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

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

For the fiscal year ended January 30, 1999

[ ] 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	06-1196501
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
122 Fifth Avenue, New York, NY	10011
(Address of principal executive offices)	(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	New York Stock Exchange
(Title of Class)	(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 $1,734,867,031 based upon the closing market price of $32.125 per share of Common Stock on the New York Stock Exchange as of March 31, 1999.

Number of shares of $.001 par value Common Stock outstanding as of March 31, 1999: 69,012,755

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 1999 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 30, 1999 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(*), as of January 30, 1999 operated 1,009 bookstores. Of these 1,009 stores, 520 operate under the Barnes & Noble Booksellers, Bookstop and Bookstar trade names, (50 of which were opened in fiscal 1998), and 489 operate under the B. Dalton Booksellers, Doubleday Book Shops and Scribner's Bookstore trade names. Through its fifty percent interest in barnesandnoble.com llc (barnesandnoble.com), the Company is also the world's largest bookseller on the World Wide Web (http://www.barnesandnoble.com) and the exclusive bookseller on America Online (keyword: bn). Barnes & Noble publishes books under its own imprint for exclusive sale through its retail stores, mail-order catalogs and barnesandnoble.com. During fiscal 1998, the Company's share of the consumer book market was approximately 15%.

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 30, 1999 (fiscal 1998) and the fiscal year ended January 31, 1998 (fiscal 1997) were comprised of 52 weeks.

The Company's sales increased 7.5% during fiscal 1998 to $3.006 billion from $2.797 billion during fiscal 1997. The Company's retail business reported an operating profit of $188.6 million, up 16.0% from last year's operating profit of $162.7 million. Expanding gross margins due to the realization of further distribution center efficiencies and continued leverage on occupancy expenses combined with solid sales growth were the major drivers of the 1998 operating results. On a consolidated basis, the Company's net earnings increased 42.8% to $92.4 million or $1.29 per diluted share, compared to $0.93 per diluted share for 1997. Before the effect of barnesandnoble.com, retail earnings before extraordinary charge increased $23.0 million, or 31.3% to $96.8 million (or $1.35 per diluted share) from $73.8 million (or $1.06 per diluted share).

Barnes & Noble Stores

General

Barnes & Noble is the largest operator of book "super" stores in the United States(*) with 520 Barnes & Noble stores located in 49 states and the District of Columbia as of January 30, 1999. 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

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(*) Based upon information reported in trade publications and public filings.

ongoing events, including author appearances and children's activities, that make each Barnes & Noble store an active part of its community.

Barnes & Noble stores range in size from 10,000 to 60,000 square feet depending upon market size. Barnes & Noble stores opened during fiscal 1998 added 1.3 million square feet to the Barnes & Noble base, bringing the total square footage to 11.9 million square feet, a 10% increase over the prior year. Barnes & Noble stores contributed more than 84% of the Company's total sales in fiscal 1998. The Company plans to open approximately 50 Barnes & Noble stores in 1999 which are expected to average 26,000 square feet in size. 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 30, 1999, Barnes & Noble had stores in 149 of the total 208 DMA markets (Designated Market Area). In 73 of the 149 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 to 175,000 titles. The comprehensive title selection is diverse and reflects local interests. In addition, Barnes & Noble emphasizes books published by small and independent publishers and university presses. Bestsellers represent only 3% of Barnes & Noble store sales. Complementing this extensive on-site selection, all Barnes & Noble stores provide customers with access to the millions of books available to online shoppers while offering an option to have the book sent to the store or shipped directly to the customer. The Company believes that its tremendous selection, including many otherwise hard-to-find titles, builds customer loyalty. During fiscal 1999 the Company expects to complete installation of BookMaster, the Company's new in-store operating system, in all Barnes & Noble stores. BookMaster enhances the Company's existing merchandise replenishment systems, resulting in higher in-stock positions and better productivity at the store level through efficiencies in receiving, cashiering and returns processing.

Experienced Booksellers. The Company's culture of outgoing, helpful and knowledgeable booksellers consists of 29,000 full- and part-time employees operating over 1,000 stores as of January 30, 1999. Barnes & Noble has created nearly 2,000 new jobs nationwide during fiscal 1998 primarily due to its Barnes & Noble store expansion.

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.

Music Departments. As of January 30, 1999, the Company had 203 Barnes & Noble stores with music departments which range in size from 1,700 to 7,800 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. 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 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 organizations.

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 750,000 titles in over 150 subjects, provides each store with comprehensive title selections in those subjects in which it seeks to expand. During 1998, the Company continued rolling out the next generation of its state-of-the-art store system, BookMaster. 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 completed in 1999.

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, power plants and landmark buildings.

The number of Barnes & Noble stores located in each state and the District of Columbia as of January 30, 1999 are listed below:

STATE	NUMBER OF STORES	STATE	NUMBER OF STORES
Alaska	1	Missouri	8
Alabama	5	Montana	3
Arizona	11	Nebraska	4
Arkansas	2	Nevada	5
California	74	New Hampshire	3
Colorado	13	New Jersey	17
Connecticut	11	New Mexico	2
Delaware	1	New York	33
Dist. of Columbia	1	North Carolina	15
Florida	36	North Dakota	2
Georgia	10	Ohio	14
Hawaii	1	Oklahoma	5
Idaho	3	Oregon	8
Illinois	22	Pennsylvania	17
Indiana	7	Rhode Island	1
Iowa	3	South Carolina	8
Kansas	4	South Dakota	1
Kentucky	4	Tennessee	8
Louisiana	5	Texas	52
Maine	1	Utah	8
Maryland	8	Vermont	1
Massachusetts	16	Virginia	13
Michigan	14	Washington	16
Minnesota	14	Wisconsin	7
Mississippi	1	Wyoming	1

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 50 new stores during fiscal 1999.

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 and incremental sales generated by new stores.

B. Dalton Stores

General

The Company is the second largest operator of mall bookstores in the United States(*). During fiscal 1998, B. Dalton generated revenues of approximately $468.4 million, or 15.6% of the Company's total revenues, compared with 18.2% of total Company revenues during fiscal 1997.

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 Book$avers discount card for an annual fee which allows customers an additional 10% discount on substantially all purchases. The Company's 15 Doubleday and eight 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 between 40 to 60 B. Dalton stores per year since 1989 as leases come up for renewal.

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 87% 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

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(*) Based upon information reported in trade publications and public filings.

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 30, 1999 are listed below:

STATE	NUMBER OF STORES	STATE	NUMBER OF STORES
Alabama	1	Montana	3
Arizona	12	Nebraska	3
Arkansas	1	Nevada	3

California	75	New Hampshire	2
Colorado	10	New Jersey	12
Connecticut	5	New Mexico	2
Dist. Of Columbia	4	New York	19
Florida	24	North Carolina	11
Georgia	12	North Dakota	4
Idaho	3	Ohio	24
Illinois	20	Oklahoma	4
Indiana	8	Oregon	6
Iowa	11	Pennsylvania	24
Kansas	6	South Carolina	5
Kentucky	3	South Dakota	2
Louisiana	11	Tennessee	4
Maine	2	Texas	32
Maryland	10	Utah	6
Massachusetts	8	Virginia	13
Michigan	22	Washington	15
Minnesota	21	West Virginia	1
Mississippi	1	Wisconsin	7
Missouri	15	Wyoming	2

Given the Company's continuing plans to execute its strategy to maximize returns from its B. Dalton division, the Company anticipates it will continue to realize a decline in the number of B. Dalton stores during 1999 primarily due to lease expirations. During fiscal 1998, the Company opened 4 B. Dalton stores and closed 43 stores, primarily as a result of electing not to renew expiring leases.

barnesandnoble.com

General

barnesandnoble.com, a limited liability company created in November 1998 was formed by combining the online bookselling operations of the Company, which began in early 1997, with funds contributed by the international media company Bertelsmann AG (Bertelsmann), one of the largest integrated media companies in the world. barnesandnoble.com has one of the world's largest selection of books - more than eight million in-print and out-of-print books. As of December 1998, in less than two years of operations, it has become the fourth largest e-commerce site and among the top 25 overall sites on the

World Wide Web, according to Media Metrix. Through the Company, barnesandnoble.com has access to the largest standing inventory of any online bookseller with more than 750,000 titles ready for immediate delivery. The site's database features more than six and one half million out-of-print and rare books, as well as the largest online selection of bargain books discounted up to 90 percent. During 1998, many major enhancements were introduced, including one-click ordering, a powerful and user friendly search engine, e-mail book reviews and product-notification services, Software and Magazine stores, a Gift Center and Bargain Book store and online gift certificates. Also during 1998, the site began to add music and video to its product offerings, an initiative scheduled to be fully rolled out during 1999. barnesandnoble.com is the exclusive bookseller to America Online (AOL)'s more than 17 million subscribers. barnesandnoble.com's affiliate network pays the highest commissions with the best linking and best reporting tools, including daily updated sales information, and is a leader in business-to-business e-commerce with its unique Business Solutions program.

Other Strategies

Proprietary Publishing. With publishing and distribution rights to over 2,000 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 continued to expand its publishing in the past year, especially our trade and juvenile lines.

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 327 bookstores, including 52 superstores. The Company also maintains an equity investment in Calendar Club L.L.C., an operator of seasonal calendar kiosks both in the United States and internationally.

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(*) Based upon information reported in trade publications and public filings.

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.

The Company purchases books on a regular basis from over 1,700 publishers and approximately 50 wholesale distributors. Purchases from the top five suppliers (including publishers and wholesale distributors) accounted for approximately 45% of the Company's book purchases during fiscal 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 four 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 now sourced through the Company's new distribution center increasing direct buying from publishers rather than wholesalers. Improved just-in-time deliveries to stores and increased inventory turnover provide added benefits.

In addition, the Company's distribution network provides a significant competitive advantage for barnesandnoble.com. By stocking nearly 750,000 titles, the Company is currently in a position to provide overnight delivery service to online customers at gross margins which allow barnesandnoble.com to offer very deep discounts.

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 Barnes & Noble stores, resulting in higher in-stock positions and better productivity at the store level through efficiencies in receiving, cashiering and returns processing. During the 52 weeks ending January 29, 2000 (fiscal 99), the Company expects to complete installation of the BookMaster system.

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.

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, Inc., 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.

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. The Company has now reported operating profit for eleven consecutive quarters.

Acquisition of Ingram Book Group

On November 6, 1998, the Company announced an agreement to purchase the Ingram Book Group, a group of privately held subsidiaries of Ingram Industries Inc., for $600 million, consisting of approximately $200 million in cash and approximately $400 million in common stock of the Company. The closing of the transaction is subject to the satisfaction of certain conditions including the expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

Employees

The Company currently employs approximately 4,200 full-time salaried, 11,000 full-time hourly and 14,000 part-time hourly employees. The Company's employees are not represented by unions and the Company believes that its relationship with its employees is excellent.

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(*) Based upon information reported in trade publications and public filings.

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 519 leased stores open as of January 30, 1999 expire as follows:

Lease Terms to Expire During (twelve months ending on or about January 31)	Number of Stores
2000	10
2001	6
2002	28
2003	44
2004	27
2005 and later	404

All B. Dalton stores are leased. The leases generally provide for an initial ten-year term with no renewal option. The terms of the 489 B. Dalton leases as of January 30, 1999 expire as follows:

Lease Terms to Expire During (twelve months ending on or about January 31)	Number of Stores

2000	170
2001	78
2002	45
2003	32
2004	38
2005 and later	126

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

In March 1998, the American Booksellers Association (ABA) and 26 independent bookstores filed a lawsuit in the United States District Court for the Northern District of California against the Company and Borders Group Inc. (Borders) 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. In November 1998, six other independent booksellers instituted an action in the same court against the same defendants asserting similar claims and seeking similar relief. The Company intends to vigorously defend both actions.

In August 1998, The Intimate Bookshop, Inc. and its owner, Wallace Kuralt, filed a lawsuit in the United States District Court for the Southern District of New York against the Company, Borders, Amazon.com, Inc., certain publishers and others alleging violation of the Robinson-Patman Act and other federal law, New York statutes governing trade practices and common law. The Complaint seeks certification of a class consisting of all retail booksellers in the United States, whether or not currently in business, which were in business and were members of the ABA at any time during the four-year period preceding the filing of the Complaint. The Complaint alleges that the named plaintiffs have suffered damages of $11.25 million or more and requests treble damages on behalf of the named plaintiffs and each of the purported class members, as well as of injunctive and declaratory relief (including an injunction requiring the closure of all of defendants' stores within 10 miles of any location where plaintiff either has or had a retail bookstore during the four years preceding the filing of the Complaint, and prohibiting the opening by defendants of any bookstore in such areas for the next 10 years), disgorgement of alleged discriminatory discounts, rebates, deductions and payments, punitive damages, interest, costs, attorneys fees and other relief. Many of the allegations in the Complaint are similar to those contained in the ABA action described above. The Company intends to vigorously defend the action.

In November 1998, a former bookstore chain in Texas which has filed for bankruptcy protection, filed an amended complaint in an action in the Bankruptcy Court for the Northern District of Texas against the Company alleging various antitrust and related claims. Among other things, the plaintiff alleges that the Company conspired with national book publishers to obtain lower prices and to monopolize the Dallas/Fort Worth book retail market. The plaintiff is seeking $11 million in actual damages, plus treble damages, punitive damages, and attorneys' fees. The Company intends to vigorously defend this action.

In addition to the above actions, 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.

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 30, 1999.

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 1998		Fiscal 1997	
	High	Low	High	Low
First Quarter	$39 13/16	30 1/4	$19 15/16	15 3/16
Second Quarter	48	31 15/16	25 1/2	18 1/2
Third Quarter	41 11/16	22 3/16	32 1/4	22 3/8
Fourth Quarter	48	26 3/4	34 1/4	25 13/16

Approximate Number of Holders of Common Equity

Title of Class	Approximate Number of Record Holders as of March 31, 1999
Common stock, $0.001 par value	2,018

Dividends

The terms of the Company's debt agreements prohibits payment of cash dividends. During fiscal 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 30, 1999 (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 1999 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission within 120 days of the Company's fiscal year ended January 30, 1999 (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

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:

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)

Exhibit No.	Description
3.5	Certificate of Designation of Preferences and Rights of Preferred Stock, Series H of Barnes & Noble, Inc. (4)
3.6	Certificate of Amendment of The Amended and Restated Certificate of Incorporation of Barnes & Noble, Inc., dated July 17, 1998 and filed July 17, 1998.(4)
4.1	Specimen Common Stock certificate. (1)
4.2	Rights Agreement, dated as of July 10, 1998, between Barnes & Noble, Inc. and The Bank of New York, as Rights Agent. (4)
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. (6)
10.3	Amendment to the Pledge and Security Agreement dated as of November 18, 1997. (5)
10.4	1996 Incentive Plan as Amended. (10)
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.(6)
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. (6)

Exhibit No.	Description
10.12	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"). (8)
10.13	Amendment to each of the Employment Agreements dated as of April 1, 1998. (5)
10.14	Formation Agreement dated November 12, 1998 among Barnes & Noble,

Inc., B&N.com Holding Corp., barnesandnoble.com inc., B&N.com Member Corp., Bertelsmann AG and BOL.US Online, Inc.(9)

10.15 Amended and Restated Limited Liability Company Agreement of barnesandnoble.com llc among Barnes & Noble, Inc., B&N.com Holding Corp., Bertelsmann AG and BOL.US Online, Inc.(9)

10.16 Supply Agreement, dated as of October 31, 1998, between Barnes & Noble, Inc. and barnesandnoble.com.(10)

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".(10)

21.1 List of subsidiaries.(10)

23.1 Consent of BDO Seidman, LLP.(10)

(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 8-K dated July 15, 1998.

(5) Previously filed as an exhibit to the Company's Form 10-K for the fiscal year ended January 31, 1998.

(6) Previously filed as an exhibit to the Company's Form 10-K for the fiscal year ended January 27, 1996.

(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 Registration Statement on Form S-1 (Commission File No. 33-50548) and incorporated herein by reference.

(9) Previously filed as an exhibit to the Company's Form 8-K dated November 24, 1998.

(10) Filed herewith.

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	By: /s/ Marie J. Toulantis
Leonard Riggio, Chairman of the Board and Chief Executive Officer	Marie J. Toulantis, Executive Vice President, Finance and Chief Financial

April 30, 1999 Officer
April 30, 1999

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	April 30, 1999
/s/ Stephen Riggio Stephen Riggio	Vice Chairman	April 30, 1999
/s/ Michael N. Rosen Michael N. Rosen	Secretary and Director	April 30, 1999
/s/ Matthew A. Berdon Matthew A. Berdon	Director	April 30, 1999
/s/ William Dillard, II William Dillard, II	Director	April 30, 1999
/s/ Jan Michiel Hessels Jan Michiel Hessels	Director	April 30, 1999
/s/ Irene R. Miller Irene R. Miller	Director	April 30, 1999
/s/ Margaret T. Monaco Margaret T. Monaco	Director	April 30, 1999
/s/ William Sheluck, Jr. William Sheluck, Jr.	Director	April 30, 1999

EXHIBIT 10.4

BARNES & NOBLE, INC.
1996 INCENTIVE PLAN*

BARNES & NOBLE, INC., a corporation formed under the laws of the State of Delaware (the "Company"), hereby establishes and adopts the following 1996 Incentive Plan (the "Plan").

RECITALS

WHEREAS, the Company desires to encourage high levels of performance by those individuals who are key to the success of the Company, to attract new individuals who are highly motivated and who will contribute to the success of the Company and to encourage such individuals to remain as directors, employees, consultants and/or advisors of the Company and its subsidiaries by increasing their proprietary interest in the Company's growth and success.

WHEREAS, to attain these ends, the Company has formulated the Plan embodied herein to authorize the granting of incentive awards through grants of stock options ("Options"), grants of stock appreciation rights, grants of Stock Purchase Awards (hereafter defined), and grants of Restricted Stock Awards (hereafter defined) to those individuals whose judgment, initiative and efforts are or have been responsible for the success of the Company.

NOW, THEREFORE, the Company hereby constitutes, establishes and adopts the following Plan and agrees to the following provisions:

ARTICLE 1.

PURPOSE OF THE PLAN

1.1. Purpose. The purpose of the Plan is to assist the Company in attracting and retaining selected individuals to serve as directors, officers, consultants, advisors and employees of the Company who will contribute to the Company's success and to achieve long-term objectives which will inure to the benefit of all stockholders of the Company through the additional incentive inherent in the ownership of the Company's shares of common stock ("Shares"). Options granted under the Plan will be either "incentive stock options," intended to qualify as such under the provisions of section 422 of the Internal Revenue Code of 1986, as from time to time amended (the "Code"), or "nonqualified stock options." For purposes of the Plan, the term "subsidiary" shall mean "subsidiary corporation," as such term is defined in section 424(f) of the Code, and "affiliate" shall have the meaning set forth in Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). For purposes of the Plan, the term "Award" shall mean a grant of an Option, a grant of a stock appreciation right, a grant of a Stock Purchase Award, a grant of a Restricted Stock Award, or any other award made under the terms of the Plan.

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* Revised to reflect two-for-one stock split effected September 22, 1997 and 5,000,000 share increase in shares available for issuance effected June 3, 1998.

ARTICLE 2.

SHARES SUBJECT TO AWARDS

2.1. Number of Shares. Subject to the adjustment provisions of Section 9.10 hereof, the aggregate number of Shares which may be issued under Awards under the Plan, whether pursuant to Options, stock appreciation rights, Stock Purchase Awards or Restricted Stock Awards shall not exceed 11,000,000. No Options to purchase fractional Shares shall be granted or issued under the Plan. For purposes of this Section 2.1, the Shares that shall be counted toward such limitation shall include all Shares:

(1) issued or issuable pursuant to Options that have been or may be exercised;

(2) issued or issuable pursuant to Stock Purchase Awards; and

(3) issued as, or subject to issuance as, a Restricted Stock Award.

2.2. Shares Subject to Terminated Awards. The Shares covered by any unexercised portions of terminated Options granted under Articles 4 and 6, Shares forfeited as provided in Section 8.2(a) and Shares subject to any Awards which are otherwise surrendered by the Participant without receiving any payment or other benefit with respect thereto may again be subject to new Awards under the Plan. In the event the purchase price of an Option is paid in whole or in part through the delivery of Shares, the number of Shares issuable in connection with the exercise of the Option shall not again be available for the grant of Awards under the Plan. Shares subject to Options, or portions thereof, which have been surrendered in connection with the exercise of stock appreciation rights shall not again be available for the grant of Awards under the Plan.

2.3. Character of Shares. Shares delivered under the Plan may be authorized and unissued Shares or Shares acquired by the Company, or both.

2.4. Limitations on Grants to Individual Participant. Subject to adjustments pursuant to the provisions of Section 9.10 hereof, the number of Shares which may be granted hereunder to any employee during any fiscal year under all forms of Awards shall not exceed 700,000 Shares. If an Option is cancelled, the cancelled Option shall continue to be counted toward the 700,000 limit for the year granted. An Option (or a stock appreciation right) that is repriced during any fiscal year is treated as the cancellation of the Option (or stock appreciation right) and a grant of a new Option (or stock appreciation right), both of which shall be counted toward the 700,000 limit for that fiscal year.

ARTICLE 3.

ELIGIBILITY AND ADMINISTRATION

3.1. Awards to Employees and Directors. (a) Participants who receive (i) Options under Articles 4 and 6 hereof or stock appreciation rights under Article 5 ("Optionees"), and (ii) Stock Purchase Awards under Article 7 or Restricted Stock Awards under Article 8 (in either case, a "Participant"), shall consist of such key officers, employees, consultants, advisors and directors of the Company or any of its subsidiaries or affiliates as the Committee shall select from time to time, provided, however, that an Option that is intended to qualify as an "incentive stock option" may be granted only to an individual that is an

employee of the Company or any of its subsidiaries. The Committee's designation of an Optionee or Participant in any year shall not require the Committee to designate such person to receive Awards or grants in any other year. The designation of an Optionee or Participant to receive Awards or grants under one portion of the Plan shall not require the Committee to include such Optionee or Participant under other portions of the Plan.

(b) No Option which is intended to qualify as an "incentive stock option" may be granted to any employee who, at the time of such grant, owns, directly or indirectly (within the meaning of sections 422(b)(6) and 424(d) of the Code), shares of stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any of its subsidiaries or affiliates, unless at the time of such grant, (i) the option price is fixed at not less than 110% of the Fair Market Value (as defined below) of the Shares subject to such Option, determined on the date of the grant, and (ii) the exercise of such Option is prohibited by its terms after the expiration of five years from the date such Option is granted.

3.2. Administration. (a) The Plan shall be administered by a committee (the "Committee") consisting of not fewer than two directors of the Company (the directors of the Company being hereinafter referred to as the "Directors"), as designated by the Directors. The Directors may remove from, add members to, or fill vacancies in the Committee. Each member of the Committee shall be a "disinterested person" within the meaning of Rule 16b-3(c)(2)(i) of the Exchange Act and an "outside director" within the meaning of Section 162(m)(4)(C)(i) of the Code, except that if the Directors determine that (i) the

Plan cannot satisfy the requirements of Rule 16b-3 of the Exchange Act (such that grants of Awards are not exempt from Section 16(b) of the Exchange Act), then the members of the Committee need not be "disinterested persons," or (ii) they no longer want the Plan to comply with the requirements of Code Section 162(m), then the members of the Committee need not be "outside directors." Any Award to a member of the Committee shall be made strictly in accordance with the terms of Section 4.1(b).

(b) The Committee is authorized, subject to the provisions of the Plan, to establish such rules and regulations as it may deem appropriate for the conduct of meetings and proper administration of the Plan. All actions of the Committee shall be taken by majority vote of its members.

(c) Subject to the provisions of the Plan, the Committee shall have authority, in its sole discretion, to grant Awards under the Plan, to interpret the provisions of the Plan and, subject to the requirements of applicable law, including Rule 16b-3 of the Exchange Act, to prescribe, amend, and rescind rules and regulations relating to the Plan or any Award thereunder as it may deem necessary or advisable. All decisions made by the Committee pursuant to the provisions of the Plan shall be final, conclusive and binding on all persons, including the Company, its stockholders, Directors and employees, and other Plan participants.

ARTICLE 4.

OPTIONS

4.1. Grant of Options. (a) Key Individuals, Directors and Employees. The Committee shall determine, within the limitations of the Plan, those key individuals and the Directors and employees of the Company and its subsidiaries and affiliates to whom Options are to be granted under the Plan, the

number of Shares that may be purchased under each such Option and the option price, and shall designate such Options at the time of the grant as either "incentive stock options" or "nonqualified stock options"; provided, however, that Options granted to employees of an affiliate (that is not also a subsidiary) or to non-employees of the Company may only be "nonqualified stock options."

(b) Non-Employee Directors. Notwithstanding any provision of this Plan to the contrary, all persons who are Non-Employee Directors (as defined below) shall receive Awards under this Plan only as follows: (i) all Non-Employee Directors on January 16, 1996 shall automatically be granted Options to purchase 40,000 Shares at their then Fair Market Value, with 25% of each such Option (covering 10,000 Shares) exercisable immediately (or on such later date as stockholder approval of this Plan is obtained) and an additional 25% shall become exercisable on each January 1 thereafter through January 1, 1999, at which time 100% of said Options shall be exercisable; and (ii) each person who thereafter is elected or appointed to membership on the Board of Directors of the Company and who is a Non-Employee Director on the date of his election or appointment, shall on such effective date of election or appointment automatically be granted Options to purchase 40,000 Shares at their then Fair Market Value, with 25% of each such Option (covering 10,000 Shares) becoming exercisable on each of the next four anniversaries of said grant date, at which time (said fourth anniversary) 100% of said Options shall be exercisable. For purposes of this paragraph (b), a "Non-Employee Director" shall be a Director who is not otherwise an employee of the Company or any of its affiliates or subsidiaries on the grant date and has not been employed by the Company or any of its affiliates or subsidiaries for any part of the twelve months preceding such date. Each Option granted to a Non-Employee Director hereunder shall be exercisable for a period of ten years from the date of automatic grant and shall be subject to the restrictions and limitations set forth in the Plan. Notwithstanding any provision of this Plan to the contrary, the provisions of this Section 4.1(b) may not be amended more than once every six (6) months, other than to comport with changes in the Code, the Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder.

4.2. Stock Option Agreements; etc. All Options granted pursuant to Article 4 and Article 6 herein (a) shall be authorized by the Committee (other than Options to Non-Employee Directors under Section 4.1(b)) and (b) shall be evidenced in writing by stock option agreements ("Stock Option

Agreements") in such form and containing such terms and conditions as the Committee shall determine which are not inconsistent with the provisions of the Plan, and, with respect to any Stock Option Agreement granting Options which are intended to qualify as "incentive stock options," are not inconsistent with Section 422 of the Code. Granting of an Option pursuant to the Plan shall impose no obligation on the recipient to exercise such option. Any individual who is granted an Option pursuant to this Article 4 and Article 6 herein may hold more than one Option granted pursuant to such Articles at the same time and may hold both "incentive stock options" and "nonqualified stock options" at the same time. To the extent that any Option does not qualify as an "incentive stock option" (whether because of its provisions, the time or manner of its exercise or otherwise) such Option or the portion thereof which does not so qualify shall constitute a separate "nonqualified stock option."

4.3. Option Price. Subject to Section 3.1(b), the option price per each Share purchasable under any "incentive stock option" granted pursuant to this Article 4 and any "nonqualified stock option" granted pursuant to Article 6 herein shall not be less than 100% of the Fair Market Value (as hereinafter defined) of such Share on the date of the grant of such Option. The option price per each Share purchasable under any "nonqualified stock option" granted pursuant to this Article 4 shall be such amount as the Committee shall determine at the time of the grant of such Option. Notwithstanding the foregoing, the option price per each Share purchasable under any Option granted to a Non-Employee Director

pursuant to Section 4.1(b) shall be equal to 100% of the Fair Market Value of such Share on the date of grant of such Option.

4.4. Other Provisions. Options granted pursuant to this Article 4 shall be made in accordance with the terms and provisions of Article 9 hereof and any other applicable terms and provisions of the Plan.

ARTICLE 5.

STOCK APPRECIATION RIGHTS

5.1. Grant and Exercise. Stock appreciation rights may be granted in conjunction with all or part of any Option granted under the Plan provided such rights are granted at the time of the grant of such Option. A "stock appreciation right" is a right to receive cash or Shares, as provided in this Article 5, in lieu of the purchase of a Share under a related Option. A stock appreciation right or applicable portion thereof shall terminate and no longer be exercisable upon the termination or exercise of the related Option, and a stock appreciation right granted with respect to less than the full number of Shares covered by a related Option shall not be reduced until, and then only to the extent that, the exercise or termination of the related Option exceeds the number of Shares not covered by the stock appreciation right. A stock appreciation right may be exercised by the holder thereof (the "Holder"), in accordance with Section 5.2 of this Article 5, by giving written notice thereof to the Company and surrendering the applicable portion of the related Option. Upon giving such notice and surrender, the Holder shall be entitled to receive an amount determined in the manner prescribed in Section 5.2 of this Article 5. Options which have been so surrendered, in whole or in part, shall no longer be exercisable to the extent the related stock appreciation rights have been exercised.

5.2. Terms and Conditions. Stock appreciation rights shall be subject to such terms and conditions, not inconsistent with the provisions of the Plan, as shall be determined from time to time by the Committee, including the following:

(a) Stock appreciation rights shall be exercisable only at such time or times and to the extent that the Options to which they relate shall be exercisable in accordance with the provisions of the Plan.

(b) Upon the exercise of a stock appreciation right, a Holder shall be entitled to receive up to, but no more than, an amount in cash or whole Shares equal to the excess of the then Fair Market Value of one Share over the option price per Share specified in the related Option multiplied by the number of Shares in respect of which the stock appreciation right shall have been exercised. The

Holder shall specify in his written notice of exercise, whether payment shall be made in cash or in whole Shares; provided, however, in the case of a stock appreciation right exercised by a person subject to Section 16 of the Exchange Act, the Holder's written notice specifying the form of payment is subject to the approval of the Committee. Each stock appreciation right may be exercised only at the time and so long as a related Option, if any, would be exercisable or as otherwise permitted by applicable law; provided, however, that no stock appreciation right granted under the Plan to a person then subject to Section 16 of the Exchange Act shall be exercised during the first six months of its term for cash.

(c) No stock appreciation right shall be transferable by a Holder otherwise than by will or by the laws of descent and distribution, and stock appreciation rights shall be exercisable, during the Holder's lifetime, only by the Holder.

(d) Upon the exercise of a stock appreciation right, the Option or part thereof to which such stock appreciation right is related shall be deemed to have been exercised for the purpose of the limitation of the number of Shares to be issued under the Plan, as set forth in Section 2.1 of the Plan.

(e) Stock appreciation rights granted in connection with an Option may be exercised only when the Fair Market Value of the Shares subject to the Option exceeds the option price at which Shares can be acquired pursuant to the Option.

(f) Stock appreciation rights may be exercised for cash by a person subject to Section 16 of the Exchange Act only during the period beginning on the third business day, and ending on the twelfth business day, following the release of quarterly and annual summary statements of sales and earnings, as set forth in Rule 16b-3(e)(1)(ii) of the Exchange Act.

ARTICLE 6.

RELOAD OPTIONS

6.1. Authorization of Reload Options. Concurrently with the award of any Option (such Option hereinafter referred to as the "Underlying Option") to any participant in the Plan, the Committee may grant a reload option (a "Reload Option") to such participant to purchase for cash or Shares a number of Shares as specified below. A Reload Option shall be exercisable for an amount of Shares equal to (i) the number of Shares delivered by the Optionee to the Company to exercise the Underlying Option, and (ii) to the extent authorized by the Committee, the number of Shares used to satisfy any tax withholding requirement incident to the exercise of the Underlying Option, subject to the availability of Shares under the Plan at the time of such exercise. The grant of a Reload Option shall become effective upon the exercise of an Underlying Option by delivering to the Company Shares held by the Optionee for at least six months. Notwithstanding the fact that the Underlying Option may be an "incentive stock option," a Reload Option is not intended to qualify as an "incentive stock option" under Section 422 of the Code.

6.2. Reload Option Amendment. Each Stock Option Agreement shall state whether the Committee has authorized Reload Options with respect to the Underlying Option. Upon the exercise of an Underlying Option, the Reload Option will be evidenced by an amendment to the underlying Stock Option Agreement.

6.3. Reload Option Price. The option price per Share deliverable upon the exercise of a Reload Option shall be the Fair Market Value of a Share on the date the grant of the Reload Option becomes effective.

6.4. Term and Exercise. Each Reload Option is fully exercisable six months from the effective date of grant. The term of each Reload Option shall be equal to the remaining option term of the Underlying Option.

6.5. Termination of Employment. No Reload Option shall be granted to an Optionee when Options are exercised pursuant to the terms of this Plan following termination of the Optionee's employment.

6.6. Applicability of Other Sections. Except as otherwise provided in this Article 6, the provisions of Article 9 applicable to Options shall apply equally to Reload Options.

ARTICLE 7.

STOCK PURCHASE AWARDS

7.1. Grant of Stock Purchase Awards. The term "Stock Purchase Award" means the right to purchase Shares of the Company and to pay for such Shares through a loan made by the Company to an employee (a "Purchase Loan") as set forth in this Article 7.

7.2. Terms of Purchase Loans. (a) Purchase Loan. Each Purchase Loan shall be evidenced by a promissory note. The term of the Purchase Loan shall be a period of years, as determined by the Committee, and the proceeds of the Purchase Loan shall be used exclusively by the Participant for purchase of Shares from the Company at a purchase price equal to their Fair Market Value on the date of the Stock Purchase Award.

(b) Interest on Purchase Loan. A Purchase Loan shall be non-interest bearing or shall bear interest at whatever rate the Committee shall determine (but not in excess of the maximum rate permissible under applicable law), payable in a manner and at such times as the Committee shall determine. Those terms and provisions as the Committee shall determine shall be incorporated into the promissory note evidencing the Purchase Loan.

(c) Forgiveness of Purchase Loan. Subject to Section 7.4 hereof, the Company may forgive the repayment of up to 100% of the principal amount of the Purchase Loan, subject to such terms and conditions as the Committee shall determine and set forth in the promissory note evidencing the Purchase Loan (the "Conditions"). A Participant's Purchase Loan can be prepaid at any time, and from time to time, without penalty.

7.3. Security for Loans. (a) Stock Power and Pledge. Purchase Loans granted to Participants shall be secured by a pledge of the Shares acquired pursuant to the Stock Purchase Award. Such pledge shall be evidenced by a pledge agreement (the "Pledge Agreement") containing such terms and conditions as the Committee shall determine. Purchase Loans shall be recourse or non-recourse with respect to a Participant, as determined from time to time by the Committee. The share certificates for the Shares purchased by a Participant pursuant to a Stock Purchase Award shall be issued in the Participant's name, but shall be held by the Company as security for repayment of the Participant's Purchase Loan together with a stock power executed in blank by the Participant (the execution and delivery of which by the Participant shall be a condition to the issuance of the Stock Purchase Award). The Participant shall be entitled to exercise all rights applicable to such Shares, including, but not limited to, the right to vote such Shares and the right to receive dividends and other distributions made with respect to such Shares. When the Purchase Loan and any accrued but unpaid interest thereon has been repaid or otherwise satisfied in

full, the Company shall deliver to the Participant the share certificates for the Shares purchased by a Participant under the Stock Purchase Award.

(b) Release and Delivery of Share Certificates During the Term of the Purchase Loan. The Company shall release and deliver to each Participant certificates for Shares purchased by a Participant pursuant to a Stock Purchase Award, in such amounts and on such terms and conditions as the Committee shall determine, which shall be set forth in the Pledge Agreement.

(c) Release and Delivery of Share Certificates Upon Repayment of the Purchase Loan. The Company shall release and deliver to each Participant certificates for the Shares purchased by the Participant under the Stock Purchase Award and then held by the Company, provided the Participant has paid or otherwise satisfied in full the balance of the Purchase Loan and any accrued but unpaid interest thereon. In the event the balance of the Purchase Loan is not repaid, forgiven or otherwise satisfied within 90 days after (i) the date repayment of the Purchase Loan is due (whether in accordance with its term, by reason of acceleration or otherwise), or (ii) such longer time as the Committee, in its discretion, shall provide for repayment or satisfaction, the Company shall retain those Shares then held by the Company in accordance with the Pledge Agreement.

7.4. Termination of Employment. (a) Termination of Employment by Death, Disability or by the Company Without Cause; Change of Control. In the event of a Participant's termination of employment by reason of death, "disability" or by the Company without "cause," or in the event of a "change of control," the Committee shall have the right (but shall not be required) to forgive the remaining unpaid amount (principal and interest) of the Purchase Loan in whole or in part as of the date of such occurrence. "Change of Control," "disability" and "cause" shall have the respective meanings as set forth in the promissory note evidencing the Purchase Loan.

(b) Termination of Employment by Voluntary Resignation. In the event of a Participant's termination of employment for any reason other than death or "disability," the Participant shall repay to the Company the entire balance of the Purchase Loan and any accrued but unpaid interest thereon, which amounts shall become immediately due and payable, unless otherwise determined by the Committee.

7.5. Restrictions on Transfer. No Stock Purchase Award or Shares purchased through such an Award and pledged to the Company as collateral security for the Participant's Purchase Loan (and accrued and unpaid interest thereon) may be otherwise pledged, sold, assigned or transferred (other than by will or by the laws of descent and distribution).

ARTICLE 8.

RESTRICTED STOCK AWARDS

8.1. Restricted Stock Awards. (a) Grant. A grant of Shares made pursuant to this Article 8 is referred to as a "Restricted Stock Award." The Committee may grant to any employee an amount of Shares in such manner, and subject to such terms and conditions relating to vesting, forfeitability and restrictions on delivery and transfer (whether based on performance standards, periods of service or otherwise) as the Committee shall establish (such Shares, "Restricted Shares"). The terms of any Restricted Stock Award granted under this Plan shall be set forth in a written agreement (a "Restricted Stock Agreement") which shall contain provisions determined by the Committee and not inconsistent with this Plan. The provisions of Restricted Stock Awards need not be the same for each Participant receiving such Awards.

(b) Issuance of Restricted Shares. As soon as practicable after the date of grant of a Restricted Stock Award by the Committee, the Company shall cause to be transferred on the books of the Company, Shares registered in the name of the Company, as nominee for the Participant, evidencing the Restricted Shares covered by the Award; provided, however, such Shares shall be subject to forfeiture to the Company retroactive to the date of grant, if a Restricted Stock Agreement delivered to the Participant by the Company with respect to the Restricted Shares covered by the Award is not duly executed by the Participant and timely returned to the Company. All Restricted Shares covered by Awards under this Article 8 shall be subject to the restrictions, terms and conditions contained in the Plan and the Restricted Stock Agreement entered into by and between the Company and the Participant. Until the lapse or release of all restrictions applicable to an Award of Restricted Shares, the share certificates representing such Restricted Shares shall be held in custody by the Company or its designee.

(c) Stockholder Rights. Beginning on the date of grant of the Restricted Stock Award and subject to execution of the Restricted Stock Agreement as provided in Sections 8.1(a) and (b), the Participant shall become a stockholder of the Company with respect to all Shares subject to the Restricted Stock Agreement and shall have all of the rights of a stockholder, including, but not limited to, the right to vote such Shares and the right to receive distributions made with respect to such Shares; provided, however, that any Shares distributed as a dividend or otherwise with respect to any Restricted Shares as to which the restrictions have not yet lapsed shall be subject to the same restrictions as such Restricted Shares and shall be represented by book entry and held as prescribed in Section 8.1(b).

(d) Restriction on Transferability. None of the Restricted Shares may be assigned or transferred (other than by will or the laws of descent and distribution), pledged or sold prior to lapse or release of the restrictions applicable thereto.

(e) Delivery of Shares Upon Release of Restrictions. Upon expiration or earlier termination of the forfeiture period without a forfeiture and the satisfaction of or release from any other conditions prescribed by the Committee, the restrictions applicable to the Restricted Shares shall lapse. As promptly as administratively feasible thereafter, subject to the requirements of Section 10.1, the Company shall deliver to the Participant or, in case of the Participant's death, to the Participant's beneficiary, one or more stock certificates for the appropriate number of Shares, free of all such restrictions, except for any restrictions that may be imposed by law.

8.2. Terms of Restricted Shares. (a) Forfeiture of Restricted Shares. Subject to Section 8.2(b), all Restricted Shares shall be forfeited and returned to the Company and all rights of the Participant with respect to such Restricted Shares shall terminate unless the Participant continues in the service of the Company as an employee until the expiration of the forfeiture period for such Restricted Shares and satisfies any and all other conditions set forth in the Restricted Stock Agreement. The Committee in its sole discretion, shall determine the forfeiture period (which may, but need not, lapse in installments) and any other terms and conditions applicable with respect to any Restricted Stock Award.

(b) Waiver of Forfeiture Period. Notwithstanding anything contained in this Article 8 to the contrary, the Committee may, in its sole discretion, waive the forfeiture period and any other conditions set forth in any Restricted Stock Agreement under appropriate circumstances (including the death, disability or retirement of the Participant or a material change in circumstances arising after the date of an Award) and subject to such terms and conditions (including forfeiture of a proportionate number of the Restricted Shares) as the Committee shall deem appropriate.

ARTICLE 9.

GENERALLY APPLICABLE PROVISIONS

9.1. Option Period. Subject to Section 3.1(b), the period for which an Option is exercisable shall not exceed ten years from the date such Option is granted, provided, however, in the case of an Option that is not intended to be an "incentive stock option," the Committee may prescribe a period in excess of ten years. After the Option is granted, the option period may not be reduced.

9.2. Fair Market Value. If the Shares are listed or admitted to trading on a securities exchange registered under the Exchange Act, the "Fair Market Value" of a Share as of a specified date shall mean the per Share closing price of the Shares for the day immediately preceding the date as of which Fair Market Value is being determined (or if there was no reported closing price on such date, on the last preceding date on which the closing price was reported) reported on the principal securities exchange on which the Shares are listed or admitted to trading. If the Shares are not listed or admitted to trading on any such exchange but are listed as a national market security on the National Association of Securities Dealers, Inc. Automated Quotations System ("NASDAQ"), traded in the over-the-counter market or listed or traded on any similar system then in use, the Fair Market Value of a Share shall be the last sales price for the day immediately preceding the date as of which the Fair Market Value is being determined (or if there was no reported sale on such date, on the last preceding date on which any reported sale occurred) reported on such system. If the Shares are not listed or admitted to trading on any such exchange, are not listed as a national market security on NASDAQ and are not traded in the over-the-counter market or listed or traded on any similar system then in use, but are quoted on NASDAQ or any similar system then in use, the Fair Market Value of a Share shall be the average of the closing high bid and low asked quotations on such system for the Shares on the date in question. If the Shares are not publicly traded, Fair Market Value shall be determined by the Committee in its sole discretion using appropriate criteria. An Option shall be considered granted on the date the Committee acts to grant the Option or such later date as the Committee shall specify.

9.3. Exercise of Options. Options granted under the Plan shall be exercised by the Optionee thereof (or by his executors, administrators, guardian or legal representative, as provided in

Sections 9.6 and 9.7 hereof) as to all or part of the Shares covered thereby, by the giving of written notice of exercise to the Company, specifying the number of Shares to be purchased, accompanied by payment of the full purchase price for the Shares being purchased. Full payment of such purchase price shall be made within five business days following the date of exercise and shall be made (i) in cash or by certified check or bank check, (ii) with the consent of the Committee, by delivery of a promissory note in favor of the Company upon such terms and conditions as determined by the Committee, (iii) with the consent of Committee, by tendering previously acquired Shares (valued at its Fair Market Value, as determined by the Committee as of the date of tender), or (iv) with the consent of the Committee, any combination of (i), (ii) and (iii); provided, however, that payment may not be pursuant to (iii) above unless the Optionee shall have owned the Shares being tendered in payment for a period of at least six months prior to the date of exercise of the Option. Such notice of exercise, accompanied by such payment, shall be delivered to the Company at its principal business office or such other office as the Committee may from time to time direct, and shall be in such form, containing such further provisions consistent with the provisions of the Plan, as the Committee may from time to time prescribe. In no event may any Option granted hereunder be exercised for a fraction of a Share. The Company shall effect the transfer of Shares purchased pursuant to an Option as soon as practicable, and, within a reasonable time thereafter, such transfer shall be evidenced on the books of the Company. No person exercising an Option shall have any of the rights of a holder of Shares subject to an Option until certificates for such Shares shall have been issued following the exercise of such Option. No adjustment shall be made for cash dividends or other rights for which the record date is prior to the date of such issuance.

9.4. Non-Transferability of Options. Except as provided in Section 9.11, no Option shall be assignable or transferable by the Optionee, other than by will or the laws of descent and distribution, and may be exercised during the life of the Optionee only by the Optionee or his guardian or legal representative.

9.5. Termination of Employment. In the event of the termination of employment of an Optionee or the termination or separation from service of an advisor or consultant or a Director (who is an Optionee) for any reason (other than death or disability as provided below), any Option(s) granted to such Optionee under this Plan and not previously exercised or expired shall be deemed cancelled and terminated on the day of such termination or separation, unless the Committee decides, in its sole discretion, to extend the term of the Option for a period not to exceed three months after the date of such termination or separation, provided, however, that in no instance may the term of the Option, as so extended, exceed the maximum term established pursuant to Section 3.1(b)(ii) or 9.1 above. Notwithstanding the foregoing, in the event of the termination or separation from service of an Optionee for any reason other than death or disability, under conditions satisfactory to the Company, the Committee may, in its sole discretion, allow any "nonqualified stock options" granted to such Optionee under the Plan and not previously exercised or expired to be exercisable for a period of time to be specified by the Committee, provided, however, that in no instance may the term of the Option, as so extended, exceed the maximum term established pursuant to Section 9.1 above.

9.6. Death. In the event an Optionee dies while employed by the Company or any of its subsidiaries or affiliates or during his term as a Director of the Company or any of its subsidiaries or affiliates, as the case may be, any Option(s) granted to him not previously expired or exercised shall, to the extent exercisable on the date of death, be exercisable by the estate of such Optionee or by any person who acquired such Option by bequest or inheritance, at any time within one year after the death of the Optionee, unless earlier terminated pursuant to its terms, provided, however, that if the term of such Option would

expire by its terms within six months after the Optionee's death, the term of such Option shall be extended until six months after the Optionee's death, provided further, however, that in no instance may the term of the Option, as so extended, exceed the maximum term established pursuant to Section 3.1(b)(ii) or 9.1 above.

9.7. Disability. In the event of the termination of employment of an Optionee or the separation from service of a Director (who is an Optionee) due to total disability, the Optionee, or his guardian or legal representative, shall have the unqualified right to exercise any Option(s) which have not been previously exercised or expired and which the Optionee was eligible to exercise as of the first date of total disability (as determined by the Committee), at any time within one year after such termination or separation, unless earlier terminated pursuant to its terms, provided, however, that if the term of such Option would expire by its terms within six months after such termination or separation, the term of such Option shall be extended until six months after such termination or separation, provided further, however, that in no instance may the term of the Option, as so extended, exceed the maximum term established pursuant to Section 3.1(b)(ii) or 9.1 above. The term "total disability" shall, for purposes of this Plan, be defined in the same manner as such term is defined in Section 22(e)(3) of the Code.

9.8. Six-Month Holding Period. Notwithstanding anything to the contrary in the Plan, each Option (or the Shares underlying the Option) granted to an individual who is subject to Section 16 of the Exchange Act, must be held by such individual for a combined period of at least six months from the date the Option is granted (or until such earlier date as satisfies any legal requirement for exemption under Rule 16b-3 of the Exchange Act and as satisfies all other applicable law); provided that the sale, transfer or other disposition of any Shares underlying any Option shall be permitted within such period to the extent the sale, transfer or other disposition is exempt under Rule 16b-3 of the Exchange Act and all other applicable law.

9.9. Amendment and Modification of the Plan. The Board of Directors of the Company may, from time to time, alter, amend, suspend or terminate the Plan as it shall deem advisable, subject to any requirement for stockholder approval imposed by applicable law or any rule of any stock exchange or quotation system on which Shares are listed or quoted; provided that the Board of Directors may not amend the Plan in any manner that would result in noncompliance with Rule 16b-3 of the Exchange Act or any applicable law, except as otherwise provided in Sections 3.2 or 9.11 hereof; and further provided that the Board of Directors may not, without the approval of the Company's stockholders, amend the Plan to (a) increase the number of Shares that may be the subject of Options under the Plan (except for adjustments pursuant to Section 9.10 hereof), (b) reduce the minimum option price specified by Sections 3.1(b) and 4.3 hereof, (c) increase the maximum permissible term of any Option specified by Section 3.1(b)(ii) or 9.1 hereof, and (d) remove responsibility for administering the Plan from the Committee. In addition, no amendments to, or termination of, the Plan shall in any way impair the rights of an Optionee or a Participant under any Award previously granted without such Optionee's or Participant's consent.

9.10. Adjustments. In the event that the Committee shall determine that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities, the issuance of warrants or other rights to purchase Shares or other securities, or other similar corporate transaction or event affects the Shares with respect to which Options have been or may be issued under the Plan, such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits

intended to be made available under the Plan, then the Committee shall, in such manner as the Committee may deem equitable, adjust any or all of (i) the number and type of Shares that thereafter may be made the subject of Options, (ii) the number and type of Shares subject to outstanding Options and stock appreciation rights, and (iii) the grant or exercise price with respect to any Option, or, if deemed appropriate, make provision for a cash payment to the holder of any outstanding Option; provided, in each case, that with respect to "incentive stock options," no such adjustment shall be authorized to the extent that such adjustment would cause such options to violate Section 422(b) of the Code or any successor provision; and provided further, that the number of Shares subject to any Option denominated in Shares shall always be a whole number.

9.11. Other Provisions. Notwithstanding anything in this Plan to the contrary, if the Board of Directors determine that the Plan cannot, or that an Award need not, satisfy the requirements of Rule 16b-3 of the Exchange Act (such that grants of Awards are not exempt from Section 16(b) of the Exchange Act), then the Committee shall have the authority to waive or modify those provisions of the Plan which are intended to satisfy such Rule 16b-3 requirements and shall allow an Optionee who has been granted "nonqualified stock options" to transfer any or all of such options to any one or more of the following persons: (i) the spouse, parent, issue, spouse of issue, or issue of spouse ("issue" shall include all descendants whether natural or adopted) of such Optionee; or (ii) a trust for the benefit of those persons described in clause (i) above or for the benefit of such Optionee, or for the benefit of any such persons and such Optionee; provided, however, that such transferee shall be bound by all of the terms and conditions of this Plan and shall execute an agreement satisfactory to the Company evidencing such obligation; and provided further, however, that such Optionee shall remain bound by the terms and conditions of this Plan. The Company shall cooperate with an Optionee's transferee and the Company's transfer agent in effectuating any transfer permitted pursuant to this Section 9.11.

ARTICLE 10.

MISCELLANEOUS

10.1. Tax Withholding. The Company shall notify an Optionee or Participant of any income tax withholding requirements arising as a result of the grant of any Award, exercise of an Option or stock appreciation rights or any other event occurring pursuant to this Plan. The Company shall have the right to withhold from such Optionee or Participant such withholding taxes as may be required by law, or to otherwise require the Optionee or Participant to pay such withholding taxes. If the Optionee or Participant shall fail to make such tax payments as are required, the Company or its subsidiaries or affiliates shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to such Optionee or Participant or to take such other action as may be necessary to satisfy such withholding obligations.

10.2. Right of Discharge Reserved. Nothing in the Plan nor the grant of an Award hereunder shall confer upon any employee, Director or other individual the right to continue in the employment or service of the Company or any subsidiary or affiliate of the Company or affect any right that the Company or any subsidiary or affiliate of the Company may have to terminate the employment or service of (or to demote or to exclude from future Options under the Plan) any such employee, Director or other individual at any time for any reason. Except as specifically provided by the Committee, the Company shall not be liable for the loss of existing or potential profit from an Award granted in the event of termination of an

employment or other relationship even if the termination is in violation of an obligation of the Company or any subsidiary or affiliate of the Company to the employee or Director.

10.3. Nature of Payments. All Awards made pursuant to the Plan are in consideration of services performed or to be performed for the Company or any subsidiary or affiliate of the Company. Any income or gain realized pursuant to Awards under the Plan and any stock appreciation rights constitutes a special incentive payment to the Optionee, Participant or Holder and shall not be taken into account, to the extent permissible under applicable law, as compensation for purposes of any of the employee benefit plans of the Company or any subsidiary or affiliate of the Company except as may be determined by the Committee or by the Directors or directors of the applicable subsidiary or affiliate of the Company.

10.4. Severability. If any provision of the Plan shall be held unlawful or otherwise invalid or unenforceable in whole or in part, such unlawfulness, invalidity or unenforceability shall not affect any other provision of the Plan or part thereof, each of which remain in full force and effect. If the making of any payment or the provision of any other benefit required under the Plan shall be held unlawful or otherwise invalid or unenforceable, such unlawfulness, invalidity or unenforceability shall not prevent any other payment or benefit from being made or provided under the Plan, and if the making of any payment in full or the provision of any other benefit required under the Plan in full would be unlawful or otherwise invalid or unenforceable, then such unlawfulness, invalidity or unenforceability shall not prevent such payment or benefit from being made or provided in part, to the extent that it would not be unlawful, invalid or unenforceable, and the maximum payment or benefit that would not be unlawful, invalid or unenforceable shall be made or provided under the Plan.

10.5. Gender and Number. In order to shorten and to improve the understandability of the Plan document by eliminating the repeated usage of such phrases as "his or her" and any masculine terminology herein shall also include the feminine, and the definition of any term herein in the singular shall also include the plural except when otherwise indicated by the context.

10.6. Governing Law. The Plan and all determinations made and actions taken thereunder, to the extent not otherwise governed by the Code or the laws of the United States, shall be governed by the laws of the State of Delaware and construed accordingly.

10.7. Effective Date of Plan; Termination of Plan. The Plan shall be effective on the date of the approval of the Plan by the holders of a majority of the shares entitled to vote at a duly constituted meeting of the stockholders; provided, however, that the adoption of the Plan is subject to such stockholder approval within 12 months after the date of adoption of the Plan by the Board of Directors. The Plan shall be null and void and of no effect if the foregoing condition is not fulfilled and in such event each Award and related stock appreciation rights shall, notwithstanding any of the preceding provisions of the Plan, be null and void and of no effect. Awards may be granted under the Plan at any time and from time to time on or prior to May 28, 2006, on which date the Plan will expire except as to Awards and related stock appreciation rights then outstanding under the Plan. Such outstanding Awards and stock appreciation rights shall remain in effect until they have been exercised or terminated, or have expired.

10.8. Captions. The captions in this Plan are for convenience of reference only, and are not intended to narrow, limit or affect the substance or interpretation of the provisions contained herein.

EXHIBIT 10.16

SUPPLY AGREEMENT

SUPPLY AGREEMENT, dated as of October 31, 1998, between Barnes & Noble, Inc., Delaware corporation having an office located at 122 Fifth Avenue, New York, New York 10011 ("B&N"), and barnesandnoble.com llc, a Delaware limited liability company having an office located at 76 Ninth Avenue, 11th Floor, New York, New York 10011 (the "LLC"). Capitalized terms used herein without definition shall have the meanings assigned to such terms in the Amended and Restated Limited Liability Company Agreement effective as of October 31, 1998 of the LLC, as the same may be amended or modified from time to time (the "LLC Agreement").

WHEREAS, to enable the LLC to obtain the benefits of any purchasing discounts available to B&N, the parties desire that B&N shall from time to time order Products (as defined below) on behalf of the LLC, on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual promises and agreements herein contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto hereby agree as follows:

1. Orders. (a) During the term of this Agreement, the LLC may from time to time, in its sole discretion, place orders for Products with B&N (each an "Order"). "Products" shall mean books, magazines and other products generally sold by B&N in its retail stores. Nothing in this Agreement is intended to limit the LLC from placing orders for Products with any other entity.

(b) Once an Order is placed by the LLC, B&N shall use its commercially reasonable efforts to fill such Order as promptly as practical in accordance with the terms of such Order. Products ordered hereunder by the LLC shall be delivered to the LLC's warehouse at 308A Herrod Blvd., Dayton, New Jersey 08810, unless otherwise mutually agreed upon by the parties hereto. B&N shall give Orders placed by the LLC equal priority with Orders placed by any other entity, including, without limitation, B&N. B&N shall not be responsible for any delays by third-party suppliers in the filling of any Order.

2. Price. For all Products ordered by the LLC under this Agreement, B&N shall charge the LLC B&N's cost for such Products plus Incremental Overhead (as defined below). Payment for Orders shall be due 30 days from the date of such Order, provided that B&N shall refund any payments made for Orders which B&N is unable to fill within 30 days of such determination by B&N. "Incremental Overhead" shall mean the cost incurred by B&N and its Affiliates to third parties, including, without limitation, costs for shipping and handling, and any direct labor costs incurred by B&N and its Affiliates in excess of the cost that would have been incurred in the absence of the performance by B&N and its Affiliates of B&N's obligations

hereunder.

3. No Agency. The parties hereto are independent contractors and nothing in this Agreement is intended to, nor shall it, create any agency, partnership or joint venture relationship between them. With respect to any third party, no party hereto, or any of its officers, directors, employees or agents, shall have the right or authority to bind or otherwise obligate the other party hereto in any way as a consequence of this Agreement.

4. Termination. This Agreement shall terminate on the date that either B&N and its Affiliates or BAG and its Affiliates cease to own a Membership Interest of at least 10% of the outstanding Membership Interests, but may be terminated earlier as follows:

(a) the LLC may, in accordance with the provisions of Section 4.7(a) of the LLC Agreement, terminate this Agreement on thirty (30) days' prior written notice to B&N.

(b) B&N may terminate this Agreement:

(i) within the sixty (60) day period following the one hundred and eightieth day (180) after a transfer pursuant to Section 7.3 of the LLC Agreement;

(ii) the LLC is in default of the terms of this Agreement and such default continues for more than thirty (30) days after written notice thereof to the LLC and BAG (as such term is defined in the LLC Agreement), provided that such default is not principally as a result of the action or inaction of the BN Managers;

(iii) in the event that B&N or the LLC shall (A) apply for or consent to the appointment of, or the taking possession by, a receiver, custodian, trustee, examiner, liquidator or the like of itself or of all or any substantial part of its property, (B) make a general assignment for the benefit of its creditors, (C) commence a voluntary case under the Federal Bankruptcy Code of 1978, as amended, or (D) file a petition as a debtor 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; or

(iv) if a proceeding or case shall be commenced against any of B&N or the LLC, without such party's application or consent, seeking (A) its reorganization, liquidation, dissolution, arrangement or winding-up, or the composition or readjustment of its debts, (B) the appointment of a receiver, custodian, trustee, examiner or liquidator or the like of such party or of all or any substantial part of its property, or (C) similar relief in respect of such party under any law relating to bankruptcy, insolvency, reorganization, liquidation,

dissolution, arrangement or 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 shall be entered and continue unstayed and in effect, for a period of 60 or more days.

5. Miscellaneous. (a) This Agreement shall be governed by the internal laws of the State of New York without giving effect to the conflict of law principles thereof.

(b) Neither party shall be liable to fulfill its obligations hereunder, or for delays in performance, due to causes beyond its reasonable control, including, but not limited to, acts of God, acts or omissions of civil or military authority, fires, strikes, floods, epidemics, riots or acts of war.

(c) This Agreement sets forth the entire agreement between the parties hereto with respect to the subject matter hereof and is intended to supersede all prior negotiations, understandings and agreements. No provision of this Agreement may be waived or amended, except by a writing signed by the parties hereto.

(d) This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and together which shall constitute one and the same instrument.

(e) The failure of either party to exercise any right or remedy provided for herein shall not be deemed a waiver of any right or remedy hereunder.

(f) If any provision of this Agreement is determined by a court of competent jurisdiction to be invalid or otherwise unenforceable, such determination shall not affect the validity or enforceability of any remaining provisions of this Agreement. If any provision of this Agreement is invalid under any applicable statute or rule of law, it shall be enforced to the maximum extent possible so as to effect the intent of the parties, and the remainder of this Agreement shall continue in full force and effect.

(g) Any and all notices or other communications hereunder shall be sufficiently given if in writing and sent by hand, telecopier, reputable overnight courier or by certified mail, return receipt requested, postage prepaid, addressed to the party to receive the same at its address as set forth on page 1 hereof, or to such other address as the party to receive the same shall have specified by written notice given in the manner provided for in this Section 5(g). Such notices or other communications shall be deemed to have been given on the date of such delivery. Either party may change its address for the purpose of this Agreement by notice to the other party given as aforesaid.

(h) This Agreement shall be binding upon and inure to the benefit of each of the parties hereto and their respective successors and assigns, provided that the LLC may

not assign any of its rights hereunder without the prior written consent of B&N.

(i) The section headings used herein are for the convenience of the parties only, are not substantive and shall not be used to interpret or construe any of the provisions contained herein.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date first set forth above.

BARNES & NOBLE, INC.

By:

Name:
Title:

barnesandnoble.com llc

By: barnesandnoble.com inc., its
managing member

By:___________________________
Name:
Title:

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 30, 1999 (fiscal 1998), the 52 weeks ended January 31, 1998 (fiscal 1997) and the 53 weeks ended February 1, 1997 (fiscal 1996) and the Balance Sheet Data as of January 30, 1999 and January 31, 1998 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 27, 1996 (fiscal 1995) and January 28, 1995 (fiscal 1994) and the Balance Sheet Data as of February 1, 1997, January 27, 1996 and January 28, 1995 are derived from audited consolidated financial statements not included in this report. Certain prior-period amounts have been reclassified for comparative purposes.

Fiscal Year (In thousands of dollars, except per share data)	1998	1997	1996	1995	1994
STATEMENT OF OPERATIONS DATA:					
Sales					
Barnes & Noble stores	$ 2,515,352	2,245,531	1,861,177	1,349,830	952,697
B. Dalton stores	468,414	509,389	564,926	603,204	646,876
barnesandnoble.com	--	14,601	--	--	--
Other	21,842	27,331	22,021	23,866	23,158
Total sales	3,005,608	2,796,852	2,448,124	1,976,900	1,622,731
Cost of sales and occupancy	2,142,717	2,019,291	1,785,392	1,444,555	1,192,123
Gross profit	862,891	777,561	662,732	532,345	430,608
Selling and administrative expenses	577,195	540,423	465,687	383,692	316,457
Depreciation and amortization	88,345	76,951	59,806	47,881	36,617
Pre-opening expenses	8,795	12,918	17,571	12,160	9,021
Restructuring charge(1)	--	--	--	123,768	--
Operating profit (loss)	188,556	147,269	119,668	(35,156)	68,513
Interest expense, net and amortization of deferred financing fees(2)	(24,412)	(37,666)	(38,286)	(28,142)	(22,955)
Equity in net loss of barnesandnoble.com llc(3)	(71,334)	--	--	--	--
Gain on formation of barnesandnoble.com llc(4)	63,759	--	--	--	--
Earnings (loss) before provision (benefit) for income taxes and extraordinary charge	156,569	109,603	81,382	(63,298)	45,558
Provision (benefit) for income taxes	64,193	44,935	30,157	(10,322)	20,085
Earnings (loss) before extraordinary charge	92,376	64,668	51,225	(52,976)	25,473
Extraordinary charge(5)	--	11,499	--	--	--
Net earnings (loss)	$ 92,376	53,169	51,225	(52,976)	25,473
Earnings (loss) per common share					
Basic					
Earnings (loss) before extraordinary charge	$ 1.35	0.96	0.77	(0.85)	0.42
Extraordinary charge	$ --	0.17	--	--	--
Net earnings (loss)	$ 1.35	0.79	0.77	(0.85)	0.42
Diluted					
Earnings (loss) before extraordinary charge	$ 1.29	0.93	0.75	(0.85)	0.41
Extraordinary charge	$ --	0.17	--	--	--
Net earnings (loss)	$ 1.29	0.76	0.75	(0.85)	0.41
Weighted average common shares outstanding					
Basic	68,435,000	67,237,000	66,103,000	62,434,000	59,970,000
Diluted	71,677,000	69,836,000	67,886,000	62,434,000	61,560,000
OTHER OPERATING DATA:					
Number of Stores					
Barnes & Noble stores(6)	520	483	431	358	268
B. Dalton stores(7)	489	528	577	639	698

Total	1,009	1,011	1,008	997	966
Comparable store sales increase (decrease)(8)					
Barnes & Noble stores	5.0%	9.4%	7.3%	6.9%	12.6%
B. Dalton stores	(1.4)	(1.1)	(1.0)	(4.3)	(2.3)
Capital Expenditures	$ 141,388	121,903	171,885	154,913	88,763
BALANCE SHEET DATA:					
Working capital	$ 315,989	264,719	212,692	226,500	155,976
Total assets	$ 1,807,597	1,591,171	1,446,647	1,315,342	1,026,418
Long-term debt, less current portions	$ 249,100	284,800	290,000	262,400	190,000
Shareholders' equity	$ 678,789	531,755	455,989	400,235	358,173

SELECTED CONSOLIDATED FINANCIAL DATA CONTINUED

(In thousands of dollars)

(1) 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."

(2) Interest expense for fiscal 1998, 1997, 1996, 1995 and 1994 is net of interest income of $976, $446, $2,288, $2,138 and $3,008, respectively.

(3) On November 12, 1998, the Company and Bertelsmann AG (Bertelsmann) completed the formation of a limited liability company to operate the online retail bookselling operations of the Company's wholly owned subsidiary, barnesandnoble.com inc. barnesandnoble.com inc. began operations in fiscal 1997. As a result of the formation of barnesandnoble.com llc (barnesandnoble.com), the Company began accounting for its interest in barnesandnoble.com under the equity method of accounting as of the beginning of fiscal 1998. Fiscal 1998 reflects a one-hundred percent equity interest in barnesandnoble.com for the first three quarters ended October 31, 1998 (also the effective date of the limited liability company agreement), and a fifty percent equity interest beginning on November 1, 1998 through the end of the fiscal year. Had the Company reported the results of barnesandnoble.com inc. under the equity method of accounting during fiscal 1997, its fiscal 1997 equity in the net loss of barnesandnoble.com inc. would have been $15,395.

(4) As a result of the formation of the limited liability company, the Company has recognized a pre-tax gain during fiscal 1998 in the amount of $126,435, of which $63,759 has been recognized in earnings based on the $75,000 received directly from Bertelsmann and $62,676 ($36,351 after taxes) has been reflected in additional paid-in capital based on the Company's share of the incremental equity of the joint venture resulting from the $150,000 Bertelsmann contribution.

(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) Also includes 15 Bookstop and 25 Bookstar stores as of January 30, 1999.

(7) Also includes 15 Doubleday Book Shops, eight Scribner's Bookstores and seven smaller format bookstores operated under the Barnes & Noble trade name representing the Company's original retail strategy as of January 30, 1999.

(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 1998, 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 1998" represents the 52 weeks ended January 30, 1999, "fiscal 1997" represents the 52 weeks ended January 31, 1998 and "fiscal 1996" represents the 53 weeks ended February 1, 1997.

General

Barnes & Noble, Inc. (Barnes & Noble or the Company), the world's largest bookseller*, as of January 30, 1999 operates 1,009 bookstores. Of these 1,009 stores, 520 operate under the Barnes & Noble Booksellers, Bookstop and Bookstar trade names, (50 of which were opened in fiscal 1998), and 489 operate under the B. Dalton Bookseller, Doubleday Book Shops and Scribner's Bookstore trade names. Through its fifty percent interest in barnesandnoble.com llc (barnesandnoble.com), the Company is also the world's largest bookseller on the World Wide Web (http://www.barnesandnoble.com) and the exclusive bookseller on America Online (keyword: bn). Barnes & Noble publishes books under its own imprint for exclusive sale through its retail stores, mail-order catalogs and barnesandnoble.com. The Company employed approximately 29,000 full- and part-time booksellers and created nearly 2,000 new jobs nationwide during fiscal 1998 primarily due to its Barnes & Noble store expansion.

Barnes & Noble is the largest operator of book "super" stores in the United States* with 520 Barnes & Noble stores located in 49 states and the District of Columbia as of January 30, 1999. 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.

Barnes & Noble stores range in size from 10,000 to 60,000 square feet depending upon market size, and each store features a comprehensive selection of books, ranging from 60,000 to 175,000 titles. The title selection is diverse and reflects local interests. In addition, Barnes & Noble emphasizes books published by small and independent publishers and university presses. Bestsellers represent only 3% of Barnes & Noble store sales. Complementing this extensive on-site selection, all Barnes & Noble stores provide customers with access to the millions of books available to online shoppers while offering an option to have the book sent to the store or shipped directly to the customer. During fiscal 1999 the Company expects to complete installation of BookMaster, the Company's new in-store operating system, in all Barnes & Noble stores. BookMaster enhances our existing merchandise replenishment systems, resulting in higher in-stock positions and better productivity at the store level through efficiencies in receiving, cashiering and returns processing.

Barnes & Noble stores opened during fiscal 1998 added 1.3 million square feet to the Barnes & Noble base, bringing the total square footage to 11.9 million square feet, a 10% increase over the prior year. Barnes & Noble stores contributed more than 84% of the Company's total sales in fiscal 1998. The Company plans to open approximately 50 Barnes & Noble stores in 1999 which are expected to average 26,000 square feet in size.

At the end of fiscal 1998, the Company operated 489 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. 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 to superstore competition and 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, on average, between 40 and 60 B. Dalton stores per year since 1989.

barnesandnoble.com, a limited liability company created in November 1998 (as discussed more fully below) was formed by combining the online bookselling operations of the Company with funds contributed by the international media company Bertelsmann AG (Bertelsmann), one of the largest integrated media companies in the world. barnesandnoble.com has the world's largest selection of books* -- more than eight million in-print and out-of-print books. In less than two years of operations, it has become the fourth most-trafficked e-commerce site and among the top 25 largest overall sites on the Internet, as of December 1998, according to Media Metrix. barnesandnoble.com has access to the largest standing inventory of any online bookseller with more than 750,000 titles ready for immediate delivery. The site's database features more than six and one half million out-of-print and rare books, as well as the largest online selection of bargain books discounted up to 90 percent. During 1998, many major enhancements were introduced, including one-click ordering, a powerful and user friendly search engine, email book reviews and product-notification services, Software and Magazine stores, a Gift Center and Bargain Book store and online gift certificates. Also during 1998, the site began to add music and video to its product offerings, as well as an out-of-print book service. barnesandnoble.com is the exclusive bookseller to America Online (AOL)'s more than 16 million subscribers. The Company's affiliate network pays the highest commissions with the best linking and best reporting

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(*) Based upon information reported in trade publications and public filings.

tools, including daily updated sales information, and is the leader in business-to-business e-commerce with its unique Business Solutions program.

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 2,000 titles, Barnes & Noble Books offers customers high-quality books at exceptional values, while generating attractive gross margins.

The Company also maintains an 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 327 bookstores, including 52 superstores, as of the end of fiscal 1998.

Results of Operations

The Company's sales, operating profit, comparable store sales, store openings, store closings, number of stores open and square feet of selling space at year end are set forth below:

Fiscal Year (In thousands of dollars)	1998	1997	1996
Sales(1)	$ 3,005,608	2,796,852	2,448,124
Operating Profit(1)	$ 188,556	147,269	119,668
Comparable Store Sales Increase (Decrease)(2)			
Barnes & Noble stores	5.0%	9.4%	7.3%
B. Dalton stores	(1.4)	(1.1)	(1.0)
Stores Opened			
Barnes & Noble stores	50	65	91
B. Dalton stores	4	4	10

Total	54	69	101
Stores Closed			
Barnes & Noble stores	13	13	18
B. Dalton stores	43	53	72
Total	56	66	90
Number of Stores Open at Year End			
Barnes & Noble stores	520	483	431
B. Dalton stores	489	528	577
Total	1,009	1,011	1,008
Square Feet of Selling Space at Year End (In millions)			
Barnes & Noble stores	11.9	10.8	9.3
B. Dalton stores	1.9	2.0	2.2
Total	13.8	12.8	11.5

(1) Included in fiscal 1997 are sales and operating losses associated with barnesandnoble.com of $14,601 and ($15,395), respectively. Beginning in fiscal 1998 the Company's Consolidated Statement of Operations presents its equity in the results of operations of barnesandnoble.com as a single line item below operating profit in accordance with the equity method of accounting. The Company's equity in the net loss of barnesandnoble.com for fiscal 1998 was ($71,334).

(2) 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.

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

The following table sets forth, for the periods indicated, the percentage relationship that certain items bear to total sales of the Company:

Fiscal Year	1998	1997	1996
Sales	100.0%	100.0%	100.0%
Cost of sales and occupancy	71.3	72.2	72.9
Gross margin	28.7	27.8	27.1
Selling and administrative expenses	19.2	19.3	19.0
Depreciation and amortization	2.9	2.8	2.5
Pre-opening expenses	0.3	0.4	0.7
Operating margin(1)	6.3	5.3	4.9
Interest expense, net and amortization of deferred financing fees	(0.8)	(1.4)	(1.6)
Equity in net loss of barnesandnoble.com llc	(2.4)	--	--
Gain on formation of barnesandnoble.com llc	2.1	--	--
Earnings before provision for income taxes and extraordinary charge(1)	5.2	3.9	3.3

Provision for income taxes(1)	2.1	1.6	1.2
Earnings before extraordinary charge(1)	3.1	2.3	2.1
Extraordinary charge, net	--	0.4	--
Net earnings	3.1%	1.9%	2.1%

(1) If operating margin, earnings before provision for income taxes and extraordinary charge, provision for income taxes and earnings before extraordinary charge were presented without barnesandnoble.com during fiscal 1997, the percentage relationship that these items would bear to total sales of the Company would be 5.8%, 4.5%, 1.8% and 2.7%

52 Weeks Ended January 30, 1999 Compared with
52 Weeks Ended January 31, 1998

Sales

The Company's sales increased 7.5% during fiscal 1998 to $3.006 billion from $2.797 billion during fiscal 1997. Fiscal 1998 sales from Barnes & Noble stores, which contributed 83.7% of total sales, increased 12.0% to $2.515 billion from $2.246 billion in fiscal 1997.

The increase in sales was primarily due to the 5.0% increase in Barnes & Noble comparable store sales and the opening of an additional 50 Barnes & Noble stores during 1998. This increase was slightly offset by declining sales of B. Dalton, due to 43 store closings and a comparable store sales decline of 1.4%. In addition, fiscal 1997 includes barnesandnoble.com sales of $14.6 million whereas fiscal 1998 does not include sales for barnes-andnoble.com due to the conversion to the equity method of accounting as of the beginning of the year. Excluding barnesandnoble.com sales in fiscal 1997, retail sales increased 8.0% during fiscal 1998.

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 to $2.143 billion in fiscal 1998 from $2.019 billion in fiscal 1997. The Company's gross margin rate increased to 28.7% in fiscal 1998 from 27.8% in fiscal 1997. Excluding barnesandnoble.com in fiscal 1997 the retail gross margin rate was 27.9%. The current year improvement in gross margin reflects more direct buying, increased distribution center efficiencies, better shrinkage control, and a more-favorable merchandise mix.

Selling and Administrative Expenses

Selling and administrative expenses increased $36.8 million, or 6.8% to $577.2 million in fiscal 1998 from $540.4 million in fiscal 1997. Selling and administrative expenses decreased slightly to 19.2% of sales during fiscal 1998 from 19.3% during fiscal 1997 primarily as a result of the start-up expenses from barnesandnoble.com included in the fiscal 1997 results. Excluding barnesandnoble.com, retail selling and administrative expenses would have been 18.9% of sales in fiscal 1997 and total retail selling and administrative expenses would have increased 9.9% in fiscal 1998. The current year increase in retail selling and administrative expenses reflects the opening of an additional 50 Barnes & Noble stores, the full year implementation of a new wage plan, and expenses associated with new store system enhancements.

Depreciation and Amortization

Depreciation and amortization increased $11.3 million, or 14.8%, to $88.3

million in fiscal 1998 from $77.0 million in fiscal 1997. The increase was primarily the result of the new Barnes & Noble stores opened during fiscal 1998 and fiscal 1997, as well as new store system enhancements made during fiscal 1998.

Pre-Opening Expenses

Pre-opening expenses declined in fiscal 1998 to $8.8 million from $12.9 million in fiscal 1997 reflecting fewer new stores compared with prior years.

Operating Profit

Operating profit increased to $188.6 million in fiscal 1998 from $147.3 million in fiscal 1997. Excluding the $15.4 million operating loss for barnesandnoble.com included in fiscal 1997, retail operating margin improved to 6.3% of sales during fiscal 1998 from 5.8% of sales in fiscal 1997.

Interest Expense, Net and Amortization
of Deferred Financing Fees

Interest expense, net of interest income, and amortization of deferred financing fees decreased 35.2% or $13.3 million in fiscal 1998 to $24.4 million from $37.7 million in fiscal 1997. The decline was the result of the retirement of $190 million in 11-7/8% senior subordinated notes on January 15, 1998 as well as the more-favorable rate environment and lower spreads over the London Interbank Offer Rate (LIBOR) in effect since the November 1997 refinancing.

Equity in Net Loss of barnesandnoble.com llc

As a result of the formation of the limited liability company with Bertelsmann, the Company began accounting for its interest in barnesandnoble.com under the equity method of accounting as of the beginning of fiscal 1998. The Company's equity in the net loss of barnesandnoble.com for fiscal 1998 was $71.3 million. This reflects a one-hundred percent equity interest for the first three quarters ended October 31, 1998 (also the effective date of the limited liability company agreement), and a fifty percent equity interest beginning on November 1, 1998 through the end of the fiscal year. Had the Company reported the results of barnesandnoble.com under the equity method of accounting during fiscal 1997, its fiscal 1997 equity in the net loss of barnesandnoble.com would have been $15.4 million.

Gain on Formation of barnesandnoble.com llc

As a result of the formation of the limited liability company, resulting in the receipt of $75 million by the Company from Bertelsmann, a gain was recorded in fiscal 1998 in the amount of $63.8 million. The gain represents the excess of the amount received over the portion of the net assets of barnesandnoble.com sold by the Company to Bertelsmann.

Provision for Income Taxes

Barnes & Noble's effective tax rate was 41.0% during both fiscal 1998 and fiscal 1997.

Earnings

Fiscal 1998 earnings before extraordinary charge increased $27.7 million, or 42.8%, to $92.4 million (or $1.29 per diluted share) from $64.7 million (or $0.93 per diluted share) during fiscal 1997. Before the effect of barnesandnoble.com, retail earnings before extraordinary charge increased $23.0 million, or 31.3% to $96.8 million (or $1.35 per diluted share) from $73.8 million (or $1.06 per diluted share).

52 Weeks Ended January 31, 1998 Compared
with 53 Weeks Ended February 1, 1997

Sales

The Company's sales 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, sales increased 16.0%. Fiscal 1997 sales from Barnes & Noble stores, which contributed 80.3% of total sales, increased 20.7% to $2.246 billion from $1.861 billion in fiscal 1996.

The increase in sales 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 sales of B. Dalton stores which closed 53 stores and posted a comparable store sales decline of 1.1%. The inclusion of barnesandnoble.com as a consolidated wholly owned subsidiary also contributed to the increase in sales, posting $14.6 million of sales during its first 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. The Company's gross margin rate increased 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 sales 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 sales, reflecting operating leverage improvement.

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 sales during fiscal 1997 from 4.9% of sales during fiscal 1996. Excluding barnesandnoble.com, retail operating margin improved to 5.8% of sales.

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 fiscal 1997 and 1996 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.

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. The Company has now reported operating profit for eleven consecutive quarters.

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 operating activities were $181.1 million, $169.2 million and $119.5 million during fiscal 1998, 1997 and 1996, respectively. Fiscal 1997 cash flows from operating activities without barnesandnoble.com were $181.9 million. The slight decrease in retail operating cash flows in fiscal 1998 was due to a strategic increase in the distribution center standing inventory, the implementation of a new wage plan in fiscal 1998 and increased operating expenses associated with implementing the Company's new store system enhancements. In fiscal 1997, the improvement in cash flows was primarily due to the improvement in net earnings.

Earnings before interest, taxes, depreciation and amortization (EBITDA) increased $52.7 million or 23.5% to $276.9 million in fiscal 1998 from $224.2 million in fiscal 1997. Without barnesandnoble.com fiscal 1997 EBITDA was $236.9 million resulting in a retail increase in EBITDA in fiscal 1998 of 16.9%. In addition, total debt to retail EBITDA decreased from 1.20 times in fiscal 1997 to .90 times in fiscal 1998. This significant improvement in EBITDA is the result of the continued maturation of the Barnes & Noble stores. The weighted-average age per square foot of the Company's 520 Barnes & Noble stores was 3.3 years as of January 30, 1999 and is expected to increase to approximately 3.9 years by January 29, 2000. 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 as well as capital expenditures and other initiatives. Additionally, due to the formation of the joint venture with Bertelsmann as discussed below, retail cash flows are now fully available to support the Company's working capital requirements.

Capital Structure Continued strong cash flows from operations and a continued emphasis on working capital management, once again strengthened the Company's balance sheet in fiscal 1998. Including the effect of the Bertelsmann contribution to barnesandnoble.com (as discussed more fully below), shareholders' equity increased 27.7% to $678.8 million as of January 30, 1999, from $531.8 million as of January 31, 1998, and increased 20.8% as of January 30, 1999 before the Bertelsmann contribution. Return on average equity increased to 15.3% in fiscal 1998 from 13.1% during fiscal 1997.

The Company has an $850 million senior credit facility (the Facility), obtained in November 1997, with a syndicate led by The Chase Manhattan Bank. The Facility is structured as a five-year revolving credit. The Facility permits borrowings at various interest rate options based on the prime rate or 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 Facility contains covenants, limitations and events of default typical of credit facilities of this size and nature.

The amount outstanding under the Facility has been classified as long-term debt in the accompanying consolidated balance sheets due to both its terms and the Company's intent and ability to maintain principal amounts outstanding through November 2002.

Borrowings under the Company's senior credit facilities averaged $380.3 million, $184.5 million and $186.6 million and peaked at $535.0 million, $304.9 million and $292.8 million during fiscal 1998, 1997 and 1996, respectively. The increase in average and peak borrowings in fiscal 1998 is primarily the result of utilizing the Facility to retire $190 million in 11-7/8% senior subordinated notes on January 15, 1998 as well as the Company's funding of the operations of barnesandnoble.com. As a result of this retirement and the more favorable rates contained in the current facility as compared with the facility existing until November 1997, interest expense decreased 35% from $37.7 million to $24.4 million. The ratio of debt to equity improved significantly to 0.37:1.00 as of January 30, 1999 from 0.54:1.00 as of January 31, 1998.

Capital Investment Capital expenditures totaled $141.4 million, $121.9 million and $171.9 million during fiscal 1998, 1997 and 1996, respectively. Capital expenditures in fiscal 1999, primarily for the opening of approximately 50 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 $100 million and $120 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.

At the Company's Annual Meeting of Stockholders held on June 3, 1998, the Company's shareholders approved an amendment to the Company's Restated Certificate of Incorporation to increase the number of shares of Common Stock, par value $.001 per share, that the Company is authorized to issue, from 100,000,000 to 300,000,000.

On July 10, 1998, the Board of Directors of the Company declared a dividend of one Preferred Share Purchase Right (a Right) for each outstanding share of the Company's common stock (Common Stock). The distribution of the Rights was automatically made on July 21, 1998 to stockholders of record on that date. Each Right entitles the holder to purchase from the Company one four-hundredth of a share of a new series of preferred stock, designated as Series H Preferred

Stock, par value $.001 per share (the Preferred Stock), at a price of $225 per one four-hundredth of a share. For a discussion of the terms of such preferred stock see Note 8 of Notes to Consolidated Financial Statements. The Rights will be exercisable only if a person or group acquires 15% or more of the Company's outstanding Common Stock or announces a tender offer or exchange offer, the consummation of which would result in such person or group owning 15% or more of the Company's outstanding Common Stock. For a further discussion of the terms of the Rights see Note 8 of Notes to Consolidated Financial Statements.

Formation of barnesandnoble.com llc

On November 12, 1998, the Company and Bertelsmann completed the formation of a joint venture to operate the online retail bookselling operations of the Company's wholly owned subsidiary, barnesandnoble.com inc. The new entity is structured as a limited liability company under the name barnesandnoble.com llc. Under the terms of the relevant agreements, effective as of October 31, 1998, the Company and Bertelsmann (through their respective subsidiaries) each have a 50% membership interest in barnesandnoble.com. barnesandnoble.com inc. contributed substantially all of its assets and liabilities to the joint venture and Bertelsmann paid $75 million to the Company and made a $150 million cash contribution to the joint venture. Bertelsmann also agreed to contribute an additional $50 million to the joint venture for future working capital requirements. In addition, if in an initial public offering of the business of the joint venture prior to December 31, 2001, the value of Bertelsmann's interest exceeds the value of Bertelsmann's investment, Bertelsmann will pay the Company such excess amount, up to $25 million. As a consequence of the above transactions the Company has recognized a pre-tax gain during fiscal 1998 in the amount of $126.4 million of which $63.8 million has been recognized in earnings based on the $75 million received directly and $62.6 million ($36.4 million after taxes) has been reflected in additional paid-in capital based on the Company's share of the incremental equity of the joint venture resulting from the $150 million Bertelsmann contribution.

The accompanying consolidated financial statements, in accordance with the equity method of accounting, reflect the Company's investment in barnesandnoble.com as a single line item in the consolidated balance sheet as of January 30, 1999 and reflect the Company's interest in the net loss of barnesandnoble.com as a single line item in the consolidated statement of operations for the fiscal year ended January 30, 1999, as if the formation of the joint venture had occurred at the beginning of the fiscal year. Consequently, the $71.3 million equity in net loss of barnesandnoble.com shown in the accompanying consolidated statement of operations reflects the Company's one-hundred percent interest throughout the period ending at the date of the formation of the joint venture, October 31, 1998, and the Company's fifty percent interest from that point through the end of the fiscal year ending January 30, 1999. The accompanying consolidated financial statements reflect the financial position and results of operations of barnesandnoble.com as a consolidated wholly owned subsidiary for all other periods presented.

In March 1999, the Company announced the filing of a registration statement with the Securities and Exchange Commission (SEC) for an initial public offering of Class A common stock in barnesandnoble.com inc. Prior to the offering the Company and Bertelsmann will each own a fifty percent interest in barnesandnoble.com inc. via high voting Class B and high voting Class C common shares, respectively. barnesandnoble.com inc. will use the proceeds of the offering to purchase a fifteen to twenty percent interest in barnesandnoble.com llc. In March 1999, the limited liability company agreement was amended to also provide for the additional $50 million cash contribution by Bertelsmann to be made to barnesandnoble.com in the event of the completion of the initial public offering.

Acquisition of Ingram Book Group

On November 6, 1998, the Company announced an agreement to purchase the Ingram Book Group, a group of subsidiaries of privately held Ingram Industries Inc., for $600 million, consisting of approximately $200 million in cash and approximately $400 million in common stock of the Company. The closing of the transaction is subject to the satisfaction of certain conditions including the expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

Newly Issued Accounting Pronouncements

In April 1998, the Accounting Standards Executive Committee issued Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities" (SOP 98-5). SOP 98-5 requires an entity to expense all start-up activities, as defined, when incurred. The Company has historically amortized costs associated with the opening of new stores over the respective store's first 12 months of operations. In accordance with SOP 98-5, the Company will adopt its provisions effective for the fiscal year ending January 29, 2000, and will record a one-time charge reflecting the cumulative effect of a change in accounting principle in the first quarter of fiscal year 1999, in an amount estimated to be $4,500 after taxes, representing such start-up costs capitalized as of the beginning of that fiscal year. In addition, the Company will, on a prospective basis, expense all such start-up costs as incurred. Without consideration to the one-time charge, the Company's consolidated financial statements issued subsequent to fiscal year 1998 are not expected to be materially affected by the adoption of SOP 98-5.

In March 1998, the Accounting Standards Executive Committee issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" (SOP 98-1). SOP 98-1 is effective for the Company's fiscal year ending January 29, 2000. Adoption is not expected to have a material effect on the Company's consolidated financial statements as the Company's policies are substantially in compliance with SOP 98-1.

In June 1998, the Financial Accounting Standards Board issued SFAS 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). SFAS 133 requires companies to recognize all derivatives contracts as either assets or liabilities in the balance sheet and to measure them at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge, the objective of which is to match the timing of gain or loss recognition on the hedging derivative with the recognition of (i) the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk or (ii) the earnings effect of the hedged forecasted transaction. For a derivative not designated as a hedging instrument, the gain or loss is recognized in income in the period of change.

SFAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. The Company currently plans to adopt SFAS 133 on January 30, 2000. On that date, hedging relationships will be designated anew and documented.

The Company from time to time enters into interest rate swap agreements for the purpose of hedging risks attributable to changing interest rates associated with the Company's revolving credit facility, and, in general, such hedges have been fully effective. The Company may from time to time, enter into interest rate swaps in the future and these transactions are expected to substantially offset the effects of changes in the underlying variable interest rates. The Company does not believe that adoption of SFAS 133 will have a material effect on its consolidated financial statements.

Historically, the Company has not used derivative contracts for speculative purposes.

Year 2000

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. The Company's computer equipment and software and devices with embedded technology that are date-sensitive may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in other normal business activities.

In 1997, the Company began assessing how it may be impacted by the Year 2000 issue and has formulated and commenced implementation of a comprehensive plan to address all known aspects of the issue.

The Company's plan encompasses the following areas: (1) information systems that utilize date/time oriented software (IT systems), (2) computer chips, processors and controllers (non-IT systems), and (3) vendors and customers. The Company is in various stages of implementation which include remediation, testing and implementation.

To date, approximately 80% of the Company's administrative support IT systems have at least completed the remediation phase. Of this amount, approximately 80% have completed the testing and remediation phase and 20% have been replaced or upgraded. All remaining Year 2000 compliance efforts for administrative IT functions are expected to be completed by the second quarter of fiscal 1999.

Approximately 90% of non-IT systems have completed the remediation, testing and implementation phases with no material replacements necessary.

The Company has been obtaining information from major vendors, suppliers, and service providers to determine if their systems will be Year 2000 compliant. There has been no indication from these sources that their systems will not be sufficiently Year 2000 compliant or that their failure to be Year 2000 compliant will cause a significant disruption in the operations of the Company. The Company is developing contingency plans to identify alternative sources which are Year 2000 compliant in the event the current parties suffer significant disruption as a result of Year 2000 compliance failures.

The Company estimates that total costs to implement its Year 2000 plan will be between $4.0 million and $6.0 million of which $2.6 million has already been incurred, including $1.5 million relating to the purchase of new software and hardware modifications, and $1.1 million relating to Year 2000 consultants. The estimated total includes direct costs for systems enhancements which would have been implemented in the ordinary course of business but whose acquisition has been accelerated to ensure compliance by the Year 2000. The estimate excludes costs for scheduled system upgrades which have not been accelerated due to Year 2000 issues.

The implementation of the Company's proprietary point-of-sale system (Bookmaster), which began in 1996, is continuing and is expected to be completed in the second quarter of fiscal 1999. Bookmaster, which is Year 2000 compliant, is an inventory management system with integrated point-of-sale features that utilizes a proprietary data-warehouse-based just-in-time replenishment system. It enhances communications and real-time access to the Company's network of stores, distribution center, and wholesalers. The Bookmaster system has been installed in approximately 25% of all Barnes & Noble stores. By the end of the second quarter of fiscal 1999 all existing Barnes & Noble and B. Dalton stores will either be utilizing the Bookmaster system or will receive Year 2000 upgrades to their existing point-of-sale systems.

Should some of the Company's systems not be available due to Year 2000 problems, in a reasonably likely worst case scenario, the Company may experience significant delays in its ability to perform certain functions. However, the Company does not expect an impairment in its ability to execute critical functions.

Disclosure Regarding Forward-Looking Statements

This report may contain 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 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, unanticipated adverse litigation results or effects, 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 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.

CONSOLIDATED STATEMENTS OF OPERATIONS

Fiscal Year (In thousands of dollars, except per share data)	1998	1997	1996
Sales	$ 3,005,608	2,796,852	2,448,124
Cost of sales and occupancy	2,142,717	2,019,291	1,785,392
Gross profit	862,891	777,561	662,732
Selling and administrative expenses	577,195	540,423	465,687
Depreciation and amortization	88,345	76,951	59,806
Pre-opening expenses	8,795	12,918	17,571
Operating profit	188,556	147,269	119,668
Interest (net of interest income of $976, $446 and $2,288, respectively) and amortization of deferred financing fees	(24,412)	(37,666)	(38,286)
Equity in net loss of barnesandnoble.com llc	(71,334)	--	--
Gain on formation of barnesandnoble.com llc	63,759	--	--
Earnings before provision for income taxes and extraordinary charge	156,569	109,603	81,382
Provision for income taxes	64,193	44,935	30,157
Earnings before extraordinary charge	92,376	64,668	51,225
Extraordinary charge due to early extinguishment of debt, net of tax benefits of $7,991	--	11,499	--
Net earnings	$ 92,376	53,169	51,225
Earnings per common share			
Basic			
Earnings before extraordinary charge	$ 1.35	0.96	0.77
Extraordinary charge due to early extinguishment of debt, net of tax benefits	$ --	0.17	--
Net earnings	$ 1.35	0.79	0.77
Diluted			
Earnings before extraordinary charge	$ 1.29	0.93	0.75
Extraordinary charge due to early extinguishment of debt, net of tax benefits	$ --	0.17	--
Net earnings	$ 1.29	0.76	0.75
Weighted average common shares outstanding			
Basic	68,435,000	67,237,000	66,103,000
Diluted	71,677,000	69,836,000	67,886,000

See accompanying notes to consolidated financial statements. Barnes & Noble, Inc. 1998

CONSOLIDATED BALANCE SHEETS

(In thousands of dollars, except per share data)	January 30, 1999	January 31, 1998
Assets		
Current assets:		
Cash and cash equivalents	$ 31,081	12,697
Receivables, net	57,523	43,858
Merchandise inventories	945,073	852,107
Prepaid expenses and other current assets	54,634	68,902
Total current assets	1,088,311	977,564

Property and equipment:		
Land and land improvements	3,197	681
Buildings and leasehold improvements	383,292	347,598
Fixtures and equipment	440,488	378,058
	826,977	726,337
Less accumulated depreciation and amortization	316,631	244,207
Net property and equipment	510,346	482,130
Intangible assets, net	86,980	90,237
Investment in barnesandnoble.com llc	82,307	--
Other noncurrent assets	39,653	41,240
Total assets	$ 1,807,597	1,591,171
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 498,237	459,795
Accrued liabilities	274,085	253,050
Total current liabilities	772,322	712,845
Long-term debt	249,100	284,800
Deferred income taxes	32,449	--
Other long-term liabilities	74,937	61,771
Shareholders' equity:		
Common stock; $.001 par value; 300,000,000 shares authorized; 68,759,111 and 67,921,830 shares issued and outstanding, respectively	69	68
Additional paid-in capital	523,517	468,860
Retained earnings	155,203	62,827
Total shareholders' equity	678,789	531,755
Commitments and contingencies	--	--
Total liabilities and shareholders' equity	$ 1,807,597	1,591,171

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of dollars)	Common Stock	Additional paid-in capital	Retained earnings (deficit)	Total
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
Exercise of 837,281 common stock options, including tax benefits of $9,002	1	18,306	--	18,307
barnesandnoble.com llc issuance of membership units (net of deferred income taxes of $26,325)	--	36,351	--	36,351
Net earnings	--	--	92,376	92,376
Balance at January 30, 1999	$ 69	523,517	155,203	678,789

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal Year (In thousands of dollars)	1998	1997	1996
Cash flows from operating activities:			
Net earnings	$ 92,376	53,169	51,225
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Depreciation and amortization	88,721	78,629	61,652
Loss (gain) on disposal of property and equipment	3,291	853	(130)
Deferred taxes	14,761	11,598	6,604
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	14,031	16,350	15,663
Gain on formation of barnesandnoble.com llc	(63,759)	--	--

Equity in net loss of barnesandnoble.com llc	71,334	--	--
Changes in operating assets and liabilities, net	(39,673)	(2,884)	(15,477)
Net cash flows from operating activities	181,082	169,214	119,537
Cash flows from investing activities:			
Purchases of property and equipment	(141,388)	(121,903)	(171,885)
Investment in barnesandnoble.com llc	(75,394)	--	--
Proceeds from formation of barnesandnoble.com llc	75,000	--	--
Proceeds from sales of property and equipment	10	--	177
Net increase in other noncurrent assets	(3,533)	(13,177)	(16,787)
Net cash flows from investing activities	(145,305)	(135,080)	(188,495)
Cash flows from financing activities:			
Net increase (decrease) in revolving credit facility	(35,700)	244,800	(32,400)
Proceeds from issuance of long-term debt	--	--	100,000
Repayment of long-term debt	--	(290,000)	--
Proceeds from exercise of common stock options including related tax benefits	18,307	22,597	4,529
Payment of note premium	--	(11,281)	--
Net cash flows from financing activities	(17,393)	(33,884)	72,129
Net increase in cash and cash equivalents	18,384	250	3,171
Cash and cash equivalents at beginning of year	12,697	12,447	9,276
Cash and cash equivalents at end of year	$ 31,081	12,697	12,447
Changes in operating assets and liabilities, net:			
Receivables, net	$(14,012)	1,700	3,461
Merchandise inventories	(93,491)	(119,904)	8,148
Prepaid expenses and other current assets	(1,047)	9,721	(19,502)
Accounts payable and accrued liabilities	68,877	105,599	(7,584)
Changes in operating assets and liabilities, net	$(39,673)	(2,884)	(15,477)
Supplemental cash flow information:			
Cash paid during the period for:			
Interest	$ 25,243	37,845	38,103
Income taxes	$ 18,225	20,282	24,574

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the 52 weeks ended January 30, 1999 (fiscal 1998), the 52 weeks ended January 31, 1998 (fiscal 1997) and the 53 weeks ended February 1, 1997 (fiscal 1996).

(In 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 three 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), and its direct-mail strategy through its wholly owned subsidiary Marboro Books Corp. The Company is also engaged in the online retailing of books and other products through a 50% interest in barnesandnoble.com llc (barnesandnoble.com), as more fully described in Note 5. The Company's interest in barnesandnoble.com is through its wholly owned subsidiary B&N.com Holding Corp.

Consolidation

The consolidated financial statements include the accounts of Barnes & Noble and its wholly owned subsidiaries. Investments in affiliates that are 20% to 50% owned, principally barnesandnoble.com, are accounted for using the equity method. The Company's investment in barnesandnoble.com has been presented in the accompanying consolidated financial statements under the equity method as of the beginning of fiscal 1998 and as a consolidated wholly owned subsidiary for all of fiscal 1997. 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 86% and 83% of the Company's merchandise inventories as of January 30, 1999 and January 31, 1998, 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 remain unchanged as of January 30, 1999, and would have increased approximately $5,102 as of January 31, 1998.

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. In March 1998, the Accounting Standards Executive Committee issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" (SOP 98-1). This statement is effective for the Company's fiscal year ending January 29, 2000. Adoption is not expected to have a material effect on the Company's consolidated financial statements as the Company's policies are substantially in compliance with SOP 98-1. 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 $59,365 and $27,615 as of January 30, 1999, and $61,484 and $28,753 as of January 31, 1998, 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, $3,257 and $3,305 during fiscal 1998, 1997 and 1996, respectively. Accumulated amortization at January 30, 1999 and January 31, 1998 was $44,551 and $41,294, 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 30, 1999 and January 31, 1998 were $1,397 and $1,764, respectively. Unamortized costs of $8,209 were included in the extraordinary loss due to the early extinguishment of debt for fiscal 1997. Amortization expense included in interest and amortization of deferred financing fees is $376, $1,678 and $1,846 during fiscal 1998, 1997 and 1996 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

In April 1998, the Accounting Standards Executive Committee issued Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities" (SOP 98-5). SOP 98-5 requires an entity to expense all start-up activities, as defined, when incurred. The Company has historically amortized costs associated with the opening of new stores over the respective store's first 12 months of operations. In accordance with SOP 98-5, the Company will adopt its provisions effective for the fiscal year ending January 29, 2000, and will record a one time non-cash charge reflecting the cumulative effect of a change in accounting principle in the first quarter of fiscal year 1999, in an amount estimated to be $4,500 after taxes, representing such start-up costs capitalized as of the beginning of that fiscal year. In addition, the Company will, on a prospective basis, expense all such start-up costs as incurred. Excluding the one time charge, the Company's consolidated financial statements are not expected to be materially affected by the adoption of SOP 98-5.

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 $1,208 during fiscal 1998 are included in selling and administrative expenses in the accompanying consolidated statements of operations.

Net Earnings Per Common Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding. Diluted earnings per share reflect, in periods in which they have a dilutive effect, the impact of common shares issuable upon exercise of stock options.

Income Taxes

The provision 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 provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Generally, compensation expense is not recognized for stock option grants.

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

30, 1999, January 31, 1998 and February 1, 1997 contained 52 weeks, 52 weeks and 53 weeks, respectively.

2. Receivables, Net

Receivables represent customer, bankcard, landlord and other receivables due within one year as follows:

	January 30, 1999	January 31, 1998
Trade accounts	$ 6,743	6,628
Bankcard receivables	19,421	15,536
Receivables from landlords for leasehold improvements	23,659	16,715
Other receivables	7,700	4,979
Total receivables, net	$ 57,523	43,858

3. Debt

On November 18, 1997, the Company obtained an $850,000 five-year senior revolving credit facility (the Revolving Credit Facility) with a syndicate led by The Chase Manhattan Bank. The Revolving Credit Facility refinanced an existing

$450,000 revolving credit and $100,000 term loan facility (the Old Facility). The Revolving Credit 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 Revolving Credit 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 Revolving Credit Facility is secured by the capital stock, accounts receivable and general intangibles of the Company's subsidiaries.

Net proceeds from the Revolving Credit 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. As of January 30, 1999 and 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 $440 and $306 during fiscal years 1998 and 1997, respectively.

Selected information related to the Company's revolving credit facility is as follows:

Fiscal Year	1998	1997	1996
Balance at end of year	$ 249,100	284,800	40,000
Average balance outstanding during the year	$ 380,315	105,127	101,671
Maximum borrowings			

outstanding during the year	$535,000	304,900	192,800
Weighted average interest rate during the year	6.29%	7.12%	7.56%
Interest rate at end of year	5.77%	6.60%	6.87%

Fees expensed with respect to the unused portion of the Company's revolving credit commitment were $733, $1,204 and $911, during fiscal 1998, 1997 and 1996, respectively.

The amounts outstanding under the Company's Revolving Credit Facility of $249,100 and $284,800 as of January 30, 1999 and January 31, 1998, respectively, have 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.

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 approximates its carrying amount, because of its recent and frequent repricing based upon market conditions. Interest rate swap agreements are valued based on market quotes obtained from dealers. The Company also maintains an investment in Chapters Inc., a Canadian book retailer. The fair value of the investment in Chapters Inc. is based on quoted market prices and conversion rates at January 30, 1999 and January 31, 1998.

The carrying amounts and fair values of the Company's financial instruments as of January 30, 1999 and January 31, 1998 are as follows:

	January 30, 1999		January 31, 1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 31,081	31,081	12,697	12,697
Revolving credit facility	$249,100	249,100	284,800	284,800
Interest rate swaps liability	$ --	2,189	--	1,463
Investment in Chapters Inc.	$ 18,827	33,201	17,686	31,445

5. Formation of barnesandnoble.com llc

On November 12, 1998, the Company and Bertelsmann AG (Bertelsmann) completed the formation of a limited liability company to operate the online retail bookselling operations of the Company's wholly owned subsidiary, barnesandnoble.com inc. The new entity is structured as a limited liability company under the name barnesandnoble.com llc. Under the terms of the relevant agreements, effective as of October 31, 1998, the Company and Bertelsmann each have a 50% membership interest in barnesandnoble.com. The Company contributed substantially all of the assets and liabilities of its online operations to the joint venture and Bertelsmann paid $75,000 to the Company and made a $150,000 cash contribution to the joint venture. Bertelsmann also agreed to contribute an additional $50,000 to the joint venture for future working capital requirements. In addition, if in an initial public offering (see below) of barnesandnoble.com prior to December 31, 2001, the value of Bertelsmann's interest exceeds the value of Bertelsmann's investment, Bertelsmann will pay the Company such excess amount, up to $25,000. As a consequence of the above transactions the Company has recognized a pre-tax gain during fiscal 1998 in the amount of $126,435, of which $63,759 has been recognized in earnings based on the $75,000 received directly from Bertelsmann and $62,676 ($36,351 after taxes) has been reflected in additional paid-in capital based on the Company's share of the incremental equity of the joint venture resulting from the $150,000 Bertelsmann contribution.

Summarized financial information for barnesandnoble.com follows:

Fiscal Year	1998	1997(1)
Net sales	$ 70,249	14,601
Gross profit	$ 16,169	2,849
Loss before taxes	$(85,590)	(15,395)
Current assets	$102,114	12,197
Noncurrent asset	$ 89,324	24,879
Current liabilities	$ 26,824	12,268
Net assets	$164,614	24,808
Barnes & Noble's equity in loss before taxes	$(71,334)	(15,395)
Barnes & Noble's equity in net assets	$ 82,307	24,808

(1) Fiscal 1997 represents amounts as consolidated in the accompanying consolidated financial statements.

6. Employees' Retirement and Defined Contribution Plans

The Company maintains a noncontributory defined benefit pension plan (the Pension Plan) and a defined contribution plan (the Savings Plan) for the benefit of substantially all employees. In addition, the Company provides certain health care and life insurance benefits (the Postretirement Plan) to retired employees, limited to those receiving benefits or retired as of April 1, 1993.

A summary of the components of net periodic pension cost for the Pension Plan and other postretirement benefit cost for the Postretirement Plan follows:

	Pension Plan			Postretirement Plan		
Fiscal Year	1998	1997	1996	1998	1997	1996
Service cost	$ 4,157	3,294	2,542	--	--	--
Interest cost	2,039	1,666	1,354	149	315	326
Expected return on plan assets	(2,208)	(1,803)	(1,500)	--	--	--
Net amortization and deferral	36	36	36	(135)	--	--
Net periodic cost	$ 4,024	3,193	2,432	14	315	326

Total Company contributions charged to employee benefit expenses for the Savings plan were $3,090, $2,545 and $2,115 during fiscal 1998, 1997 and 1996, respectively.

Weighted-average actuarial assumptions used in determining the net periodic pension and other post retirement benefit costs and the funded status of the Pension Plan and the Postretirement Plan are as follows:

	Pension Plan			Postretirement Plan		
Fiscal Year	1998	1997	1996	1998	1997	1996
Discount rate	7.3%	7.3%	7.5%	7.3%	7.3%	7.5%
Expected return on plan assets	9.5%	9.5%	9.5%	--	--	--
Assumed rate of compensation increase	4.3%	4.3%	4.0%	--	--	--

As a result of the formation of barnesandnoble.com llc, as more fully described in Note 5, assets of the Pension Plan and an equivalent benefit obligation, were transferred to barnesandnoble.com's defined benefit pension plan as of the date of the formation.

The following table provides a reconciliation of benefit obligations, plan assets and funded status of the Pension Plan and the Postretirement Plan:

	Pension Plan		Postretirement Plan	
Fiscal Year	1998	1997	1998	1997
Change in benefit obligation:				
Benefit obligation at beginning of year	$30,734	21,378	1,975	4,349
Service cost	4,157	3,294	--	--
Interest cost	2,039	1,666	149	315
Transfer to barnesandnoble.com	(642)	--	--	--
Actuarial (gain) loss	(2,427)	5,752	136	(2,544)
Benefits paid	(797)	(1,356)	(115)	(145)
Benefit obligation at end of year	33,064	30,734	2,145	1,975
Change in plan assets:				
Fair value of plan assets at beginning of year	22,909	18,565	--	--
Actual return on assets	2,255	4,165	--	--
Employer contributions	1,395	1,535	--	--
Benefits paid	(797)	(1,356)	--	--
Transfer to barnesandnoble.com	(431)	--	--	--
Fair value of plan assets at end of year	25,331	22,909	--	--
Funded status	(7,733)	(7,825)	(2,145)	(1,975)
Unrecognized net actuarial loss (gain)	805	3,490	(2,136)	(2,407)
Unrecognized prior service cost	(183)	(201)	--	--
Unrecognized net obligation remaining	166	220	--	--
Accrued Benefit Cost	$(6,945)	(4,316)	(4,281)	(4,382)

The health care cost trend rate used to measure the expected cost of the Postretirement Plan benefits is assumed to be 7.5% in 1999, 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 or decrease in the health care cost trend rate would change the accumulated postretirement benefit obligation by approximately $215 and $195, respectively, as of January 30, 1999, and would change the net periodic cost by approximately $15 and $14, respectively, during fiscal 1998.

7. Income Taxes

The Company files a consolidated federal return. Federal and state income tax provisions for fiscal 1998, 1997 and 1996 are as follows:

Fiscal Year	1998	1997	1996
Current:			
Federal	$ 39,286	26,324	18,413
State	10,146	7,013	5,140
	49,432	33,337	23,553
Deferred:			
Federal	11,697	9,575	5,300
State	3,064	2,023	1,304
	14,761	11,598	6,604
Total	$ 64,193	44,935	30,157

A reconciliation between the provision for income taxes and the expected provision for income taxes at the federal statutory rate of 35% during fiscal

1998, 1997 and 1996, is as follows:

Fiscal Year	1998	1997	1996
Expected provision for income taxes at federal statutory rate	$ 54,799	38,361	28,484
Amortization of goodwill and trade names	1,251	1,140	1,157
State income taxes, net of federal income tax benefit	8,596	5,873	3,341
Rehabilitation tax credit	--	--	(2,974)
Other, net	(453)	(439)	149
Provision for income taxes	$ 64,193	44,935	30,157

The tax effects of temporary differences that give rise to significant components of the Company's deferred tax assets and liabilities as of January 30, 1999 and January 31, 1998 are as follows:

	January 30, 1999	January 31, 1998
Deferred tax liabilities:		
Operating expenses	$(12,528)	(10,103)
Depreciation	(29,829)	(16,359)
barnesandnoble.com	(26,325)	--
Total deferred tax liabilities	(68,682)	(26,462)
Deferred tax assets:		
Inventory	4,043	6,604
Lease transactions	15,025	16,108
Reversal of estimated accruals	5,692	5,418
Restructuring charge	16,931	21,825
Insurance liability	2,502	2,265
Deferred income	11,411	7,058
Other	5,632	824
Total deferred tax assets	61,236	60,102
Net deferred tax assets (liabilities)	$(7,446)	33,640

8. Shareholders' Equity

At the Company's Annual Meeting of Stockholders held on June 3, 1998, the Company's shareholders approved an amendment to the Company's Restated Certificate of Incorporation to increase the number of shares of Common Stock, par value $.001 per share, that the Company is authorized to issue from 100,000,000 to 300,000,000.

As discussed more fully in Note 5, shareholders' equity as of January 30, 1999 includes an increase in additional paid-in capital of $36,351 as a result of the formation of barnesandnoble.com llc.

On July 10, 1998, the Board of Directors of the Company declared a dividend of one Preferred Share Purchase Right (a Right) for each outstanding share of the Company's common stock (Common Stock). The distribution of the Rights was made on July 21, 1998 to stockholders of record on that date. Each Right entitles the holder to purchase from the Company one four-hundredth of a share of a new series of preferred stock, designated as Series H Preferred Stock, at a price of $225 per one four-hundredth of a share. The Rights will be exercisable only if a person or group acquires 15% or more of the Company's outstanding Common Stock or announces a tender offer or exchange offer, the consummation of which would result in such person or group owning 15% or more of the Company's outstanding Common Stock.

If a person or group acquires 15% or more of the Company's outstanding Common Stock, each Right will entitle a holder (other than such person or any member of such group) to purchase, at the Right's then current exercise price, a number of shares of Common Stock having a market value of twice the exercise price of the Right. In addition, if the Company is acquired in a merger or other business combination transaction or 50% or more of its consolidated assets or earning power are sold at any time after the Rights have become exercisable, each Right will entitle its holder to purchase, at the Right's then current exercise price, a number of the acquiring company's common shares having a market value at that time of twice the exercise price of the Right. Furthermore, at any time after a person or group acquires 15% or more of the outstanding Common Stock of the Company but prior to the acquisition of 50% of such stock, the Board of Directors may, at its option, exchange part or all of the Rights (other than Rights held by the acquiring person or group) at an exchange rate of one four-hundredth of a share of Series H Preferred Stock or one share of the Company's Common Stock for each Right.

The Company will be entitled to redeem the Rights at any time prior to the acquisition by a person or group of 15% or more of the outstanding Common Stock of the Company, at a price of $.01 per Right. The Rights will expire on July 20, 2008.

The Company has 5,000,000 shares of $.001 par value preferred stock authorized for issuance, of which 250,000 shares have been designated by the Board of Directors as Series H Preferred Stock and reserved for issuance upon exercise of the Rights. Each such share of Series H Preferred Stock will be nonredeemable and junior to any other series of preferred stock the Company may issue (unless otherwise provided in the terms of such stock) and will be entitled to a preferred dividend equal to the greater of $2.00 per share or 400 times any dividend declared on the Company's Common Stock. In the event of liquidation, the holders of Series H Preferred Stock will receive a preferred liquidation payment of $1,000 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon. Each share of Series H Preferred Stock will have 400 votes, voting together with the Company's Common Stock. However, in the event that dividends on the Series H Preferred Stock shall be in arrears in an amount equal to six quarterly dividends thereon, holders of the Series H Preferred Stock shall have the right, voting as a class, to elect two of the Company's Directors, whose terms shall extend until such time when all accrued and unpaid dividends for all previous quarterly dividend periods and for the current quarterly dividend period on all shares of Series H Preferred Stock then outstanding shall have been declared and paid or set apart for payment. In the event of any merger, consolidation or other transaction in which the Company's Common Stock is exchanged, each share of Series H Preferred Stock will be entitled to receive 400 times the amount and type of consideration received per share of the Company's Common Stock. As of January 30, 1999, there were no shares of Series H Preferred Stock outstanding.

9. Restructuring Charge

From 1989 through 1995, the Company closed, on average, between 40 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 the fourth quarter of fiscal 1995, 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:

	Provision for Store Closing	Lease Termination Costs	Other	Total
Balance at January 27, 1996	$5,974	32,833	6,099	44,906
Fiscal 1996 Activity	4,442	2,371	4,497	11,310
Balance at February 1, 1997	1,532	30,462	1,602	33,596
Fiscal 1997 Activity	1,532	9,026	1,602	12,160
Balance at January 31, 1998	--	21,436	--	21,436
Fiscal 1998 Activity	--	12,968	--	12,968
Balance at January 30, 1999	$ --	8,468	--	8,468

The remaining liability, representing outstanding lease liabilities, is expected to be paid out over the next several years.

10. 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.

At the Company's Annual Meeting of Stockholders held on June 3, 1998, the Company's shareholders approved an amendment to the 1996 Plan increasing the number of shares available for issuance from 6,000,000 to 11,000,000. The 1991 Plan allows the Company to grant options to purchase up to 4,732,704 shares of common stock.

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 1998, 1997 and 1996, would have been reduced by approximately $6,188 or $0.09 per share, $3,863 or $0.06 per share, and $5,305 or $0.08 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 1998, 1997 and 1996 were estimated at $12.96, $8.05, and $4.66 respectively, using the Black-Scholes option-pricing model with the following assumptions: volatility of 35% for fiscal 1998 grants, 28% for fiscal 1997 and 1996 grants, risk-free interest rate of 5.33% in fiscal 1998, 6.54% in fiscal 1997, and 6.63% in fiscal 1996, and an expected life of 5.4 years for fiscal 1998 and 6.0 years for fiscal 1997 and 1996.

A summary of the status of the Company's stock options is presented below:

(In thousands of shares)	Shares	Weighted-Average Exercise Price
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
Granted	1,841	31.12
Exercised	(837)	11.11
Forfeited	(390)	22.35
Balance, January 30, 1999	10,278	$19.69

Options exercisable as of January 30, 1999, January 31, 1998 and February 1, 1997 were 6,780,000, 6,558,000 and 7,070,000, respectively. Options available for grant under the plans were 5,902,000, 2,354,000 and 4,422,000 at January 30, 1999, January 31, 1998 and February 1, 1997, respectively.

The following table summarizes information as of January 30, 1999 concerning outstanding and exercisable options:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding (000s)	Weighted-Average Remaining Contractural Life	Weighted-Average Exercise Price	Number Exercisable (000s)	Weighted-Average Exercise Price
$ 3.21- $ 3.77	818	4.38	$ 3.59	818	$ 3.59
$ 10.00- $15.00	5,384	4.98	$ 12.11	5,275	$ 12.08
$ 17.13- $24.25	2,870	8.42	$ 19.93	665	18.67
$ 26.50- $34.75	1,206	9.07	$ 34.30	22	28.92
$ 3.21-$34.75	10,278	6.37	$ 16.22	6,780	$ 11.76

11. 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 2028 with various renewal options for additional 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	1998	1997	1996
Minimum rentals	$ 271,201	253,472	222,700
Percentage rentals	3,183	3,216	2,750
	$ 274,384	256,688	225,450

Future minimum annual rentals, excluding percentage rentals, required under leases that had initial, noncancelable lease terms greater than one year, as of January 30, 1999 are:

Fiscal Year	
1999	$ 271,769
2000	264,027
2001	261,090
2002	247,781
2003	228,481
After 2003	1,577,713
	$2,850,861

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.

12. Litigation

In March 1998, the American Booksellers Association (ABA) and 26 independent bookstores filed a lawsuit in the United States District Court for the Northern District of California against the Company and Borders Group Inc. (Borders) 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. In November 1998, six other independent booksellers instituted an action in the same court against the same defendants asserting similar claims and seeking similar relief. The Company intends to vigorously defend both actions.

In August 1998, The Intimate Bookshop, Inc. and its owner, Wallace Kuralt, filed a lawsuit in the United States District Court for the Southern District of New York against the Company, Borders, Amazon.com, Inc., certain publishers and others alleging violation of the Robinson-Patman Act and other federal law, New York statutes governing trade practices and common law. The Complaint seeks certification of a class consisting of all retail booksellers in the United States, whether or not currently in business, which were in business and were members of the ABA at any time during the four year period preceding the filing of the Complaint. The Complaint alleges that the named plaintiffs have suffered damages of $11.25 million or more and requests treble damages on behalf of the named plaintiffs and each of the purported class members, as well as of injunctive and declaratory relief (including an injunction requiring the closure of all of defendants' stores within 10 miles of any location where plaintiff either has or had a retail bookstore during the four years preceding the filing of the Complaint, and prohibiting the opening by defendants of any bookstore in such areas for the next 10 years), disgorgement of alleged discriminatory discounts, rebates, deductions and

payments, punitive damages, interest, costs, attorneys fees and other relief. Many of the allegations in the Complaint are similar to those contained in the action instituted by the ABA and 26 bookseller plaintiffs against the Company in March of 1998. The Company intends to vigorously defend the action.

In November 1998, a former bookstore chain in Texas which has filed for bankruptcy protection, filed an amended complaint in an action in the Bankruptcy Court for the Northern District of Texas against the Company alleging various antitrust and related claims. Among other things, the plaintiff alleges that the Company conspired with national book publishers to obtain lower prices and to monopolize the Dallas/Fort Worth book retail market. The plaintiff is seeking $11 million in actual damages, plus treble damages, punitive damages, and attorneys' fees. The Company intends to vigorously defend this action.

In addition to the above actions, 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.

13. 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 $1,316, $1,309 and $1,307 in fiscal years 1998, 1997 and 1996, 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 $737, $743 and $665 in fiscal years 1998, 1997 and 1996, 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 $12,571, $11,528 and $9,100 for such services during fiscal years 1998, 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 $725, $634 and $544 for the fiscal years ended January 30, 1999, 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 operating costs it incurred on behalf of the Company. These charges are included in the accompanying consolidated statements of operations and approximated $48, $75 and $115 for fiscal 1998, 1997 and 1996, respectively. The Company charged B&N College $972 and $473 for fiscal years ended January 30, 1999 and January 31, 1998, respectively, 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 $1,760, $1,910 and $1,685 during fiscal 1998, fiscal 1997 and fiscal 1996, respectively, and are included in the accompanying consolidated statements of operations.

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 30, 1999 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, $1,396, $1,430 and $1,282 during fiscal 1998, 1997 and 1996, respectively, for such services, license fees, rent, operating costs, insurance costs and benefits coverage. Babbages also purchases merchandise from the Company at prices equal to the Company's cost to obtain and ship the merchandise.

barnesandnoble.com purchased $33,444 and $4,997 of merchandise from the Company during fiscal 1998 and 1997, respectively, and barnesandnoble.com expects to source most of its purchases through the Company in the future. The Company has entered into an agreement (the Supply Agreement) with barnesandnoble.com whereby the Company charges barnesandnoble.com the costs associated with such purchases plus incremental overhead incurred by the Company in connection with providing such inventory. The Supply Agreement is subject to certain termination provisions.

The Company has entered into agreements (the Service Agreements) whereby barnesandnoble.com receives various services from the Company, including, among others, services

for payroll processing, benefits administration, insurance (property and casualty, medical, dental and life), tax, traffic, fulfillment and telecommunications. In accordance with the terms of such agreements the Company has received, and expects to continue to receive, fees in an amount equal to the direct costs plus incremental expenses associated with providing such services. The Company received $856 and $250 for such services during fiscal 1998 and 1997, respectively.

14. Selected Quarterly Financial Information (Unaudited)

A summary of quarterly financial information for each of the last two fiscal years is as follows:

Fiscal 1998 Quarter End On or About	April 1998	July 1998	October 1998	January 1999	Total Fiscal Year 1998
Sales	$656,976	662,507	656,837	1,029,288	3,005,608
Gross profit	172,387	179,844	182,967	327,693	862,891
Equity in net loss of					
barnesandnoble.com llc(1)	(13,603)	(23,003)	(20,472)	(14,256)	(71,334)
Net earnings (loss)(2)	(3,335)	(5,709)	(4,596)	106,016	92,376
Basic earnings (loss) per common share	(0.05)	(0.08)	(0.07)	1.54	1.35
Diluted earnings (loss) per common share	(0.05)	(0.08)	(0.07)	1.47	1.29

Fiscal 1997 Quarter End On or About	April 1997	July 1997	October 1997	January 1998	Total Fiscal Year 1997
Sales	$595,731	617,748	614,831	968,542	2,796,852
Gross profit	147,514	158,813	164,514	306,720	777,561
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 (loss) 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 (loss) 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

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(1) As a result of the formation of barnesandnoble.com llc on October 31, 1998, each quarter of fiscal 1998 presents the Company's equity in net loss of barnesandnoble.com llc as a separate line item in accordance with the equity method of accounting. Accordingly, the first three quarters of fiscal 1998 reflect the Company's one-hundred percent equity in net losses of barnesandnoble.com and the fourth quarter reflects the Company's fifty percent interest in the net losses of barnesandnoble.com. Fiscal 1997 reflects the operations of barnesandnoble.com as a consolidated wholly owned subsidiary for each quarter presented.

(2) Included in net earnings for the fourth quarter of fiscal 1998 is a pre-tax gain on the formation of barnesandnoble.com llc of $63,759 ($37,618 after tax) or $0.55 and $0.52 per basic and diluted common share, respectively.

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 30, 1999 and January 31, 1998 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the fiscal years ended January 30, 1999, January 31, 1998, and February 1, 1997, 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 30, 1999 and January 31, 1998 and the results of their operations and their cash flows for the fiscal years ended January 30, 1999, January 31, 1998 and February 1, 1997, in conformity with generally accepted accounting principles.

New York, New York
March 10, 1999

/s/ BDO Seidman, LLP

BDO Seidman, LLP

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, 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. B&N Sub Corp., a Delaware corporation, a wholly owned subsidiary of the Company.

7. B&N.com Holding Corp., a Delaware corporation, a wholly owned subsidiary of the Company.

8. B&N.com Member Corp., a Delaware corporation, a wholly owned subsidiary of the Company.

EXHIBIT 23.1

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, 1999 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 30, 1999, 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 30, 1999

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