



FORM 10-K

HASTINGS ENTERTAINMENT INC - HAST

Exhibit:

Filed: April 11, 2002 (period: January 31, 2002)

Annual report which provides a comprehensive overview of the company for the past year

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-K

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

For the fiscal year ended January 31, 2002

OR

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER: 000-24381

HASTINGS ENTERTAINMENT, INC.
(Exact name of registrant as specified in its charter)

TEXAS 75-1386375
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification No.)

3601 PLAINS BOULEVARD, AMARILLO, TEXAS 79102
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (806) 351-2300

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

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

Common Stock, \$.01 par value per share Nasdaq National Market
(Title of Class) (Name of Exchange on which registered)

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 twelve 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 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 \$46,298,867 based upon the closing market price of
\$7.89 per share of Common Stock on the Nasdaq National Market as of March 28,
2002. (For the purposes of determination of the above-stated amounts, only the
directors, executive officers and 5% or greater shareholders of the registrant
have been deemed affiliates.)

Number of shares of \$.01 par value Common Stock outstanding as of March 28,
2002: 11,300,531

(Cover page 1 of 2)

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the annual meeting of shareholders of the registrant to be held during 2002 are incorporated by reference into Parts II and III of this Form 10-K.

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HASTINGS ENTERTAINMENT, INC.
FORM 10-K ANNUAL REPORT
FOR THE FISCAL YEAR ENDED JANUARY 31, 2002

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PART I

Forward-looking Statements

Certain written and oral statements set forth below or made by Hastings or with the approval of an authorized executive officer of the company constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The words "believe," "expect," "intend," "anticipate," "project," "will" and similar expressions identify forward-looking statements, which generally are not historical in nature. All statements which address operating performance, events or developments that we expect or anticipate will occur in the future including statements relating to the business, expansion, merchandising and marketing strategies of Hastings, industry projections or forecasts, effects of the adoption of Statement of Financial Accounting Standards Nos. 137, 138, 142 and 144, the impact on our financial statements of any adjustment to fair value of interest rate swaps, the outcome of securities litigation, inflation, effect of critical accounting policies including lower of cost or market for inventory adjustments, the returns process, rental video amortization and our store closing reserve and statements expressing general optimism about future operating results are forward-looking statements. Such statements are based upon company management's current estimates, assumptions and expectations, which are based on information available at the time of the disclosure, and are subject to a number of factors and uncertainties, including, but not limited to, whether our assumptions turn out to be correct, our inability to attain such estimates and expectations, a downturn in market conditions in any industry relating to the products we inventory, sell or rent, the effects of or changes in economic conditions in the U.S. and or the markets in which we operate our superstores, our success in forecasting customer demand for products, and legal proceedings (see discussion of Legal Proceedings in Part I, Item 3 of this Form 10-K for the fiscal year ended January 31, 2002 and subsequent SEC filings) any of which could cause actual results to differ materially from those described herein. We undertake no obligation to affirm, publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 1. BUSINESS

General

Hastings Entertainment, Inc. is a leading multimedia entertainment retailer that combines the sale of books, music, software, periodicals, videocassettes, video games, DVDs, used products including CDs, DVDs and video games, video game consoles and DVD players with the rental of videocassettes, video games, DVDs, video game consoles and DVD players in a superstore format. As of March 28, 2002, we operated 141 superstores in small- to medium-sized markets located in 21 states, primarily in the Western and Midwestern United States. We also operate a multimedia entertainment e-commerce Web site offering a broad selection of books, music, software, videocassettes, video games and DVDs. See note 14 to the consolidated financial statements for more information regarding our operating segments, retail stores and Internet operations. We operate three wholly owned subsidiaries; Hastings Properties, Inc., Hastings Internet, Inc. and Hastings College Stores, Inc. References herein to fiscal years are to the twelve-month periods, which end in January of each following calendar year. For example, the twelve-month period ended January 31, 2002 is referred to as fiscal 2001.

On March 7, 2000, we announced that our fourth quarter and fiscal 1999 results (and the previous four fiscal years' results) would be negatively impacted by certain accounting adjustments. All such adjustments were reflected in the fiscal 1999 Annual Report on Form 10-K. See "Item 3. Legal Proceedings" for a description of litigation matters which followed the announcement of the restatement.

Industry Overview

Music. According to the Recording Industry Association of America ("RIAA"), music shipments by manufacturers to retailers decreased 4.1% to \$13.7 billion in 2001 compared to \$14.3 billion in 2000. In addition, the dollar value of shipments for the industry mainstay, the full-length CD, decreased 2.3% to \$12.9 billion in 2001 compared to \$13.2 billion in 2000. RIAA attributed this decline in large part to online piracy and CD-burning. According to an RIAA commissioned survey, 23% of music consumers surveyed confirmed they are forgoing purchases of music because they are downloading and or copying their music for free to a CD or a portable MP3 player. In the survey, over 50%

of those that have downloaded music for free have made copies of it. This compares to 13% just two years ago. Supporting this increase, the study found ownership of CD burners has nearly tripled since 1999. According to the International Federation of the Phonographic Industry, global piracy costs the recording industry over \$4 billion per year. Shipments of cassettes declined sharply during 2001 to \$363 million, down 41.9% from 2000, as the format continued to lose favor with music consumers.

Books. Sales in 2001 for the book industry grew only 0.1% to \$25.4 billion according to the Association of American Publishers. The majority of the book industry segments declined on a percentage basis in 2001 with children's hardcover books exhibiting the largest percentage decline at 22.7%, following the release of Harry Potter and the Goblet of Fire in 2000. However, the children's paperback segment increased 17.9% in 2001 on the strong performance of Potter books in paperback and tie-ins to the Lord of the Rings movie.

Rental Video. According to Paul Kagan Associates ("Kagan"), consumer spending on rental video increased 1.2% to \$8.4 billion in 2001 from \$8.3 billion in 2000. Of the \$8.4 billion, 54%, or \$4.5 billion, was generated by revenue sharing titles, up from 48% in 2000. DVD continued its accelerated acceptance rate as DVD households increased over 80% to 23.6 million, up from 13.1 million in 2000. Kagan estimates that the number of DVD households could hit 66.6 million by 2005. Revenue generated by VHS declined approximately 12% during 2001 primarily as a result of the growth of DVD. Kagan projects this trend to continue despite an almost 90% penetration rate of VCRs in United States households.

Although Kagan expects that rental video revenues will decline as a percent of overall at-home consumer spending, we believe that the DVD format, with its superior picture and sound quality and extra features such as outtakes, director commentary and scene selection, will drive continued growth in the industry. We also believe rental video will continue to be a favored entertainment medium for millions of consumers due to its relatively inexpensive price point, broad selection of new release and catalog (older) movies and ability for "viewer control" of the experience, i.e., start, stop, fast-forward, pause and rewind.

Business Strategy

Our goal is to enhance our position as a leading multimedia entertainment retailer in small- to medium-sized communities by expanding and remodeling existing superstores, opening new superstores in selected markets and offering our products through the Internet. Each element of our business strategy is designed to build consumer awareness of the Hastings concept and achieve high levels of customer loyalty and repeat business. The key elements of this strategy are the following:

Superior Multimedia Concept. Our superstores present a wide variety of products tailored to local preferences in a dynamic and comfortable store atmosphere with exceptional service. Our superstores average approximately 20,000 square feet, with our new superstores generally ranging in size from 12,000 to 25,000 square feet. Our superstores offer customers an extensive product assortment consisting of approximately 17,000 to 60,000 book, 9,000 to 30,000 music, 1,000 to 2,000 software, 2,000 to 3,000 periodical, 4,000 to 13,000 video, and 1,000 to 4,000 complementary and accessory titles for sale. We also offer approximately 3,000 to 12,000 used CD, videocassette, DVD and video game titles for sale. In addition, customers can select from 5,000 to 10,000 DVD titles for sale and rent and 12,000 to 20,000 videocassette, DVD and video game selections for rent. Although the superstores' core product assortment tends to be similar, the merchandise mix of each of our superstores is tailored to accommodate the particular demographic profile of the local market in which the superstore operates through the utilization of our proprietary purchasing and inventory management systems. We believe that our multimedia format reduces our reliance on and exposure to any particular entertainment segment and enables us to promptly add exciting new entertainment categories to our product line.

Small to Medium-Sized Market Superstore Focus. We target small- to medium-sized markets with populations of generally less than 50,000 where our extensive product selection, low pricing strategy, efficient operations and superior customer service enable us to become the market's destination entertainment store. We believe that the small- to medium-sized markets where we operate the majority of our superstores present an opportunity to profitably operate and expand our unique entertainment superstore format. In our opinion, these markets typically are underserved by existing book, music or video stores, and our competition generally is locally-owned or national-chain specialty stores

and general merchandise retailers. We base our merchandising strategy for our superstores on an in-depth understanding of our customers and our individual markets. We strive to optimize each superstore's merchandise selection by using our proprietary information systems to analyze the sales history, anticipated demand and demographics of each superstore's market. In addition, we utilize flexible layouts that enable each superstore to arrange our products according to local interests and to customize the layout in response to new customer preferences and product lines.

Customer-Oriented Superstore Format. We design our superstores to provide an easy-to-shop, open store atmosphere by offering major product categories in a "store-within-a-store" format. Most of our superstores utilize product-affinities positioned together around a wide racetrack aisle or three-across departments (books, music and video) that are designed to allow customers to view the entire superstore. This store configuration produces significant cross-marketing opportunities among the various entertainment departments, which we believe results in higher transaction volumes and impulse purchases. To encourage browsing and the perception of Hastings as a community gathering place, we have incorporated amenities in many superstores, such as chairs for reading, a broad selection of gourmet coffee and tea, soft drinks and snacks, music auditioning stations, interactive information kiosks, telephones for free local calls, children's play areas and in-store promotional events.

Cost-Effective Operations. We are committed to controlling costs in every aspect of our operations while maintaining our customer-oriented philosophy. From 1993 to 1997, we spent \$12.8 million to develop and implement proprietary information, purchasing, distribution and inventory control systems that position us to continue to grow profitably. These systems enable us to respond actively to customers' changing desires and to rapid shifts in local and national market conditions. Our 146,000 square-foot distribution center, which adjoins our corporate offices in Amarillo, Texas, provides us with improved store in-stocks, efficient product cross-docking and centralized returns processing.

Low Pricing. Our pricing strategy at our superstores is to offer value to our customers by maintaining prices that are competitive with or lower than the lowest prices charged by other retailers in the market. We determine our prices on a market-by-market basis, depending on the level of competition and other market-specific considerations. We believe that our low pricing structure results in part from (i) our ability to purchase directly from publishers, studios and manufacturers as opposed to purchasing from distributors, (ii) our proprietary information systems, improvements to which will enable management to make more precise and targeted purchases and pricing for each superstore, and (iii) our consistent focus on maintaining low occupancy and operating costs.

Used Products. Since 1994, we have bought or traded for customer's CDs to sell as used product and leverage the value of our CD offering. With additional used-purchasing options, this business now accounts for approximately 10% of our total music business, generally represents higher margins than new front-line CDs and drives customer loyalty. During fiscal 2001, revenue generated from the sale of used DVDs began to accelerate as the DVD medium became more popular with the consumer. The same process of purchasing used CDs is being applied to used DVDs and we are excited about the prospect for continued growth in this and other used product business, including video games. We believe our multimedia superstore concept will enhance our offering of used products allowing the customer to choose between a new or a less expensive used copy of the same title.

Internet. In May 1999, we launched our new e-commerce Internet Web site, www.gohastings.com. Our site enables customers to electronically access more than 800,000 new and used entertainment products and unique, contemporary gifts and toys. The site features exceptional product and pricing offers, search and auditioning capabilities, and digital downloading of music selections. The Web site is designed to fully integrate into a store kiosk to leverage both the physical and digital shopping experience. The site also features a newly designed investor relations section including links to company press releases, SEC filings and a useful list of frequently asked questions.

Expansion Strategy

We plan to increase our growth rate in fiscal 2002 by opening approximately seven superstores while continuing our ongoing store expansion and remodeling programs for our existing superstores. In addition, we anticipate the closing of two superstores during fiscal 2002 bringing our total superstore count to approximately 146 by the end of the fiscal year. We have identified numerous potential locations for future superstores in under-served, small- to medium-sized markets that meet our new-market criteria. We believe that with our current information systems and distribution

capabilities, our infrastructure can support our anticipated rate of expansion and growth for at least the next several years.

Merchandising Strategy

We are a leading multimedia entertainment retailer that combines the sale of books, music, software, periodicals, videocassettes, video games, DVDs, used products including CDs, DVDs and video games, video game consoles and DVD players with the rental of videocassettes, video games, DVDs, video game consoles and DVD players in a superstore format. By offering a broad array of products within several distinct but complementary categories, we strive to appeal to a wide range of customers and position our superstores as destination entertainment stores in our targeted small- to medium-sized markets.

Superstore Product Selection. Although all Hastings superstores carry a similar core product assortment, the merchandise mix of book, music, software, videocassette and video game selections of each superstore is tailored continually to accommodate the particular demographic profile and demand of the local market in which the superstore operates. We accomplish this customization through our proprietary purchasing, inventory, selection and pricing management systems. The purchasing system analyzes historic consumer purchasing patterns at each individual superstore to forecast customer demand for new releases and anticipate seasonal changes in demand. In addition, our inventory management process continually monitors product sales and videocassette rentals to identify slow-moving books, music, software and sale videocassettes, DVD and video games for return to vendors and rental videocassettes, DVD and video games for sale to customers as previous viewed items or transfer to other superstores. Our pricing management system allows us to identify slow moving products and initiate an automated-progressive markdown program to enhance sell-through while maximizing margin at each subsequent price reduction. It also automatically implements the price change by printing new tags at the store.

Our superstores offer customers an extensive product assortment consisting of approximately 17,000 to 60,000 book, 9,000 to 30,000 music, 1,000 to 2,000 software, 2,000 to 3,000 periodical, 4,000 to 13,000 video, and 1,000 to 4,000 complementary and accessory titles for sale. We also offer approximately 3,000 to 12,000 used CD, videocassette, DVD and video game titles for sale. In addition, customers can select from 5,000 to 10,000 DVD titles for sale and rent and 12,000 to 20,000 videocassette, DVD and video game selections for rent. New releases and special offerings in each entertainment product category are prominently displayed and arranged by product category.

In addition to our primary product lines, we continually add new product offerings to better serve our customers. Products for sale in these categories include promotional t-shirts, licensed plush toys, portable electronics, consumer electronics including DVD players and video game consoles, musical instruments, sheet music, greeting cards, audio books and consumables, including soft drinks, coffee, popcorn and candy. Accessory items for sale include blank videocassettes and CDs, video cleaning equipment and audiocassette and CD carrying cases. Many of these products generate impulse purchases and produce higher margins. The rental of videocassette, video game and DVD players is provided as a service to Hastings customers.

Marketing Strategy

Low Pricing. Our pricing strategy at our superstores is to offer value to our customers by maintaining prices that are competitive with or lower than the lowest prices charged by other retailers in the market. We determine our prices on a market-by-market basis, depending on the level of competition and other market-specific considerations. We believe that our low pricing structure results in part from (i) our ability to purchase directly from publishers, studios and manufacturers as opposed to purchasing from distributors, (ii) our proprietary information systems that enable management to make more precise and targeted purchases for each superstore, and (iii) our consistent focus on maintaining low occupancy and operating costs.

Customer Service. We are committed to providing the highest level of customer service to increase customer loyalty. We devote significant resources to associate training and measuring customer satisfaction. All Hastings superstore associates undergo training when hired and are required to participate in frequent training programs. Our ongoing customer service program, "Quality Service Everytime," empowers every superstore associate to utilize our flexible return and refund policies to resolve any customer problem. We believe that these programs, together with our low

pricing strategy and superstore amenities, such as reading chairs, complementary gourmet coffee or full coffee bar, and free local telephone calls to permit customers to confirm their entertainment selections with family and friends, are important components of the customer service we provide.

Advertising/Promotion. We participate in cooperative advertising programs and merchandise display allowance programs offered by our vendors. Our advertising programs are market-focused and introduce new products to our markets with price competitiveness, extensive product assortment and comfortable atmosphere of our superstores. We benefit from market display allowances provided by vendors because of our superstores' high traffic volume and our effective display implementation. Our strongest and most economical advertising vehicle has been the FSI (Free Standing Insert) for newspapers. Following an increase in its usage during 2001, we anticipate an additional increase of approximately 20% in the number of FSIs being utilized during 2002. In addition to FSIs, we utilize direct mail and radio along with in-store point-of-sale promotional materials to communicate with our customers.

Information System

Our information system is built upon a multi-tiered, distributed processing architecture and was designed using client/server technology. All locations are connected using a wide-area network that allows interchange of current information. The primary components of the information system are as follows:

New Release Allocation. Our buyers use the new release allocation system to purchase new release products for the superstores and have the ability within the system to utilize up to nine different methods of forecasting demand. By using store-specific sales history, factoring in specific market traits, applying sales curves for similar titles or groups of products and minimizing subjectivity and human emotion for a transaction, the system customizes purchases for each individual superstore to satisfy customer demand. The process provides the flexibility to allow store management to anticipate customer needs, including tracking missed sales and factoring in regional influences. We believe that the new release allocation system enables us to increase revenues by having the optimum levels and selection of products available in each superstore at the appropriate time to satisfy customers' entertainment needs.

Rental Video Asset Purchasing System. Our rental video asset purchasing system uses store-specific performance on individual rental videocassette titles to anticipate customer demand for new release rental videocassettes. The system analyzes the first eight weeks' performance of a similar title and factors in the effect of such influences as seasonal trends, box office draw and prominence of the movie's cast to customize an optimum inventory for each individual superstore. The system also allows for the customized purchasing of other catalog rental video assets on an individual store basis, additional copy depth requirements under revenue-sharing agreements and timely sell-off of previously viewed tapes. We believe that our rental video asset purchasing system allows us to efficiently plan and stock each superstore's rental video asset inventory, thereby improving performance and reducing exposure from excess inventory.

Store Replenishment. Store replenishment covers three main areas for controlling a superstore's inventory.

Selection Management. Selection management constantly analyzes store-specific sales, traits and seasonal trends to determine title selection and inventory levels for each individual superstore. By forecasting annual sales of products and consolidating recommendations from store management, the system enables us to identify overstocked or understocked items and to prompt required store actions and optimize inventory levels. The system tailors each store's individual inventory to the market, utilizing over 2,000 product categories, configurations and product status.

Model Stock Calculation/Ordering. Model stock calculation uses store-specific sales, seasonal trends and sophisticated curve fitting to forecast orders. It also accounts for turnaround time from a vendor or our distribution center and tracks historical missed sales to adjust orders to adequately fulfill sales potential. Orders are currently calculated on a weekly basis and transmitted by all superstores to the corporate office to establish a source vendor for the product.

Inventory Management. Inventory management systems interface with other store systems and accommodate electronic receiving and returns to maintain perpetual inventory information. Cycle counting procedures allow us to

perform all physical inventory functions, including the counting of each superstore's inventory up to four times per year. The system provides feedback to assist in researching variance.

Store Systems. Each superstore has a dedicated server within the store for processing information connected through a wide area network. This connectivity provides consolidation of individual transactions and allows store management and corporate office associates easy access to the information needed to make informed decisions. Transactions at the store are summarized and used to assist in staff scheduling, loss prevention and inventory control. All point of sale transactions utilize scanning technology allowing for maximum customer efficiency at checkout. We also utilize an automated system for scheduling store management and sales associates. This system was developed to assist in controlling personnel costs while maintaining desired levels of customer service by preventing over-scheduling or under-scheduling sales, stocking and customer service associates.

Accounting. Our financial accounting software has a flexible, open-systems architecture. We prepare a variety of daily management reports covering store and corporate performance. Detailed financial information for each superstore, as well as for the distribution center and the corporate office, are generated on a monthly basis. Our payroll, accounts payable, cash control, financial planning and state and local tax functions are performed in-house.

Warehouse Management. Our warehouse management systems provide support for high-volume retail transactions, including shipments, receipts and returns to vendors. Software to perform these functions was customized through a joint effort of our purchasing, distribution and information systems departments. The warehouse system, using "real-time" inputs for total process coordination, incorporates exact cube sizes of product containers, utilizing flow-through racks and technologically advanced conveyor systems.

Distribution and Suppliers

Our distribution center is located in a 146,000 square foot facility adjacent to our corporate headquarters in Amarillo, Texas. This central location and the local labor pool enable us to realize relatively low transportation and labor costs. The distribution center is utilized primarily for receiving, storing and distributing approximately 21,000 products offered in substantially every superstore. The distribution center also is used in distributing large purchases, including forward buys, closeouts and other bulk purchases. In addition, the distribution facility is used to receive, recycle, process and ship items to be returned to manufacturers and distributors, as well as to transfer and redistribute videocassettes among our superstores. This facility currently provides inventory to all Hastings superstores and is designed to support our anticipated rate of expansion and growth for at least the next several years. We ship products weekly to each Hastings superstore, facilitating quick and responsive inventory replenishment. Approximately 23% of our total product, based on store receipts, is distributed through the distribution center. Approximately 77% of our total product is shipped directly from the vendors to the superstores. We outsource all product transportation from our distribution center to various freight companies.

Our information systems and corporate infrastructure facilitate our ability to purchase products directly from manufacturers, which contributes to our low pricing structure. In fiscal 2001, we purchased the majority of our products directly from manufacturers, rather than through distributors. Our top three suppliers accounted for approximately 22% of total products purchased during fiscal 2001. While selections from a particular artist or author generally are produced by a single manufacturer, we strive to maintain supplier relationships that can provide alternate sources of supply. In general, products we purchase are returnable to the supplying vendor. Refer to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation - General" for a description of our returns process.

Store Operations

Most of our superstores employ one store manager and one or more assistant store managers. Store managers and assistant store managers are responsible for the execution of all operational, merchandising and marketing strategies for the superstore in which they work. Superstores also generally have department managers, who are individually responsible for their respective book, music, software, video, customer service and stocking departments within each superstore. Hastings superstores are generally open daily from 10:00 a.m. to 11:00 p.m. However, several superstores

are open 9:00 a.m. to 11:00 p.m. or 10:00 a.m. to 10:00 p.m. The only days our superstores are closed are Thanksgiving and Christmas.

Competition

The entertainment retail industry is highly competitive. We compete with a wide variety of book retailers, music retailers, software retailers, Internet retailers and retailers that rent or sell videocassettes, including independent single store operations, local multi-store operators, regional and national chains, as well as supermarkets, pharmacies, convenience stores, bookstores, mass merchants, mail order operations, warehouse clubs, record clubs, other retailers and various non-commercial sources such as libraries. With regard to our videocassette sales and rental video products in particular, we compete with cable, satellite and pay-per-view cable television systems. In addition, continuing technological advances that enhance the ability of consumers to shop at home or access, produce and print written works or record music digitally by home computer through the Internet or telephonic transmission could provide more serious competition to us in the future.

We compete in most of our markets with either national entertainment retailers or significant retailers of general merchandise or both. We compete in our sale of books with retailers such as Barnes & Noble, Inc., Books-A-Million, Inc., Borders Group, Inc., Walden Books and B. Dalton Bookseller. We compete in our sale of music with music retailers, such as The Warehouse, Inc., and Transworld Entertainment and consumer electronics stores, including Best Buy and Circuit City. Our principal competitors in the sale and rental of videocassettes are Blockbuster, Inc., Hollywood Entertainment Corp. and Movie Gallery, Inc. In addition, we compete in the sale of books, music and videocassettes and the rental of videocassettes and video games with local entertainment retailers and significant retailers of general merchandise, such as Wal-Mart. Retailers such as Amazon.com, Inc. and Barnes & Noble, Inc., continue to increase their retail sales of entertainment products, such as books and music, via the Internet. We compete with other entertainment retailers on the basis of title selection, the number of copies of popular selections available, store location, visibility and pricing.

Trademarks and Servicemarks

We believe our trademarks and servicemarks, including the servicemarks "Hastings Books Music Video," and "Hastings, Your Entertainment Superstore" have significant value and are important to our marketing efforts. We have registered "Hastings Books Music Video" as a servicemark with the United States Patent and Trademark Office and are in the process of registering "Hastings, Your Entertainment Superstore." We maintain a policy of pursuing registration of our principal marks and opposing any infringement of our marks.

Associates

We refer to our employees as associates because of the critical role they play in the success of each Hastings superstore and the Company as a whole. As of January 31, 2002, we employed approximately 6,264 associates; of which 2,036 are full-time and 4,228 are part-time associates. Of this number, approximately 5,755 were employed at retail superstores, 172 were employed at our distribution center and 296 were employed at our corporate offices. None of our associates are represented by a labor union or are subject to a collective bargaining agreement. We believe that our relations with our associates are good.

Executive Officers of the Company

The following is certain information concerning the executive officers of Hastings Entertainment, Inc.

Name	Age	Position
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John H. Marmaduke	54	Chairman of the Board, President and Chief Executive Officer
Robert A. Berman	52	Vice President of Store Operations
Dan Crow	55	Vice President of Finance and Chief Financial Officer
James S. Hicks	45	Vice President of Purchasing
Alan Van Ongevalle	34	Vice President of Marketing
Michael J. Woods	40	Vice President and Chief Information Officer

All executive officers are chosen by the Board of Directors and serve at the Board's discretion. Set forth below is information concerning the business experience of our executive officers.

JOHN H. MARMADUKE, age 54, has served as President and Chief Executive Officer of the Company since July 1976 and as Chairman of the Board since October 1993. Mr. Marmaduke served as President of the Company's former parent company, Western Merchandisers, Inc. ("Western"), from 1982 through June 1994, including the years 1991 through 1994 when Western was a division of Wal-Mart. Mr. Marmaduke also serves on the board of directors of the Video Software Dealers Association (VSDA). Mr. Marmaduke has been active in the entertainment retailing industry with the Company and its predecessor company for over 30 years.

ROBERT A. BERMAN, age 52, has served the Company as Vice President of Store Operations since January 1997. From June 1995 to January 1997, Mr. Berman was self-employed in the financial services industry. From January 1989 to June 1995, Mr. Berman served as Vice President and Senior Vice President of Store Operations for Builders Square, Inc., a chain of 185 building material superstores. At Builders Square, Inc., Mr. Berman was responsible for store operations, store planning and design, purchasing and construction.

DAN CROW, age 55, has served as Vice President of Finance and Chief Financial Officer of the Company since October 2000. From July of 2000 to October 2000, Mr. Crow served as Vice President of Finance. Mr. Crow is a member of the American Institute of Certified Public Accountants and the Financial Executives International and has served as Chief Financial Officer of various retail companies including Discount Auto Parts, Inc., Scotty's, Inc. and Lil' Things, Inc. since 1984.

JAMES S. HICKS, age 45, has served as Vice President of Purchasing of the Company since August of 1999. From August 1997 to August 1999, Mr. Hicks served as the Senior Director of Purchasing and from April 1994 to August 1997, was the Director of Purchasing. He was a District Leader for the Company from July of 1984 to April 1994. From October 1982 to July 1984, Mr. Hicks served as a company troubleshooter and from April 1982 to October 1982 was a store manager. Mr. Hicks began his career with Hastings in August 1981 as a manager trainee. Prior to joining the Company, Mr. Hicks was the Regional Credit Manager for Liquid Carbonics Corporation, a gas distributor and manufacturer headquartered in Houston.

ALAN VAN ONGEVALLE, age 34, has served as Vice President of Marketing since May 2000. From August 1999 to May 2000, Mr. Van Ongevalle served as the Senior Director of Marketing and as Director of Advertising from September 1998 to August 1999. Mr. Van Ongevalle joined Hastings in November 1992 and held various store operation management positions including Store Manager, Director of New Stores and the Southern Kansas area through September 1998.

MICHAEL J. WOODS, age 40, has served as Vice President of Information Systems of the Company since October 1992. From August 1990 to October 1992, Mr. Woods served as Director of Microsystems for the Company, focusing on store systems development. From October 1989 to August 1990, Mr. Woods served as a programming specialist and analyst for the Company.

ITEM 2. PROPERTIES

As of January 31, 2002, we operated 142 superstores in 21 states located as indicated in the following table:

NAME OF STATE -----	NUMBER OF SUPERSTORES -----
Alabama.....	1
Arkansas.....	11
Arizona.....	7
Colorado.....	3
Georgia.....	1
Idaho.....	8
Illinois.....	2
Indiana.....	1
Iowa.....	2
Kansas.....	10
Kentucky.....	1
Missouri.....	7
Montana.....	5
Nebraska.....	4
New Mexico.....	13
Oklahoma.....	12
Tennessee.....	4
Texas.....	38
Utah.....	2
Washington.....	7
Wyoming.....	3
Total.....	142

Currently, we lease sites for all of our superstores. These sites typically are located in pre-existing, stand-alone buildings or strip shopping centers. Our primary market areas are small- and medium-sized communities with populations generally less than 50,000. We have developed a systematic approach using our site selection criteria to evaluate and identify potential sites for new superstores. Key demographic criteria for superstores include community population, community and regional retail sales, personal and household disposable income levels, education levels, median age, and proximity of colleges or universities. Other site selection factors include current competition in the community, visibility, available parking, ease of access and other neighbor tenants. To maintain low occupancy costs, we typically concentrate on leasing existing locations that have been operated previously by other retailers.

We actively manage our existing superstores and from time to time close under-performing stores. During fiscal 2001, we closed five superstores and during fiscal 2000, we closed six superstores and one college bookstore.

The terms of our superstore leases vary considerably. We strive to maintain maximum location flexibility by entering into leases with short initial terms and multiple short-term extension options. We have been able to enter into leases with these terms in part because we generally bear a substantial portion of the cost of preparing the site for a superstore. The following table sets forth as of January 31, 2002 the number of superstores that have current lease terms that will expire during each of the following fiscal years and the associated number of superstores for which we have options to extend the lease term:

	NUMBER OF SUPERSTORES -----	OPTIONS -----
Fiscal Year 2002.....	9	5
Fiscal Year 2003.....	18	17
Fiscal Year 2004.....	19	18
Fiscal Year 2005.....	14	13
Fiscal Year 2006.....	12	12
Thereafter.....	70	67
Total.....	142	132

We have not experienced any significant difficulty renewing or extending leases on a satisfactory basis.

Our headquarters and distribution center are located in Amarillo, Texas in a leased facility consisting of approximately 44,500 square feet for office space and 146,000 square feet for the distribution center. The leases for this property terminate in September 2003, and we have the option to renew these leases through March 2015.

ITEM 3. LEGAL PROCEEDINGS

In 2000, we restated our consolidated financial statements for the first three quarters of fiscal 1999 and the prior four fiscal years. Following our initial announcement in March 2000 of the requirement for such restatements, six purported class action lawsuits were filed in the United States District Court for the Northern District of Texas against us and certain of our current and former directors and officers asserting various claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. Although four of the lawsuits were originally filed in the Dallas Division of the Northern District of Texas, all of the five pending actions have been transferred to the Amarillo Division of the Northern District and have been consolidated. One of the Section 10(b) and 20(a) lawsuits filed in the Dallas Division was voluntarily dismissed. On May 15, 2000, a lawsuit was filed in the United States District Court for the Northern District of Texas against us, our current and former directors and officers at the time of our June 1998 initial public offering and three underwriters, Salomon Smith Barney, A.G. Edwards & Sons, Inc. and Furman Selz, LLC asserting various claims under Sections 11, 12(2) and 15 of the Securities Act of 1933. Motions to dismiss these actions were filed by us and, on September 25, 2001, were denied by the Court. Discovery and class certification proceedings are going forward in both actions.

None of the pending complaints specify the amount of damages sought. Although it is not feasible to predict or determine the final outcome of the proceedings or to estimate the potential range of loss with respect to these matters, an adverse outcome with respect to such proceedings could have a material adverse impact on our financial position, results of operations and cash flows.

We are also involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our financial position, results of operations and cash flows.

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

No matters were submitted to a vote of the security holders during the fourth quarter of fiscal 2001.

PART II

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

Our Common Stock trades on The Nasdaq National Market (Nasdaq) under the symbol "HAST."

The following table sets forth, for the fiscal periods indicated, the high and low closing market prices of our Common Stock as reported on Nasdaq within the two most recent fiscal years.

	HIGH	LOW
	-----	-----
2001:		
First Quarter	\$ 2.750	\$ 1.750
Second Quarter	\$ 3.200	\$ 2.390
Third Quarter	\$ 8.280	\$ 2.880
Fourth Quarter	\$ 8.270	\$ 4.000
2000:		
First Quarter	\$ 4.188	\$ 2.438
Second Quarter	\$ 4.688	\$ 1.250
Third Quarter	\$ 3.375	\$ 2.250
Fourth Quarter	\$ 2.625	\$ 1.375

As of March 28, 2002, there were approximately 450 holders of record of our Common Stock.

The payment of dividends is within the discretion of the Board of Directors and will depend on our earnings, capital requirements, and the operating and financial condition, among other factors. Our current revolving credit facility restricts the payment of dividends. In view of such restrictions, it is unlikely that we will pay a dividend in the foreseeable future.

The information required by this item regarding disclosure of equity compensation plan information will be set forth in our Proxy Statement for our 2002 Annual Meeting of Shareholders, to be filed within 120 days after the end of fiscal 2001, under the heading "Compensation Plans," which information is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial and operating data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our consolidated financial statements and the notes thereto that appear elsewhere in this report.

(In thousands, except per share and squarefoot data)	Fiscal Year				
	2001	2000	1999	1998	1997
INCOME STATEMENT DATA:					
Merchandise revenue	\$ 379,322	\$ 370,512	\$ 364,041	\$ 320,162	\$ 283,026
Rental video revenue	92,462	87,691	81,384	78,904	74,656
Total revenues	471,784	458,203	445,425	399,066	357,682
Merchandise cost of revenue	280,060	280,459	270,113	235,915	211,467
Rental video cost of revenue(1)	41,498	38,022	32,139	49,069	25,904
Total cost of revenues	321,558	318,481	302,252	284,984	237,371
Gross profit	150,226	139,722	143,173	114,082	120,311
Selling, general and administrative expenses(2) (3)	144,189	148,967	141,513	116,521	108,434
Pre-opening expenses	182	33	1,681	1,474	1,071
Operating income (loss)	5,855	(9,278)	(21)	(3,913)	10,806
Interest expense, net	(2,090)	(3,485)	(3,708)	(3,727)	(4,228)
Gain (loss) on sale of mall stores(4)	--	--	--	454	1,734
Other, net	252	197	205	232	139
Income (Loss) before income taxes	4,017	(12,566)	(3,524)	(6,954)	8,451
Income tax expense (benefit) (5)	--	2,034	(1,359)	(2,649)	3,347
Net income (loss)	\$ 4,017	\$ (14,600)	\$ (2,165)	\$ (4,305)	\$ 5,104
Basic income (loss) per share	\$ 0.34	\$ (1.25)	\$ (0.19)	\$ (0.41)	\$ 0.60
Diluted income (loss) per share	\$ 0.34	\$ (1.25)	\$ (0.19)	\$ (0.41)	\$ 0.58
Weighted-average common shares outstanding - basic	11,742	11,645	11,621	10,436	8,520
Weighted-average common shares outstanding - diluted	11,898	11,645	11,621	10,436	8,736
OTHER DATA:					
Depreciation(1) (6)	\$ 35,466	\$ 33,155	\$ 31,626	\$ 55,331	\$ 33,606
Capital expenditures(7)	\$ 46,495	\$ 30,482	\$ 47,427	\$ 42,568	\$ 55,753
STORE DATA:					
Total selling square footage at end of period	2,727,446	2,759,735	2,829,269	2,385,432	2,078,264
Comparable-store revenues increase(8)	4.7%	0.1%	4.0%	5.5%	7.0%

January 31,				
2002	2001	2000	1999	1998

BALANCE SHEET DATA:					
Working capital	\$ 49,912	\$ 46,567	\$ 67,295	\$ 64,866	\$ 29,500
Total assets	229,851	213,484	247,933	233,479	217,948
Total long-term debt, including current maturities on capital lease obligations	33,432	29,610	54,260	44,979	51,612
Total shareholders' equity	77,344	75,791	90,091	91,869	51,971

- (1) We adopted a new, accelerated method of amortizing our rental video assets in the fourth quarter of fiscal 1998. The adoption of the new amortization method was accounted for as a change in accounting estimate effected by a change in accounting principle and, accordingly, we recorded a non-cash, non-recurring, pre-tax charge of \$18.5 million in rental video cost of revenues in the fourth quarter of fiscal 1998, increasing net loss and diluted loss per share for fiscal 1998 by \$11.5 million and \$1.10 per share, respectively.
- (2) We recorded pre-tax charges of approximately \$1.5 million, \$6.5 million and \$5.1 million in fiscal years 2001, 2000 and 1999, respectively, related to the cost associated with closing superstores. See Note 5 to the consolidated financial statements for further discussion. As a result of these charges, fiscal years 2001, 2000 and 1999 net losses were increased by \$1.5 million, \$6.5 million and \$3.1 million and \$0.13, \$0.56 and \$0.27 per diluted share, respectively.
- (3) In fiscal 2000, we recorded \$2.7 million in accounting and legal fees associated with the restatement of the first three quarters of fiscal 1999 and the prior four fiscal years as described in "Item 3. Legal Proceedings", and "Item 8. Financial Statements and Supplementary Data." As a result of these fees, fiscal year 2000 net losses were increased by \$2.7 million and \$0.23 per share.
- (4) In fiscal 1996, we established a reserve of \$2.5 million (\$1.6 million after-tax charge) to cover potential losses related to certain mall store leases that were sold prior to fiscal 1995 to Camelot Music, Inc., which filed for bankruptcy protection in August 1996. In fiscal 1997, the reserve was reduced to \$0.5 million, and \$1.7 million was included in Gain on sale of mall stores. In fiscal 1998, we were released from any contingent liability on the remaining leases by order of a bankruptcy court. Accordingly, the Company reduced the remaining \$0.5 million reserve to zero as of January 31, 1999, thereby decreasing net loss and diluted loss per share for fiscal 1998 by \$0.3 million and \$.03 per share, respectively.
- (5) Due to cumulative losses incurred in recent years, the balance of the net deferred tax asset currently does not meet the criteria for recognition under Statement of Financial Accounting Standards No. 109. As a result, the balance of the net deferred tax asset was reserved for during fiscal 2000. No income tax expense was recorded related to income for fiscal year ending January 31, 2002 as these amounts were recognized as a reduction of the deferred income tax benefit valuation allowance.
- (6) Includes amounts associated with our rental video cost amortization.
- (7) Includes procurement of rental video assets.
- (8) Stores open a minimum of 60 weeks.

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

The following discussion should be read in conjunction with our consolidated financial statements and the related notes thereto and "Item 6. Selected Financial Data" appearing elsewhere in this Annual Report.

General

Hastings Entertainment is a leading multimedia entertainment retailer that combines the sale of books, music, software, periodicals, videocassettes, video games, DVDs, used products including CDs, DVDs and video games, video game consoles and DVD players with the rental of videocassettes, video games, DVDs, video game consoles and DVD players in a superstore and Internet Web site format. As of January 31, 2002, we operated 142 superstores averaging approximately 20,000 square feet in small- to medium-sized markets located in 21 states, primarily in the Western and Midwestern United States. Each of the superstores is wholly owned by the Company and operates under the name of Hastings.

Our operating strategy is to enhance our position as a multimedia entertainment retailer by expanding and remodeling existing superstores, opening new superstores in selected markets, and offering our products through our Internet Web site. References herein to fiscal years are to the twelve-month periods that end in January of the following calendar year. For example, the twelve-month period ended January 31, 2002 is referred to as fiscal 2001.

Critical Accounting Policies

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States, which require management to make estimates and assumptions that affect the reported amounts of assets, liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. We believe the following critical accounting policies affect our more significant estimates and assumptions used in the preparation of our financial statements. Our significant estimates and assumptions are reviewed and any required adjustments are recorded on a monthly basis.

Lower of Cost or Market for Merchandise Inventory. Our merchandise inventories are recorded at the lower of standard cost or market. As with any retailer, economic conditions, cyclical customer demand and changes in purchasing or distribution can affect the carrying value of inventory. As circumstances warrant, we record lower of cost or market ("LCM") inventory adjustments. In some instances, these adjustments can have a material effect on the financial results of an annual or interim period. In order to determine such adjustments, we evaluate the age, inventory turns and estimated fair value of merchandise inventory by product category and record any adjustment if estimated fair value is below cost. Through merchandising and an automated-progressive markdown program, we quickly take the steps necessary to increase the sell-off of slower moving merchandise to eliminate or lessen the effect of any LCM adjustment.

Returns Process. In general, merchandise inventory owned by us is returnable based upon return agreements with our merchandise vendors. We continually return merchandise to vendors based on, among other factors, current and projected sales trends, overstock situations, authorized return timelines or change in product offerings. At the end of any reporting period, there is inventory that has been returned to vendors or in the process of being returned to vendors for which accruals are required. These costs can include freight, valuation and quantity differences, and other fees charged by a vendor. In order to appropriately match the costs associated with the return of merchandise with the process of returning the product, we utilize an allowance for cost of inventory returns (the "Allowance"). To accrue for such costs and estimate the Allowance, we utilize historical experience adjusted for significant estimated or contractual modifications. Certain adjustments to the Allowance can have a material effect on the financial results of an annual or interim period. In addition, we recognize that some portion of our inventory in superstores will eventually be returned to a vendor based on the factors mentioned above. We accrue return costs for these future returns on the same basis as product being returned or in the process of being returned to a vendor. We continually evaluate the returns process and initiate improvements as needed.

Rental Video Cost Amortization. In late fiscal 1998, we completed a series of direct revenue-sharing agreements with major studios, the majority of which were amended in fiscals 2001 and 2000, under which we acquired approximately 40% of our rental video asset units during fiscal 2001. We anticipate that our involvement in revenue-sharing agreements will be similar to that of fiscal year 2001 in future periods. Revenue sharing allows us to acquire rental video assets at a lower up-front capital cost than traditional buying arrangements. We then share with studios a percentage of the actual net rental revenues generated over a contractually determined period of time. The increased access to additional copies of new releases under revenue-sharing agreements will allow customer demand for new releases to be satisfied over a shorter period of time at a time when the new releases are most popular. We expense revenue-sharing payments as revenues are recognized under the terms of the specific contracts with supplying studios. The capitalized cost of all rental video assets acquired for a fixed price is being amortized on an accelerated basis over six months to a salvage value of \$4 per unit, except for rental video assets purchased for the initial stock of a new superstore, which are being amortized on a straight line basis over 36 months to a salvage value of \$4.

Certain events, including a downturn in the rental video industry, as a whole or the markets within which we operate our superstores, further consolidation of rental video retailers, substantial change in customer demand and change in the mix of rental video revenues, could effect the salvage value we have assigned to our rental video assets. Such effect could result in a material reduction of the carrying value of our rental video assets and have a material impact on the financial results of an annual or interim period. In particular, the growth of the DVD market and the shift of consumer purchases from VHS (videocassettes) to DVD could result in a decrease in the salvage value of rental videos. At some point during the rental cycle, a VHS item, as with DVD and games, is available for purchase by a customer as a previously viewed tape ("PVT"). Our current experience is that the amount received for the PVT is significantly higher than our salvage value of that item in our rental inventory. Based in part on this factor and turns of PVT, we believe our estimate of salvage value is accurate.

Store Closing Reserve. As with any retailer, from time to time, and in the normal course of business, we evaluate our store base to determine if a need to close or relocate a store(s) is present. Management will evaluate, among other factors, current and future profitability, market trends, age of store and lease status. Upon the appropriate executive approval to close a location, we record charges related to the costs of store closings or relocations. The primary expense items associated with these charges relate to the net present value of minimum lease payments (the present value of remaining lease payments under an active lease) and the write-off of leasehold improvements and other assets not remaining in our possession at the time the location is closed or relocated. The amount recorded can fluctuate based on the age of the closing location, term and remaining years of the lease and the number of stores being closed or relocated. These charges can have a material effect on the financial results of an annual or interim period. Although we actively pursue sublease tenants on all closed or relocated locations, we do not record any estimated sublease income as an offset to any of charge until a sublease agreement is executed. We evaluate all of our stores on a quarterly basis to ascertain any need for impairment of assets or to commence closing proceedings.

Results of Operations

The following tables present our statement of operations data, expressed as a percentage of revenue, and the number of superstores open at the end of period for the three most recent fiscal years.

	Fiscal Year		
	2001	2000	1999
Merchandise revenue	80.4%	80.9%	81.7%
Rental video revenue	19.6	19.1	18.3
Total revenues	100.0	100.0	100.0
Merchandise cost of revenue	73.8	75.7	74.2
Rental video cost of revenue	44.9	43.4	39.5
Total cost of revenues	68.2	69.5	67.9
Gross profit	31.8	30.5	32.1
Selling, general and administrative expenses	30.6	32.5	31.7
Pre-opening expenses	0.0	0.0	0.4
	30.6	32.5	32.1
Operating income (loss)	1.2	(2.0)	0.0
Other income (expense):			
Interest expense	(0.4)	(0.8)	(0.8)
Other, net	0.1	0.0	0.0
	(0.3)	(0.8)	(0.8)
Income (Loss) before income taxes	0.9	(2.8)	(0.8)
Income tax expense (benefit)	--	0.4	(0.3)
Net income (loss)	0.9%	(3.2)%	(0.5)%

	Fiscal Year		
	2001	2000	1999
Hastings Superstores:			
Beginning number of stores	142	147	129
Openings	5	1	20
Closings*	(5)	(6)	(2)
Ending number of stores	142	142	147

* Excludes one additional superstore closed in February 2002.

Fiscal 2001 Compared to Fiscal 2000

Revenues. Total revenues for the fiscal year ending January 31, 2002 were \$471.8 million, up \$13.6 million, or 3.0%, from \$458.2 million for the fiscal year ending January 31, 2001 primarily due to an increase in total comparable-store revenue ("Comps") of 4.7% for the year. Elements of total Comps are as follows:

Merchandise Comps	4.3%
Rental video Comps	6.4%
Total Comps	4.7%

The Comp increases in merchandise and rental were partially offset by the operation of three fewer superstores throughout fiscal 2001 compared to fiscal 2000. Total merchandise revenues increased \$8.8 million, or 2.4% for fiscal 2001 to \$379.3 million from \$370.5 million for fiscal 2000. The increase in merchandise Comps was driven primarily

by year-over-year increases of 73% and 114% in total sales of DVDs and video games, respectively. Comp increases were partially offset by a decline in music Comps of (3.5%) due primarily to the current malaise of the music industry, which overall experienced a decline of (4.1%) in total music shipments for 2001. Book Comps for the year increased slightly at 0.3%. Total rental video revenues for fiscal 2001 increased \$4.8 million, or 5.4% to \$92.5 million compared to \$87.7 million for the prior year primarily due to an increase in rentals of DVD titles of 140% year over year.

Gross Profit. For fiscal 2001, total gross profit increased 7.5% to \$150.2 million, or 31.8% of total revenues, from \$139.7, or 30.5% of total revenues for fiscal 2000.

Merchandise gross profit for fiscal 2001, as a percent of merchandise revenue, increased to 26.2% compared to 24.3% for fiscal 2000 due primarily to:

- (i) a reduction in the costs associated with the return of product of approximately \$5.9 million for fiscal 2001 which is attributable to improvements made in the product return process during fiscal 2001 that lowered the cost per dollar of return; and
- (ii) lower product costs of approximately \$1.5 million as a result of a movement in our inventory selection toward higher margin products particularly related to books.

Partially offsetting these increases in merchandise gross profit was an increase of approximately \$1.6 million in the costs of operating our distribution center. During fiscal 2001, we implemented a strategy to increase the flow of certain higher turning inventory items through our distribution center. This program enables us to have a better in-stock position for our customers. For the year, the volume of shipments from our distribution center to our superstores increased approximately 42% when compared to fiscal 2000, which resulted in significantly higher operating costs.

Rental video gross profit for fiscal 2001, as a percent of rental video revenue, decreased to 55.1% compared to 56.6% for fiscal 2000 due primarily to:

- (i) an increase of approximately \$1.6 million in depreciation expenses as we procured a higher level of video games and DVD to meet increasing demand. A large portion of these purchases were for catalog rental product which exhibit slower turns than a new release title; and
- (ii) an increase of approximately \$0.8 million in costs associated with the distribution of rental videos primarily due to increased overhead costs as we processed a greater number of rental assets through our distribution center.

Partially offsetting these decreases in rental video gross profit was an increase in margin of approximately \$0.7 million on the rental of revenue sharing titles due to improved terms on agreements with studios. Additionally, a higher percentage of non-revenue sharing titles, which generally reflect higher margins, helped to offset the decreases listed above.

Selling, General and Administrative Expenses. Selling, general and administrative expenses ("SG&A"), including store and corporate labor and other overhead costs, for fiscal 2001 decreased 3.1% to \$144.2 million, or 30.6% of total revenues, from \$149.0 million, or 32.5% of total revenues last year. This substantial decrease was primarily the result of a higher level of expenses recorded during the prior year including:

- (i) \$2.7 million in accounting and legal fees associated with the restatement of the first three quarters of fiscal 1999 and the prior four fiscal years. These fees did not recur during fiscal 2001;
- (ii) asset impairment charges of \$1.4 million comprised of \$1.0 million in writedowns of leasehold improvements included in three underperforming superstores and \$.4 million in writedowns of certain assets of the Company's Internet segment were recorded during fiscal 2000. This compares to a \$.7 million writedown of leasehold improvements for two underperforming superstores in fiscal 2001. Although these superstores continued to operate, such charges were recorded as projected cash flows from these operations were not sufficient to realize the book value of the specific assets; and

- (iii) we recorded net expenses of \$6.5 million in fiscal 2000 associated with the closure of two superstores during the fourth quarter of fiscal 2000 and an additional four superstores approved for closure prior to year end of fiscal 2000. This compared to net expenses of \$1.5 million related to two underperforming superstores which were approved for closure during fiscal 2001, one of which was closed during the fourth quarter of fiscal 2001 and the other closed in February 2002. Such expenses are comprised of accruals for the net present value of future minimum lease payments, the write-off of leasehold improvements, and other related costs.

Partially offsetting the decreases in SG&A expense listed above was an increase in net advertising costs of approximately \$1.8 million year-over-year. The higher expense was the result of a planned increase in targeted advertising expenditures during fiscal 2001 to increase customer traffic.

Pre-opening Expenses. Pre-opening expenses were \$0.2 million for fiscal 2001, as we opened five superstores during the year. For fiscal 2000, pre-opening expenses totaled \$33,000 with the opening of one new superstore. Pre-opening expenses include human resource costs, travel, rent, advertising, supplies and certain other costs incurred prior to a superstore's opening.

Interest Expense. For the year, interest expense decreased 40.0% to \$2.1 million, or 0.4% of total revenues, from \$3.5 million, or 0.8% of total revenues for last year. This reduction was primarily due to lower interest rates as well as a lower average outstanding borrowing during the current year compared to last year.

Income Taxes. Income tax expense for the fiscal years 2001 and 2000 was zero and \$2.0 million, respectively. No income tax expense was recorded related to income for fiscal 2001 due to the reversal of a portion of the valuation allowance related to the net deferred tax asset established in the fourth quarter of fiscal 2000.

Net Income (Loss). We recorded net income of \$4.0 million, or \$0.34 per diluted share for fiscal year 2001 compared to a net loss of (\$14.6) million or (\$1.25) per share reported for fiscal year 2000.

Fiscal 2000 Compared to Fiscal 1999

Revenues. Total revenues for fiscal year 2000 increased 2.9% to \$458.2 million from \$445.4 million for fiscal year 1999. The revenue growth consisted of a 1.8% increase in merchandise revenues and a 7.7% increase in rental video revenue and was primarily due to the number of new superstores opened in fiscal 1999 that were open for a full year during fiscal 2000. Comps for fiscal 2000 were 0.1% and are detailed as follows:

Merchandise Comps	(0.4)%
Rental Video Comps	2.1%
Total Comps	0.1%

Sale video, driven by sales of DVDs, previously viewed videocassettes, and video games exhibited the largest percentage growth year-over-year with declines in music revenues, as a result of general weakness in the industry, and book revenues, as a result of inventory management issues.

Gross Profit. Total gross profit, as a percent of total revenue, declined from 32.1% in fiscal 1999 to 30.5% in fiscal 2000 as a result of a series of factors as follows:

- (i) During the first quarter of fiscal 2000, management determined a need to improve inventory turns in order to enhance cash flow, reduce markdown expense, and enhance our inventory offering. Our resulting implementation of an initiative to permanently improve inventory turns generated an increase in the volume of returns to vendors and markdowns as well as compressed the timing of these returns resulting in higher fees per return based on the pricing agreements with our vendors. This negatively impacted gross profit by a \$3.1 million increase in the cost associated with the return of product;
- (ii) Lower than anticipated sales volume for certain products in the first three quarters of fiscal 2000 resulted in management's decision to increase the markdown frequency on certain products to stimulate sales, increase

inventory turnover and improve cash flows. Such retail price markdowns increased approximately \$3.3 million resulting in lower merchandise margins;

- (iii) Margins were also adversely affected by an increase in freight costs of \$1.0 million for the year ended January 31, 2001 due to freight carriers adding fuel surcharges of 4% to 8%; and
- (iv) As circumstances warrant, due to changing market conditions or specific transactions, we record lower of cost or market inventory adjustments. Such inventory adjustments increased \$1.4 million from \$5.6 million in fiscal 1999 to \$7.0 million in fiscal 2000. This increase was primarily a result of our entering into a barter transaction with a third party during fiscal 1999, for which we recorded an asset related to the barter credit in the amount of \$0.9 million. During the third quarter of fiscal 2000, the barter company ceased operations and no longer appeared to be a going concern. Consequently, we deemed the entire credit to be fully impaired, which resulted in a charge to income of \$0.9 million in the third quarter of fiscal 2000.

Also contributing to the overall decrease in margin was a decline in rental video margin of approximately \$3.6 million primarily as a result of an increase in rental video revenue subject to revenue-sharing agreements with studios as a percent of total rental video revenue, which has lower profit margins.

Offsetting the declines in margin outlined above was a \$2.5 million decline in the amount of promotional coupons redeemed during fiscal 2000 over fiscal 1999 and a reduction in shrinkage of approximately \$1.9 million resulting from an increased focus on loss prevention. In addition, we experienced an increase in discounts on product purchase prices due to more advantageous buying and improved seasonal terms from our vendors during the year.

Selling, General and Administrative Expenses. SG&A expenses increased to \$149.0 million or 32.5% of total revenues in fiscal 2000 from \$141.5 million or 31.7% in fiscal 1999. The increase was primarily the result of (1) \$2.7 million in accounting and legal fees associated with the restatement of the first three quarters of fiscal 1999 and the prior four fiscal years and (2) collective asset impairment charges of \$1.4 million comprised of \$1.0 million in writedowns of leasehold improvements included in three underperforming superstores and \$.4 million in writedowns of certain assets of the Company's Internet segment. Such charges were recorded as projected cash flows from these operations were not sufficient to realize the book value of the specific assets.

Additionally, during fiscal 2000, we recorded net expenses of \$6.5 million associated with the closure of two superstores during the fourth quarter and an additional four superstores approved for closure prior to year end. Such expenses are comprised of accruals for the net present value of future minimum lease payments, the write-off of leasehold improvements, and other related costs. During fiscal 1999, we recorded expenses of \$5.1 million related to the closure of six superstores and one college bookstore.

Pre-opening Expenses. Pre-opening expenses were \$33,000 for the year ending January 31, 2001, as we opened one superstore during the year. For the year ending January 31, 2000, pre-opening expenses totaled \$1.7 million with the opening of 20 new superstores. Pre-opening expenses include human resource costs, travel, rent, advertising, supplies and certain other costs incurred prior to a superstore's opening.

Interest Expense. Despite a higher interest rate environment, our overall interest expense declined approximately \$0.2 million to \$3.5 million in fiscal 2000 compared to \$3.7 million in fiscal 1999 primarily due to a lower average balance of long-term debt.

Income Taxes. Due to cumulative losses incurred in recent years, the current balance of the net deferred tax asset does not meet the criteria for recognition under SFAS 109. As a result, we fully reserved the balance of the net deferred tax asset of \$7.3 million. We recorded income tax expense of \$2.0 million primarily as the result of the provision for the valuation allowance partially offset by the tax benefit derived from the loss generated in fiscal 2000.

Net Loss. For fiscal year 2000, we incurred a net loss of \$14.6 million, or \$1.25 per share, compared to a net loss of \$2.2 million, or \$0.19 per share for fiscal 1999.

Liquidity and Capital Resources

We generate cash from operations exclusively from the sale of merchandise and the rental of video products and we have substantial operating cash flow because most of our revenue is received in cash and cash equivalents. Other than our principal capital requirements arising from the purchase, warehousing and merchandising of inventory and rental videos, opening new superstores and expanding existing superstores and updating existing and implementing new information systems technology, we have no anticipated material capital commitments. Our primary sources of working capital are cash flow from operating activities, trade credit from vendors and borrowings under our revolving credit facility (the "Facility"). We believe our cash flow from operations and borrowings under the Facility will be sufficient to fund our ongoing operations, new superstores and superstore expansions through fiscal 2002.

Consolidated Cash Flows

Operating Activities. Net cash flows from operating activities decreased \$7.0 million, or 13.3% to \$45.3 million in fiscal 2001 from \$52.3 million in fiscal 2000. The most significant reason for the decrease was the difference in the change of inventory assets between the two fiscal years. In fiscal 2000, as part of our strategic plan, we decreased our merchandise inventory by approximately \$21.4 million. Approximately \$15 million of this decline was the result of our initiative to increase cash flow and inventory turns by reducing our inventory. The remaining decrease in inventory was due to added controls on purchasing, markdown management and improved sell-through. During fiscal 2001, we experienced an increase in inventory assets of approximately \$17.6 million, of which approximately \$14.3 million resulted from cash transactions. The remainder was company owned rental inventory transferred to merchandise for sale as previously viewed product. The increase in inventory was due primarily to the opening of five new superstores and the expansion of seven superstores. Additionally, we purchased and sold a higher level of DVD and video game product during fiscal 2001 contributing to the increase in inventory. Partially offsetting the change in inventory was an increase of \$18.6 million in net income (loss) as we recorded net income of \$4.0 million in fiscal 2001 compared to a net loss of (\$14.6) million in fiscal 2000 and a positive difference in the change of trade accounts payable and other accrued expenses of \$11.8 million resulting primarily from increased purchases of inventory coupled with an increase in accounts payable days in fiscal 2001 compared to fiscal 2000.

Investing Activities. Net cash used in investing activities increased \$16.0 million, or 52.5%, from \$30.5 million in fiscal 2000 to \$46.5 million in fiscal 2001. This increase was due primarily to the opening of five new superstores and the expansion of seven superstores during fiscal 2001 compared to the opening of one new superstore and the expansion of five superstores during fiscal 2000. Additionally, purchases of rental video assets increased during fiscal 2001 due to new and expanded superstore activity and increased purchases of DVD and video games to meet customer demand. Our capital expenditures include store equipment and fixtures, expanding and remodeling existing superstores, upgrading and implementation of information systems technology and the purchase of rental video assets.

Financing Activities. Cash provided by or used in financing activities is primarily associated with borrowings and payments made under the Facility. Cash provided by financing activities increased \$25.8 million to \$1.2 million in fiscal 2001 compared to cash used in financing activities of \$24.6 million in fiscal 2000. The primary reason for this increase was due to fiscal 2000 activity. During fiscal 2000, with an increase in cash flow from operations and decrease in capital expenditures, we decreased our overall debt balances by approximately \$24.7 million to \$29.6 million as of January 31, 2001 from \$54.3 million as of January 31, 2000, eliminating our term debt by paying off our Senior Notes and reducing the level of our revolving credit borrowings.

On September 18, 2001 we announced a stock repurchase program of up to \$5.0 million of our common stock. As of January 31, 2002, a total of 618,500 shares had been purchased at a cost of approximately \$3.0 million, for an average cost of \$4.88 per share.

Capital Structure. On August 29, 2000, we entered into a three-year syndicated, secured Loan and Security Agreement with Fleet Retail Finance, Inc. and The CIT Group/Business Credit, Inc. The initial proceeds from the Facility were used to terminate and prepay fully the total amounts outstanding under our prior revolving credit facility with Bank of America and a consortium of banks and our Series A Senior Notes (the "Senior Notes") with a financial institution. The amount outstanding under the Facility is limited by a borrowing base predicated on eligible inventory, as defined, and certain rental video assets, net of accumulated depreciation less specifically defined reserves and is limited to a ceiling of \$70 million, which increases to \$80 million between October 15 and December 15 of each year of the Facility, less a \$10 million availability reserve. The Facility bears interest based on the prevailing prime rate or LIBOR plus 2.00% at our option. The borrowing base under the Facility is limited to an advance rate of 65% of eligible inventory and certain rental video assets net of accumulated amortization less specifically defined reserves which could be adjusted to reduce availability under the Facility. The Facility contains no financial covenants, restricts the payment of dividends and includes certain other debt and acquisition limitations, allows for the repurchase of up to \$7.5 million of our common stock and requires a minimum availability of \$10 million at all times. The Facility is secured by substantially all of the assets of the company and our subsidiaries and is guaranteed by each of our three consolidated subsidiaries. The Facility expires on August 29, 2003. At January 31, 2002, we had \$20.7 million in excess availability, after the \$10 million availability reserve, under the Facility.

At January 31, 2002 and 2001, we had borrowings outstanding of \$32.2 million and \$28.3 million under the Facility, respectively. The average rate of interest being charged under the Facility was 6.1% and 8.4% at January 31, 2002 and 2001, respectively.

We entered into two interest rate swaps, one in November and one in December 2001, with a financial institution in order to obtain a fixed interest rate on a portion of our outstanding floating rate debt thereby reducing our exposure to interest rate volatility. The notional value of each swap is \$10 million of our revolving credit facility at fixed interest rates of 2.65% and 2.47%, respectively, for one year. We have designated the interest rate swaps as hedging instruments. At January 31, 2002, the fair value of the interest rate swaps was not significant.

Seasonality and Inflation

As is the case with many retailers, a significant portion of our revenues, and an even greater portion of our operating profit, is generated in the fourth fiscal quarter, which includes the Christmas selling season. As a result, a substantial portion of our annual earnings has been, and will continue to be, dependent on the results of this quarter. We experience reduced rentals of video activity in the spring because customers spend more time outdoors. Major world or sporting events, such as the Super Bowl, the Olympic Games or the World Series, also have a temporary adverse effect on revenues. Future operating results may be affected by many factors, including variations in the number and timing of superstore openings, the number and popularity of new book, music and videocassette titles, the cost of the new release or "best renter" titles, changes in comparable-store revenues, competition, marketing programs, increases in the minimum wage, weather, special or unusual events, and other factors that may affect our operations.

We do not believe that inflation has materially impacted net income during the past three years. Substantial increases in costs and expenses could have a significant impact on our operating results to the extent such increases are not passed along to customers.

Recent Accounting Pronouncements

In the first quarter of fiscal 2002, we adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," which was amended by SFAS No. 137 and SFAS No. 138. This statement establishes accounting and reporting guidelines for derivatives and requires us to record all derivatives as assets or liabilities on the balance sheet at fair value. Our use of derivatives is limited to interest rate swaps which we have designated as hedging instruments. At January 31, 2002, the fair value of the interest rate swaps was not significant, and therefore, the adoption of SFAS No. 133 has not had a material impact on our consolidated balance sheets or our statements of operations, shareholders' equity and cash flows.

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards ("SFAS") No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, effective

for fiscal years beginning after December 15, 2001. Under the new rules, goodwill will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives. We will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of fiscal 2002. We will test goodwill for impairment using the two-step process prescribed in Statement 142. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any. Prior to July 31, 2002, we expect to perform the first of the required impairment tests of goodwill based on its carrying value at January 31, 2002. Any impairment charge resulting from these transitional tests will be reflected as the cumulative effect of a change in accounting principle in the first quarter of fiscal 2002. We have not yet determined what the effect of these tests will be; however, application of the Statements is not expected to have a material impact on our consolidated financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations for a disposal of a segment of a business. SFAS 144 is effective for fiscal years beginning after December 15, 2001. We adopted SFAS 144 as of February 1, 2002 and such adoption did not have a significant impact on our financial position and results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the ordinary course of our business, we are exposed to certain market risks, primarily changes in interest rates. Our exposure to interest rate risk consists of variable rate debt based on the lenders base rate or LIBOR plus a specified percentage at our option. The annual impact on our results of operations of a 100 basis point interest rate change on the January 31, 2002 outstanding balance of the variable rate debt would be approximately \$0.3 million. After an assessment of these risks to our operations, we believe that the primary market risk exposures (within the meaning of Regulation S-K Item 305) are not material and are not expected to have any material adverse impact on our financial position, results of operations or cash flows for the next fiscal year. In addition, we do not believe changes in the fair value of the interest rate swaps entered into in November 2001 and December 2001 with notional amounts of \$10 million each will be material.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

HASTINGS ENTERTAINMENT, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULE

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Hastings Entertainment, Inc.

We have audited the accompanying consolidated balance sheets of Hastings Entertainment, Inc. and subsidiaries as of January 31, 2002 and 2001, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the two years then ended. Our audits also included the financial statement schedules listed in the Index at Item 14(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hastings Entertainment, Inc. and subsidiaries at January 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Fort Worth, Texas
March 22, 2002

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Hastings Entertainment, Inc.:

We have audited the consolidated statements of operations, shareholders' equity, and cash flows for the year ended January 31, 2000 of Hastings Entertainment, Inc. and subsidiaries. We also have audited the related financial statement schedule for the year ended January 31, 2000. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations of Hastings Entertainment, Inc. and subsidiaries and their cash flows for the year ended January 31, 2000, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein for the year ended January 31, 2000.

/S/ KPMG LLP

Dallas, Texas
June 13, 2000

HASTINGS ENTERTAINMENT, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
January 31, 2002 and 2001
(In thousands, except share data)

		JANUARY 31,	
		2001	2000
		-----	-----
ASSETS			
Current assets			
Cash		\$ 4,319	\$ 4,257
Merchandise inventories, net		148,265	130,676
Income taxes receivable		5,377	7,759
Other current assets		5,331	5,461
		-----	-----
Total current assets		163,292	148,153
Property and equipment, net		64,811	65,319
Deferred income taxes, net of valuation allowance (note 8)		1,091	--
Intangible assets, net		646	--
Other assets		11	12
		-----	-----
		\$ 229,851	\$ 213,484
		=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current maturities on capital lease obligations		\$ 169	\$ 154
Trade accounts payable		86,722	70,534
Accrued expenses & other current liabilities		26,489	30,898
		-----	-----
Total current liabilities		113,380	101,586
Long-term debt, excluding current maturities on capital lease obligations		33,263	29,456
Other liabilities		5,864	6,651
Commitments and contingencies		--	--
Shareholders' equity:			
Preferred stock, \$.01 par value; 5,000,000 shares authorized; none issued		--	--
Common stock, \$.01 par value; 75,000,000 shares authorized; 11,918,035 shares in 2001 and 11,751,850 shares in 2000 issued; 11,304,022 shares in 2001 and 11,751,850 shares in 2000 outstanding		119	117
Additional paid-in capital		36,850	36,323
Retained earnings		43,368	39,351
Treasury stock, at cost		(2,993)	--
		-----	-----
		77,344	75,791
		-----	-----
		\$ 229,851	\$ 213,484
		=====	=====

See accompanying notes to consolidated financial statements.

HASTINGS ENTERTAINMENT, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
Years Ended January 31, 2002, 2001 and 2000
(In thousands, except per share data)

	Fiscal Year		
	2001	2000	1999
Merchandise revenue	\$ 379,322	\$ 370,512	\$ 364,041
Rental video revenue	92,462	87,691	81,384
Total revenues	471,784	458,203	445,425
Merchandise cost of revenue	280,060	280,459	270,113
Rental video cost of revenue	41,498	38,022	32,139
Total cost of revenues	321,558	318,481	302,252
Gross profit	150,226	139,722	143,173
Selling, general and administrative expenses	144,189	148,967	141,513
Pre-opening expenses	182	33	1,681
Operating income (loss)	5,855	(9,278)	(21)
Other income (expense):			
Interest expense	(2,090)	(3,485)	(3,708)
Other, net	252	197	205
Income (Loss) before income taxes	4,017	(12,566)	(3,524)
Income tax expense (benefit)	--	2,034	(1,359)
Net income (loss)	\$ 4,017	\$ (14,600)	\$ (2,165)
Basic income (loss) per share	\$ 0.34	\$ (1.25)	\$ (0.19)
Diluted income (loss) per share	\$ 0.34	\$ (1.25)	\$ (0.19)
Weighted-average common shares outstanding:			
Basic	11,742	11,645	11,621
Dilutive effect of stock options	156	--	--
Diluted	11,898	11,645	11,621

See accompanying notes to consolidated financial statements.

HASTINGS ENTERTAINMENT, INC. AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity
Years ended January 31, 2002, 2001 and 2000
(In thousands, except share data)

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK		TOTAL SHAREHOLDERS' EQUITY
	SHARES	AMOUNT			SHARES	AMOUNT	
Balances at January 31, 1999	11,736,923	\$ 117	\$ 37,783	\$ 56,116	183,755	\$(2,147)	\$ 91,869
Issuance of treasury stock to directors	--	--	(39)	--	(3,893)	163	124
Receipt of treasury shares upon exercise of stock options	--	--	--	--	65,454	(996)	(996)
Exercise of stock options, including tax benefits of \$0.3 million	--	--	(342)	--	(137,366)	1,601	1,259
Net loss	--	--	--	(2,165)	--	--	(2,165)
Balances at January 31, 2000	11,736,923	\$ 117	\$ 37,402	\$ 53,951	107,950	\$(1,379)	90,091
Issuance of treasury stock to directors	--	--	(152)	--	(13,672)	186	34
Issuance of stock to employees	14,927	--	(310)	--	(44,278)	513	203
Exercise of stock options	--	--	(617)	--	(50,000)	680	63
Net loss	--	--	--	(14,600)	--	--	(14,600)
Balances at January 31, 2001	11,751,850	\$ 117	\$ 36,323	\$ 39,351	--	\$--	75,791
Issuance of stock to employees	63,655	1	166	--	--	--	167
Purchase of treasury stock	--	--	--	--	619	(3,017)	(3,017)
Exercise of stock options	102,530	1	361	--	(5)	24	386
Net income	--	--	--	4,017	--	--	4,017
Balances at January 31, 2002	11,918,035	\$ 119	\$ 36,850	\$ 43,368	614	\$(2,993)	\$ 77,344

See accompanying notes to consolidated financial statements.

HASTINGS ENTERTAINMENT, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years ended January 31, 2002, 2001 and 2000
(Dollars in thousands)

	FISCAL YEAR		
	2001	2000	1999
Cash flows from operating activities:			
Net income (loss)	\$ 4,017	\$ (14,600)	\$ (2,165)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization expense	35,466	33,155	31,626
Loss on rental videos lost, stolen and defective	5,179	1,877	4,068
Loss on disposal of non-rental video assets	1,615	3,375	3,272
Deferred income tax	--	3,681	(2,541)
Non-cash compensation	115	235	124
Changes in operating assets and liabilities:			
Merchandise inventories	(14,291)	21,389	(2,464)
Other current assets	129	(492)	(462)
Trade accounts payable and accrued expenses	11,776	3,112	3,897
Income taxes receivable	1,828	(1,487)	243
Other assets and liabilities, net	(520)	2,055	3,917
Net cash provided by operating activities	45,314	52,300	39,515
Cash flows from investing activities:			
Purchases of property and equipment	(45,328)	(30,482)	(47,427)
Purchases of retail locations	(1,167)	--	--
Net cash used in investing activities	(46,495)	(30,482)	(47,427)
Cash flows from financing activities:			
Borrowings under revolving credit facility	505,135	296,867	267,950
Repayments under revolving credit facility	(501,159)	(311,041)	(253,350)
Payments under long-term debt and capital lease obligations	(154)	(10,476)	(5,319)
Purchase of treasury stock	(3,019)	--	--
Proceeds from exercise of stock options	440	63	263
Net cash provided by (used in) financing activities	1,243	(24,587)	9,544
Net increase (decrease) in cash	62	(2,769)	1,632
Cash at beginning of year	4,257	7,026	5,394
Cash at end of year	\$ 4,319	\$ 4,257	\$ 7,026

See accompanying notes to consolidated financial statements.

Hastings Entertainment, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
January 31, 2002 and 2001

(Tabular amounts in thousands, except per share data or unless otherwise noted)

(1) OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) GENERAL

Hastings Entertainment, Inc. and subsidiaries (the "Company") operates a chain of retail superstores in 21 states, primarily in the Western and Midwestern United States, with revenues originating from the sale of music, books, software, periodicals, videocassette, video game and DVD products and the rental of videocassettes, video games and DVDs.

(b) BASIS OF CONSOLIDATION

The consolidated financial statements present the results of Hastings Entertainment, Inc. and its subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

The Company's fiscal years ended January 31, 2002, 2001 and 2000 are referred to as fiscal 2001, 2000 and 1999, respectively.

(c) REVENUE RECOGNITION

Merchandise and rental video revenue are recognized at the point of sale or rental or at the time merchandise is shipped to the customer. Additionally, revenues are presented net of returns and exclude all taxes. An allowance has been established to provide for projected merchandise returns.

Gift card liabilities are recorded at the time of sale with the costs of designing, printing and distributing the cards recorded as expense as incurred. The liability is relieved and revenue is recognized upon redemption of the gift cards.

(d) CASH AND CASH EQUIVALENTS

The Company considers all short-term investments with original maturities of three months or less (primarily money market mutual funds) to be cash equivalents.

(e) MERCHANDISE INVENTORIES

Merchandise inventories are recorded at the lower of standard cost (which approximates the first-in, first-out (FIFO method)) or market.

(f) PROPERTY AND EQUIPMENT

Property and equipment, excluding rental video assets (see note 3), are recorded at cost and depreciated using the straight-line method. Furniture, fixtures, equipment and software are depreciated over their estimated useful lives of 3 to 5 years. Leasehold improvements are amortized over the shorter of the related lease term or their estimated useful lives.

Property recorded pursuant to capital lease obligations is stated at the present value of the minimum lease payments at the inception of each lease, not in excess of fair value, and amortized on a straight-line basis over the related lease term.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Hastings Entertainment, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
January 31, 2002 and 2001

(Tabular amounts in thousands, except per share data or unless otherwise noted)

(g) INCOME TAXES

Income taxes are accounted for under the asset and liability method.

(h) FINANCIAL INSTRUMENTS

The carrying amount of long-term debt approximates fair value as of January 31, 2002 and 2001 due to the instruments bearing interest at market rates. The carrying amount of accounts payable approximates fair value because of its short maturity period.

The Company entered into two interest rate swaps, one in November and one in December 2001, with a financial institution in order to obtain a fixed interest rate on a portion of the Company's outstanding floating rate debt thereby reducing its exposure to interest rate volatility. The notional value of each swap is \$10 million of the Company's revolving credit facility at fixed interest rates of 2.65% and 2.47%, respectively, for one year. The Company has designated the interest rate swaps as hedging instruments. At January 31, 2002, the fair value of the interest rate swaps was not significant.

(i) STOCK OPTION PLANS

The Company accounts for its stock option plans in accordance with the provisions of Accounting Principles Board Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees, and related interpretations. Compensation expense is recorded on the date of grant only if the market price of the underlying stock exceeds the exercise price. Under Statement of Financial Accounting Standards No. 123 (SFAS 123), Accounting for Stock-based Compensation, the Company may elect to recognize expense for stock-based compensation based on the fair value of the awards, or continue to account for stock-based compensation under APB 25 and disclose in the financial statements the effects of SFAS 123 as if the recognition provisions were adopted. The Company has elected to continue to apply the provisions of APB 25 and provide the pro forma disclosure provisions of SFAS 123.

(j) ADVERTISING COSTS

Advertising costs for newspaper, television and other media are expensed as incurred. Gross advertising expenses for the fiscal years 2001, 2000, and 1999 were \$9.2 million, \$5.9 million and \$4.4 million, respectively.

(k) PRE-OPENING COSTS

Pre-opening expenses include human resource costs, travel, rent, advertising, supplies and certain other costs incurred prior to a superstore's opening and are expensed as incurred.

(l) INCOME (LOSS) PER SHARE

Basic income (loss) per share is computed by dividing net loss by the weighted-average number of common shares outstanding during the period. Diluted income (loss) per share is similarly computed, but includes the effect, when dilutive, of the Company's weighted average number of stock options outstanding.

(m) USE OF MANAGEMENT ESTIMATES

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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(n) IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In the first quarter of fiscal 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," which was amended by SFAS No. 137 and SFAS No. 138. This statement establishes accounting and reporting guidelines for derivatives and requires the Company to record all derivatives as assets or liabilities on the balance sheet at fair value. The Company's use of derivatives is limited to interest rate swaps which the Company has designated as hedging instruments. At January 31, 2002, the fair value of the interest rate swaps was not significant, and therefore, the adoption of SFAS No. 133 has not had a material impact on the Company's consolidated balance sheets or its statements of operations, shareholders' equity and cash flows.

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards ("SFAS") No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets (the "Statements"), effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives. The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of fiscal 2002. The Company will test goodwill for impairment using the two-step process prescribed in Statement 142. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any. Prior to July 31, 2002, the Company expects to perform the first of the required impairment tests of goodwill based on its carrying value at January 31, 2002. Any impairment charge resulting from these transitional tests will be reflected as the cumulative effect of a change in accounting principle in the first quarter of fiscal 2002. The Company has not yet determined what the effect of these tests will be, however, application of the Statements is not expected to have a material impact on its consolidated financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations for a disposal of a segment of a business. SFAS 144 is effective for fiscal years beginning after December 15, 2001. The Company adopted SFAS 144 as of February 1, 2002 and such adoption did not have a significant impact on the Company's financial position and results of operations.

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(2) MERCHANDISE INVENTORIES

Merchandise inventories consisted of the following:

	2001	2000
	-----	-----
Books	\$ 52,870	\$ 53,757
Music	50,523	45,231
Videos	26,714	20,919
Other	22,558	14,219
	-----	-----
	152,665	134,126
Less allowance for inventory shrinkage and obsolescence	4,400	3,450
	-----	-----
	\$148,265	\$130,676
	=====	=====

During fiscal 2001 and 2000, the Company purchased approximately 22% and 25%, respectively, of all products (defined herein as merchandise inventories and rental videos) from three suppliers.

(3) PROPERTY AND EQUIPMENT

Property and equipment consists of the following :

	2001	2000
	-----	-----
Rental videos	\$ 52,917	\$ 53,670
Furniture, equipment and software	84,609	75,066
Leasehold improvements	49,803	47,464
Property under capital leases	2,126	2,126
	-----	-----
	189,455	178,326
Less accumulated depreciation and amortization	124,644	113,007
	-----	-----
	\$ 64,811	\$ 65,319
	=====	=====

Accumulated depreciation and amortization of property and equipment includes \$1.4 million and \$1.2 million of accumulated amortization of equipment under capital leases at January 31, 2002 and 2001, respectively.

During the fourth quarter of fiscal 2001 and 2000, the Company's retail store segment recorded pre-tax charges of \$0.7 million and \$1.0 million, respectively. These charges are included in selling, general and administrative expenses and are related to the impairment of leasehold improvements for two superstores in fiscal 2001 and three superstores in fiscal 2000. Such charges were recorded in accordance with SFAS 121, "Impairment of Long Lived Assets." These superstores continue to operate but did not project cash flow amounts sufficient to recover the book value of the specific assets. Other amounts for impaired assets were recognized in connection with the closing of superstores. Please refer to Note 5 for a description of these amounts.

Also during fiscal 2001, the Company's Internet segment recorded a \$0.4 million pre-tax charge included in selling, general and administrative expenses related to the impairment of information systems equipment and development costs in accordance with SFAS 121, "Impairment of Long Lived Assets." The Internet segment will continue to operate but did not project cash flow amounts sufficient to recover the book value of the specific assets.

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(4) ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of the following:

	2001	2000
	-----	-----
Allowance for cost of inventory returns	\$ 5,128	\$ 7,543
Deferred gift card revenue	9,012	7,659
Store closing reserve	5,932	6,605
Salaries, vacation and bonus	4,283	4,388
Other	2,134	4,703
	-----	-----
Total	\$ 26,489	\$ 30,898
	=====	=====

Merchandise inventories that are not sold can normally be returned to the suppliers. The allowance for cost of inventory returns represents estimated costs related to merchandise returned or to be returned to suppliers for which credit is pending. Because the amount of credit to be received requires estimates, it is reasonably possible that the Company's estimate of the ultimate settlement with its suppliers may change in the near term.

(5) STORE CLOSING RESERVE

From time to time and in the normal course of business, the Company evaluates its superstore base to determine if a need to close a superstore(s) is present. Management will evaluate, among other factors, current and future profitability, market trends, age of store and lease status.

Included in accrued expenses and other liabilities at January 31, 2002 and 2001 are accruals of \$5.9 million and \$6.6 million, respectively, for the net present value of future minimum lease payments and other costs attributable to closed or relocated superstores, net of estimated sublease income. Charges related to superstore closings in fiscal 2001 amounted to approximately \$1.5 million, of which \$1.0 million was recorded in the fourth quarter. Contained in the \$1.5 million were \$0.6 million in accruals for the net present value of minimum lease payments related to two underperforming superstores which were approved for closure during fiscal 2001, one of which was closed during the fourth quarter of fiscal 2001 and the other closed in February 2002, and seven superstores that were relocated during the year. Additionally, fiscal 2001 charges included \$0.9 million for the write-off of leasehold improvements and other assets related to these closings and relocations. The fourth quarter charge of \$1.0 million included \$0.3 million in accruals for the net present value of future minimum lease payments for two relocated superstores and \$0.7 million for the write-off of leasehold improvements and other assets for superstores closed or relocated during the fourth quarter.

Charges related to superstore closings in fiscal 2000 amounted to \$6.5 million, of which \$3.4 million was recorded in the fourth quarter. Contained in the \$6.5 million were \$4.6 million in accruals for the net present value of minimum lease payments related to the closing of two underperforming superstores closed in the fourth quarter and four underperforming superstores that management had approved for closure in the fourth quarter that was closed by the end of the second quarter of fiscal 2001. Additionally, fiscal 2000 charges included \$1.6 million for the write-off of leasehold improvements and \$0.3 million of other related costs. The fourth quarter charge of \$3.4 million included \$1.9 million in accruals for the net present value of future minimum lease payments, \$1.3 million in write-offs of leasehold improvements and \$0.2 million of other related costs.

Offsetting these fiscal 2000 charges were changes in estimates in the store closing reserve of \$1.6 million, of which \$0.8 million was recorded in the fourth quarter of fiscal 2000, as a result of negotiating early buy-outs of certain lease liabilities and sublease activities for certain closed superstores.

In fiscal 1999, charges related to superstore closings were \$5.1 million, which was all recorded during the fourth quarter. Contained in the \$5.1 million was \$2.5 million in accruals for the net present value of minimum lease payments related to the closing of two underperforming superstores closed at January 31, 2000 and four underperforming superstores that management had approved for closure in the fourth quarter that

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were closed by the end of the first quarter of fiscal 2000. Additionally, charges included \$2.3 million for the write-off of leasehold improvements and \$0.3 million of other related costs.

The following table provides a rollforward of reserves that were established for these charges for fiscal 2001, 2000 and 1999:

	FUTURE LEASE PAYMENTS	OTHER COSTS	TOTAL
	-----	-----	-----
Balance at January 31, 1999	\$ 1,581	\$ --	\$ 1,581
Additions to provision	2,500	300	2,800
Cash outlay	(409)	--	(409)
	-----	-----	-----
Balance at January 31, 2000	\$ 3,672	\$ 300	\$ 3,972
Additions to provision	4,617	272	4,889
Changes in estimates	(1,571)	--	(1,571)
Cash outlay	(368)	(317)	(685)
	-----	-----	-----
Balance at January 31, 2001	\$ 6,350	\$ 255	\$ 6,605
Additions to provision	662	--	662
Changes in estimates	108	--	108
Cash outlay	(1,201)	(242)	(1,443)
	-----	-----	-----
Balance at January 31, 2002	\$ 5,919	\$ 13	\$ 5,932
	=====	=====	=====

Payments during the next five years that are to be charged against the reserve are expected to be approximately \$1.2 million per year. Other costs were charged against the reserve in fiscal 2001 as incurred.

(6) LONG-TERM DEBT

Long-term debt and capitalized lease obligations consisted of the following:

	2001	2000
	-----	-----
Revolving credit facility	\$ 32,234	\$ 28,258
Capitalized lease obligations	1,198	1,352
	-----	-----
	33,432	29,610
Less current maturities	169	154
	-----	-----
	\$ 33,263	\$ 29,456
	=====	=====

On August 29, 2000, the Company entered into a three-year syndicated, secured Loan and Security Agreement with Fleet Retail Finance, Inc. and The CIT Group/Business Credit, Inc (the "Facility"). The initial proceeds from the Facility were used by the Company to terminate and prepay fully the total amounts outstanding under a prior revolving credit facility with Bank of America and a consortium of banks and its Series A Senior Notes (the "Senior Notes") with a financial institution. The amount outstanding under the Facility is limited by a borrowing base predicated on eligible inventory, as defined, and certain rental video assets, net of accumulated depreciation less specifically defined reserves and is limited to a ceiling of \$70 million, which increases to \$80 million between October 15 and December 15 of each year of the Facility, less a \$10 million availability reserve. The Facility bears interest based on the prevailing prime rate or LIBOR plus 2.00% at the Company's option. The borrowing base under the Facility is limited to an advance rate of 65% of eligible inventory and certain rental video assets net of accumulated amortization less specifically defined reserves which could be adjusted to reduce availability under the Facility. The Facility contains no financial covenants, restricts the payment of dividends and includes certain other debt and acquisition limitations, allows for the repurchase of up to \$7.5 million of the Company's common stock and requires a minimum availability of \$10 million at all times. The Facility is secured by substantially all

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of the assets of the Company and its subsidiaries and is guaranteed by each of the Company's three consolidated subsidiaries. The Facility expires on August 29, 2003. At January 31, 2002, the Company had \$20.7 million in excess availability after the \$10 million availability reserve, under the Facility.

At January 31, 2002 and 2001, the Company had borrowings outstanding of \$32.2 million and \$28.3 million under the Facility, respectively. The average rate of interest being charged under the Facility was 6.1% and 8.4% at January 31, 2002 and 2001, respectively.

The Company entered into two interest rate swaps, one in November and one in December 2001, with a financial institution in order to obtain a fixed interest rate on a portion of the Company's outstanding floating rate debt thereby reducing its exposure to interest rate volatility. The notional value of each swap is \$10 million of the Company's revolving credit facility at fixed interest rates of 2.65% and 2.47%, respectively, for one year. The Company has designated the interest rate swaps as hedging instruments. At January 31, 2002, the fair value of the interest rate swaps was not significant.

The capitalized lease obligations represent two leases on certain retail space with initial terms of 15 years.

The aggregate maturities of long-term debt and capitalized lease obligations for years subsequent to fiscal 2001 are as follows:

2002	\$	169
2003		32,427
2004		221
2005		243
2006		195
Thereafter		177

	\$	33,432
		=====

(7) LEASES

The Company leases retail space under operating leases with terms ranging from three to fifteen years, with certain leases containing renewal options. Lease agreements generally provide for minimum rentals. Some leases also include additional contingent rental amounts based upon specified percentages of sales above predetermined levels. Rental expense for operating leases consists of the following:

	2001	2000	1999
	-----	-----	-----
Minimum rentals	\$ 16,619	\$ 16,783	\$ 15,444
Contingent rentals	1,519	1,595	1,728
Less sublease income	(381)	(324)	(279)
	-----	-----	-----
Rental expense	\$ 17,757	\$ 18,054	\$ 16,893
	=====	=====	=====

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Future minimum lease payments under non-cancelable operating leases and the present value of future minimum capital lease payments as of January 31, 2002 are:

	CAPITAL LEASES	OPERATING LEASES
	-----	-----
2002	\$ 259	\$ 15,597
2003	268	14,174
2004	280	12,117
2005	283	10,433
2006	216	9,168
Thereafter	190	19,363
	-----	-----
Total minimum lease payments	1,496	80,852
Less net present value of sublease income		630

Net minimum lease payments under operating leases		\$ 80,222
		=====
Less amount representing imputed interest	298	

Total obligations under capital leases	1,198	
Less current principal maturities of capital lease obligations	169	

Obligations under capital leases, Excluding current maturities	\$1,029	
	=====	

A director of the Company is a limited partner in various limited partnerships that lease land and improvements to the Company under certain lease agreements. During fiscal 2001, 2000 and 1999, the Company made lease payments of \$0.6 million each year to these partnerships.

(8) INCOME TAXES

Income tax expense (benefit) consists of the following:

	2001	2000	1999
	-----	-----	-----
Current federal	\$ 283	\$ (1,075)	\$ 1,214
Current state and local	8	(573)	(32)
Deferred federal	(264)	3,130	(2,156)
Deferred state and local	(27)	552	(385)
	-----	-----	-----
	\$ --	\$ 2,034	\$ (1,359)
	=====	=====	=====

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The difference between expected income tax expense (computed by applying the statutory rate of 38.5% to income before income taxes) and actual income tax expense (benefit) is as follows:

	2001	2000	1999
	-----	-----	-----
Computed "expected" tax benefit	\$ 1,406	\$ (4,272)	\$ (1,198)
State and local income taxes, net of federal income tax effect	141	(566)	(275)
Permanent differences	185	--	--
Changes in valuation allowance and other	(1,732)	6,872	114
	-----	-----	-----
	\$ --	\$ 2,034	\$ (1,359)
	=====	=====	=====

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

	2001	2000
	-----	-----
Deferred tax assets:		
Gift cards	\$ 694	\$ 590
Abandoned leases	2,279	3,296
Deferred rent	589	573
Compensated absences	405	559
Deferred compensation	400	400
Deferred lease incentives	554	566
Inventories	--	1,226
Property and equipment, principally due to different depreciation methods for financial reporting and income tax purposes	942	491
Other	1,227	--
	-----	-----
Total deferred tax assets	7,090	7,701
Valuation allowance of deferred tax assets	5,591	7,323
	-----	-----
Deferred tax assets net of valuation allowance	1,499	(378)
Deferred tax liabilities:		
Inventories	408	--
Property and equipment	--	--
Other	--	(378)
	-----	-----
Total deferred tax liabilities	408	(378)
	-----	-----
Net deferred tax assets	\$ 1,091	\$ --
	=====	=====

During fiscal 2000, the Company reviewed the net deferred tax asset under the provisions set forth in Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109). While the Company believes the entire deferred tax asset will be realized by future operating results, due to cumulative losses incurred in recent years, the current balance of the net deferred tax asset did not meet the criteria for recognition under SFAS 109. As a result, no income tax expense was recorded related to income for fiscal year ending January 31, 2002 as these amounts were recognized as a reduction of the deferred income tax asset valuation allowance. At January 31, 2002 and 2001, the balance of the valuation allowance was \$5.6 million and \$7.3 million, respectively.

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(9) INCOME (LOSS) PER SHARE

The computations for basic and diluted income (loss) per share are as follows:

	Fiscal Year Ended January 31,		
	2002	2001	2000
Net income (loss)	\$ 4,017	\$ (14,600)	\$ (2,165)
Average shares outstanding:			
Basic	11,742	11,645	11,621
Effect of stock options	156	--	--
Diluted	11,898	11,645	11,621
Income (Loss) per share:			
Basic	\$ 0.34	\$ (1.25)	\$ (0.19)
Diluted	\$ 0.34	\$ (1.25)	\$ (0.19)

Options to purchase 521,974 shares of Common Stock at exercise prices ranging from \$4.30 per share to \$14.03 per share outstanding at January 31, 2002; 1,087,083 shares of Common Stock at exercise prices ranging from \$1.27 per share to \$14.03 per share outstanding at January 31, 2001; and 1,813,965 shares of Common Stock at exercise prices ranging from \$5.25 per share to \$15.00 per share outstanding at January 31, 2000, were not included in the computation of diluted income (loss) per share because their inclusion would have been antidilutive.

(10) 401k AND ASOP

Since February 1, 2001, the Company's 401k plan permits full-time employees who have attained age 21 and part-time employees who have worked a minimum of 1,000 hours in a year and have attained age 21 to participate in the Company's 401k plan and elect to contribute up to 25 percent of their salary, subject to federal limitations, to the plan. Employer contributions include a quarterly guaranteed match of 25% of employee contributions up to a maximum of 6% deferral of compensation and is allocated solely to those employees who are participating in the plan and are employed on the last day of the plan quarter. Also included is a discretionary match based on specific criteria reviewed every fiscal six-month period by the Company and approved by the Board of Directors. This discretionary match is allocated solely to those employees who are participating in the plan and are employed on the last day of the six-month period. Prior to February 1, 2001, employees who had attained age 21 were eligible to participate in the Company's 401k plan and could elect to contribute up to 15 percent of their salary, subject to federal limitations, to the plan. Employer contributions were a discretionary match determined by the Company and allocated solely to those employees who were participating in the plan, had completed one year of service and were employed on the last day of the plan year. Amounts expensed related to the plan were \$0.1 million, \$0.4 million and \$0.2 million during fiscal 2001, 2000 and 1999, respectively.

The Company's Associate Stock Ownership Plan (ASOP) permits employees who have attained age 21 and completed one year of service and 1,000 hours in 12 consecutive months for part-time associates, to participate in the ASOP. Employer contributions are determined at the discretion of the Company. The Board of Directors has determined that the level of contributions will be made based on attaining operational profit goals as set by the Board of Directors. The contribution is based on a percentage of participants' eligible compensation. Amounts expensed related to the Plan were \$0.2 million, \$0.4 million and \$0.3 million during fiscal 2001, 2000 and 1999, respectively. Common shares held by the ASOP were 271,368, 199,269 and 124,410 at January 31, 2002, 2001 and 2000, respectively.

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(11) SHAREHOLDERS' EQUITY

The Company has four stock option plans: the 1991 and 1994 Stock Option Plans, the 1996 Incentive Stock Plan and the Outside Directors Plan (for non-employee directors). A total of 505,900 shares may be granted under each of the 1991 and 1994 Stock Option Plans, 632,375 shares may be granted under the 1996 Incentive Stock Plan, and 101,180 shares may be granted under the Outside Directors Plan.

The 1991 and 1994 Stock Option Plans and the 1996 Incentive Stock Plan authorize the award of both incentive stock options and non-qualified stock options to purchase common stock to officers, other associates and directors of the Company. The exercise price per share of incentive stock options may not be less than the market price of the Company's common stock on the date the option is granted. The exercise price per share of non-qualified stock options is determined by the Board of Directors, or a committee thereof. The term of each option is determined by the Board of Directors and generally will not exceed ten years from the date of grant. In general, each option award vests at 20% per year over five years.

The 1996 Incentive Stock Plan also authorizes the granting of stock appreciation rights, restricted stock, dividend equivalent rights, stock awards, and other stock-based awards to officers, other associates, directors, and consultants of the Company. There have been no grants of these awards under this plan.

The Company has a management stock purchase plan that authorizes the issuance of up to 227,655 shares of common stock, pursuant to agreements providing for the purchase of restricted stock units (RSU's). The cost of each RSU is equal to 75% of the fair market value of the common stock of the Company on the date the RSU is awarded. During fiscal years 2001, 2000 and 1999, there were 1,104, 3,881 and 6,830 RSU's awarded under the Plan, respectively. The Company recorded approximately \$2,000, \$8,800 and \$52,000 of compensation expense at the time the RSU's were awarded for fiscal year 2001, 2000 and 1999, respectively. As of January 31, 2002, 2001 and 2000, there were 10,193, 13,576 and 11,654 RSU's outstanding under the plan, respectively.

On October 2, 2000, the Company exchanged restricted stock for outstanding options granted to associates having an exercise price of \$9.00 or more per share. The ratio of restricted stock issued in the exchange varied with the option exercise price of the outstanding options but in the aggregate was approximately 1:4. Options beneficially owned by the Chief Executive Officer and the Directors of the Company were excluded from the exchange. As a result of the exchange, 122,269 shares of restricted stock were issued and options for 504,694 shares were cancelled and returned to the Company's 1991, 1994 and 1996 Stock Option Plans. Rights in the restricted stock vested 50% on January 31, 2001 and 50% on April 30, 2001. The restricted stock is subject to restrictions and may be resold only in accordance with Rule 144 under the Securities Exchange Act of 1934 or other applicable exemption. In connection with the exchange, the Company recognized \$0.2 million in compensation expense in fiscal 2000.

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A summary of information with respect to all stock option plans is as follows:

	OPTIONS	WEIGHTED- AVERAGE EXERCISE PRICE (IN DOLLARS)
	-----	-----
Outstanding at January 31, 1999	1,916,684	\$ 10.80
Granted	372,540	9.52
Exercised	(137,366)	7.61
Forfeited and expired	(337,893)	11.39
	-----	-----
Outstanding at January 31, 2000	1,813,965	10.67
Granted	569,376	3.20
Exercised	(50,000)	1.27
Forfeited and expired	(1,246,258)	10.50
	-----	-----
Outstanding at January 31, 2001	1,087,083	7.39
Granted	678,344	2.91
Exercised	(107,017)	4.40
Forfeited and expired	(63,125)	7.66
	-----	-----
Outstanding at January 31, 2002	1,595,285	\$ 5.68
	=====	=====
Reserved and available for grant at January 31, 2002	547,384	

At January 31, 2002, the options outstanding and options exercisable, and their related weighted-average exercise price, and the weighted-average remaining contractual life for the ranges of exercise prices are shown in the table below.

	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE (IN DOLLARS)	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE
	-----	-----	-----
RANGE: \$1.27 TO \$4.99			
Options outstanding at January 31, 2002	1,075,841	\$ 3.09	8.57 years
Options exercisable at January 31, 2002	112,959	\$ 3.13	
RANGE: \$5.00 TO \$9.99			
Options outstanding at January 31, 2002	40,384	\$ 7.81	2.76 years
Options exercisable at January 31, 2002	32,794	\$ 7.54	
PRICE: \$10.00 TO \$14.03			
Options outstanding at January 31, 2002	479,060	\$ 11.31	4.84 years
Options exercisable at January 31, 2002	470,070	\$ 11.28	

At January 31, 2002, 2001 and 2000, the number of options exercisable was 615,823, 523,716 and 1,067,915, respectively, and the weighted-average exercise price of those options was \$9.59, \$10.84 and \$10.57, respectively.

The Company applies APB 25 and related interpretations in accounting for its Plans. Since the Company generally grants stock options, except for RSUs as described above, with an exercise price equal to or greater than the current market price of the stock on the grant date, compensation expense is not recorded. Had the Company determined compensation cost based on the fair value at the date of grant for its stock options under

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SFAS 123, the Company's net income (loss) and income (loss) per share would have been changed as set forth in pro forma amounts indicated below:

	2001 -----	2000 -----	1999 -----
Net income (loss):			
As reported	\$ 4,017	\$ (14,600)	\$ (2,165)
Pro forma	3,851	(15,143)	(3,419)
Income (Loss) per share:			
As reported - basic	0.34	(1.25)	(0.19)
As reported - diluted	0.34	(1.25)	(0.19)
Pro forma - basic	0.33	(1.30)	(0.29)
Pro forma - diluted	0.32	(1.30)	(0.29)

The per share weighted-average exercise price and the per share weighted-average minimum and fair value of stock options at the date of grant, using the Black-Scholes option-pricing model for SFAS 123 disclosure purposes, is as follows (in dollars):

	EXERCISE PRICE			FAIR VALUE		
	2001 -----	2000 -----	1999 -----	2001 -----	2000 -----	1999 -----
Options granted at market price	\$ 2.90	\$ 3.21	\$ 9.54	\$ 1.98	\$ 1.98	\$ 6.41
Options granted at prices exceeding market price	\$ 3.30	\$ 0.00	\$12.00	\$ 0.06	\$ 0.00	\$ 0.31
Options granted at prices below market price	\$ 1.81	\$ 2.27	\$ 7.62	\$ 1.54	\$ 1.52	\$ 5.71
Total options granted	\$ 2.91	\$ 3.20	\$ 9.52	\$ 1.96	\$ 1.98	\$ 6.19

The following assumptions were used in the calculation:

	2001 -----	2000 -----	1999 -----
Expected dividend yield	\$ --	--	--
Risk-free interest rate	6.17%	5.07%	6.62%
Expected life in years	3 to 10	3 to 10	3 to 10
Volatility	.82	.60	.58

(12) SUPPLEMENTAL CASH FLOW INFORMATION

Cash payments for interest during fiscal 2001, 2000 and 1999 totaled \$2.1 million, \$3.2 million and \$3.6 million, respectively. Cash payments for income taxes during fiscal 2001, 2000 and 1999 totaled \$0.5 million, \$0.2 million and \$0.7 million, respectively.

(13) LITIGATION AND CONTINGENCIES

The Company's employees are covered under a self-insured health plan. Claims in excess of \$100,000 per employee are insured by a managing underwriter. Estimated claims incurred but not reported have been accrued in the accompanying financial statements. Health insurance expense during fiscal 2001, 2000 and 1999 was \$2.8 million, \$2.2 million and \$2.0 million, respectively.

The Company is partially self-insured for workers' compensation. Claims in excess of \$100,000 per accident and \$1.1 million in the aggregate annually are insured by an insurance company. Estimated claims and claims incurred but not paid have been accrued in the accompanying consolidated financial statements. Workers'

Hastings Entertainment, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
January 31, 2002 and 2001

(Tabular amounts in thousands, except per share data or unless otherwise noted)

compensation expense during fiscal 2001, 2000 and 1999 was \$0.5 million, \$0.4 million and \$0.3 million, respectively.

In 2000, the Company restated its consolidated financial statements for the first three quarters of fiscal 1999 and the prior four fiscal years. Following the Company's initial announcement in March 2000 of the requirement for such restatements, six purported class action lawsuits were filed in the United States District Court for the Northern District of Texas against the Company and certain of the current and former directors and officers of the Company asserting various claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. Although four of the lawsuits were originally filed in the Dallas Division of the Northern District of Texas, all of the five pending actions have been transferred to the Amarillo Division of the Northern District and have been consolidated. One of the Section 10(b) and 20(a) lawsuits filed in the Dallas Division was voluntarily dismissed. On May 15, 2000, a lawsuit was filed in the United States District Court for the Northern District of Texas against the Company, its current and former directors and officers at the time of the Company's June 1998 initial public offering and three underwriters, Salomon Smith Barney, A.G. Edwards & Sons, Inc. and Furman Selz, LLC asserting various claims under Sections 11, 12(2) and 15 of the Securities Act of 1933. Motions to dismiss these actions were filed by the Company and, on September 25, 2001, were denied by the Court. Discovery and class certification proceedings are going forward in both actions.

None of the pending complaints specify the amount of damages sought. Although it is not feasible to predict or determine the final outcome of the proceedings or to estimate the potential range of loss with respect to these matters, an adverse outcome with respect to such proceedings could have a material adverse impact on the Company's financial position, results of operations and cash flows.

The Company is also involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations and cash flows.

Hastings Entertainment, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
January 31, 2002 and 2001

(Tabular amounts in thousands, except per share data or unless otherwise noted)

(14) SEGMENT DISCLOSURES

The Company has two operating segments, retail stores and Internet operations. Our chief operating decision maker, as that term is defined in the relevant accounting standard, regularly reviews financial information about each of the above operating segments for assessing performance and allocating resources. Revenue for retail stores is derived from the sale of merchandise and rental of videocassettes, video games and DVDs. Revenue for Internet operations is derived solely from the sale of merchandise. Segment information regarding our retail stores and Internet operations for fiscal years 2001, 2000 and 1999 is presented below.

FISCAL YEAR 2001	RETAIL STORES -----	INTERNET OPERATIONS -----	TOTAL -----
Total revenue	\$471,618	166	\$471,784
Depreciation and amortization	35,189	277	35,466
Operating income (loss)	6,810	(955)	5,855
Total assets	229,383	468	229,851
Capital expenditures	46,490	5	46,495
FISCAL YEAR 2000	RETAIL STORES -----	INTERNET OPERATIONS -----	TOTAL -----
Total revenue	\$458,021	182	\$458,203
Depreciation and amortization	32,759	396	33,155
Operating loss	(7,287)	(1,991)	(9,278)
Total assets	212,679	805	213,484
Capital expenditures	29,803	679	30,482
FISCAL YEAR 1999	RETAIL STORES -----	INTERNET OPERATIONS -----	TOTAL -----
Total revenue	\$445,280	145	\$445,425
Depreciation and amortization	31,367	259	31,626
Operating income (loss)	1,712	(1,733)	(21)
Total assets	246,858	1,075	247,933
Capital expenditures	46,604	823	47,427

Hastings Entertainment, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
January 31, 2002 and 2001

(Tabular amounts in thousands, except per share data or unless otherwise noted)

(15) INTERIM FINANCIAL RESULTS (UNAUDITED)

FISCAL YEAR 2001:

	QUARTER			
	First	Second	Third	Fourth
Total revenues	\$ 109,140	\$ 110,129	\$ 103,201	\$ 149,314
Total cost of revenues	76,013	74,059	71,107	100,379
Selling, general and administrative expenses (a)	33,293	34,807	37,089	39,000
Pre-opening expenses	--	34	47	101
Operating income (loss)	(166)	1,229	(5,042)	9,834
Interest (expense) and other income, net	(601)	(446)	(475)	(316)
Income (Loss) before taxes	(767)	783	(5,517)	9,518
Income tax expense (benefit) (b)	--	--	--	--
Net income (loss)	(767)	783	(5,517)	9,518
Basic income (loss) per share	\$ (0.07)	\$ 0.07	\$ (0.46)	\$ 0.82
Diluted income (loss) per share	\$ (0.07)	\$ 0.07	\$ (0.46)	\$ 0.80

FISCAL YEAR 2000:

	QUARTER			
	First	Second	Third	Fourth
Total revenues	\$ 110,085	\$ 106,771	\$ 100,080	\$ 141,267
Total cost of revenues	75,215	74,020	73,984	95,262
Selling, general and administrative expenses (a) (c)	34,694	35,621	37,318	41,334
Pre-opening expenses	2	(2)	33	--
Operating income (loss)	174	(2,868)	(11,255)	4,671
Interest (expense) and other income, net	(920)	(824)	(772)	(773)
Income (Loss) before taxes	(746)	(3,692)	(12,027)	3,897
Income tax expense (benefit) (b)	(284)	(1,402)	--	3,720
Net income (loss)	(462)	(2,290)	(12,027)	177
Basic income (loss) per share	\$ (0.04)	\$ (0.20)	\$ (1.03)	\$ 0.02
Diluted income (loss) per share	\$ (0.04)	\$ (0.20)	\$ (1.03)	\$ 0.02

(a) The Company recorded pre-tax charges of approximately \$0.5 million and \$1.0 million in the third and fourth quarter of fiscal year 2001. These charges related to the closing of superstores as described in Note 5.

(b) During the third and fourth quarter of fiscal 2000, the Company reviewed the net deferred tax asset under the provisions set forth in Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109). Due to cumulative losses incurred in recent years, the current balance of the net deferred tax asset did not meet the criteria for recognition under SFAS 109. As a result, the Company recorded no income tax benefit in the third quarter and recorded a valuation allowance of \$3.7 million during the fourth quarter of fiscal 2000 to fully reserve the balance of the net deferred tax asset. No income tax expense was recorded related to income for fiscal year ending January 31, 2002 as these amounts were recognized as a reduction of the deferred income tax benefit valuation allowance.

(c) The Company recorded pre-tax charges of approximately \$3.1 million and \$3.4 million in the third and fourth quarter of fiscal year 2000. These charges related to the closing of superstores as described in Note 5.

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

On September 22, 2000, with the recommendation of the Audit Committee and approval of the Board of Directors, we dismissed KPMG, LLP (KPMG) as our independent auditors. On October 19, 2000, we engaged Ernst and Young LLP as our independent auditors. We filed reports on Form 8-K with the Securities and Exchange Commission on September 29, 2000 and October 24, 2000 as a result of these events, respectively.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item will be set forth in our Proxy Statement for our 2002 Annual Meeting of Shareholders, to be filed within 120 days after the end of fiscal 2001 (our "Proxy Statement"), under the heading "Proposal No. 1: Election of Three Directors," which information is incorporated herein by reference. The information required by this item regarding compliance with Section 16(a) of the Securities Exchange Act of 1934 will be set forth in our Proxy Statement under the heading "Compliance with Section 16(a) of the Securities Exchange Act of 1934," which is incorporated herein by reference. The information required by this item regarding our executive officers is set forth under the heading "Executive Officers of the Company" in Part I of this Form 10-K, which information is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be set forth in our Proxy Statement under the headings "Executive Compensation," "Executive Compensation - Director Compensation," "Executive Compensation - Employee Contracts and Change of Control Arrangements," and "Executive Compensation - Compensation Committee Interlocks and Insider Participation," which information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item will be set forth in our Proxy Statement under the heading "Security Ownership of Certain Beneficial Owners and Management," which information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item will be set forth in our Proxy Statement under the heading "Certain Relationships and Related Transactions," which information is incorporated herein by reference.

PART IV

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

- (a) 1. The following consolidated financial statements of the Company are included in Part II, Item 8:

Independent Auditors' Reports.....	27
Consolidated Balance Sheets as of January 31, 2002 and 2001.....	29
Consolidated Statements of Operations for the years ended January 31, 2002, 2001 and 2000.....	30
Consolidated Statements of Shareholders' Equity for the years ended January 31, 2002, 2001 and 2000.....	31
Consolidated Statements of Cash Flows for the years ended January 31, 2002, 2001 and 2000.....	32
Notes to Consolidated Financial Statements.....	33

2. The following financial statement schedules and other information required to be filed by Items 8 and 14(d) of Form 10-K are included in Part IV:

Schedule II - Valuation and Qualifying Accounts.....	53
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All other schedules are omitted because they are not applicable, not required or the required information is included in the Consolidated Financial Statements and notes thereto.

3. The following exhibits are filed herewith or incorporated by reference as indicated as required by Item 601 of Regulation S-K. The exhibits designated by an asterisk are management contracts and/or compensatory plans or arrangements required to be filed as exhibits to this report.

Exhibit Number -----	Description -----
3.1	(1) Third Restated Articles of Incorporation of the Company.
3.2	(1) Amended and Restated Bylaws of the Company.
4.1	(1) Specimen of Certificate of Common Stock of the Company.
4.2	(1) Third Restated Articles of Incorporation of the Company (see 3.1 above).
4.3	(1) Amended and Restated Bylaws of the Company (see 3.2 above).
10.1	(1) Form of Indemnification Agreement by and between the Company and its directors and executive officers.
10.2	* (1) Hastings Amended 1996 Incentive Stock Plan.
10.3	* (1) Hastings 1994 Stock Option Plan.
10.4	* (1) Hastings 1991 Stock Option Plan.
10.5	* (1) Hastings Entertainment, Inc. Associates' 401(k) Plan and Trust.
10.6	* (1) Hastings Employee Stock Ownership Plan Trust Agreement.
10.7	* (1) Chief Executive Officer Stock Option , as amended.
10.8	* (1) Corporate Officer Incentive Plan.
10.9	* (1) Management Stock Purchase Plan.
10.10	* (1) Management Incentive Plan.
10.11	* (1) Salary Incentive Plan.
10.12	* (1) Hastings Entertainment, Inc. Stock Option Plan for Outside Directors.
10.13	* (4) Agreement dated January 31, 2001 between John H. Marmaduke and the Company
10.14	(1) Lease Agreement, dated August 3, 1994, as amended, between Omni Capital Corporation and the Company, for warehouse space

located at Sunset Center in Amarillo, Texas.

10.15 (1) Lease Agreement, dated May 28, 1992, between the City of Amarillo and the Company for space located at 1900 W. 7th Avenue in Amarillo, Texas.

10.16 * (1) Stock Grant Plan for Outside Directors.

- 10.17 * (1) Form of Employment Agreement by and between the Company and certain of its executives.
- 10.18 (2) Amended Lease Agreement, dated October 13, 1999, between Omni Capital Corporation and the Company, for office space located at Sunset Center in Amarillo, Texas.
- 10.19 (3) Loan and Security Agreement dated August 29, 2000 between Hastings Entertainment, Inc. and Fleet Retail Finance, Inc., Agent.
- 10.20 (5) International Swap Dealers Association, Inc. Master Agreement between Hastings Entertainment, Inc. and Fleet National Bank
- 21.1 (1) Subsidiaries of the Company.
- 23.1 (5) Consent of Ernst and Young LLP
- 23.2 (5) Consent of KPMG LLP
- 24.1 (5) Powers of Attorney (included on signature page)

- (1) Previously filed as an exhibit to the Company's Registration Statement on Form S-1 (File No. 333-47969) and with a corresponding exhibit number herein and are incorporated herein by reference.
- (2) Previously filed as an exhibit to the Company's Annual Report on Form 10-K, as amended, for the fiscal year ended January 31, 2000, and incorporated herein by reference.
- (3) Previously filed as an exhibit to the Company's Quarterly Report on Form 10-Q, as amended, for the quarterly period ended July 31, 2000, and incorporated herein by reference.
- (4) Previously filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2001, and incorporated herein by reference.
- (5) Filed herewith.

(b) Reports on Form 8-K

- (i) On January 31, 2002, the Company filed a current report on Form 8-K reporting, under "Item 5. Other Information," the appointment of Daryl Lansdale and Ann Lief to its board of directors. In addition, the Company announced the resignation of Craig Lentzsch from its board of directors.

Financial Statement Schedule II -

HASTINGS ENTERTAINMENT, INC.
 Valuation and Qualifying Accounts and Reserves
 Years Ended January 31, 2002, 2001 and 2000
 (Amounts in thousands)

	FISCAL YEAR		
	2001	2000	1999
Reserves deducted from assets:			
Allowance for shrinkage and inventory obsolescence:			
Balance at the beginning of period	\$ 3,533	\$ 2,544	\$ 2,146
Additions charged to costs and expenses	14,308	14,698	11,958
Deductions for write-offs	(13,261)	(13,709)	(11,560)
Balance at end of period	\$ 4,580	\$ 3,533	\$ 2,544
Reserves added to liabilities:			
Allowance for costs of inventory returns:			
Balance at the beginning of period	\$ 7,543	\$ 9,463	\$ 11,418
Additions charged to costs and expenses(1)	3,858	10,247	7,170
Deductions for write-offs	(6,273)	(12,167)	(9,125)
Balance at end of period	\$ 5,128	\$ 7,543	\$ 9,463

(1) Total returns expense was \$6.3 million, \$12.2 million and \$9.1 million for the fiscal years 2001, 2000 and 1999, respectively. The table does not include the cost of operating our return center (\$1.8 million, \$2.0 million and \$1.9 million for the fiscal years 2001, 2000 and 1999, respectively), which is recorded directly to returns expense.

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, on behalf of the registrant, thereunto duly authorized:

HASTINGS ENTERTAINMENT, INC.

DATE: April 10, 2002

By: /s/ Dan Crow

 Dan Crow
 Vice President and Chief Financial Officer
 (Principal Financial and Accounting Officer)

POWER OF ATTORNEY

Each person whose signature appears below hereby authorizes and constitutes John H. Marmaduke and Dan Crow, and each of them singly, his true and lawful attorneys-in-fact with full power of substitution and redistribution, for him and in his name, place and stead, in any and all capacities to sign and file any and all amendments to this report with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, and he hereby ratifies and confirms all that said attorneys-in-fact or any of them, or their substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities and 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.

Signature -----	Title -----	Date ----
/s/ John H. Marmaduke ----- John H. Marmaduke	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	April 5, 2002
/s/ Gaines L. Godfrey ----- Gaines L. Godfrey	Director	April 5, 2002
/s/ Peter A. Dallas ----- Peter A. Dallas	Director	April 5, 2002
/s/ Stephen S. Marmaduke ----- Stephen S. Marmaduke	Director	April 5, 2002
/s/ Jeffrey G. Shrader ----- Jeffrey G. Shrader	Director	April 5, 2002
/s/ Ron G. Stegall ----- Ron G. Stegall	Director	April 3, 2002
/s/ Daryl L. Lansdale ----- Daryl L. Lansdale	Director	April 5, 2002
/s/ Ann S. Liefv ----- Ann S. Liefv	Director	April 5, 2002

EXHIBIT INDEX

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- (4) Previously filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2001, and incorporated herein by reference.
- (5) Filed herewith.

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(MULTICURRENCY -- CROSS BORDER)

[ISDA LOGO]

MASTER AGREEMENT

dated as of OCTOBER 5, 2001

FLEET NATIONAL BANK and HASTINGS ENTERTAINMENT, INC.

have entered and/or anticipate entering into one or more transactions (each a "Transaction") that are or will be governed by this Master Agreement, which includes the schedule (the "Schedule"), and the documents and other confirming evidence (each a "Confirmation") exchanged between the parties confirming those Transactions.

Accordingly, the parties agree as follows: --

1. INTERPRETATION

(a) DEFINITIONS. The terms defined in Section 14 and in the Schedule will have the meanings therein specified for the purpose of this Master Agreement.

(b) INCONSISTENCY. In the event of any inconsistency between the provisions of the Schedule and the other provisions of this Master Agreement, the Schedule will prevail. In the event of any inconsistency between the provisions of any Confirmation and this Master Agreement (including the Schedule), such Confirmation will prevail for the purpose of the relevant Transaction.

(c) SINGLE AGREEMENT. All Transactions are entered into in reliance on the fact that this Master Agreement and all Confirmations form a single agreement between the parties (collectively referred to as this "Agreement"), and the parties would not otherwise enter into any Transactions.

2. OBLIGATIONS

(a) GENERAL CONDITIONS.

(i) Each party will make each payment or delivery specified in each Confirmation to be made by it, subject to the other provisions of this Agreement.

(ii) Payments under this Agreement will be made on the due date for value on that date in the place of the account specified in the relevant Confirmation or otherwise pursuant to this Agreement, in freely transferable funds and in the manner customary for payments in the required currency. Where settlement is by delivery (that is, other than by payment), such delivery will be made for receipt on the due date in the manner customary for the relevant obligation unless otherwise specified in the relevant Confirmation or elsewhere in this Agreement.

(iii) Each obligation of each party under Section 2(a)(i) is subject to (1) the condition precedent that no Event of Default or Potential Event of Default with respect to the other party has occurred and is continuing, (2) the condition precedent that no Early Termination Date in respect of the relevant Transaction has occurred or been effectively designated and (3) each other applicable condition precedent specified in this Agreement.

Copyright (C) 1992 by International Swap Dealers Association, Inc.

(b) CHANGE OF ACCOUNT. Either party may change its account for receiving a payment or delivery by giving notice to the other party at least five Local Business Days prior to the scheduled date for the payment or delivery to which such change applies unless such other party gives timely notice of a reasonable objection to such change.

(c) NETTING. If an any date amounts would otherwise be payable:--

- (i) in the same currency; and
- (ii) in respect of the same Transaction,

by each party to the other, then, on such date, each party's obligation to make payment of any such amount will be automatically satisfied and discharged and, if the aggregate amount that would otherwise have been payable by one party exceeds the aggregate amount that would otherwise have been payable by the other party, replaced by an obligation upon the party by whom the larger aggregate amount would have been payable to pay to the other party the excess of the larger aggregate amount over the smaller aggregate amount.

The parties may elect in respect of two or more Transactions that a net amount will be determined in respect of all amounts payable on the same date in the same currency in respect of such Transactions, regardless of whether such amounts are payable in respect of the same Transaction. The election may be made in the Schedule or a Confirmation by specifying that subparagraph (ii) above will not apply to the Transactions identified as being subject to the election, together with the starting date (in which case subparagraph (ii) above will not, or will cease to, apply to such Transactions from such date). This election may be made separately for different groups of Transactions and will apply separately to each pairing of Offices through which the parties make and receive payments or deliveries.

(d) DEDUCTION OR WITHHOLDING FOR TAX.

(i) GROSS-UP. All payments under this Agreement will be made without any deduction or withholding for or on account of any Tax unless such deduction or withholding is required by any applicable law, as modified by the practice of any relevant governmental revenue authority, then in effect. If a party is so required to deduct or withhold, then that party ("X") will:--

- (1) promptly notify the other party ("Y") of such requirement;
- (2) pay to the relevant authorities the full amount required to be deducted or withheld (including the full amount required to be deducted or withheld from any additional amount paid by X to Y under this Section 2(d)) promptly upon the earlier of determining that such deduction or withholding is required or receiving notice that such amount has been assessed against Y;
- (3) promptly forward to Y an official receipt (or a certified copy), or other documentation reasonably acceptable to Y, evidencing such payment to such authorities; and
- (4) if such Tax is an Indemnifiable Tax, pay to Y, in addition to the payment to which Y is otherwise entitled under this Agreement, such additional amount as is necessary to ensure that the net amount actually received by Y (free and clear of Indemnifiable Taxes, whether assessed against X or Y) will equal the full amount Y would have received had no such deduction or withholding been required. However, X will not be required to pay any additional amount to Y to the extent that it would not be required to be paid but for:--

(A) the failure by Y to comply with or perform any agreement contained in Section 4(a)(i), 4(a)(iii) or 4(d); or

(B) the failure of a representation made by Y pursuant to Section 3(f) to be accurate and true unless such failure would not have occurred but for (I) any action taken by a taxing authority, or brought in a court of competent jurisdiction, on or after the date on which a Transaction is entered into (regardless of whether such action is taken or brought with respect to a party to this Agreement) or (II) a Change in Tax Law.

(ii) LIABILITY. If:--

(1) X is required by any applicable law, as modified by the practice of any relevant governmental revenue authority, to make any deduction or withholding in respect of which X would not be required to pay an additional amount to Y under Section 2(d)(i)(4);

(2) X does not so deduct or withhold; and

(3) a liability resulting from such Tax is assessed directly against X,

then, except to the extent Y has satisfied or then satisfies the liability resulting from such Tax, Y will promptly pay to X the amount of such liability (including any related liability for interest, but including any related liability for penalties only if Y has failed to comply with or perform any agreement contained in Section 4(a)(i), 4(a)(iii) or 4(d)).

(e) DEFAULT INTEREST; OTHER AMOUNTS. Prior to the occurrence or effective designation of an Early Termination Date in respect of the relevant Transaction, a party that defaults in the performance of any payment obligation will, to the extent permitted by law and subject to Section 6(c), be required to pay interest (before as well as after judgment) on the overdue amount to the other party on demand in the same currency as such overdue amount, for the period from (and including) the original due date for payment to (but excluding) the date of actual payment, at the Default Rate. Such interest will be calculated on the basis of daily compounding and the actual number of days elapsed. If, prior to the occurrence or effective designation of an Early Termination Date in respect of the relevant Transaction, a party defaults in the performance of any obligation required to be settled by delivery, it will compensate the other party on demand if and to the extent provided for in the relevant Confirmation or elsewhere in this Agreement.

3. REPRESENTATIONS

Each party represents to the other party (which representations will be deemed to be repeated by each party on each date on which a Transaction is entered into and, in the case of the representations in Section 3(f), at all times until the termination of this Agreement) that:--

(a) BASIC REPRESENTATIONS.

(i) STATUS. It is duly organised and validly existing under the laws of the jurisdiction of its organisation or incorporation and, if relevant under such laws, in good standing;

(ii) POWERS. It has the power to execute this Agreement and any other documentation relating to this Agreement to which it is a party, to deliver this Agreement and any other documentation relating to this Agreement that it is required by this Agreement to deliver and to perform its obligations under this Agreement and any obligations it has under any Credit Support Document to which it is a party and has taken all necessary action to authorise such execution, delivery and performance;

(iii) NO VIOLATION OR CONFLICT. Such execution, delivery and performance do not violate or conflict with any law applicable to it, any provision of its constitutional documents, any order or judgment of any court or other agency of government applicable to it or any of its assets or any contractual restriction binding on or affecting it or any of its assets;

(iv) CONSENTS. All governmental and other consents that are required to have been obtained by it with respect to this Agreement or any Credit Support Document to which it is a party have been obtained and are in full force and effect and all conditions of any such consents have been complied with; and

(v) OBLIGATIONS BINDING. Its obligations under this Agreement and any Credit Support Document to which it is a party constitute its legal, valid and binding obligations, enforceable in accordance with their respective terms (subject to applicable bankruptcy, reorganisation, insolvency, moratorium or similar laws affecting creditors' rights generally and subject, as to enforceability, to equitable principles of general application (regardless of whether enforcement is sought in a proceeding in equity or at law)).

(b) ABSENCE OF CERTAIN EVENTS. No Event of Default or Potential Event of Default or, to its knowledge, Termination Event with respect to it has occurred and is continuing and no such event or circumstance would occur as a result of its entering into or performing its obligations under this Agreement or any Credit Support Document to which it is a party.

(c) ABSENCE OF LITIGATION. There is not pending or, to its knowledge, threatened against it or any of its Affiliates any action, suit or proceeding at law or in equity or before any court, tribunal, governmental body, agency or official or any arbitrator that is likely to affect the legality, validity or enforceability against it of this Agreement or any Credit Support Document to which it is a party or its ability to perform its obligations under this Agreement or such Credit Support Document.

(d) ACCURACY OF SPECIFIED INFORMATION. All applicable information that is furnished in writing by or on behalf of it to the other party and is identified for the purpose of this Section 3(d) in the Schedule is, as of the date of the information, true, accurate and complete in every material respect.

(e) PAYER TAX REPRESENTATION. Each representation specified in the Schedule as being made by it for the purpose of this Section 3(e) is accurate and true.

(f) PAYEE TAX REPRESENTATIONS. Each representation specified in the Schedule as being made by it for the purpose of this Section 3(f) is accurate and true.

4. AGREEMENTS

Each party agrees with the other that, so long as either party has or may have any obligation under this Agreement or under any Credit Support Document to which it is a party:--

(a) FURNISH SPECIFIED INFORMATION. It will deliver to the other party or, in certain cases under subparagraph (iii) below, to such government or taxing authority as the other party reasonably directs:--

(i) any forms, documents or certificates relating to taxation specified in the Schedule or any Confirmation;

(ii) any other documents specified in the Schedule or any Confirmation; and

(iii) upon reasonable demand by such other party, any form or document that may be required or reasonably requested in writing in order to allow such other party or its Credit Support Provider to make a payment under this Agreement or any applicable Credit Support Document without any deduction or withholding for or on account of any Tax or with such deduction or withholding at a reduced rate (so long as the completion, execution or submission of such form or document would not materially prejudice the legal or commercial position of the party in receipt of such demand), with any such form or document to be accurate and completed in a manner reasonably satisfactory to such other party and to be executed and to be delivered with any reasonably required certification,

in each case by the date specified in the Schedule or such Confirmation or, if none is specified, as soon as reasonably practicable.

(b) MAINTAIN AUTHORISATIONS. It will use all reasonable efforts to maintain in full force and effect all consents of any governmental or other authority that are required to be obtained by it with respect to this Agreement or any Credit Support Document to which it is a party and will use all reasonable efforts to obtain any that may become necessary in the future.

(c) COMPLY WITH LAWS. It will comply in all material respects with all applicable laws and orders to which it may be subject if failure so to comply would materially impair its ability to perform its obligations under this Agreement or any Credit Support Document to which it is a party.

(d) TAX AGREEMENT. It will give notice of any failure of a representation made by it under Section 3(f) to be accurate and true promptly upon learning of such failure.

(e) PAYMENT OF STAMP TAX. Subject to Section 11, it will pay any Stamp Tax levied or imposed upon it or in respect of its execution or performance of this Agreement by a jurisdiction in which it is incorporated,

organised, managed and controlled, or considered to have its seat, or in which a branch or office through which it is acting for the purpose of this Agreement is located ("Stamp Tax Jurisdiction") and will indemnify the other party against any Stamp Tax levied or imposed upon the other party or in respect of the other party's execution or performance of this Agreement by any such Stamp Tax Jurisdiction which is not also a Stamp Tax Jurisdiction with respect to the other party.

5. EVENTS OF DEFAULT AND TERMINATION EVENTS

(a) EVENTS OF DEFAULT. The occurrence at any time with respect to a party or, if applicable, any Credit Support Provider of such party or any Specified Entity of such party of any of the following events constitutes an event of default (an "Event of Default") with respect to such party:--

(i) FAILURE TO PAY OR DELIVER. Failure by the party to make, when due, any payment under this Agreement or delivery under Section 2(a)(i) or 2(e) required to be made by it if such failure is not remedied on or before the third Local Business Day after notice of such failure is given to the party;

(ii) BREACH OF AGREEMENT. Failure by the party to comply with or perform any agreement or obligation (other than an obligation to make any payment under this Agreement or delivery under Section 2(a)(i) or 2(e) or to give notice of a Termination Event or any agreement or obligation under Section 4(a)(i), 4(a)iii or 4(d)) to be complied with or performed by the party in accordance with this Agreement if such failure is not remedied on or before the thirtieth day after notice of such failure is given to the party;

(iii) CREDIT SUPPORT DEFAULT.

(1) Failure by the party or any Credit Support Provider of such party to comply with or perform any agreement or obligation to be complied with or performed by it in accordance with any Credit Support Document if such failure is continuing after any applicable grace period has elapsed;

(2) the expiration or termination of such Credit Support Document or the failing or ceasing of such Credit Support Document to be in full force and effect for the purpose of this Agreement (in either case other than in accordance with its terms) prior to the satisfaction of all obligations of such party under each Transaction to which such Credit Support Document relates without the written consent of the other party; or

(3) the party or such Credit Support Provider disaffirms, disclaims, repudiates or rejects, in whole or in part, or challenges the validity of, such Credit Support Document;

(iv) MISREPRESENTATION. A representation (other than a representation under Section 3(e) or (f)) made or repeated or deemed to have been made or repeated by the party or any Credit Support Provider of such party in this Agreement or any Credit Support Document proves to have been incorrect or misleading in any material respect when made or repeated or deemed to have been made or repeated;

(v) DEFAULT UNDER SPECIFIED TRANSACTION. The party, any Credit Support Provider of such party or any applicable Specified Entity of such party (1) defaults under a Specified Transaction and, after giving effect to any applicable notice requirement or grace period, there occurs a liquidation of, an acceleration of obligations under, or an early termination of, that Specified Transaction, (2) defaults, after giving effect to any applicable notice requirement or grace period, in making any payment or delivery due on the last payment, delivery or exchange date of, or any payment on early termination of, a Specified Transaction (or such default continues for at least three Local Business Days if there is no applicable notice requirement or grace period) or (3) disaffirms, disclaims, repudiates or rejects, in whole or in part, a Specified Transaction (or such action is taken by any person or entity appointed or empowered to operate it or act on its behalf);

(vi) CROSS DEFAULT. If "Cross Default" is specified in the Schedule as applying to the party, the occurrence or existence of (1) a default, event of default or other similar condition or event (however

described) in respect of such party, any Credit Support Provider of such party or any applicable Specified Entity of such party under one or more agreements or instruments relating to Specified Indebtedness of any of them (individually or collectively) in an aggregate amount of not less than the applicable Threshold Amount (as specified in the Schedule) which has resulted in such Specified Indebtedness becoming, or becoming capable at such time of being declared, due and payable under such agreements or instruments, before it would otherwise have been due and payable or (2) a default by such party such Credit Support Provider or such Specified Entity (individually or collectively) in making one or more payments on the due date thereof in an aggregate amount of not less than the applicable Threshold Amount under such agreements or instruments (after giving effect to any applicable notice requirement or grace period);

(vii) BANKRUPTCY. The party, any Credit Support Provider of such party or any applicable Specified Entity of such party:--

(1) is dissolved (other than pursuant to a consolidation, amalgamation or merger); (2) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due; (3) makes a general assignment, arrangement or composition with or for the benefit of its creditors; (4) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (A) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation or (B) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof; (5) has a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger); (6) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets; (7) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter; (8) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (1) to (7) (inclusive); or (9) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts; or

(viii) MERGER WITHOUT ASSUMPTION. The party or any Credit Support Provider of such party consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, another entity and, at the time of such consolidation, amalgamation, merger or transfer:--

(1) the resulting, surviving or transferee entity fails to assume all the obligations of such party or such Credit Support Provider under this Agreement or any Credit Support Document to which it or its predecessor was a party by operation of law or pursuant to an agreement reasonably satisfactory to the other party to this Agreement; or

(2) the benefits of any Credit Support Document fail to extend (without the consent of the other party) to the performance by such resulting, surviving or transferee entity of its obligations under this Agreement.

(b) TERMINATION EVENTS. The occurrence at any time with respect to a party or, if applicable, any Credit Support Provider of such party or any Specified Entity of such party of any event specified below constitutes an Illegality if the event is specified in (i) below, a Tax Event if the event is specified in (ii) below or a Tax Event Upon Merger if the event is specified in (iii) below, and, if specified to be applicable, a Credit Event

Upon Merger if the event is specified pursuant to (iv) below or an Additional Termination Event if the event is specified pursuant to (v) below:--

(i) ILLEGALITY. Due to the adoption of, or any change in, any applicable law after the date on which a Transaction is entered into, or due to the promulgation of, or any change in, the interpretation by any court, tribunal or regulatory authority with competent jurisdiction of any applicable law after such date, it becomes unlawful (other than as a result of a breach by the party of Section 4(b)) for such party (which will be the Affected Party):--

(1) to perform any absolute or contingent obligation to make a payment or delivery or to receive a payment or delivery in respect of such Transaction or to comply with any other material provision of this Agreement relating to such Transaction; or

(2) to perform, or for any Credit Support Provider of such party to perform, any contingent or other obligation which the party (or such Credit Support Provider) has under any Credit Support Document relating to such Transaction;

(ii) TAX EVENT. Due to (x) any action taken by a taxing authority, or brought in a court of competent jurisdiction, on or after the date on which a Transaction is entered into (regardless of whether such action is taken or brought with respect to a party to this Agreement) or (y) a Change in Tax Law, the party (which will be the Affected Party) will, or there is a substantial likelihood that it will, on the next succeeding Scheduled Payment Date (1) be required to pay to the other party an additional amount in respect of an Indemnifiable Tax under Section 2(d)(i)(4) (except in respect of interest under Section 2(e), 6(d)(ii) or 6(e)) or (2) receive a payment from which an amount is required to be deducted or withheld for or on account of a Tax (except in respect of interest under Section 2(e), 6(d)(ii) or 6(e)) and no additional amount is required to be paid in respect of such Tax under Section 2(d)(i)(4) (other than by reason of Section 2(d)(i)(4)(A) or (B));

(iii) TAX EVENT UPON MERGER. The party (the "Burdened Party") on the next succeeding Scheduled Payment Date will either (1) be required to pay an additional amount in respect of an Indemnifiable Tax under Section 2(d)(i)(4) (except in respect of interest under Section 2(e), 6(d)(ii) or 6(e)) or (2) receive a payment from which an amount has been deducted or withheld for or on account of any Indemnifiable Tax in respect of which the other party is not required to pay an additional amount (other than by reason of Section 2(d)(i)(4)(A) or (B)), in either case as a result of a party consolidating or amalgamating with, or merging with or into, or transferring all or substantially all its assets to, another entity (which will be the Affected Party) where such action does not constitute an event described in Section 5(a)(viii);

(iv) CREDIT EVENT UPON MERGER. If "Credit Event Upon Merger" is specified in the Schedule as applying to the party, such party ("X"), any Credit Support Provider of X or any applicable Specified Entity of X consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, another entity and such action does not constitute an event described in Section 5(a)(viii) but the creditworthiness of the resulting, surviving or transferee entity is materially weaker than that of X, such Credit Support Provider or such Specified Entity, as the case may be, immediately prior to such action (and, in such event, X or its successor or transferee, as appropriate, will be the Affected Party); or

(v) ADDITIONAL TERMINATION EVENT. If any "Additional Termination Event" is specified in the Schedule or any Confirmation as applying, the occurrence of such event (and, in such event, the Affected Party or Affected Parties shall be as specified for such Additional Termination Event in the Schedule or such Confirmation).

(c) EVENT OF DEFAULT AND ILLEGALITY. If an event or circumstance which would otherwise constitute or give rise to an Event of Default also constitutes an Illegality, it will be treated as an Illegality and will not constitute an Event of Default.

6. EARLY TERMINATION

(a) RIGHT TO TERMINATE FOLLOWING EVENT OF DEFAULT. If at any time an Event of Default with respect to a party (the "Defaulting Party") has occurred and is then continuing, the other party (the "Non-defaulting Party") may, by not more than 20 days notice to the Defaulting Party specifying the relevant Event of Default, designate a day not earlier than the day such notice is effective as an Early Termination Date in respect of all outstanding Transactions. If, however, "Automatic Early Termination" is specified in the Schedule as applying to a party, then an Early Termination Date in respect of all outstanding Transactions will occur immediately upon the occurrence with respect to such party of an Event of Default specified in Section 5(a)(vii)(1), (3), (5), (6) or, to the extent analogous thereto, (8), and as of the time immediately preceding the institution of the relevant proceeding or the presentation of the relevant petition upon the occurrence with respect to such party of an Event of Default specified in Section 5(a)(vii)(4) or, to the extent analogous thereto, (8).

(b) RIGHT TO TERMINATE FOLLOWING TERMINATION EVENT.

(i) NOTICE. If a Termination Event occurs, an Affected Party will, promptly upon becoming aware of it, notify the other party, specifying the nature of that Termination Event and each Affected Transaction and will also give such other information about that Termination Event as the other party may reasonably require.

(ii) TRANSFER TO AVOID TERMINATION EVENT. If either an Illegality under Section 5(b)(i)(1) or a Tax Event occurs and there is only one Affected Party, or if a Tax Event Upon Merger occurs and the Burdened Party is the Affected Party, the Affected Party will, as a condition to its right to designate an Early Termination Date under Section 6(b)(iv), use all reasonable efforts (which will not require such party to incur a loss, excluding immaterial, incidental expenses) to transfer within 20 days after it gives notice under Section 6(b)(i) all its rights and obligations under this Agreement in respect of the Affected Transactions to another of its Offices or Affiliates so that such Termination Event ceases to exist.

If the Affected Party is not able to make such a transfer it will give notice to the other party to that effect within such 20 day period, whereupon the other party may effect such a transfer within 30 days after the notice is given under Section 6(b)(i).

Any such transfer by a party under this Section 6(b)(ii) will be subject to and conditional upon the prior written consent of the other party, which consent will not be withheld if such other party's policies in effect at such time would permit it to enter into transactions with the transferee on the terms proposed.

(iii) TWO AFFECTED PARTIES. If an Illegality under Section 5(b)(i)(1) or a Tax Event occurs and there are two Affected Parties, each party will use all reasonable efforts to reach agreement within 30 days after notice thereof is given under Section 6(b)(i) on action to avoid that Termination Event.

(iv) RIGHT TO TERMINATE. If:--

(1) a transfer under Section 6(b)(ii) or an agreement under Section 6(b)(iii), as the case may be, has not been effected with respect to all Affected Transactions within 30 days after an Affected Party gives notice under Section 6(b)(i); or

(2) an Illegality under Section 5(b)(i)(2), a Credit Event Upon Merger or an Additional Termination Event occurs, or a Tax Event Upon Merger occurs and the Burdened Party is not the Affected Party;

either party in the case of an Illegality, the Burdened Party in the case of a Tax Event Upon Merger, any Affected Party in the case of a Tax Event or an Additional Termination Event if there is more than one Affected Party, or the party which is not the Affected Party in the case of a Credit Event Upon Merger or an Additional Termination Event if there is only one Affected Party may, by not more than 20 days notice to the other party and provided that the relevant Termination Event is then

continuing, designate a day not earlier than the day such notice is effective as an Early Termination Date in respect of all Affected Transactions.

(c) EFFECT OF DESIGNATION.

(i) If notice designating an Early Termination Date is given under Section 6(a) or (b), the Early Termination Date will occur on the date so designated, whether or not the relevant Event of Default or Termination Event is then continuing.

(ii) Upon the occurrence or effective designation of an Early Termination Date, no further payments or deliveries under Section 2(a)(i) or 2(e) in respect of the Terminated Transactions will be required to be made, but without prejudice to the other provisions of this Agreement. The amount, if any, payable in respect of an Early Termination Date shall be determined pursuant to Section 6(e).

(d) CALCULATIONS.

(i) STATEMENT. On or as soon as reasonably practicable following the occurrence of an Early Termination Date, each party will make the calculations on its part, if any, contemplated by Section 6(e) and will provide to the other party a statement (1) showing, in reasonable detail, such calculations (including all relevant quotations and specifying any amount payable under Section 6(e)) and (2) giving details of the relevant account to which any amount payable to it is to be paid. In the absence of written confirmation from the source of a quotation obtained in determining a Market Quotation, the records of the party obtaining such quotation will be conclusive evidence of the existence and accuracy of such quotation.

(ii) PAYMENT DATE. An amount calculated as being due in respect of any Early Termination Date under Section 6(e) will be payable on the day that notice of the amount payable is effective (in the case of an Early Termination Date which is designated or occurs as a result of an Event of Default) and on the day which is two Local Business Days after the day on which notice of the amount payable is effective (in the case of an Early Termination Date which is designated as a result of a Termination Event). Such amount will be paid together with (to the extent permitted under applicable law) interest thereon (before as well as after judgment) in the Termination Currency, from (and including) the relevant Early Termination Date to (but excluding) the date such amount is paid, at the Applicable Rate. Such interest will be calculated on the basis of daily compounding and the actual number of days elapsed.

(e) PAYMENTS ON EARLY TERMINATION. If an Early Termination Date occurs, the following provisions shall apply based on the parties' election in the Schedule of a payment measure, either "Market Quotation" or "Loss", and a payment method, either the "First Method" or the "Second Method". If the parties fail to designate a payment measure or payment method in the Schedule, it will be deemed that "Market Quotation" or the "Second Method", as the case may be, shall apply. The amount, if any, payable in respect of an Early Termination Date and determined pursuant to this Section will be subject to any Set-off.

(i) EVENTS OF DEFAULT. If the Early Termination Date results from an Event of Default:--

(1) First Method and Market Quotation. If the First Method and Market Quotation apply, the Defaulting Party will pay to the Non-defaulting Party the excess, if a positive number, of (A) the sum of the Settlement Amount (determined by the Non-defaulting Party) in respect of the Terminated Transactions and the Termination Currency Equivalent of the Unpaid Amounts owing to the Non-defaulting Party over (B) the Termination Currency Equivalent of the Unpaid Amounts owing to the Defaulting Party.

(2) First Method and Loss. If the First Method and Loss apply, the Defaulting Party will pay to the Non-defaulting Party, if a positive number, the Non-defaulting Party's Loss in respect of this Agreement.

(3) Second Method and Market Quotation. If the Second Method and Market Quotation apply, an amount will be payable equal to (A) the sum of the Settlement Amount (determined by the

Non-defaulting Party) in respect of the Terminated Transactions and the Termination Currency Equivalent of the Unpaid Amounts owing to the Non-defaulting Party less (B) the Termination Currency Equivalent of the Unpaid Amounts owing to the Defaulting Party. If that amount is a positive number, the Defaulting Party will pay it to the Non-defaulting Party; if it is a negative number, the Non-defaulting Party will pay the absolute value of that amount to the Defaulting Party.

(4) Second Method and Loss. If the Second Method and Loss apply, an amount will be payable equal to the Non-defaulting Party's Loss in respect of this Agreement. If that amount is a positive number, the Defaulting Party will pay it to the Non-defaulting Party; if it is a negative number, the Non-defaulting Party will pay the absolute value of that amount to the Defaulting Party.

(ii) TERMINATION EVENTS. If the Early Termination Date results from a Termination Event:--

(1) One Affected Party. If there is one Affected Party, the amount payable will be determined in accordance with Section 6(e)(i)(3), if Market Quotation applies, or Section 6(e)(i)(4), if Loss applies, except that, in either case, references to the Defaulting Party and to the Non-defaulting Party will be deemed to be references to the Affected Party and the party which is not the Affected Party, respectively, and, if Loss applies and fewer than all the Transactions are being terminated, Loss shall be calculated in respect of all Terminated Transactions.

(2) Two Affected Parties. If there are two Affected Parties:--

(A) if Market Quotation applies, each party will determine a Settlement Amount in respect of the Terminated Transactions, and an amount will be payable equal to (I) the sum of (a) one-half of the difference between the Settlement Amount of the party with the higher Settlement Amount ("X") and the Settlement Amount of the party with the lower Settlement Amount ("Y") and (b) the Termination Currency Equivalent of the Unpaid Amounts owing to X less (II) the Termination Currency Equivalent of the Unpaid Amounts owing to Y; and

(B) if Loss applies, each party will determine its Loss in respect of this Agreement (or, if fewer than all the Transactions are being terminated, in respect of all Terminated Transactions) and an amount will be payable equal to one-half of the difference between the Loss of the party with the higher Loss ("X") and the Loss of the party with the lower Loss ("Y").

If the amount payable is a positive number, Y will pay it to X; if it is a negative number, X will pay the absolute value of that amount to Y.

(iii) ADJUSTMENT FOR BANKRUPTCY. In circumstances where an Early Termination Date occurs because "Automatic Early Termination" applies in respect of a party, the amount determined under this Section 6(e) will be subject to such adjustments as are appropriate and permitted by law to reflect any payments or deliveries made by one party to the other under this Agreement (and retained by such other party) during the period from the relevant Early Termination Date to the date for payment determined under Section 6(d)(ii).

(iv) PRE-ESTIMATE. The parties agree that if Market Quotation applies an amount recoverable under this Section 6(e) is a reasonable pre-estimate of loss and not a penalty. Such amount is payable for the loss of bargain and the loss of protection against future risks and except as otherwise provided in this Agreement neither party will be entitled to recover any additional damages as a consequence of such losses.

7. TRANSFER

Subject to Section 6(b) (ii), neither this Agreement nor any interest or obligation in or under this Agreement may be transferred (whether by way of security or otherwise) by either party without the prior written consent of the other party, except that:--

(a) a party may make such a transfer of this Agreement pursuant to a consolidation or amalgamation with, or merger with or into, or transfer of all or substantially all its assets to, another entity (but without prejudice to any other right or remedy under this Agreement); and

(b) a party may make such a transfer of all or any part of its interest in any amount payable to it from a Defaulting Party under Section 6(e).

Any purported transfer that is not in compliance with this Section will be void.

8. CONTRACTUAL CURRENCY

(a) PAYMENT IN THE CONTRACTUAL CURRENCY. Each payment under this Agreement will be made in the relevant currency specified in this Agreement for that payment (the "Contractual Currency"). To the extent permitted by applicable law, any obligation to make payments under this Agreement in the Contractual Currency will not be discharged or satisfied by any tender in any currency other than the Contractual Currency, except to the extent such tender results in the actual receipt by the party to which payment is owed, acting in a reasonable manner and in good faith in converting the currency so tendered into the Contractual Currency, of the full amount in the Contractual Currency of all amounts payable in respect of this Agreement. If for any reason the amount in the Contractual Currency so received falls short of the amount in the Contractual Currency payable in respect of this Agreement, the party required to make the payment will, to the extent permitted by applicable law, immediately pay such additional amount in the Contractual Currency as may be necessary to compensate for the shortfall. If for any reason the amount in the Contractual Currency so received exceeds the amount in the Contractual Currency payable in respect of this Agreement, the party receiving the payment will refund promptly the amount of such excess.

(b) JUDGMENTS. To the extent permitted by applicable law, if any judgment or order expressed in a currency other than the Contractual Currency is rendered (i) for the payment of any amount owing in respect of this Agreement, (ii) for the payment of any amount relating to any early termination in respect of this Agreement or (iii) in respect of a judgment or order of another court for the payment of any amount described in (i) or (ii) above, the party seeking recovery, after recovery in full of the aggregate amount to which such party is entitled pursuant to the judgment or order, will be entitled to receive immediately from the other party the amount of any shortfall of the Contractual Currency received by such party as a consequence of sums paid in such other currency and will refund promptly to the other party any excess of the Contractual Currency received by such party as a consequence of sums paid in such other currency if such shortfall or such excess arises or results from any variation between the rate of exchange at which the Contractual Currency is converted into the currency of the judgment or order for the purposes of such judgment or order and the rate of exchange at which such party is able, acting in a reasonable manner and in good faith in converting the currency received into the Contractual Currency, to purchase the Contractual Currency with the amount of the currency of the judgment or order actually received by such party. The term "rate of exchange" includes, without limitation, any premiums and costs of exchange payable in connection with the purchase of or conversion into the Contractual Currency.

(c) SEPARATE INDEMNITIES. To the extent permitted by applicable law, these indemnities constitute separate and independent obligations from the other obligations in this Agreement, will be enforceable as separate and independent causes of action, will apply notwithstanding any indulgence granted by the party to which any payment is owed and will not be affected by judgment being obtained or claim or proof being made for any other sums payable in respect of this Agreement.

(d) EVIDENCE OF LOSS. For the purpose of this Section 8, it will be sufficient for a party to demonstrate that it would have suffered a loss had an actual exchange or purchase been made.

9. MISCELLANEOUS

(a) ENTIRE AGREEMENT. This Agreement constitutes the entire agreement and understanding of the parties with respect to its subject matter and supersedes all oral communication and prior writings with respect thereto.

(b) AMENDMENTS. No amendment, modification or waiver in respect of this Agreement will be effective unless in writing (including a writing evidenced by a facsimile transmission and executed by each of the parties or confirmed by an exchange of telexes or electronic messages on an electronic messaging system.

(c) SURVIVAL OF OBLIGATIONS. Without prejudice to Sections 2(a)(iii) and 6(c)(ii), the obligations of the parties under this Agreement will survive the termination of any Transaction.

(d) REMEDIES CUMULATIVE. Except as provided in this Agreement, the rights, powers, remedies and privileges provided in this Agreement are cumulative and not exclusive of any rights, powers, remedies and privileges provided by law.

(e) COUNTERPARTS AND CONFIRMATIONS.

(i) This Agreement (and each amendment, modification and waiver in respect of it) may be executed and delivered in counterparts (including by facsimile transmission), each of which will be deemed an original.

(ii) The parties intend that they are legally bound by the terms of each Transaction from the moment they agree to those terms (whether orally or otherwise). A Confirmation shall be entered into as soon as practicable and may be executed and delivered in counterparts (including by facsimile transmission) or be created by an exchange of telexes or by an exchange of electronic messages on an electronic messaging system, which in each case will be sufficient for all purposes to evidence a binding supplement to this Agreement. The parties will specify therein or through another effective means that any such counterpart, telex or electronic message constitutes a Confirmation.

(f) NO WAIVER OF RIGHTS. A failure or delay in exercising any right, power or privilege in respect of this Agreement will not be presumed to operate as a waiver, and a single or partial exercise of any right, power or privilege will not be presumed to preclude any subsequent or further exercise, of that right, power or privilege or the exercise of any other right, power or privilege.

(g) HEADINGS. The headings used in this Agreement are for convenience of reference only and are not to affect the construction of or to be taken into consideration in interpreting this Agreement.

10. OFFICES; MULTIBRANCH PARTIES

(a) If Section 10(a) is specified in the Schedule as applying, each party that enters into a Transaction through an Office other than its head or home office represents to the other party that, notwithstanding the place of booking office or jurisdiction of incorporation or organisation of such party, the obligations of such party are the same as if it had entered into the Transaction through its head or home office. This representation will be deemed to be repeated by such party on each date on which a Transaction is entered into.

(b) Neither party may change the Office through which it makes and receives payments or deliveries for the purpose of a Transaction without the prior written consent of the other party.

(c) If a party is specified as a Multibranch Party in the Schedule, such Multibranch Party may make and receive payments or deliveries under any Transaction through any Office listed in the Schedule, and the Office through which it makes and receives payments or deliveries with respect to a Transaction will be specified in the relevant Confirmation.

11. EXPENSES

A Defaulting Party will, on demand, indemnify and hold harmless the other party for and against all reasonable out-of-pocket expenses, including legal fees and Stamp Tax, incurred by such other party by reason of the enforcement and protection of its rights under this Agreement or any Credit Support Document

to which the Defaulting Party is a party or by reason of the early termination of any Transaction, including, but not limited to, costs of collection.

12. NOTICES

(a) EFFECTIVENESS. Any notice or other communication in respect of this Agreement may be given in any manner set forth below (except that a notice or other communication under Section 5 or 6 may not be given by facsimile transmission or electronic messaging system) to the address or number or in accordance with the electronic messaging system details provided (see the Schedule) and will be deemed effective as indicated:--

(i) if in writing and delivered in person or by courier, on the date it is delivered;

(ii) if sent by telex, on the date the recipient's answerback is received;

(iii) if sent by facsimile transmission, on the date that transmission is received by a responsible employee of the recipient in legible form (it being agreed that the burden of proving receipt will be on the sender and will not be met by a transmission report generated by the sender's facsimile machine);

(iv) if sent by certified or registered mail (airmail, if overseas) or the equivalent (return receipt requested), on the date that mail is delivered or its delivery is attempted; or

(v) if sent by electronic messaging system, on the date that electronic message is received,

unless the date of that delivery (or attempted delivery) or that receipt, as applicable, is not a Local Business Day or that communication is delivered (or attempted) or received, as applicable, after the close of business on a Local Business Day, in which case that communication shall be deemed given and effective on the first following day that is a Local Business Day.

(b) CHANGE OF ADDRESSES. Either party may by notice to the other change the address, telex or facsimile number or electronic messaging system details at which notices or other communications are to be given to it.

13. GOVERNING LAW AND JURISDICTION

(a) GOVERNING LAW. This Agreement will be governed by and construed in accordance with the law specified in the Schedule.

(b) JURISDICTION. With respect to any suit, action or proceedings relating to this Agreement ("Proceedings"), each party irrevocably:--

(i) submits to the jurisdiction of the English courts, if this Agreement is expressed to be governed by English law, or to the non-exclusive jurisdiction of the courts of the State of New York and the United States District Court located in the Borough of Manhattan in New York City, if this Agreement is expressed to be governed by the laws of the State of New York; and

(ii) waives any objection which it may have at any time to the laying of venue of any Proceedings brought in any such court, waives any claim that such Proceedings have been brought in an inconvenient forum and further waives the right to object, with respect to such Proceedings, that such court does not have any jurisdiction over such party.

Nothing in this Agreement precludes either party from bringing Proceedings in any other jurisdiction (outside, if this Agreement is expressed to be governed by English law, the Contracting States, as defined in Section 1(3) of the Civil Jurisdiction and Judgments Act 1982 or any modification, extension or re-enactment thereof for the time being in force) nor will the bringing of Proceedings in any one or more jurisdictions preclude the bringing of Proceedings in any other jurisdiction.

(c) SERVICE OF PROCESS. Each party irrevocably appoints the Process Agent (if any) specified opposite its name in the Schedule to receive, for it and on its behalf, service of process in any Proceedings. If for any

reason any party's Process Agent is unable to act as such, such party will promptly notify the other party and within 30 days appoint a substitute process agent acceptable to the other party. The parties irrevocably consent to service of process given in the manner provided for notices in Section 12. Nothing in this Agreement will affect the right of either party to serve process in any other manner permitted by law.

(d) WAIVER OF IMMUNITIES. Each party irrevocably waives, to the fullest extent permitted by applicable law, with respect to itself and its revenues and assets (irrespective of their use or intended use), all immunity on the grounds of sovereignty or other similar grounds from (i) suit, (ii) jurisdiction of any court, (iii) relief by way of injunction, order for specific performance or for recovery of property, (iv) attachment of its assets (whether before or after judgment) and (v) execution or enforcement of any judgment to which it or its revenues or assets might otherwise be entitled in any Proceedings in the courts of any jurisdiction and irrevocably agrees, to the extent permitted by applicable law, that it will not claim any such immunity in any Proceedings.

14. DEFINITIONS

As used in this Agreement:--

"ADDITIONAL TERMINATION EVENT" has the meaning specified in Section 5(b).

"AFFECTED PARTY" has the meaning specified in Section 5(b).

"AFFECTED TRANSACTIONS" means (a) with respect to any Termination Event consisting of an Illegality, Tax Event or Tax Event Upon Merger, all Transactions affected by the occurrence of such Termination Event and (b) with respect to any other Termination Event, all Transactions.

"AFFILIATE" means, subject to the Schedule, in relation to any person, any entity controlled, directly or indirectly, by the person, any entity that controls, directly or indirectly, the person or any entity directly or indirectly under common control with the person. For this purpose, "control" of any entity or person means ownership of a majority of the voting power of the entity or person.

"APPLICABLE RATE" means:--

(a) in respect of obligations payable or deliverable (or which would have been but for Section 2(a)(iii) by a Defaulting Party, the Default Rate;

(b) in respect of an obligation to pay an amount under Section 6(e) of either party from and after the date (determined in accordance with Section 6(d)(ii)) on which that amount is payable, the Default Rate;

(c) in respect of all other obligations payable or deliverable (or which would have been but for Section 2(a)(iii)) by a Non-defaulting Party, the Non-default Rate; and

(d) in all other cases, the Termination Rate.

"BURDENED PARTY" has the meaning specified in Section 5(b).

"CHANGE IN TAX LAW" means the enactment, promulgation, execution or ratification of, or any change in or amendment to, any law (or in the application or official interpretation of any law) that occurs on or after the date on which the relevant Transaction is entered into.

"CONSENT" includes a consent, approval, action, authorisation, exemption, notice, filing, registration or exchange control consent.

"CREDIT EVENT UPON MERGER" has the meaning specified in Section 5(b).

"CREDIT SUPPORT DOCUMENT" means any agreement or instrument that is specified as such in this Agreement.

"CREDIT SUPPORT PROVIDER" has the meaning specified in the Schedule.

"DEFAULT RATE" means a rate per annum equal to the cost (without proof or evidence of any actual cost) to the relevant payee (as certified by it) if it were to fund or of funding the relevant amount plus 1% per annum.

"DEFAULTING PARTY" has the meaning specified in Section 6(a).

"EARLY TERMINATION DATE" means the date determined in accordance with Section 6(a) or 6(b) (iv).

"EVENT OF DEFAULT" has the meaning specified in Section 5(a) and, if applicable, in the Schedule.

"ILLEGALITY" has the meaning specified in Section 5(b).

"INDEMNIFIABLE TAX" means any Tax other than a Tax that would not be imposed in respect of a payment under this Agreement but for a present or former connection between the jurisdiction of the government or taxation authority imposing such Tax and the recipient of such payment or a person related to such recipient (including, without limitation, a connection arising from such recipient or related person being or having been a citizen or resident of such jurisdiction, or being or having been organised, present or engaged in a trade or business in such jurisdiction, or having or having had a permanent establishment or fixed place of business in such jurisdiction, but excluding a connection arising solely from such recipient or related person having executed, delivered, performed its obligations or received a payment under, or enforced, this Agreement or a Credit Support Document).

"LAW" includes any treaty, law, rule or regulation (as modified, in the case of tax matters, by the practice of any relevant governmental revenue authority) and "LAWFUL" and "UNLAWFUL" will be construed accordingly.

"LOCAL BUSINESS DAY" means, subject to the Schedule, a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) (a) in relation to any obligation under Section 2(a) (i), in the place(s) specified in the relevant Confirmation or, if not so specified, as otherwise agreed by the parties in writing or determined pursuant to provisions contained, or incorporated by reference, in this Agreement, (b) in relation to any other payment, in the place where the relevant account is located and, if different, in the principal financial centre, if any, of the currency of such payment, (c) in relation to any notice or other communication, including notice contemplated under Section 5(a) (i), in the city specified in the address for notice provided by the recipient and, in the case of a notice contemplated by Section 2(b), in the place where the relevant new account is to be located and (d) in relation to Section 5(a) (v) (2), in the relevant locations for performance with respect to such Specified Transaction.

"LOSS" means, with respect to this Agreement or one or more Terminated Transactions, as the case may be, and a party, the Termination Currency Equivalent of an amount that party reasonably determines in good faith to be its total losses and costs (or gain, in which case expressed as a negative number) in connection with this Agreement or that Terminated Transaction or group of Terminated Transactions, as the case may be, including any loss of bargain, cost of funding or, at the election of such party but without duplication, loss or cost incurred as a result of its terminating, liquidating, obtaining or reestablishing any hedge or related trading position (or any gain resulting from any of them). Loss includes losses and costs (or gains) in respect of any payment or delivery required to have been made (assuming satisfaction of each applicable condition precedent) on or before the relevant Early Termination Date and not made, except, so as to avoid duplication, if Section 6(e) (i) (1) or (3) or 6(e) (ii) (2) (A) applies. Loss does not include a party's legal fees and out-of-pocket expenses referred to under Section 11. A party will determine its Loss as of the relevant Early Termination Date, or, if that is not reasonably practicable, as of the earliest date thereafter as is reasonably practicable. A party may (but need not) determine its Loss by reference to quotations of relevant rates or prices from one or more leading dealers in the relevant markets.

"MARKET QUOTATION" means, with respect to one or more Terminated Transactions and a party making the determination, an amount determined on the basis of quotations from Reference Market-makers. Each quotation will be for an amount, if any, that would be paid to such party (expressed as a negative number) or by such party (expressed as a positive number) in consideration of an agreement between such party (taking into account any existing Credit Support Document with respect to the obligations of such party) and the quoting Reference Market-maker to enter into a transaction (the "Replacement Transaction") that would have the effect of preserving for such party the economic equivalent of any payment or delivery (whether the underlying obligation was absolute or contingent and assuming the satisfaction of each applicable condition precedent) by the parties under Section 2(a) (i) in respect of such Terminated Transaction or group of Terminated Transactions that would, but for the occurrence of the relevant Early Termination Date, have

been required after that date. For this purpose, Unpaid Amounts in respect of the Terminated Transaction or group of Terminated Transactions are to be excluded but, without limitation, any payment or delivery that would, but for the relevant Early Termination Date, have been required (assuming satisfaction of each applicable condition precedent) after that Early Termination Date is to be included. The Replacement Transaction would be subject to such documentation as such party and the Reference Market-maker may, in good faith, agree. The party making the determination (or its agent) will request each Reference Market-maker to provide its quotation to the extent reasonably practicable as of the same day and time (without regard to different time zones) on or as soon as reasonably practicable after the relevant Early Termination Date. The day and time as of which those quotations are to be obtained will be selected in good faith by the party obliged to make a determination under Section 6(e), and, if each party is so obliged, after consultation with the other. If more than three quotations are provided, the Market Quotation will be the arithmetic mean of the quotations, without regard to the quotations having the highest and lowest values. If exactly three such quotations are provided, the Market Quotation will be the quotation remaining after disregarding the highest and lowest quotations. For this purpose, if more than one quotation has the same highest value or lowest value, then one of such quotations shall be disregarded. If fewer than three quotations are provided, it will be deemed that the Market Quotation in respect of such Terminated Transaction or group of Terminated Transactions cannot be determined.

"NON-DEFAULT RATE" means a rate per annum equal to the cost (without proof or evidence of any actual cost) to the Non-defaulting Party (as certified by it) if it were to fund the relevant amount.

"NON-DEFAULTING PARTY" has the meaning specified in Section 6(a).

"OFFICE" means a branch or office of a party, which may be such party's head or home office.

"POTENTIAL EVENT OF DEFAULT" means any event which, with the giving of notice or the lapse of time or both, would constitute an Event of Default.

"REFERENCE MARKET-MAKERS" means four leading dealers in the relevant market selected by the party determining a Market Quotation in good faith (a) from among dealers of the highest credit standing which satisfy all the criteria that such party applies generally at the time in deciding whether to offer or to make an extension of credit and (b) to the extent practicable, from among such dealers having an office in the same city.

"RELEVANT JURISDICTION" means, with respect to a party, the jurisdictions (a) in which the party is incorporated, organised, managed and controlled or considered to have its seat, (b) where an Office through which the party is acting for purposes of this Agreement is located, (c) in which the party executes this Agreement and (d) in relation to any payment, from or through which such payment is made.

"SCHEDULED PAYMENT DATE" means a date on which a payment or delivery is to be made under Section 2(a)(i) with respect to a Transaction.

"SET-OFF" means set-off, offset, combination of accounts, right of retention or withholding or similar right or requirement to which the payer of an amount under Section 6 is entitled or subject (whether arising under this Agreement, another contract, applicable law or otherwise) that is exercised by, or imposed on, such payer.

"SETTLEMENT AMOUNT" means, with respect to a party and any Early Termination Date, the sum of:--

(a) the Termination Currency Equivalent of the Market Quotations (whether positive or negative) for each Terminated Transaction or group of Terminated Transactions for which a Market Quotation is determined; and

(b) such party's Loss (whether positive or negative and without reference to any Unpaid Amounts) for each Terminated Transaction or group of Terminated Transactions for which a Market Quotation cannot be determined or would not (in the reasonable belief of the party making the determination) produce a commercially reasonable result.

"SPECIFIED ENTITY" has the meanings specified in the Schedule.

"SPECIFIED INDEBTEDNESS" means, subject to the Schedule, any obligation (whether present or future, contingent or otherwise, as principal or surety or otherwise) in respect of borrowed money.

"SPECIFIED TRANSACTION" means, subject to the Schedule, (a) any transaction (including an agreement with respect thereto) now existing or hereafter entered into between one party to this Agreement (or any Credit Support Provider of such party or any applicable Specified Entity of such party) and the other party to this Agreement (or any Credit Support Provider of such other party or any applicable Specified Entity of such other party) which is a rate swap transaction, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of these transactions), (b) any combination of these transactions and (c) any other transaction identified as a Specified Transaction in this Agreement or the relevant confirmation.

"STAMP TAX" means any stamp, registration, documentation or similar tax.

"TAX" means any present or future tax, levy, impost, duty, charge, assessment or fee of any nature (including interest, penalties and additions thereto) that is imposed by any government or other taxing authority in respect of any payment under this Agreement other than a stamp, registration, documentation or similar tax.

"TAX EVENT" has the meaning specified in Section 5(b).

"TAX EVENT UPON MERGER" has the meaning specified in Section 5(b).

"TERMINATED TRANSACTIONS" means with respect to any Early Termination Date (a) if resulting from a Termination Event, all Affected Transactions and (b) if resulting from an Event of Default, all Transactions (in either case) in effect immediately before the effectiveness of the notice designating that Early Termination Date (or, if "Automatic Early Termination" applies, immediately before that Early Termination Date).

"TERMINATION CURRENCY" has the meaning specified in the Schedule.

"TERMINATION CURRENCY EQUIVALENT" means, in respect of any amount denominated in the Termination Currency, such Termination Currency amount and, in respect of any amount denominated in a currency other than the Termination Currency (the "Other Currency"), the amount in the Termination Currency determined by the party making the relevant determination as being required to purchase such amount of such Other Currency as at the relevant Early Termination Date, or, if the relevant Market Quotation or Loss (as the case may be), is determined as of a later date, that later date, with the Termination Currency at the rate equal to the spot exchange rate of the foreign exchange agent (selected as provided below) for the purchase of such Other Currency with the Termination Currency at or about 11:00 a.m. (in the city in which such foreign exchange agent is located) on such date as would be customary for the determination of such a rate for the purchase of such Other Currency for value on the relevant Early Termination Date or that later date. The foreign exchange agent will, if only one party is obliged to make a determination under Section 6(e), be selected in good faith by that party and otherwise will be agreed by the parties.

"TERMINATION EVENT" means an Illegality, a Tax Event or a Tax Event Upon Merger or, if specified to be applicable, a Credit Event Upon Merger or an Additional Termination Event.

"TERMINATION RATE" means a rate per annum equal to the arithmetic mean of the cost (without proof or evidence of any actual cost) to each party (as certified by such party) if it were to fund or of funding such amounts.

"UNPAID AMOUNTS" owing to any party means, with respect to an Early Termination Date, the aggregate of (a) in respect of all Terminated Transactions, the amounts that became payable (or that would have become payable but for Section 2(a)(iii)) to such party under Section 2(a)(i) on or prior to such Early Termination Date and which remain unpaid as at such Early Termination Date and (b) in respect of each Terminated Transaction, for each obligation under Section 2(a)(i) which was (or would have been but for Section 2(a)(iii)) required to be settled by delivery to such party on or prior to such Early Termination Date and which has not been so settled as at such Early Termination Date, an amount equal to the fair market

value of that which was (or would have been) required to be delivered as of the originally scheduled date for delivery, in each case together with (to the extent permitted under applicable law) interest, in the currency of such amounts, from (and including) the date such amounts or obligations were or would have been required to have been paid or performed to (but excluding) such Early Termination Date, at the Applicable Rate. Such amounts of interest will be calculated on the basis of daily compounding and the actual number of days elapsed. The fair market value of any obligation referred to in clause (b) above shall be reasonably determined by the party obliged to make the determination under Section 6(e) or, if each party is so obliged, it shall be the average of the Termination Currency Equivalents of the fair market values reasonably determined by both parties.

IN WITNESS WHEREOF the parties have executed this document on the respective dates specified below with effect from the date specified on the first page of this document.

FLEET NATIONAL BANK

HASTINGS ENTERTAINMENT, INC.

(Name of Party)

(Name of Party)

By: /s/ DONALD M. CAIAZZA

By: /s/ DAN CROW

Name: Donald M. Caiazza
Title: Authorized Officer
Date:

Name: Dan Crow
Title: CFO
Date: 11/30/01

[ISDA LOGO]

SCHEDULE
TO THE
MASTER AGREEMENT

dated as of October 5, 2001

between

Fleet National Bank
("Party A")

and

Hastings Entertainment. Inc.
("Party B")

PART 1. TERMINATION PROVISIONS.

In the Agreement:

- (a) "SPECIFIED ENTITY" means in relation to Party A and Party B for the purpose of:
- | | |
|-------------------|-------|
| Section 5(a)(v) | None; |
| Section 5(a)(vi) | None; |
| Section 5(a)(vii) | None; |
| Section 5(b)(iv) | None. |
- (b) "SPECIFIED TRANSACTION" will have the meaning specified in Section 14 of this Agreement. For purposes of clause (c) of such definition Specified Transaction includes any transaction, now or hereafter existing between Party A or any of its Affiliates and Party B, any Credit Support Provider of Party B, or any Specified Entity of Party B under which Party A is or may be owed payment or performance of any nature whatsoever.
- (c) The "CROSS DEFAULT" provisions of Section 5(a)(vi) will apply to Party A and Party B; provided that an Event of Default shall not occur under either (1) or (2) above, if (a) the event or condition referred to in (1) or the failure to pay referred to in (2) is a failure to pay caused by an error or omission of an administrative or operational nature, (b) funds were available to such party to enable it to make the relevant payment when due, and (c) such relevant payment is made within three Local Business Days following receipt of written notice from an interested party of such failure to pay.

The following provisions apply:

- (i) "SPECIFIED INDEBTEDNESS": with respect to any person, means all obligations of that person identified as Specified Indebtedness in Section 14, except as excluded in the proviso to this definition, as well as all reimbursement obligations in respect of letters of credit, financial

guaranty insurance or surety bonds issued for the account of that person and trade debt incurred other than through borrowings; provided, however, that indebtedness or obligations in respect of deposits received in the ordinary course of the banking business of such person shall not constitute Specified Indebtedness.

- (ii) "THRESHOLD AMOUNT" means: (i) with respect to Party A, 3% of stockholders' equity of FleetBoston Financial Corporation, and (ii) with respect to Party B, \$500,000.
- (d) The "CREDIT EVENT UPON MERGER" provisions of Section 5(b)(iv) will apply to Party A and Party B.

Notwithstanding Section 5(b)(iv) of this Agreement, "Credit Event Upon Merger" means (1) (a) with respect to Party A or Party B, such party ("X"), any Credit Support Provider of X or any applicable Specified Entity of X consolidates or amalgamates with, or merges with or into, or transfers all or substantially all its assets to, or receives all or substantially all the assets or obligations of, another entity and such action does not constitute an event described in Section 5(a)(viii) or (b) with respect to Party B, (A) any person or entity acquires directly or indirectly the beneficial ownership of equity securities having the power to elect a majority of the board of directors of such party ("X"), any Credit Support Provider of X, or any applicable Specified Entity of Party X or (B) such party ("X"), any Credit Support Provider of X, or any applicable Specified Entity of X effects any substantial change in its capital structure by means of the issuance, incurrence or guarantee of debt or the issuance of preferred stock or other securities convertible into or exchangeable for, debt or preferred stock and (2) the creditworthiness of the resulting, surviving or transferee entity is materially weaker than that of X, such Credit Support Provider or such Specified Entity, as the case may be, immediately prior to such action.

- (e) The "AUTOMATIC EARLY TERMINATION" provisions of Section 6(a) will not apply to Party A or Party B.
- (f) PAYMENTS ON EARLY TERMINATION. For the purpose of Section 6(e) of this Agreement:
- (i) Market Quotation will apply.
 - (ii) The Second Method will apply.
- (g) "TERMINATION CURRENCY" means United States Dollars.
- (h) ADDITIONAL TERMINATION EVENT will not apply to Party A or to Party B.
- (i) The following provision is hereby added to Section 5(a) of the Agreement as an Event of Default:
- "(ix) UNSATISFIED JUDGMENTS. With respect to Party B, the party, any Credit Support Provider of such party or any Specified Entity of such party for the purpose of Section 5(a)(vii) has a final judgment issued against it by a court of competent jurisdiction, in excess of \$500,000, and such judgment is not discharged or its execution stayed pending appeal within 90 days of such judgment or such judgment is not discharged within 90 days of the expiration of any such stay."
- (j) CREDIT SUPPORT DEFAULT. Section 5(a)(iii)(2) of this Agreement is hereby amended by deleting from the third line thereof the phrase "(in either case other than in accordance with its terms)".

PART 2. TAX REPRESENTATIONS.

- (a) PARTY A AND PARTY B PAYER TAX REPRESENTATIONS. For the purpose of Section 3(e) of this Agreement, each of Party A and Party B makes the following representations:

It is not required by any applicable law, as modified by the practice of any relevant governmental revenue authority, of any Relevant Jurisdiction to make any deduction or withholding for or on account of any Tax from any payment (other than interest under Section 2(e), 6(d)(ii) or 6(e) of this Agreement) to be made by it to the other party under this Agreement. In making this representation, it may rely on (i) the accuracy of any representations made by the other party pursuant to Section 3(f) of this Agreement, (ii) the satisfaction of the agreement of the other party contained in Section 4(a)(i) or 4(a)(iii) of this Agreement and the accuracy and effectiveness of any document provided by the other party pursuant to Section 4(a)(i) or 4(a)(iii) of this Agreement and (iii) the satisfaction of the agreement of the other party contained in Section 4(d) of this Agreement, provided that it shall not be a breach of this representation where reliance is placed on clause (ii) and the other party does not deliver a form or document under Section 4(a)(iii) by reason of material prejudice to its legal or commercial position.

- (b) PARTY A PAYEE TAX REPRESENTATIONS. For the purpose of Section 3(f) of this Agreement, Party A makes the following representation:

Party A is a national banking association duly organized under the laws of the United States and is not a foreign corporation for United States tax purposes.

- (c) PARTY B PAYEE TAX REPRESENTATIONS. For the purpose of Section 3(f) of this Agreement, Party B makes the following representation:

Party B is not a foreign entity for United States tax purposes.

PART 3. AGREEMENT TO DELIVER DOCUMENTS.

For the purpose of Sections 4(a)(i) and (ii) of this Agreement, each party agrees to deliver the following documents, as applicable:

- (a) Tax forms, documents or certificates to be delivered are: Upon execution of this Agreement if requested, and as deemed necessary.
- (b) Other documents to be delivered are:

Party required to deliver document	Form/Document Certificate	Date by which to be delivered	Covered by Section 3(d) Representation
Party B	A certificate of an authorized officer for such party certifying the authority, names and true signatures of the officers signing this Agreement, each Confirmation and any Credit Support Document, reasonably satisfactory in form and substance to Party A.	Upon execution of this Agreement and as deemed necessary for any further documentation.	Yes

Party required to deliver document -----	Form/Document Certificate -----	Date by which to be delivered -----	Covered by Section 3(d) Representation -----
Party B	Certified copies of documents evidencing each action taken by Party B to authorize its execution of this Agreement, each Confirmation, and any Credit Support Document referred to in Part 4 of this Schedule, and the performance of its obligations hereunder as well as its bylaws and articles of incorporation.	Upon execution of this Agreement.	Yes
Party B	Annual audited financial statements prepared in accordance with generally accepted accounting principles in the country in which the entity to which they relate is organized.	Promptly upon request.	Yes
Party B	Quarterly unaudited financial statements prepared in accordance with generally accepted accounting principles in the country in which the entity to which they relate is organized.	Promptly upon request.	Yes
Party B	A written opinion of legal counsel to Party B reasonably satisfactory in form and substance to Party A.	Upon execution of this Agreement, if requested, and as deemed necessary.	No
Party B	Such other documents as Party A may reasonably request in connection with each transaction.	Promptly upon request.	Yes

PART 4. MISCELLANEOUS.

(a) ADDRESSES FOR NOTICES. For the purpose of Section 12(a) of this Agreement:

Address for notices or communications to Party A:

Fleet National Bank
100 Federal Street - MA DE 10013 H
Capital Markets Division
Boston, Massachusetts 02110

Attention: Manager, Global Markets Documentation

Telex: 144203 Answerback: FLEETB1
Telephone No: (617) 434-8103 Facsimile No: (617) 434-8702

Address for notices or communications to Party B:

Hastings Entertainment, Inc.
3601 Plains Boulevard - Suite 1
Amarillo, TX 79102

Attention: Dan Crow, CFO dan.crow@hastings-ent.com

Telephone No.: (806) 351-2300 x3507 Facsimile No.: (806) 351-2424

- (b) PROCESS AGENT. For the purpose of Section 13(c) of this Agreement, Not Applicable.
- (c) OFFICES. The provisions of Section 10(a) will apply to this Agreement.
- (d) MULTIBRANCH PARTY. For the purpose of Section 10(c) of this Agreement:
 Party A is a Multibranch Party and may act for purposes of this Agreement through the following Offices (and any other branch, office or agency as agreed by the parties and specified in a Confirmation):
 Boston, London, Seoul, Singapore, Buenos Aires
 Party B is not a Multibranch Party.
- (e) CALCULATION AGENT. The Calculation Agent is Party A, unless otherwise specified in a Confirmation in relation to a relevant Transaction.
- (f) CREDIT SUPPORT DOCUMENT. Each of the following, as amended, supplemented, modified, renewed, replaced, consolidated, or extended from time to time is a 'Credit Support Document':
 - (i) With respect to Party A, none.
 - (ii) With respect to Party B: a Loan and Security Agreement, dated as of August 29, 2000, by and among Fleet Retail Finance Inc., as Agent, The ClT Group/Business Credit Inc., as Co-Agent, and Hastings Entertainment, Inc., the terms of which are incorporated by reference herein.
- (g) CREDIT SUPPORT PROVIDER means:
 - (i) In relation to Party A, none.
 - (ii) In relation to Party B, none.
- (h) GOVERNING LAW. This Agreement will be governed by and construed in accordance with the laws of the State of New York (without reference to its choice of law doctrine).
- (i) NETTING OF PAYMENTS. Subparagraph (ii) of Section 2(c) of this Agreement will not apply to any Transactions under this Agreement and therefore the netting specified in Section 2(c) of this Agreement will apply across all Transactions with effect from the date of this Agreement.
- (j) "AFFILIATE" will have the meaning specified in Section 14 of this Agreement.

PART 5. OTHER PROVISIONS.

- (a) 2000 ISDA DEFINITIONS. The definitions and provisions contained in the 2000 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc.) (the "2000 ISDA Definitions") are incorporated into this Agreement. For these purposes, all references in the 2000 ISDA Definitions to a "Swap Transaction" shall be deemed to apply to each Transaction under this Agreement. In the event of any inconsistency between the 2000 ISDA Definitions and any other definitions incorporated into a Confirmation, the definitions incorporated into such Confirmation will govern.
- (b) ACCURACY OF SPECIFIED INFORMATION. Section 3(d) is hereby amended by adding in the third line thereof after the word "respect" and before the period:
 "or, in the case of audited or unaudited financial statements, a fair presentation of the financial condition of the relevant party"

- (c) FORMS. For purposes of Section 4(a)(iii) of this Agreement, the following shall be added immediately prior to the existing text:

"upon learning that such form or document is required or"

- (d) RIGHT OF SET-OFF. If any amount payable hereunder is not paid as and when due, the party ("Party X") obligated to make that payment hereby authorizes the other party ("Party Y") and each Affiliate of Party Y to proceed, to the fullest extent permitted by applicable law, without prior notice, by right of set-off, banker's lien, counterclaim or otherwise, against any assets of Party X in any currency that may at any time be in the possession of Party Y or that Affiliate, at any branch or office, to the full extent of all amounts payable to Party Y hereunder.

In addition, if a party would, but for this provision, have an obligation to pay the other party any amount calculated pursuant to Section 6(e) in connection with early termination which occurs on the ground of (i) a Termination Event in which that other party is the only Affected Party or (ii) an Event of Default with respect to that other party at a time when any amount is payable (whether at such time or in the future or upon the occurrence of a contingency) to that party or its Affiliate by that other party under any other agreement between them or any instrument or undertaking of that other party (irrespective of the currency, place of payment or booking office of the obligation) (each such amount, an "Other Obligation"), the party that, but for this provision would have an obligation to make a payment hereunder is authorized by that other party to set-off that obligation hereunder against any Other Obligation, without prior notice. For purposes of this provision, each party hereby agrees that, if necessary to enable the other party to exercise the rights of Set-off contemplated herein with respect to an amount payable by it under this Agreement in a particular currency, that amount shall be deemed converted to (and constitute an obligation hereunder in an amount equal to) its equivalent in the currency in which any Other Obligation is denominated, at a rate of exchange and otherwise in a manner applicable hereunder for conversion of any amounts to its Termination Currency Equivalent (as if the date of Set-off were an Early Termination Date and with the party entitled under this provision to effect the Set-off to make the determinations required for the conversion).

If an obligation is unascertained, the party exercising a right of Set-off hereunder may in good faith estimate that obligation and set off in respect of the estimate, subject to the relevant party accounting to the other when the obligation is ascertained.

If the party exercises a right of Set-off hereunder, it shall give the other party notice of the amounts of the obligations hereunder and the Other Obligations reduced and discharged by the Set-off, as soon as practicable after the Set-off is effected.

Nothing in this provision, titled Right of Set-off, shall be effective to create a charge or other security interest. This provision, titled Right of Set-off, shall be without prejudice and in addition to any right of set-off, combination of accounts, lien or other right to which any party is at any time otherwise entitled (whether by operation of law or otherwise).

- (e) TAX EVENT. The following is hereby inserted in Section 5(b)(ii) before the words "there is a substantial likelihood that":

"in the written opinion of legal counsel of recognized standing (which may include in-house legal counsel)"

- (f) CONFIRMATIONS. For each Transaction Party A and Party B agree to enter into hereunder, Party A shall promptly send to Party B a Confirmation setting forth the terms of such Transaction.
Party B

shall execute and return the Confirmation to Party A or request correction of any error within two Local Business Days of trade date. Failure of Party B to respond within such period shall not affect the validity or enforceability of such Transaction and shall be deemed to be an affirmation of such terms.

- (g) CONSENT TO RECORDING. Each party consents to the monitoring or recording, at any time and from time to time, by the other party of any and all communications between officers or employees of the parties, waives any further notice of such monitoring or recording, and agrees to notify its officers and employees of such monitoring or recording.
- (h) NOTICE OF EVENT OF DEFAULT. Each party agrees, upon learning of the occurrence of any event or commencement of any condition that constitutes an Event of Default or a Potential Event of Default with respect to itself, promptly to give the other party notice of such event or condition. Failure to give notice within 30 days of learning of such event or condition shall constitute an Event of Default with respect to such party.
- (i) CHANGE OF ACCOUNT. Section 2(b) of this Agreement is hereby amended by the addition of the following after the word "delivery" in the first line thereof:
- "to another account in the same legal and tax jurisdiction as the original account".
- (j) SEVERABILITY. If any term, provision, covenant, or condition of this Agreement, or the application thereof to either party or any circumstance, is held to be unenforceable, invalid or illegal (in whole or in part) for any reason (in any jurisdiction), the remaining terms, provisions, covenants, and conditions of this Agreement, modified by the deletion of the unenforceable, invalid or illegal portion (in any relevant jurisdiction), will continue in full force and effect, and such unenforceability, invalidity, or illegality will not otherwise affect the enforceability, validity or legality of the remaining terms, provisions, covenants and conditions of this Agreement so long as this Agreement as so modified continues to express, without material change, the original intentions of the parties as to the subject matter hereof and the deletion of such portion of this Agreement will not substantially impair the respective expectations of the parties or the practical realization of the benefits that would otherwise be enforced upon the parties. The parties will endeavor in good faith negotiations to replace the prohibited or unenforceable provision with a valid provision, the economic effect of which comes as close as possible to that of the prohibited or unenforceable provision.
- (k) CONSENT TO TRANSFER. Section 7 of this Agreement is amended by deleting the word "and" at the end of sub-paragraph (a); replacing the period at the end of sub-paragraph (b) with the phrase "; and"; and inserting the following sub-paragraph:
- "(c) Party A may transfer, without the consent of Party B (or any Credit Support Provider of Party B), this Agreement and all or any portion of the Transactions under this Agreement in the event that any of Party B's obligation(s) to Party A or its Affiliates, as identified in Part 4 of this Agreement, are sold, transferred, or otherwise assigned by Party A to one or more banks or financial institutions, in which case Party B (and each Credit Support Provider of Party B) shall execute, or cause to be executed, such documents, instruments and agreements, including without limitation, amendments to this Agreement, as Party A shall deem necessary to effect the foregoing."
- (l) WAIVER OF JURY TRIAL. EACH PARTY HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY PROCEEDINGS. AS TO ANY MATTER FOR WHICH A JURY TRIAL CANNOT BE WAIVED, EACH PARTY AGREES NOT TO ASSERT ANY SUCH MATTER AS A CROSS CLAIM OR COUNTERCLAIM IN, NOR

MOVE TO CONSOLIDATE THE SAME WITH, ANY LEGAL PROCEEDING IN WHICH A JURY TRIAL IS WAIVED.

(m) ADDITIONAL REPRESENTATIONS. For purposes of Section 3 of this Agreement, the following shall be added, immediately following paragraph (f) thereof:

(g) It is an "eligible contract participant" as defined in Section 1a(12) of the Commodity Exchange Act.

(h) This Agreement and each Transaction hereunder are subject to individual negotiation by the parties.

(i) Neither this Agreement nor any Transaction hereunder has been executed or traded on a "trading facility" as defined in Section 1a(33) of the Commodity Exchange Act.

(j) The individual(s) executing and delivering this Agreement and any other documentation (including any Credit Support Document) relating to this Agreement to which it is a party or that it is required to deliver are duly empowered and authorized to do so, and it has duly executed and delivered this Agreement and any Credit Support Documents to which it is a party.

(k) NON-RELIANCE. In connection with the negotiation of, the entering into, and the confirming of the execution of this Agreement, and Credit Support Document to which it is a party, each Transaction, and any other documentation relating to this Agreement to which it is a party or that it is required by this Agreement to deliver:

(i) it is not relying (for purposes of making any investment decision or otherwise) upon any advice, counsel, or representations (whether written or oral) of the other party to this Agreement, such Credit Support Document, each Transaction or such other documentation other than the representations expressly set forth in this Agreement, such Credit Support Document and in any Confirmation;

(ii) it has consulted with its own legal, regulatory, tax, business, investment, financial and accounting advisors to the extent it has deemed necessary, and it has made its own investment, hedging and trading decisions (including decisions regarding the suitability of any Transaction pursuant to this Agreement) based upon any advice from such advisors as it has deemed necessary and not upon any view expressed by the other party to this Agreement, such Credit Support Document, each Transaction or such other documentation;

(iii) it has a full understanding of all the terms, conditions, and risks (economic and otherwise) of the Agreement, such Credit Support Document, each Transaction, and such other documentation and is capable of assuming and willing to assume (financially and otherwise) those risks;

(iv) it is entering into this Agreement, such Credit Support Document, each Transaction, and such other documentation for the purposes of managing its borrowings or investments, hedging its underlying assets or liabilities or in connection with a line of business and not for purposes of speculation;

(v) it is entering into this Agreement, such Credit Support Document, each Transaction, and such other documentation as principal, and not as agent or in any other capacity, fiduciary or otherwise; and

(vi) the other party to this Agreement, such Credit Support Document, each Transaction, and such other documentation (a) is not acting as a fiduciary or financial, investment or commodity trading advisor for it; (b) has not given to it (directly or indirectly through any other person) any assurance, guaranty or representation whatsoever as to the merits (either legal, regulatory, tax, financial, accounting or otherwise) of this Agreement, such Credit Support Document, each Transaction, and such other documentation; and (c) has not committed to unwind the Transactions.

IN WITNESS WHEREOF, the parties have executed this Schedule as of the date specified on the first page hereof.

FLEET NATIONAL BANK

HASTINGS ENTERTAINMENT, INC.

By: /s/ DONALD M. CAIAZZA

By: /s/ DAN CROW

Name: Donald M. Caiazza
Title: Authorized Officer
Date:

Name: Dan Crow
Title: CFO
Date: 11/30/01

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CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 333-60997 and 333-61007) of Hastings Entertainment, Inc. of our report dated March 22, 2002, with respect to the consolidated financial statements and schedules of Hastings Entertainment, Inc. as of January 31, 2002 and 2001 and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended, included in the Annual Report (Form 10-K) for the year ended January 31, 2002.

/s/ Ernst & Young LLP

Fort Worth, Texas
April 8, 2002

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INDEPENDENT AUDITORS' CONSENT

The Board of Directors
Hastings Entertainment, Inc.

We consent to incorporation by reference in the registration statements (Nos. 333-60997 and 333-61007) on Form S-8 of Hastings Entertainment, Inc. of our report dated June 13, 2000, relating to the consolidated statements of operations, shareholders' equity and cash flows for the year ended January 31, 2000 of Hastings Entertainment, Inc. and subsidiaries, and the related financial statement schedule for the year ended January 31, 2000, which report appears in the January 31, 2002 annual report on Form 10-K of Hastings Entertainment, Inc.

/s/ KPMG LLP

Dallas, Texas
April 8, 2002

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