,169 | 51,225 | (52,976) |
| | ===== | ===== | ===== |
| Earnings (loss) per common share | | | |
| Basic | | | |
| Earnings (loss) before extraordinary charge | \$ 0.96 | 0.77 | (0.85) |
| Extraordinary charge due to early extinguishment of debt, net of tax benefits | \$ 0.17 | -- | -- |
| Net earnings (loss) | \$ 0.79 | 0.77 | (0.85) |
| Diluted | | | |
| Earnings (loss) before extraordinary charge | \$ 0.93 | 0.75 | (0.85) |
| Extraordinary charge due to early extinguishment of debt, net of tax benefits | \$ 0.17 | -- | -- |
| Net earnings (loss) | \$ 0.76 | 0.75 | (0.85) |
| Weighted average common shares outstanding | | | |
| Basic | 67,237,000 | 66,103,000 | 62,434,000 |
| Diluted | 69,836,000 | 67,886,000 | 62,434,000 |

See accompanying notes to consolidated financial statements.

BARNES & NOBLE 1997

CONSOLIDATED BALANCE SHEETS

(Thousands of dollars, except per share data) January 31, 1998 February 1, 1997

Assets

Current assets:

| | | |
|---|-----------|---------|
| Cash and cash equivalents | \$ 12,697 | 12,447 |
| Receivables, net | 43,858 | 45,558 |
| Merchandise inventories | 852,107 | 732,203 |
| Prepaid expenses and other current assets | 68,902 | 76,747 |
| | ----- | ----- |

| | | |
|----------------------|---------|---------|
| Total current assets | 977,564 | 866,955 |
| | ----- | ----- |

Property and equipment:

| | | |
|--------------------------------------|---------|---------|
| Land and land improvements | 681 | 681 |
| Buildings and leasehold improvements | 347,598 | 326,392 |
| Fixtures and equipment | 378,058 | 289,684 |
| | ----- | ----- |

| | | |
|--|---------|---------|
| Less accumulated depreciation and amortization | 726,337 | 616,757 |
| | 244,207 | 181,983 |
| | ----- | ----- |

| | | |
|----------------------------|---------|---------|
| Net property and equipment | 482,130 | 434,774 |
| | ----- | ----- |

| | | |
|------------------------|--------|--------|
| Intangible assets, net | 90,237 | 93,494 |
|------------------------|--------|--------|

| | | |
|--|--------------|-----------|
| Other noncurrent assets | 41,240 | 51,424 |
| | ----- | ----- |
| Total assets | \$ 1,591,171 | 1,446,647 |
| | ===== | ===== |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Revolving credit facility | \$ -- | 40,000 |
| Accounts payable | 459,795 | 373,340 |
| Accrued liabilities | 253,050 | 240,923 |
| | ----- | ----- |
| Total current liabilities | 712,845 | 654,263 |
| | ----- | ----- |
| Long-term debt | 284,800 | 290,000 |
| Other long-term liabilities | 61,771 | 46,395 |
| Shareholders' equity: | | |
| Common stock; \$.001 par value; 100,000,000 shares authorized; 67,921,830 and 66,376,250 shares issued and outstanding, respectively | 68 | 66 |
| Additional paid-in capital | 468,860 | 446,265 |
| Retained earnings | 62,827 | 9,658 |
| | ----- | ----- |
| Total shareholders' equity | 531,755 | 455,989 |
| | ----- | ----- |
| Commitments and contingencies | -- | -- |
| | ----- | ----- |
| Total liabilities and shareholders' equity | \$ 1,591,171 | 1,446,647 |
| | ===== | ===== |

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

| (Thousands of dollars) | Common Stock | Additional paid-in capital | Retained earnings (deficit) | Total |
|---|-----------------|----------------------------------|-----------------------------------|----------|
| | ----- | ----- | ----- | ----- |
| Balance at January 28, 1995 | \$ 60 | 346,704 | 11,409 | 358,173 |
| Issuance of 5,000,000 shares of common stock | 5 | 88,720 | -- | 88,725 |
| Exercise of 750,894 common stock options, including tax benefits of \$3,470 | 1 | 6,312 | -- | 6,313 |
| Net loss | -- | -- | (52,976) | (52,976) |
| | ----- | ----- | ----- | ----- |
| Balance at January 27, 1996 | 66 | 441,736 | (41,567) | 400,235 |
| Exercise of 459,022 common stock options, including tax benefits of \$2,272 | -- | 4,529 | -- | 4,529 |
| Net earnings | -- | -- | 51,225 | 51,225 |
| | ----- | ----- | ----- | ----- |
| Balance at February 1, 1997 | 66 | 446,265 | 9,658 | 455,989 |
| Exercise of 1,545,580 common stock options, including tax benefits of \$8,253 | 2 | 22,595 | -- | 22,597 |
| Net earnings | -- | -- | 53,169 | 53,169 |
| | ----- | ----- | ----- | ----- |
| Balance at January 31, 1998 | \$ 68 | 468,860 | 62,827 | 531,755 |
| | ===== | ===== | ===== | ===== |

See accompanying notes to consolidated financial statements.

BARNES & NOBLE 1997

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CONSOLIDATED STATEMENTS OF CASH FLOWS

| Fiscal Year (Thousands of dollars) | 1997 | 1996 | 1995 |
|---|---------------------|--------------------|--------------------|
| ----- | ---- | ---- | ---- |
| Cash flows from operating activities: | | | |
| Net earnings (loss) | \$ 53,169 | 51,225 | (52,976) |
| Adjustments to reconcile net earnings (loss) to net cash flows from operating activities: | | | |
| Depreciation and amortization | 78,629 | 61,652 | 50,185 |
| Loss (gain) on disposal of property and equipment | 853 | (130) | 4,657 |
| Deferred taxes | 11,598 | 6,604 | (32,110) |
| Restructuring charge | -- | -- | 123,768 |
| Extraordinary charge due to early extinguishment of debt, net of tax benefits | 11,499 | -- | -- |
| Increase in other long-term liabilities for scheduled rent increases in long-term leases | 16,350 | 15,663 | 10,670 |
| Changes in operating assets and liabilities, net | (2,884) | (15,477) | (161,038) |
| Net cash flows from operating activities | ----- 169,214 | ----- 119,537 | ----- (56,844) |
| Cash flows from investing activities: | | | |
| Purchases of property and equipment | (121,903) | (171,885) | (154,913) |
| Proceeds from sales of property and equipment | -- | 177 | 551 |
| Net increase in other noncurrent assets | (13,177) | (16,787) | (2,378) |
| Net cash flows from investing activities | ----- (135,080) | ----- (188,495) | ----- (156,740) |
| Cash flows from financing activities: | | | |
| Net increase (decrease) in revolving credit facility | 244,800 | (32,400) | 72,400 |
| Proceeds from issuance of long-term debt | -- | 100,000 | -- |
| Repayment of long-term debt | (290,000) | -- | -- |
| Proceeds from issuance of common stock, net | -- | -- | 88,725 |
| Proceeds from exercise of common stock options including related tax benefits | 22,597 | 4,529 | 6,313 |
| Payment of note premium | (11,281) | -- | -- |
| Net cash flows from financing activities | ----- (33,884) | ----- 72,129 | ----- 167,438 |
| Net increase (decrease) in cash and cash equivalents | 250 | 3,171 | (46,146) |
| Cash and cash equivalents at beginning of year | 12,447 | 9,276 | 55,422 |
| Cash and cash equivalents at end of year | ----- \$ 12,697 | ----- 12,447 | ----- 9,276 |
| Changes in operating assets and liabilities, net: | | | |
| Receivables, net | \$ 1,700 | 3,461 | (19,191) |
| Merchandise inventories | (119,904) | 8,148 | (241,432) |
| Prepaid expenses and other current assets | 9,721 | (19,502) | (17,340) |
| Accounts payable and accrued liabilities | 105,599 | (7,584) | 116,925 |
| Changes in operating assets and liabilities, net | ----- \$ (2,884) | ----- (15,477) | ----- (161,038) |
| Supplemental cash flow information: | | | |
| Cash paid during the period for: | | | |
| Interest | \$ 37,845 | 38,103 | 27,656 |
| Income taxes | \$ 20,282 | 24,574 | 19,937 |

See accompanying notes to consolidated financial statements.

BARNES & NOBLE 1997

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the 52 weeks ended January 31, 1998 (fiscal 1997), the 53 weeks ended February 1, 1997 (fiscal 1996) and the 52 weeks ended January 27, 1996 (fiscal 1995).

(Thousands of dollars, except per share data)

1. Summary of Significant Accounting Policies

Business

Barnes & Noble, Inc. (Barnes & Noble), through its wholly owned subsidiaries (collectively, the Company), is primarily engaged in the sale of books through four principal bookselling strategies: its "super" store strategy through its wholly owned subsidiary Barnes & Noble Booksellers, Inc., under its Barnes & Noble Booksellers, Bookstop and Bookstar trade names (hereafter collectively referred to as Barnes & Noble stores), its mall strategy through its wholly owned subsidiaries B. Dalton Bookseller, Inc. and Doubleday Book Shops, Inc., under its B. Dalton stores, Doubleday Book Shops and Scribner's Bookstore trade names (hereafter collectively referred to as B. Dalton stores), its direct-mail strategy through its wholly owned subsidiary Marboro Books Corp., and its e-commerce strategy through its wholly owned subsidiary BarnesandNoble.com Inc.

Consolidation

The consolidated financial statements include the accounts of Barnes & Noble and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain prior-period amounts have been reclassified for comparative purposes.

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all short-term, highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

Merchandise Inventories

Merchandise inventories are stated at the lower of cost or market. Cost is determined primarily by the retail inventory method on the first-in, first-out (FIFO) basis for 83% and 79% of the Company's merchandise inventories

as of January 31, 1998 and February 1, 1997, respectively. The remaining merchandise inventories are valued on the last-in, first-out (LIFO) method.

If substantially all of the merchandise inventories currently valued at LIFO costs were valued at current costs, merchandise inventories would increase approximately \$5,102 and \$8,800 as of January 31, 1998 and February 1, 1997, respectively.

Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation and amortization. For financial reporting purposes, depreciation is computed using the straight-line method over estimated useful lives. For tax purposes, different methods are used. Maintenance and repairs are expensed as incurred, while betterments and major remodeling costs are capitalized. Leasehold improvements are capitalized and amortized over the shorter of their estimated useful lives or the terms of the respective leases. Capitalized lease acquisition costs are being amortized over the average lease terms of the underlying leases. Costs incurred in purchasing management information systems are capitalized and included in property and equipment. These costs are amortized over their estimated useful lives from the date the systems become operational.

Intangible Assets and Amortization

The costs in excess of net assets of businesses acquired are carried as intangible assets, net of accumulated amortization, in the accompanying consolidated balance sheets. The net intangible assets, consisting primarily of goodwill and trade names, of \$61,484 and \$28,753 as of January 31, 1998, \$63,604 and \$29,890

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

as of February 1, 1997, are amortized over 40 years using the straight-line method.

Amortization of goodwill and trade names included in depreciation and amortization in the accompanying consolidated statements of operations is \$3,257, \$3,305 and \$4,272 during fiscal 1997, 1996 and 1995, respectively. Accumulated amortization at January 31, 1998 and February 1, 1997 was \$41,293 and \$38,036, respectively.

The Company periodically evaluates the recoverability of goodwill and considers whether this goodwill should be completely or partially written off or the amortization periods accelerated. The Company assesses the recoverability of this goodwill based upon several factors, including management's intention with respect to the acquired operations and those operations' projected undiscounted store-level cash flows.

Deferred Charges

Costs incurred to obtain long-term financing are amortized over the terms of the respective debt agreements using the straight-line method, which approximates the interest method. Unamortized costs included in other noncurrent assets as of January 31, 1998 and February 1, 1997 were \$1,764 and \$9,789, respectively. Unamortized costs of \$8,209 were included in the extraordinary loss due to early extinguishment of debt for fiscal 1997. Amortization expense included in interest and amortization of deferred financing fees is \$1,678, \$1,846, and \$2,304 during fiscal 1997, 1996 and 1995, respectively.

Revenue Recognition

Revenue from sales of the Company's products is recognized at the time of sale.

The Company sells memberships which entitle purchasers to additional discounts. The membership revenue is deferred and recognized as income over the twelve-month membership period.

Sales returns (which are not significant) are recognized at the time returns are made.

Pre-opening Expenses

Costs directly associated with the opening of new stores, primarily payroll and occupancy costs, are deferred and amortized over the respective store's first 12 months of operations.

Closed Store Expenses

Upon a formal decision to close or relocate a store, the Company charges unrecoverable costs to expense. Such costs include the net book value of abandoned fixtures and leasehold improvements and a provision for future lease obligations, net of expected sublease recoveries. Costs associated with store closings of \$5,113 during fiscal 1995 are included in selling and administrative expenses in the accompanying consolidated statements of operations.

Net Earnings (Loss) Per Common Share

In 1997 the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share" (SFAS 128). Under SFAS 128, the presentation of primary and fully diluted earnings per share is replaced by basic and diluted earnings per share. Basic earnings per share includes no dilutive effect of common stock equivalents and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding. Diluted earnings per share reflects, in periods in which they have a dilutive effect, the impact of common shares issuable upon exercise of stock options. Also, as more fully described in Note 7, the Company effected a two-for-one stock split during September 1997. Accordingly, all historical weighted average share and per share amounts have been restated to reflect the stock split and the adoption of SFAS 128.

Income Taxes

The provision (benefit) for income taxes includes federal, state and local income taxes currently payable and those deferred because of temporary differences between the financial statement and tax bases of assets and liabilities. The deferred tax assets and liabilities are measured using the enacted tax rates and laws that are expected to be in effect when the differences reverse.

Stock Options

The Company accounts for all transactions under which employees receive

shares of stock or other equity instruments in the Company or the Company incurs liabilities to employees in amounts based on the price of its stock in accordance with the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Generally, compensation expense is not recognized for stock option grants. The Company has not adopted the fair value method encouraged, but not required, by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation."

Reporting Period

The Company's fiscal year is comprised of 52 or 53 weeks, ending on the Saturday closest to the last day of January. The reporting periods ended January 31, 1998, February 1, 1997 and January 27, 1996 contained 52 weeks, 53 weeks and 52 weeks, respectively.

2. Receivables, Net

Receivables represent customer, bankcard, landlord and other receivables due within one year as follows:

| | January 31, 1998 | February 1, 1997 |
|--|---------------------|---------------------|
| | ----- | ----- |
| Trade accounts | \$ 6,628 | 4,790 |
| Bankcard receivables | 15,536 | 12,800 |
| Receivables from landlords for leasehold improvements | 16,715 | 19,374 |
| Other receivables | 4,979 | 8,594 |
| | ----- | ----- |
| Total receivables, net | \$43,858 | 45,558 |
| | ===== | ===== |

3. Debt

Revolving Credit Facility

On November 18, 1997, the Company obtained an \$850,000 senior credit facility (the New Facility) with a syndicate led by The Chase Manhattan Bank. The New Facility, structured as a five-year revolving credit, refinanced an existing \$450,000 revolving credit and \$100,000 term loan facility (the Old Facility). The New Facility permits borrowings at various interest rate options based on the prime rate or London Interbank Offer Rate (LIBOR) depending upon certain financial tests. In addition, the agreement requires the Company to pay a commitment fee up to 0.25% of the unused portion depending upon certain financial tests. The New Facility contains covenants, limitations and events of default typical of credit facilities of this size and nature, including financial covenants which require the Company to meet, among other things, cash flow and interest coverage ratios and which limit capital expenditures. The New Facility is secured by the capital stock, accounts receivable and general intangibles of the Company's subsidiaries.

Net proceeds from the New Facility are available for general corporate purposes and were used to redeem all of the Company's outstanding \$190,000, 11 7/8% senior subordinated notes on January 15, 1998. As a result of the refinancings, the Company recorded an extraordinary charge of \$11,499 (net of applicable taxes) due to the early extinguishment of debt during fiscal 1997. The extraordinary charge represents the payment of a call premium associated with the redemption of the senior subordinated notes of \$6,656 (net of applicable taxes) and the write-off of unamortized fees of \$4,843 (net of applicable taxes).

The Company from time to time enters into interest rate swap agreements to manage interest costs and risk associated with changes in interest rates. These agreements effectively convert underlying variable - rate debt based on prime rate or LIBOR to fixed - rate debt through the exchange of fixed and

floating interest payment obligations without the exchange of underlying principal amounts. During fiscal 1996, the Company entered into interest rate swap agreements totaling \$100,000 with maturities ranging from 1999 to 2000. As of January 31, 1998 the Company had outstanding \$125,000 of swaps with maturities ranging from 1999 to 2003. The Company recorded interest expense associated with these agreements of \$306 and \$365 during fiscal years 1997 and 1996, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Selected information related to the Company's revolving credit facility is as follows:

| Fiscal Year | 1997 | 1996 | 1995 |
|--|------------|---------|---------|
| - - - - - | ---- | ---- | ---- |
| Balance at end of year | \$ 284,800 | 40,000 | 72,400 |
| Average balance outstanding during the year | \$ 105,127 | 101,671 | 62,036 |
| Maximum borrowings outstanding during the year | \$ 304,900 | 192,800 | 152,200 |
| Weighted average interest rate during the year | 7.12% | 7.56% | 8.13% |
| Interest rate at end of year | 6.60% | 6.87% | 8.21% |

The balance outstanding as of January 31, 1998 reflects the refinancing of the senior subordinated notes and the term loan.

The average balance outstanding during the period was based on the number of days outstanding. The weighted average interest rate during the period was calculated as the result of dividing the related interest expense by average borrowings outstanding.

Fees expensed with respect to the unused portion of the Company's revolving credit commitment were \$1,204, \$911 and \$454, during fiscal 1997, 1996 and 1995, respectively.

Long-Term Debt

As of January 31, 1998 the \$284,800 balance outstanding under the Company's New Facility has been classified as long-term debt based on the terms of the credit agreement and the Company's intention to maintain principal amounts outstanding through November 2002. As of February 1, 1997 classified as long - term debt were both the \$190,000, 11 7/8% senior subordinated notes based on the January 15, 2003 maturity date, and the \$100,000 term loan outstanding under the Old Facility which had scheduled repayments starting in 1998. The subordinated notes and the term loan were paid on January 15, 1998 and November 18, 1997, respectively.

The Company has no agreements to maintain compensating balances.

4. Fair Values of Financial Instruments

The carrying values of cash and cash equivalents reported in the accompanying consolidated balance sheets approximate fair value due to the short-term maturities of these assets.

The aggregate fair value of the revolving credit facility, classified as long-term debt as of January 31, 1998, approximates its carrying amount, because of its recent and frequent repricing based upon market conditions. The fair value of long-term debt, consisting of the senior subordinated notes and term loan as of February 1, 1997, is based upon quoted market prices. Interest rate swap agreements are valued based on market quotes obtained from dealers. The fair value of the investment in Chapters Inc. is based on quoted market prices and conversion rates at January 31, 1998 and February 1, 1997.

The carrying amounts and fair values of the Company's financial instruments as of January 31, 1998 and February 1, 1997 are as follows:

| January 31, 1998 | | February 1, 1997 | |
|---------------------|------------|---------------------|------------|
| ----- | ----- | ----- | ----- |
| Carrying Amount | Fair Value | Carrying Amount | Fair Value |

| | | | | |
|-------------------------------|------------|---------|---------|---------|
| | ----- | ----- | ----- | ----- |
| Cash and cash equivalents | \$ 12,697 | 12,697 | 12,447 | 12,447 |
| Revolving credit facility | \$ 284,800 | 284,800 | 40,000 | 40,000 |
| Long-term debt | \$ -- | -- | 290,000 | 307,575 |
| Interest rate swaps liability | \$ -- | 1,463 | -- | 218 |
| Investment in Chapters Inc. | \$ 17,686 | 31,445 | 8,541 | 11,843 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

5. Employees' Retirement and Defined Contribution Plans

The Company maintains a noncontributory defined benefit pension plan (the Pension Plan) for the benefit of substantially all of its employees who meet certain eligibility requirements, primarily age and length of service. Benefits provided by the Pension Plan are based on years of credited service, the employee's compensation for any of five consecutive years in the last ten years of service and covered earnings for Social Security benefits. The Company's contributions to the Pension Plan are generally in amounts determined by independent consulting actuaries.

The Company also sponsors a defined contribution plan (the Savings Plan) for the benefit of substantially all of its employees who meet certain eligibility requirements, primarily age and length of service. The Savings Plan allows employees to invest up to 15% of their current gross cash compensation on a pre-tax or post-tax basis, at their option. The Company's contributions to the Savings Plan are generally in amounts based upon a certain percentage of the employees' pre-tax contributions.

A summary of the components of net periodic pension cost for the Pension Plan and the total contributions charged to employee benefit expenses for the Savings Plan follows:

| Fiscal Year | 1997 | 1996 | 1995 |
|-------------------------------|----------|---------|---------|
| ----- | ---- | ---- | ---- |
| Defined benefit plans: | | | |
| Service cost | \$ 3,294 | 2,542 | 1,475 |
| Interest cost | 1,666 | 1,354 | 1,011 |
| Actual return on plan assets | (4,165) | (2,378) | (3,202) |
| Net amortization and deferral | 2,398 | 914 | 2,047 |
| | ----- | ----- | ----- |
| Net periodic pension cost | \$ 3,193 | 2,432 | 1,331 |
| | ===== | ===== | ===== |
| Defined contribution plan | \$ 2,545 | 2,115 | 1,495 |
| | ===== | ===== | ===== |

Actuarial assumptions used in determining the net periodic pension costs and the funded status of the Pension Plan are as follows:

| | January 31, 1998 | February 1, 1997 | January 27, 1996 |
|---|---------------------|---------------------|---------------------|
| | ----- | ----- | ----- |
| Discount rate (beginning of year) | 7.5% | 8.8% | 7.5% |
| Discount rate (end of year) | 7.3% | 7.5% | 8.8% |
| Expected long-term rate of return on plan assets | 9.5% | 9.5% | 9.8% |
| Assumed rate of compensation increase | 4.3% | 4.3% | 4.3% |

The following table sets forth the funded status of the Pension Plan and the pension liability recognized for the Pension Plan in the accompanying consolidated balance sheets:

| | January 31, 1998 | February 1, 1997 |
|---|---------------------|---------------------|
| | ----- | ----- |
| Actuarial present value of benefit obligation: | | |
| Vested benefits | \$ (14,244) | (12,138) |

| | | |
|---|------------|----------|
| Nonvested benefits | (3,484) | (2,114) |
| | ----- | ----- |
| Accumulated benefit obligation | (17,728) | (14,252) |
| Effect of projected future compensation increases | (13,006) | (7,126) |
| | ----- | ----- |
| Projected benefit obligation | (30,734) | (21,378) |
| Plan assets at market value | 22,909 | 18,565 |
| | ----- | ----- |
| Projected benefit obligation in excess of plan assets | (7,825) | (2,813) |
| Unrecognized net loss | 3,490 | 100 |
| Unrecognized net obligation remaining | 220 | 274 |
| Unrecognized prior service cost | (201) | (219) |
| | ----- | ----- |
| Pension liability | \$ (4,316) | (2,658) |
| | ===== | ===== |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

In addition to providing pension benefits, the Company provides certain health care and life insurance benefits to retired employees (the Plan). Only those employees receiving benefits or retired as of April 1, 1993 are eligible to participate in the Plan and receive these benefits. The Plan is unfunded. The following table sets forth the status of the Plan and the postretirement health care liability of the Plan, which is attributable solely to retirees, recognized in the accompanying consolidated balance sheets as of January 31, 1998 and February 1, 1997 using a discount rate of 7.3% and 7.5%, respectively.

| | January 31, 1998 | February 1, 1997 |
|--|---------------------|---------------------|
| | ----- | ----- |
| Accumulated post retirement benefit obligation | \$ (1,975) | (4,349) |
| Unrecognized (gain) loss | (2,407) | 137 |
| | ----- | ----- |
| Postretirement health care liability | \$ (4,382) | (4,212) |
| | ===== | ===== |

The net periodic cost for the postretirement health care benefits under the Plan is related to interest costs of \$315, \$326 and \$375 during fiscal 1997, 1996 and 1995, respectively. The unrecognized (gain) loss resulting from the impact of experience changes on current assumptions is recorded over the average remaining life expectancy of the Plan participants.

The health care cost trend rate used to measure the expected cost of the Plan benefits is assumed to be 8.0% in 1998, declining at one-half percent decrements each year through 2004 to 5.0% in 2004 and each year thereafter. The health care cost trend assumption has a significant effect on the amounts reported. For example, a 1% increase in the health care cost trend rate would increase the accumulated postretirement benefit obligation by approximately \$198 as of January 31, 1998 and the net periodic cost by approximately \$32 during fiscal 1997.

6. Income Taxes

The Company files a consolidated federal return. Federal and state income tax provisions (benefits) for fiscal 1997, 1996 and 1995 are as follows:

| Fiscal Year | 1997 | 1996 | 1995 |
|-------------|-----------|--------|----------|
| | ---- | ---- | ---- |
| Current: | | | |
| Federal | \$ 26,324 | 18,413 | 17,317 |
| State | 7,013 | 5,140 | 4,471 |
| | ----- | ----- | ----- |
| | 33,337 | 23,553 | 21,788 |
| | ----- | ----- | ----- |
| Deferred: | | | |
| Federal | 9,575 | 5,300 | (25,717) |
| State | 2,023 | 1,304 | (6,393) |

| | | | |
|-------|-----------|--------|----------|
| | ----- | ----- | ----- |
| | 11,598 | 6,604 | (32,110) |
| | ----- | ----- | ----- |
| Total | \$ 44,935 | 30,157 | (10,322) |
| | ===== | ===== | ===== |

A reconciliation between the provision (benefit) for income taxes and the expected provision (benefit) for income taxes at the federal statutory rate of 35% during fiscal 1997, 1996, and 1995, is as follows:

| Fiscal Year | 1997 | 1996 | 1995 |
|---|-----------|---------|----------|
| ----- | ----- | ----- | ----- |
| Expected provision (benefit) for income taxes at federal statutory rate | \$ 38,361 | 28,484 | (22,154) |
| Amortization of goodwill and trade names and write-down of goodwill | 1,140 | 1,157 | 12,978 |
| State income taxes, net of federal income tax benefit | 5,873 | 3,341 | 2,906 |
| Rehabilitation tax credit | -- | (2,974) | -- |
| Other, net | (439) | 149 | (4,052) |
| | ----- | ----- | ----- |
| Provision (benefit) for income taxes | \$ 44,935 | 30,157 | (10,322) |
| | ===== | ===== | ===== |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

The tax effects of temporary differences that give rise to significant components of the Company's deferred tax assets and liabilities as of January 31, 1998 and February 1, 1997 are as follows:

| | January 31, 1998 | February 1, 1997 |
|--------------------------------|---------------------|---------------------|
| | ----- | ----- |
| Deferred tax liabilities: | | |
| Operating expenses | \$ (10,103) | (6,910) |
| Depreciation | (16,359) | (7,979) |
| | ----- | ----- |
| Total deferred tax liabilities | (26,462) | (14,889) |
| | ----- | ----- |
| Deferred tax assets: | | |
| Inventory | 6,604 | 4,828 |
| Lease transactions | 16,108 | 13,007 |
| Reversal of estimated accruals | 5,418 | 5,701 |
| Restructuring charge | 21,825 | 26,599 |
| Insurance liability | 2,265 | 2,769 |
| Deferred income | 7,058 | 4,296 |
| Other | 824 | 2,927 |
| | ----- | ----- |
| Total deferred tax assets | 60,102 | 60,127 |
| | ----- | ----- |
| Net deferred tax assets | \$ 33,640 | 45,238 |
| | ===== | ===== |

7. Shareholders' Equity

On September 22, 1997, the Company effected a two-for-one stock split in the form of a stock dividend. One additional share was issued for each share of common stock held by shareholders of record as of September 2, 1997. Share and per share amounts for all periods presented have been adjusted to reflect this split.

On October 2, 1995, the Company completed a public offering of 5,000,000 shares of common stock (restated for the September 1997 two-for-one stock split) which generated proceeds of \$88,725 after deducting underwriting discounts and commissions and expenses. The net proceeds were used for general

corporate purposes, including the financing of capital expenditures and inventory purchases in connection with the accelerated expansion of the Barnes & Noble store operations.

8. Restructuring Charge

From 1989 through 1995, the Company closed, on average, between 50 and 60 mall bookstores per year primarily due to increasing competition from superstores and declining mall traffic. During the fourth quarter of fiscal 1995, the Company accelerated its mall bookstore closing program with the aim of forming a core of more profitable B. Dalton stores, and provided for these closing costs and asset valuation adjustments through a non-cash restructuring charge, and early adoption of Statement of Financial Accounting Standards No. 121, "Accounting for Impairment of Long-Lived Assets and Assets to be Disposed of" (SFAS 121). In January 1996, the Company recorded a non-cash charge to operating earnings of \$123,768 (\$87,303 after tax or \$1.32 per share) to reflect the aggregate impact of its restructuring plan and change in accounting policy. The charge to earnings included a \$33,000 write-down of goodwill, and \$45,862 related to the write-down of fixed assets and other long-term assets. The Company has substantially completed the store closing program.

The following table sets forth the restructuring liability activity:

| | Balance at Jan 27, 1996 | Fiscal 1996 Activity | Balance at Feb 1, 1997 | Fiscal 1997 Activity | Balance at Jan 31, 1998 |
|---------------------------------|-------------------------------|----------------------------|------------------------------|----------------------------|-------------------------------|
| | ----- | ----- | ----- | ----- | ----- |
| Provision for store closings | \$ 5,974 | 4,442 | 1,532 | 1,532 | -- |
| Lease termination costs | 32,833 | 2,371 | 30,462 | 9,026 | 21,436 |
| Other | 6,099 | 4,497 | 1,602 | 1,602 | -- |
| | ----- | ----- | ----- | ----- | ----- |
| Total | \$ 44,906 | 11,310 | 33,596 | 12,160 | 21,436 |
| | ===== | ===== | ===== | ===== | ===== |

The remaining liability, which primarily represents outstanding lease liabilities, is expected to be paid out over the next several years.

9. Stock Option Plans

The Company currently has two incentive plans under which stock options have been or may be granted to officers, directors and key employees of the Company the 1991 Employee Incentive Plan (the 1991 Plan) and the 1996 Incentive Plan (the 1996 Plan). The options to purchase common shares generally are issued at fair market value on the date of the grant, begin vesting after one year in 33 1/3% or 25% increments per year, expire ten years from issuance and are conditioned upon continual employment during the vesting period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

The 1996 Plan and the 1991 Plan allow the Company to grant options to purchase up to 6,000,000 and 4,732,704 shares of common stock, respectively.

In addition to the two incentive plans, the Company has granted stock options to certain key executives and directors. The vesting terms and contractual lives of these grants are similar to that of the incentive plans.

In accordance with the Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), the Company discloses the pro forma impact of recording compensation expense utilizing the Black-Scholes model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the Black-Scholes model does not necessarily provide a reliable measure of the fair value of its stock options.

Had compensation cost for the Company's stock option grants been determined based on the fair value at the stock option grant dates consistent with the method of SFAS 123, the Company's net earnings and diluted earnings per share for fiscal 1997, 1996 and 1995, would have been reduced by approximately \$3,863 or \$0.06 per share, \$5,305 or \$0.08 per share, and \$1,448 or \$0.02 per share, respectively.

Because the application of the pro forma disclosure provisions of SFAS 123 are required only to be applied to grants of options made by the Company during fiscal 1995 and after, the above pro forma amounts may not be representative of the effects of applying SFAS 123 to future years.

The weighted-average fair value of the options granted during fiscal 1997, 1996 and 1995 were estimated at \$8.05, \$4.66 and \$5.99 respectively, using the Black-Scholes option-pricing model with the following assumptions: volatility of 28%, risk-free interest rate of 6.54% in fiscal 1997, 6.63% in fiscal 1996, and 6.59% in fiscal 1995, and an expected life of six years.

A summary of the status of the Company's stock options is presented below:

| (Thousands of shares) | Shares | Weighted-Average Exercise Price |
|---------------------------|---------|------------------------------------|
| Balance, January 28, 1995 | 7,624 | \$ 8.73 |
| Granted | 1,180 | 14.31 |
| Exercised | (750) | 3.79 |
| Forfeited | (152) | 13.11 |
| Balance, January 27, 1996 | 7,902 | 9.95 |
| Granted | 1,856 | 14.63 |
| Exercised | (460) | 4.95 |
| Forfeited | (156) | 14.97 |
| Balance, February 1, 1997 | 9,142 | 11.07 |
| Granted | 2,254 | 19.31 |
| Exercised | (1,546) | 9.28 |
| Forfeited | (186) | 16.25 |
| Balance, January 31, 1998 | 9,664 | \$13.17 |

Options exercisable as of January 31, 1998, February 1, 1997 and January 27, 1996 were 6,558,000, 7,070,000 and 4,520,000, respectively. Options available for grant under the plans were 2,354,000, 4,422,000 and 121,000 at January 31, 1998, February 1, 1997 and January 27, 1996, respectively.

The following table summarizes information as of January 31, 1998 concerning outstanding and exercisable options:

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | |
|--------------------------------|----------------------------------|--|-------------------------------|----------------------------------|---|
| | Number Outstanding (0000s) | Weighted -Average Remaining Contractual Life | Weighted Exercise Price | Number Exercisable (0000s) | Weighted -Average Exercise Price |
| \$ 3.21 - \$ 3.77 | 1,117 | 4.90 | \$ 3.57 | 1,117 | \$ 3.57 |
| \$10.00 - \$15.00 | 5,735 | 6.04 | \$12.19 | 5,257 | \$12.03 |
| \$17.13 - \$23.00 | 2,700 | 9.06 | \$18.53 | 184 | \$17.44 |
| \$27.00 - \$32.06 | 112 | 9.86 | \$30.10 | -- | \$ -- |
| \$ 3.21 - \$32.06 | 9,664 | 6.80 | \$13.17 | 6,558 | \$10.74 |

10. Leases

The Company leases retail stores, warehouse facilities, office space and equipment. Substantially all of the retail stores are leased under noncancelable agreements which expire at various dates through 2020 with various renewal options for additional

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

periods. The agreements, which have been classified as operating leases, generally provide for both minimum and percentage rentals and require the Company to pay all insurance, taxes and other maintenance costs. Percentage

rentals are based on sales performance in excess of specified minimums at various stores.

Rental expense under operating leases are as follows:

| Fiscal Year | 1997 | 1996 | 1995 |
|--------------------|------------|---------|---------|
| ----- | ---- | ---- | ---- |
| Minimum rentals | \$ 253,472 | 222,700 | 179,941 |
| Percentage rentals | 3,216 | 2,750 | 2,532 |
| | ----- | ----- | ----- |
| | \$ 256,688 | 225,450 | 182,473 |
| | ===== | ===== | ===== |

Future minimum annual rentals, excluding percentage rentals, required under leases that had initial, noncancelable lease terms greater than one year, as of January 31, 1998 are:

| Fiscal Year | |
|-------------|--------------|
| ----- | |
| 1998 | \$ 256,588 |
| 1999 | 250,230 |
| 2000 | 240,798 |
| 2001 | 235,819 |
| 2002 | 222,158 |
| After 2002 | 1,471,425 |
| | ----- |
| | \$ 2,677,018 |
| | ===== |

Future minimum annual rentals for stores scheduled for closing pursuant to the Company's restructuring plan are included in the preceding table. Future rental payments representing the exit costs associated with these store closings were included in the Company's non-cash restructuring charge of \$123,768 recorded during fiscal 1995 and, therefore, do not represent future operating expenses. Minimum rental obligations may decline in the future, as the leases for these stores subject to the restructuring plan are terminated or the restructuring plan is otherwise completed.

11. Litigation

Various claims and lawsuits arising in the normal course of business are pending against the Company. The subject matter of these proceedings primarily includes commercial disputes and employment issues. The results of these proceedings are not expected to have a material adverse effect on the Company's consolidated financial position or results of operations.

12. Certain Relationships and Related Transactions

The Company leases space for its executive offices in properties in which a principal shareholder/director/executive officer of the Company has a minority interest. The space was rented at an aggregate annual rent including real estate taxes of approximately \$1,309, \$1,307 and \$1,376 in fiscal years 1997, 1996 and 1995, respectively.

Marboro Books Corp., the Company's mail-order subsidiary, leases a 76,000 square foot office/warehouse from a partnership in which a principal shareholder/director/executive officer of the Company has a 50% interest, pursuant to a lease expiring in 2023. Pursuant to such lease, the Company paid \$743, \$665 and \$664 in fiscal years 1997, 1996 and 1995, respectively.

The Company is provided with certain package shipping services by the LTA Group, Inc. (LTA), a company in which the brother of a principal shareholder/director/executive officer of the Company acquired a 20% interest during fiscal 1996. The Company paid LTA \$11,528 and \$9,100 for such services

during fiscal years 1997 and 1996, respectively.

The Company leases retail space in a building in which Barnes & Noble College Bookstores, Inc. (B&N College), a company owned by a principal shareholder/director/executive officer of the Company, subleases space for its executive offices. Occupancy costs allocated by the Company to B&N College for this space totaled \$634 and \$544 for the fiscal years ended January 31, 1998 and February 1, 1997, respectively. In connection with the space, the Company reimbursed B&N College during fiscal 1997, for a landmark tax credit totaling \$726.

B&N College also allocated certain expenses it incurred on behalf of the Company for salaries, employee benefit plan expenses and office support services. These charges are included in selling and administrative expenses in the accompanying consolidated statements of operations and approximated \$75, \$115, and \$1,219 for fiscal 1997, 1996 and 1995, respectively. The Company charged B&N College \$473 during fiscal 1997 for capital expenditures, business insurance and other operating costs incurred on their behalf.

The Company uses a jet aircraft owned by B&N College and pays for the costs and expenses of operating the aircraft based upon the Company's usage. Such costs, which include fuel, insurance, personnel and other costs, approximate \$1,910, \$1,685 and \$1,298 during fiscal 1997, 1996 and 1995, respectively, and are included in the accompanying consolidated statements of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

On November 27, 1996, Babbage's Etc., LLC (Babbage's), a company owned by a principal shareholder/director/executive officer of the Company, acquired substantially all of the assets of Software Etc. Stores, Inc. (Software), a company (formerly a division of the Company) in which two principal shareholder-directors had an ownership interest, and assumed the operations of 14 retail software departments located within Barnes & Noble stores. As of January 31, 1998, there are 13 of these departments remaining. The Company pays all rent related to these properties for which it receives a license fee from Babbage's equal to 7.0% of the gross sales of such departments. The Company also provides real estate and construction services to Babbage's and purchases

business insurance on its behalf for which the Company is reimbursed for its incremental costs to provide such services. The Company charged Software and Babbage's, on a combined basis, \$1,430, \$1,282 and \$4,992 during fiscal 1997, 1996, and 1995, respectively, for such services, license fees, rent, operating costs, insurance costs and benefit coverage. Babbage's also purchases merchandise from the Company at prices equal to the Company's cost to obtain and ship the merchandise.

13. Selected Quarterly Financial Information (Unaudited)

A summary of quarterly financial information for each of the last two fiscal years is as follows:

| Fiscal 1997 Quarter End On or About ----- | April 1997 ----- | July 1997 ----- | October 1997 ----- | January 1998 ----- | Total Fiscal year 1997 ----- |
|---|---------------------|--------------------|-----------------------|-----------------------|------------------------------------|
| Revenues | \$ 595,731 | 617,748 | 614,831 | 968,542 | 2,796,852 |
| Operating profit | 3,102 | 7,441 | 10,001 | 126,725 | 147,269 |
| Earnings (loss) before extraordinary charge | (3,861) | (1,366) | 65 | 69,830 | 64,668 |
| Net earnings (loss) | (3,861) | (1,366) | 65 | 58,331 | 53,169 |
| Basic earnings per common share | | | | | |
| Earnings (loss) before extraordinary charge | (0.06) | (0.02) | 0.00 | 1.03 | 0.96 |
| Net earnings (loss) | (0.06) | (0.02) | 0.00 | 0.86 | 0.79 |
| Diluted earnings per common share | | | | | |
| Earnings (loss) before extraordinary charge | (0.06) | (0.02) | 0.00 | 0.98 | 0.93 |
| Net earnings (loss) | (0.06) | (0.02) | 0.00 | 0.81 | 0.76 |

| On or About ----- | April 1996 ----- | July 1996 ----- | October 1996 ----- | January 1997(1) ----- | year 1996(2) ----- |
|--|---------------------|--------------------|-----------------------|--------------------------|-----------------------|
| Revenues | \$ 508,755 | 524,321 | 532,563 | 882,485 | 2,448,124 |
| Operating profit (loss) | (141) | 5,622 | 4,578 | 109,609 | 119,668 |
| Net earnings (loss) | (5,393) | (2,721) | (2,622) | 61,961 | 51,225 |
| Basic earnings (loss) per common share | (0.08) | (0.04) | (0.04) | 0.93 | 0.77 |
| Diluted earnings (loss) per common share | (0.08) | (0.04) | (0.04) | 1.91 | 0.75 |

- (1) The fourth quarter of 1996 includes 14 weeks.
(2) Fiscal 1996 includes 53 weeks.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
Barnes & Noble, Inc.

We have audited the accompanying consolidated balance sheets of Barnes & Noble, Inc. and subsidiaries as of January 31, 1998 and February 1, 1997 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the fiscal years ended January 31, 1998, February 1, 1997, and January 27, 1996, respectively. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Barnes & Noble, Inc. and its subsidiaries as of January 31, 1998 and February 1, 1997 and the results of their operations and their cash flows for the fiscal years ended January 31, 1998, February 1, 1997 and January 27, 1996, in conformity with generally accepted accounting principles.

New York, New York
March 10, 1998

Sd/-

BDO Seidman, LLP

Exhibit 10.21

BARNES & NOBLE, INC.
122 Fifth Avenue
New York, New York 10011

As of April 1, 1998

Mr. Stephen Riggio
1114 84th Street
Brooklyn, New York 11228

Dear Mr. Riggio:

We refer to the employment agreement between us dated as of July 15, 1993 (the "Employment Agreement"). This will confirm our agreement that the term of the Employment Agreement is hereby extended through July 14, 2000. Thereafter, the Employment Agreement shall renew annually for an additional twelve-month period unless terminated by either of us on at least twelve months' prior written notice to the other.

This letter shall also confirm that, notwithstanding anything in the Employment Agreement to the contrary: (i) you are currently Vice Chairman of the Company and Chairman and Chief Executive Officer of BarnesandNoble.com Inc., and your duties and responsibilities under the Employment Agreement, as extended hereby, shall be consistent with such offices; (ii) your annual salary under the Employment Agreement, as extended hereby, shall be at least the amount of your current annual salary or such higher amount as determined by the Company; and (iii) your bonus compensation under the Employment Agreement, as extended hereby, shall be determined in accordance with the Company's Supplemental Compensation Plan.

If the foregoing accurately reflects our agreement, kindly, sign and return to us the enclosed duplicate copy of this letter.

BARNES & NOBLE, INC.

By:-----
Leonard Riggio
Chairman of the Board and
Chief Executive Officer

ACCEPTED AND AGREED TO:

- -----
Stephen Riggio

Exhibit 10.21

BARNES & NOBLE, INC.
122 Fifth Avenue
New York, New York 10011

As of April 1, 1998

Mr. Mitchell S. Klipper
3 Clearmeadow Lane
Woodbury, New York 11791

Dear Mr. Klipper:

We refer to the employment agreement between us dated as of April 1, 1993 (the "Employment Agreement"). This will confirm our agreement that the term of the Employment Agreement is hereby extended through March 31, 2000. Thereafter, the Employment Agreement shall renew annually for an additional twelve-month period unless terminated by either of us on at least twelve months' prior written notice to the other.

This letter shall also confirm that, notwithstanding anything in the Employment Agreement to the contrary: (i) you are currently Executive Vice President of the Company and President of Barnes & Noble

Development, and your duties and responsibilities under the Employment Agreement, as extended hereby, shall be consistent with such offices; (ii) your annual salary under the Employment Agreement, as extended hereby, shall be at least the amount of your current annual salary or such higher amount as determined by the Company; and (iii) your bonus compensation under the Employment Agreement, as extended hereby, shall be determined in accordance with the Company's Supplemental Compensation Plan.

If the foregoing accurately reflects our agreement, kindly, sign and return to us the enclosed duplicate copy of this letter.

BARNES & NOBLE, INC.

By:-----
Leonard Riggio
Chairman of the Board and
Chief Executive Officer

ACCEPTED AND AGREED TO:

- -----
Mitchell S. Klipper

Exhibit 21.1

Subsidiaries of Barnes & Noble, Inc.

1. Barnes & Noble Booksellers, Inc., a Delaware corporation, a wholly owned subsidiary of Barnes & Noble, Inc. (the "Company").
2. B. Dalton Bookseller, Inc., a Minnesota corporation ("B. Dalton"), a wholly owned subsidiary of the Company.
3. Doubleday Book Shops, Inc., a Delaware corporation ("DBSI"), a wholly owned subsidiary of B. Dalton.
4. Marboro Books Corp., a New York corporation, a wholly owned subsidiary of the Company.
5. CCI Holdings, Inc., a Texas corporation, a wholly owned subsidiary of the Company.
6. BarnesandNoble.com Inc., a Delaware corporation, a wholly owned subsidiary of the Company.

CONSENT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

Barnes & Noble, Inc.
New York, New York

We hereby consent to the incorporation by reference of our report dated March 10, 1998 relating to the consolidated financial statements of Barnes & Noble, Inc. and subsidiaries, incorporated by reference into the Company's Annual Report on Form 10-K for the year ended January 31, 1998, into the prospectuses constituting a part of the following registration statements: No. 33-84826 on Form S-3, No. 33-89258 on Form S-3, No. 33-270333 on Form S-8, No. 33-89260 on Form S-8, and No. 33-97410 on Form S-3.

We also consent to the references to us under the caption "Experts" in the Prospectuses.

BDO Seidman, LLP

New York, New York
April 29, 1998

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