

**BOOKS·A·MILLION®**

A N N U A L

R E P O R T

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V O L U M E 7

Books-A-Million, Inc.  
402 Industrial Lane  
Birmingham, Alabama 35211

**FIVE-YEAR HIGHLIGHTS**  
(Dollars in thousands, except per share amounts)

	1999	1998	1997	1996	1995
<b>Statement of Income Data</b>					
Net sales	\$347,877	\$324,762	\$278,613	\$229,801	\$172,366
Net income	4,514	6,969	5,792	7,476	8,075
Earnings per share - diluted	0.26	0.40	0.33	0.42	0.46
Weighted average shares - diluted (000s)	17,554	17,428	17,580	17,641	17,509
EBITDA	24,690	27,160	21,708	22,118*	16,679
Capital investment	15,682	14,355	23,674	23,901	24,435
<b>Balance Sheet Data</b>					
Working capital	\$ 84,022	\$ 82,771	\$ 70,629	\$ 54,693	\$ 50,193
Property and equipment, net	67,377	65,814	63,147	49,253	35,864
Total assets	271,551	245,816	233,539	190,933	163,403
Long-term debt	36,944	45,240	37,645	14,087	4,600
Debt to total capital ratio	0.24	0.30	0.28	0.13	0.05
Stockholders' equity	115,022	103,485	96,420	90,455	82,444
<b>Operational Data</b>					
Total number of stores	173	165	151	129	124
Number of superstores	124	107	91	66	45
Number of combination stores	27	31	30	31	34
Number of traditional stores	20	26	30	32	45
Number of newsstands	2	1	0	0	0

\* Excluding store closing charge.

**COMPANY PROFILE**

Books-A-Million is one of the nation's leading book retailers and sells on the Internet at [www.booksamillion.com](http://www.booksamillion.com). The company presently operates 179 stores in 17 states. The Company operates four distinct store formats, including large superstores operating under the names Books-A-Million and Books & Co., traditional bookstores and combination book and greeting card stores, both operating under the name Bookland, and Joe Muggs Newsstands.

BOOKS ARE THE QUIETEST

AND MOST CONSTANT OF FRIENDS;

THEY ARE THE MOST ACCESSIBLE

AND WISEST OF COUNSELORS,

AND THE MOST PATIENT OF TEACHERS.

- Charles W. Eliot -





## TO OUR STOCKHOLDERS

Fiscal 1999 was a pivotal year for Books-A-Million. Our focus all year was on the fundamentals of our retail business. Our entire operations team concentrated on the basics — clean, well-stocked stores offering excellent customer service. Our merchants brought increased attention to improved inventory control while at the same time having the right book at the right time. While these efforts may not have been glamorous, we believe they led to the marked improvement in comparable store sales and overall financial performance during the fourth quarter.

Along with a focus on the fundamentals, fiscal 1999 was a year of investment in the future. We launched our enhanced website at [www.booksamillion.com](http://www.booksamillion.com), tested our new Joe Muggs Newsstand concept in Atlanta, Georgia, expanded our wholesale capabilities and continued to grow our core business by adding 15 new Books-A-Million superstores.

### INVESTMENT IN THE FUTURE

The launch of [booksamillion.com](http://booksamillion.com) in November of this year was the result of a renewed attention to our Internet initiative, which had been ongoing since 1996. We enlisted the help of NetCentral, Inc., an Internet development company that we subsequently purchased in January 1999, to design the current site. The result was met with enthusiasm by both our customers and the financial market. The site, like our stores, is open, inviting and focused on the product. We emphasize large, clear graphics and a rich editorial environment. We also apply an aggressive discount strategy offering 46%



off bestsellers and features, 37% off in-stock hardbacks and 28% off in-stock paperbacks for our Millionaire's Club discount card holders.

Since the site's launch, we have continued to enhance its design and product offering. We added our toll free customer service number to our logo to make clear to our customers our commitment to service. In March 1999, we launched [joemuggs.com](http://joemuggs.com), a new website featuring the Joe Muggs brand of gourmet coffees, our famous Joe Muggs cookies and brownies, and several café related gift items. In addition, we developed an expanding magazine feature area, becoming one of the first to offer single copy current magazines over the web.

Going forward with the site, we plan to continue to expand our product offerings and make improvements to enhance service and the overall shopping experience for the customer. The acquisition of NetCentral provides us with the development experience and systems resources to continue to innovate in the e-commerce arena.

In October, we opened our second Joe Muggs Newsstand, the first in a major metropolitan area, Atlanta, Georgia. The store is in a high-traffic, extremely competitive area, and is providing us with important experience as we work to continue to develop the newsstand concept. The concept joins the Joe Muggs café, currently one of the nation's leading specialty coffee retailers, and the city's best newsstand featuring over 4,200 magazine titles. Our Atlanta store has regularly been featured as the backdrop to CNN Newsstand broadcasts and has met with an enthusiastic response from the Atlanta market.

Fiscal 1999 was a year of continued change and consolidation in the book wholesale sector. American Wholesale Book Company, a wholly owned subsidiary of Books-A-Million, is well positioned to capitalize on the new opportunities for growth that are being created. We are committed to expanding our title selection, distribution capabilities and marketing efforts.



We opened 16 new stores during the year and are very pleased with the group's performance thus far. The stores were opened primarily in the southeastern United States in existing markets or markets contiguous to existing markets. The stores were of various formats including superstores, smaller format superstores and newsstands. We also closed two combination stores and six traditional stores that did not meet our expected returns.

#### FINANCIAL RESULTS

Despite the notable accomplishments of the year, fiscal 1999 was disappointing financially. The Company experienced negative trends in comparable store sales during most of the year. These trends obviously had an adverse impact on the Company's earnings. However, the fourth quarter brought marked improvement over the previous three and we hope to build upon that positive trend going forward.

Net sales for the fifty-two weeks ended January 30, 1999, increased 7.1% to a record \$347.9 million from sales of \$324.8 million for the fifty-two week period ended January 31, 1998. Comparable store sales decreased 2.8% compared with the prior year. Earnings before interest, taxes and depreciation decreased 9.1% to \$24.7 million from \$27.2 million in fiscal 1998. Net income for fiscal 1999 was \$4.5 million, or \$0.26 per diluted share, compared with fiscal 1998 net income of \$7.0 million, or \$0.40 per diluted share.

The Company's balance sheet remains solid. Stockholders' equity increased to \$115.0 million while long-term debt decreased \$8.3 million from the prior year-end to \$36.9 million and was 24.3% of total capitalization. Capital expenditures in fiscal 1999 were \$15.7 million, the majority of which was spent on new store construction. The Company anticipates opening about 15 new stores during fiscal 2000.

In the past few years, we have told you of our focus on the basic blocking and tackling of the retail business. We will continue these initiatives in the future. During the next year we will be installing a new point-of-sale system which will assist in inventory



management as well as in-store execution and improved customer service. We plan to continue to expand our product line in the Books-A-Million superstores by offering digital video disk (DVD) products in the near future. We will also continue to stay abreast of current media interests in order to be in stock on the entertaining products that our customers demand.

Most of all, the management of Books-A-Million will continue to explore new opportunities as well as revisit old ones in order to increase our sales, profits and shareholder value. We appreciate your interest in Books-A-Million and invite you to visit one of our stores or on the World Wide Web at [booksamillion.com](http://booksamillion.com).

Sincerely,

Clyde B. Anderson

President and Chief Executive Officer

#### FINANCIAL HIGHLIGHTS

(In thousands, except per share data)

	Fiscal Year Ended	
	1/30/99	1/31/98
Net sales	\$ 347,877	\$ 324,762
EBITDA	24,690	27,160
Operating profit	11,716	15,572
Net income	4,514	6,969
Net income per share - diluted	0.26	0.40
	As of	
	1/30/99	1/31/98
Working capital	\$ 84,022	\$ 82,771
Total assets	271,551	245,816
Stockholders' investment	115,022	103,485



## SELECTED CONSOLIDATED FINANCIAL DATA

(In thousands, except per share data)

	Fiscal Year Ended				
	1/30/99	1/31/98	2/1/97	2/3/96	1/28/95
<b>Statement of Income Data:</b>					
Net sales	\$ 347,877	\$ 324,762	\$ 278,613	\$ 229,801	\$ 172,366
Cost of products sold	256,793	238,342	206,269	164,124	124,107
Gross profit	91,084	86,420	72,344	65,677	48,259
Operating, selling and administrative expenses	66,394	59,260	50,636	43,559	31,580
Depreciation and amortization	12,974	11,588	9,540	6,833	4,256
Store closing charge	-	-	-	2,945	-
Operating profit	11,716	15,572	12,168	12,340	12,423
Interest expense (income), net	4,435	4,331	2,826	474	(601)
Income before income taxes	7,281	11,241	9,342	11,866	13,024
Provision for income taxes	2,767	4,272	3,550	4,390	4,949
Net income	\$ 4,514	\$ 6,969	\$ 5,792	\$ 7,476	\$ 8,075
Weighted average number of shares outstanding - basic	17,497	17,425	17,405	17,371	17,322
Net income per share - basic	\$ 0.26	\$ 0.40	\$ 0.33	\$ 0.43	\$ 0.47
Weighted average number of shares outstanding - diluted	17,554	17,428	17,580	17,641	17,509
Net income per share - diluted	\$ 0.26	\$ 0.40	\$ 0.33	\$ 0.42	\$ 0.46

	As of				
	1/30/99	1/31/98	2/1/97	2/3/96	1/28/95
<b>Balance Sheet Data:</b>					
Working capital	\$ 84,022	\$ 82,771	\$ 70,629	\$ 54,693	\$ 50,193
Property and equipment, net	67,377	65,814	63,147	49,253	35,864
Total assets	271,551	245,816	233,539	190,933	163,403
Long-term debt	36,944	45,240	37,645	14,087	4,600
Stockholders' investment	115,022	103,485	96,420	90,455	82,444

### Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

This document contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, that involve a number of risks and uncertainties. A number of factors could cause actual results, performance, achievements of the Company, or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors include, but are not limited to, the competitive environment in the book retail industry in general and in the Company's specific market area; inflation; economic conditions in general and in the Company's specific market areas; the number of store openings and closings; the profitability of certain product lines, capital expenditures and future liquidity; liability and other claims asserted against the Company; uncertainties related to Year 2000 issues; and other factors referenced herein. In addition, such forward-looking statements are necessarily dependent upon assumptions, estimates and dates that may be incorrect or imprecise and involve known and unknown risks, uncertainties and other factors. Accordingly, any forward-looking statements included herein do not purport to be predictions of future events or circumstances and may not be realized. Given these uncertainties, shareholders and prospective investors are cautioned not to place undue reliance on such forward-looking statements. The Company disclaims any obligations to update any such factors or to publicly announce the results of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.



## MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION & RESULTS OF OPERATIONS

### General

The Company was founded in 1917 and currently operates 179 retail bookstores, including 130 superstores, concentrated in the southeastern United States.

The Company's growth strategy is focused on opening superstores in new and existing market areas, particularly in the Southeast. In addition to opening new stores, management intends to continue its practice of reviewing the profitability trends and prospects of existing stores and closing or relocating underperforming stores or converting stores to different formats.

### Results of Operations

The following table sets forth statement of income data expressed as a percentage of net sales for the periods presented.

	Fiscal Year Ended		
	1/30/99	1/31/98	2/1/97
Net sales	100.0%	100.0%	100.0%
Gross profit	26.2%	26.6%	26.0%
Operating, selling, and administrative expenses	19.1%	18.2%	18.2%
Depreciation and amortization	3.7%	3.6%	3.4%
Operating profit	3.4%	4.8%	4.4%
Interest expense, net	1.3%	1.3%	1.0%
Income before income taxes	2.1%	3.5%	3.4%
Provision for income taxes	0.8%	1.3%	1.3%
Net income	1.3%	2.2%	2.1%

### Fiscal 1999 Compared with Fiscal 1998

Net sales increased \$23.1 million, or 7.1%, to \$347.9 million in fiscal 1999 from \$324.8 million in fiscal 1998. Comparable store sales decreased 2.8% for fiscal year 1999. The increase in net sales resulted from net sales generated by 16 new stores opened during fiscal 1999, and 16 new stores opened in the second half of fiscal 1998. In addition, the Company closed eight underperforming stores in fiscal 1999.

The factors affecting the future trend of comparable store sales include, among others, overall demand for products the Company sells, the Company's marketing program, pricing strategies, store operations and competition.

Gross profit increased \$4.7 million, or 5.4%, to \$91.1 million in fiscal 1999 from \$86.4 million in fiscal 1998. Gross profit as a percentage of net sales decreased to 26.2% in fiscal 1999 from 26.6% in fiscal 1998, primarily due to increased occupancy costs and higher warehouse distribution costs as a percentage of net sales.

Operating, selling and administrative expenses increased \$7.1 million, or 12.0%, to \$66.4 million in fiscal 1999, from \$59.3 million in fiscal 1998. Operating, selling and administrative expenses as a percentage of net sales increased to 19.1% in fiscal 1999 from 18.2% in fiscal 1998, primarily due to higher store selling expenses.

Depreciation and amortization increased \$1.4 million, or 12.0%, to \$13.0 million in fiscal 1999 from \$11.6 million in fiscal 1998. Depreciation and amortization as a percentage of net sales increased to 3.7% in fiscal 1999 from 3.6% in fiscal 1998, primarily as a result of the capital expenditures for new stores during fiscal 1999 and the second half of fiscal 1998.

Net interest expense was relatively constant with last year at \$4.4 million in fiscal 1999 versus net interest expense of \$4.3 million in fiscal 1998.



## MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION & RESULTS OF OPERATIONS

### Fiscal 1998 Compared with Fiscal 1997

Net sales increased \$46.2 million, or 16.6%, to \$324.8 million in fiscal 1998 from \$278.6 million in fiscal 1997. Comparable store sales increased 1.4% for fiscal 1998. The increase in net sales resulted from net sales generated by 21 new stores opened during fiscal 1998 (including 16 superstores), and 18 new stores opened in the second half of fiscal 1997. In addition, the Company closed seven underperforming stores in fiscal 1998.

The factors affecting the future trend of comparable store sales include, among others, overall demand for products the Company sells, the Company's marketing programs, pricing strategies, store operations and competition.

Gross profit increased \$14.1 million, or 19.5%, to \$86.4 million in fiscal 1998 from \$72.3 million in fiscal 1997. Gross profit as a percentage of net sales increased to 26.6% in fiscal 1998 from 26.0% in fiscal 1997, primarily due to decreased promotional activity and lower warehouse distribution costs as a percentage of net sales.

Operating, selling and administrative expenses increased \$8.7 million, or 17.0%, to \$59.3 million in fiscal 1998, from \$50.6 million in fiscal 1997. Operating, selling and administrative expenses as a percentage of net sales remained constant with fiscal 1997 at 18.2%.

Depreciation and amortization increased \$2.1 million, or 21.5%, to \$11.6 million in fiscal 1998 from \$9.5 million in fiscal 1997. Depreciation and amortization as a percentage of net sales increased to 3.6% in fiscal 1998 from 3.4% in fiscal 1997, primarily as a result of the significant capital expenditures for new stores during fiscal 1998 and the second half of fiscal 1997.

Net interest expense was \$4.3 million in fiscal 1998 versus net interest expense of \$2.8 million in fiscal 1997. The increased interest expense resulted from long-term borrowings incurred primarily to fund capital expenditures and inventory purchases related to new stores opened during fiscal 1998.

### Seasonality and Quarterly Results

Similar to many retailers, the Company's business is seasonal, with its highest retail sales, gross profit and net income historically occurring in the fourth fiscal quarter. This seasonal pattern reflects the increased demand for books and gifts experienced during the year-end holiday selling season. Working capital requirements are generally highest during the third fiscal quarter and the early part of the fourth fiscal quarter due to the seasonality of the Company's business.

In addition, the Company's results of operations may fluctuate from quarter to quarter as a result of the amount and timing of sales and profits contributed by new stores as well as other factors. New stores require the Company to incur pre-opening expenses and often require several months of operation before generating acceptable sales volumes. Accordingly, the addition of a large number of new stores in a particular quarter could adversely affect the Company's results of operations for that quarter.

### Liquidity and Capital Resources

During fiscal 1998, the Company increased borrowing availability under its revolving credit facility (the "Revolving Facility") to \$90.0 million from \$50.0 million. The Company also amended its short-term credit agreement (the "Facility") to \$10.0 million of borrowing availability from \$20.0 million. As of January 30, 1999, \$29.4 million was outstanding under these facilities. Additionally, as of January 30, 1999, the Company has outstanding borrowings associated with the issuance of an industrial revenue bond totaling \$7.5 million.

The Company's capital expenditures totaled \$15.7 million in fiscal 1999. These expenditures were primarily used to open new stores, perform renovations and make improvements to



## MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION & RESULTS OF OPERATIONS

existing stores and investments in management information systems. Management estimates that capital expenditures for fiscal 2000 will be approximately \$14.0 million and that such amounts will be used primarily for new stores, renovation and improvements to existing stores and investments in management information systems. Management believes that existing cash balances and net cash from operating activities, together with borrowings under the Company's credit facilities, will be adequate to finance the Company's planned capital expenditures and to meet the Company's working capital requirements for fiscal 2000.

### Related-Party Activities

As discussed in Note 6 of Notes to Consolidated Financial Statements, the Company conducts business with other entities in which certain officers, directors and principal stockholders of the Company have controlling ownership interests. The most significant related-party transactions include inventory purchases from, and sales to, related parties. As the Company has expanded, the related-party inventory purchase transactions have grown proportionately. Related-party sales transactions decreased in fiscal 1999 due to lower bargain book sales to related parties. Management believes the terms of these related-party transactions are substantially equivalent to those available from unrelated parties and, therefore, have no significant impact on gross profit.

### Financial Position

During fiscal 1999, the Company opened 16 new stores, including 15 superstores. The store openings resulted in increased inventory and property and equipment balances at January 30, 1999, compared with January 31, 1998.

### Year 2000 Compliance

During fiscal 1999, the Company has continued to evaluate its management information systems to identify and address Year 2000 issues. As part of this evaluation, the Company has classified its Year 2000 issues into the following categories:

1. Key information systems that are required for standard operations (including major merchandising, financial, distribution and warehouse systems).
2. Other information systems that are important but not required for daily operations (electronic data transfer of purchase orders and invoices, selling cost tracking reports, automated sales tax reporting, etc.).
3. Non-information systems items (phone system, security system, heating and air conditioning systems, etc.).
4. Third party compliance (vendors, wholesale customers, service organizations such as banks and utilities, etc.).



## MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION & RESULTS OF OPERATIONS

The Company has reviewed the Year 2000 compliance issues and developed an implementation program that is classified into the following categories:

1. Evaluation and Initial Assessment
2. Remediation/Reprogramming
3. Testing
4. Contingency Planning

The Company has plans in place to complete the evaluation and assessment of all systems during the quarter ending May 1, 1999, and expects to complete Year 2000 reprogramming and testing of all systems during the quarter ending July 31, 1999. The Company plans to continue to rely primarily on internal resources in order to complete these steps. However, third-party services will be employed as necessary to meet deadlines.

The Company's financial systems (excluding sales audit) are third-party vendor software programs which are being upgraded and will be, upon completion of upgrades in the quarter ending May 1, 1999, certified as Year 2000 compliant by the software vendors. These upgrades were previously planned and were not accelerated due to Year 2000 issues.

The sales audit system is an in-house program which is not Year 2000 compliant. The system evaluation will be completed during the quarter ending May 1, 1999, with the necessary reprogramming and testing completed during the quarter ending July 31, 1999.

The Company's distribution systems (excluding the returns system) are third-party vendor software programs which are certified as Year 2000 compliant by the software vendor.

The returns system was evaluated during fiscal 1999. Few date-sensitive processes were identified in the programs, which mitigates the Year 2000 compliance risk. The system will be modified as necessary to make the programs Year 2000 compliant during the quarter ending July 31, 1999.

The Company's merchandising systems are supported by a combination of in-house developed software and third-party software. All third-party merchandising software programs are certified as Year 2000 compliant by the software vendor. The in-house merchandising programs are not currently Year 2000 compliant. An evaluation of the in-house programs will be completed during the quarter ending May 1, 1999, and reprogramming and testing of the necessary changes to the system for Year 2000 compliance will be completed during the quarter ending July 31, 1999.

The Company's point-of-sale system operates the cash registers in the stores. The registers run on a personal computer system using a third-party software. Although the point-of-sale operating system is not Year 2000 compliant, the software has been upgraded in order to accept credit cards with expiration dates beyond December 31, 1999. The system evaluation will be completed during the quarter ending May 1, 1999, with the necessary reprogramming and testing completed during the quarter ending July 31, 1999.

Other information systems that are not critical to daily operations will be assessed during the quarter ending May 1, 1999, and will be upgraded, if necessary, during calendar year 1999.

The Company has not deferred any significant information technology projects in order to address the Year 2000 issue.

Based on present information, the Company believes that its current plans, as outlined above, will substantially mitigate the risk of a material disruption in the Company's operations due to internal Year 2000 factors. However, possible consequences of the Company not being Year 2000 compliant include, but are not limited to, loss of revenues, loss of communication



## MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION & RESULTS OF OPERATIONS

capability with stores, inability to process or quantify merchandise, and inability to engage in other operational and financial activities.

At the present time, the Company has not established a contingency plan for possible Year 2000 issues. The Company expects to consider contingency plans based on the results of its Year 2000 testing and its assessment of related risks.

Additionally, the Company is in the process of communicating with third parties in order to assess their Year 2000 readiness and the extent to which the Company may be vulnerable to any third party's failure to remediate their Year 2000 issues. The Company is trying to obtain written confirmation of third parties' Year 2000 compliance. However, the Company cannot assure timely compliance of third parties and may be adversely affected by failure of a significant third party to become Year 2000 compliant.

Amounts expended to date related to Year 2000 compliance have been immaterial. The Company currently expects that the total costs of Year 2000 compliance for the Company's current systems will not exceed \$400,000, which may include the lease or purchase of a system on which to conduct Year 2000 testing. These costs are not expected to have a significant impact on the Company's financial reporting.

The costs associated with Year 2000 compliance are based on management's current views with respect to future events and may be updated as additional information becomes available. Please refer to the Special Note Regarding Forward-looking Statements.



## CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	As of	
	1/30/99	1/31/98
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and temporary cash investments	\$ 4,322	\$ 3,909
Accounts receivable, net of allowance for doubtful accounts of \$939 and \$356, respectively	12,282	11,732
Related party receivables	3,998	7,559
Inventories	175,211	151,312
Prepayments and other	2,938	816
Deferred income taxes	3,715	3,098
<b>Total Current Assets</b>	<b>202,466</b>	<b>178,426</b>
<b>Property and Equipment:</b>		
Land	628	628
Buildings	7,142	5,367
Equipment	33,087	28,558
Furniture and fixtures	34,416	31,894
Leasehold improvements	41,434	37,552
Construction in process	299	783
	117,006	104,782
Less accumulated depreciation and amortization	49,629	38,968
<b>Net Property and Equipment</b>	<b>67,377</b>	<b>65,814</b>
<b>Other Assets:</b>		
Goodwill, net	1,495	1,538
Other	213	38
<b>Total Other Assets</b>	<b>1,708</b>	<b>1,576</b>
<b>Total Assets</b>	<b>\$ 271,551</b>	<b>\$ 245,816</b>
<b>Liabilities and Stockholders' Investment</b>		
<b>Current Liabilities:</b>		
Accounts payable:		
Trade	\$ 94,249	\$ 71,439
Related party	9,014	7,493
Accrued income taxes	476	2,730
Accrued expenses	14,705	13,993
<b>Total Current Liabilities</b>	<b>118,444</b>	<b>95,655</b>
<b>Long-term Debt</b>	<b>36,944</b>	<b>45,240</b>
<b>Deferred Income Taxes</b>	<b>1,141</b>	<b>1,436</b>
<b>Commitments and Contingencies</b>	<b>-</b>	<b>-</b>
<b>Stockholders' Investment:</b>		
Preferred stock, \$.01 par value; 1,000,000 shares authorized, no shares outstanding	-	-
Common stock, \$.01 par value; 30,000,000 shares authorized, 18,016,525 and 17,427,593 shares issued and outstanding at January 30, 1999 and January 31, 1998, respectively	180	174
Additional paid-in capital	70,124	62,925
Treasury stock at cost (\$1,600 shares at January 30, 1999)	(252)	-
Retained earnings	44,970	40,386
<b>Total Stockholders' Investment</b>	<b>115,022</b>	<b>103,485</b>
<b>Total Liabilities and Stockholders' Investment</b>	<b>\$ 271,551</b>	<b>\$ 245,816</b>

The accompanying notes are an integral part of these consolidated balance sheets.



## CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	Fiscal Year Ended		
	1/30/99	1/31/98	2/1/97
Net sales	\$ 347,877	\$ 324,762	\$ 278,613
Cost of products sold, including warehouse distribution and store occupancy costs <sup>(1)</sup>	256,793	238,342	206,269
<b>Gross profit</b>	<b>91,084</b>	<b>86,420</b>	<b>72,344</b>
Operating, selling and administrative expenses	66,394	59,260	50,636
Depreciation and amortization	12,974	11,588	9,540
<b>Operating profit</b>	<b>11,716</b>	<b>15,572</b>	<b>12,168</b>
Interest expense, net	4,435	4,331	2,826
<b>Income before income taxes</b>	<b>7,281</b>	<b>11,241</b>	<b>9,342</b>
Provision for income taxes	2,767	4,272	3,550
<b>Net income</b>	<b>\$ 4,514</b>	<b>\$ 6,969</b>	<b>\$ 5,792</b>
Weighted average number of shares outstanding - basic	17,497	17,425	17,405
<b>Net income per share - basic</b>	<b>\$ 0.26</b>	<b>\$ 0.40</b>	<b>\$ 0.33</b>
Weighted average number of shares outstanding - diluted	17,554	17,428	17,580
<b>Net income per share - diluted</b>	<b>\$ 0.26</b>	<b>\$ 0.40</b>	<b>\$ 0.33</b>

<sup>(1)</sup> Inventory purchases from related parties were \$36,836, \$32,303 and \$23,120, respectively, for the periods presented above.

The accompanying notes are an integral part of these consolidated statements.



CONSOLIDATED STATEMENTS  
OF STOCKHOLDERS' INVESTMENT  
(In thousands)

	Common Stock		Additional Paid-In Capital	Treasury Stock		Retained Earnings
	Shares	Amount		Shares	Amount	
<b>Balance, February 3, 1996</b>	17,387	\$ 174	\$ 62,656	-	\$ -	\$ 27,625
Net income	-	-	-	-	-	5,792
Issuance of stock for employee stock purchase plan	15	-	102	-	-	-
Exercise of stock options	7	-	71	-	-	-
<b>Balance, February 1, 1997</b>	17,409	174	62,829	-	-	33,417
Net income	-	-	-	-	-	6,969
Issuance of stock for employee stock purchase plan	19	-	96	-	-	-
<b>Balance, January 31, 1998</b>	17,428	174	62,925	-	-	40,386
Net income	-	-	-	-	-	4,514
Issuance of stock for employee stock purchase plan	16	-	78	-	-	-
Purchase of treasury stock	-	-	-	82	(252)	-
Exercise of stock options	460	5	4,132	-	-	-
Tax benefit from exercise of stock options	-	-	2,333	-	-	-
Issuance of stock for acquisition accounted for as pooling of interests	112	1	2	-	-	70
Contributions from certain stockholders	-	-	1,054	-	-	-
Tax provision for contributions from certain stockholders	-	-	(400)	-	-	-
<b>Balance, January 30, 1999</b>	18,016	\$ 180	\$ 70,124	82	\$(252)	\$ 44,970

The accompanying notes are an integral part of these consolidated statements.



CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Dollars in thousands)

	Fiscal Year Ended		
	1/30/99	1/31/98	2/1/97
<b>Cash Flows from Operating Activities:</b>			
Net income	\$ 4,514	\$ 6,969	\$ 5,792
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	12,974	11,588	9,540
(Gain) loss on sale of property	(472)	44	114
Deferred income tax provision, net	(912)	(97)	(15)
(Increase) decrease in assets:			
Accounts receivable	(550)	1,466	(4,825)
Related party receivables	3,561	(1,705)	(1,506)
Inventories	(23,899)	(9,882)	(19,422)
Prepayments and other	(2,223)	(214)	136
Increase (decrease) in liabilities:			
Accounts payable	24,331	(2,465)	9,760
Accrued income taxes	(321)	769	1,419
Accrued expenses	744	(718)	1,696
Total adjustments	13,233	(1,214)	(3,103)
Net cash provided by operating activities	17,747	5,755	2,689
<b>Cash Flows from Investing Activities:</b>			
Proceeds from sale of property and equipment	1,627	42	126
Capital expenditures	(15,682)	(14,355)	(23,674)
Net cash used in investing activities	(14,055)	(14,313)	(23,548)
<b>Cash Flows from Financing Activities:</b>			
Proceeds from exercise of stock options and purchase of shares under employee stock purchase plan	4,215	96	154
Contributions from certain stockholders	1,054	-	-
Purchase of treasury stock	(252)	-	-
Borrowings under credit facilities	153,475	152,296	142,933
Repayments under credit facilities	(161,771)	(144,701)	(119,375)
Net cash provided by (used in) financing activities	(3,279)	7,691	23,712
<b>Net Increase (Decrease) in Cash and Temporary Cash Investments</b>	413	(867)	2,853
<b>Cash and Temporary Cash Investments at Beginning of Year</b>	3,909	4,776	1,923
<b>Cash and Temporary Cash Investments at End of Year</b>	\$ 4,322	\$ 3,909	\$ 4,776
<b>Supplemental Disclosures of Cash Flow Information:</b>			
Cash paid during the year for:			
Interest	\$ 4,625	\$ 4,276	\$ 2,693
Income taxes, net of refunds	\$ 4,026	\$ 4,023	\$ 2,146

The accompanying notes are an integral part of these consolidated statements.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Business*

Books-A-Million, Inc., and its subsidiaries (the "Company") are principally engaged in the sale of books, magazines and related items through a chain of retail bookstores. The Company presently operates 179 bookstores in 17 states, which are predominantly located in the southeastern United States. The Company also serves as a wholesale book distributor for certain other retailers and wholesalers. The Company presently consists of Books-A-Million, Inc., and its wholly owned subsidiaries, American Wholesale Book Company, Inc. ("American Wholesale"), American Internet Services, Inc. and NetCentral, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

*Basis of Presentation*

The Company operates on a 52-53 week year, with the fiscal year ending on the Saturday closest to January 31. Fiscal years 1999, 1998 and 1997 were 52-week periods.

*Use of Estimates in the Preparation of Financial Statements*

The preparation of 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.

*Inventories*

Inventories are valued at the lower of cost or market using the retail method, with cost determined on a first-in, first-out ("FIFO") basis and market based on the lower of replacement cost or estimated realizable value. The Company includes certain distribution and other expenses in its inventory costs.

*Property and Equipment*

Property and equipment are recorded at cost. Depreciation on equipment and furniture and fixtures is provided on the straight-line method over the estimated service lives, which range from three to seven years. Depreciation of leasehold improvements is provided on the straight-line basis over the periods of the applicable leases.

Maintenance and repairs are charged to expense as incurred. Costs of renewals and betterments are capitalized by charges to property accounts and depreciated using applicable annual rates. The cost and accumulated depreciation of assets sold, retired or otherwise disposed of are removed from the accounts, and the related gain or loss is credited or charged to income.

*Goodwill*

The Company amortizes goodwill on a straight-line basis over 40 years. As of January 30, 1999 and January 31, 1998, accumulated amortization of goodwill was \$210,000 and \$167,000, respectively. The Company continually evaluates whether events or circumstances have occurred that indicate the remaining estimated useful life of goodwill may warrant revision or that the remaining balance of goodwill may not be recoverable. When factors indicate that goodwill should be evaluated for possible impairment, the Company uses an estimate of the related operating profits over the remaining life of the goodwill in measuring recoverability.

*Store Opening Costs*

Non-capital expenditures incurred in preparation for opening new retail stores are expensed in the first full month of the stores' operations.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*Insurance Accruals*

The Company is subject to large deductibles under its workers' compensation policy. Insurance coverage is maintained for cumulative losses in amounts management considers adequate. Amounts are accrued currently for the estimated cost of claims incurred.

*Income Taxes*

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

*Statements of Cash Flows*

For purposes of the consolidated statements of cash flows, the Company considers all short-term, highly liquid investments with original maturities of 90 days or less to be cash equivalents.

*Earnings Per Share*

Basic net income per share ("EPS") excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock are exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. Diluted EPS has been computed based on the average number of shares outstanding including the effect of outstanding stock options, if dilutive, in each respective year. A reconciliation of the weighted average shares for basic and diluted EPS is as follows:

	Fiscal Year Ended		
	<i>(in thousands)</i>		
	1/30/99	1/31/98	2/1/97
<b>Weighted average shares outstanding:</b>			
Basic	17,497	17,425	17,405
Dilutive effect of stock options outstanding	57	3	175
Diluted	17,554	17,428	17,580

Options outstanding of 619,000, 1,557,000, and 371,000 for the years ended January 30, 1999, January 31, 1998 and February 1, 1997, respectively, were not included in the table above as they were anti-dilutive.

*Disclosure of Fair Value of Financial Instruments*

In the opinion of management, the carrying value of all financial instruments approximates fair value.

*Legal*

The Company is a party to various legal proceedings incidental to its business. In the opinion of management, after consultation with legal counsel, the ultimate liability, if any, with respect to those proceedings is not presently expected to materially affect the financial position or results of operations of the Company.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*New Accounting Standards*

In June 1997, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 130, *Reporting Comprehensive Income*, which establishes standards for reporting and display of “comprehensive income,” which is the total of net income and all other non-owner changes in stockholders’ equity and its components. This standard was adopted in fiscal 1999 and did not have an impact on the Company’s financial reporting.

In June 1997, the FASB issued SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*. SFAS No. 131, which supersedes SFAS Nos. 14, 18, 24 and 30, establishes new standards for segment reporting, using the “management approach,” in which reportable segments are based on the same criteria that management disaggregates a business for making operating decisions and assessing performance. This standard was adopted in fiscal 1999 and did not have a significant impact on the Company’s financial reporting.

In February 1998, the FASB issued SFAS No. 132, *Employers’ Disclosures About Pensions and Other Post-retirement Benefits*. SFAS No. 132, which supersedes SFAS Nos. 87, 88 and 106, standardizes the disclosure requirements for pensions and other post-retirement benefits to the extent practicable, requires additional information on changes in the benefit obligations and fair values of plan assets that will facilitate financial analysis, and eliminates certain disclosures that are no longer as useful as they were when SFAS Nos. 87, 88 and 106 were issued. The Company adopted the new rules in fiscal 1999 with no impact on the its financial reporting.

In June 1998, the FASB issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. This statement is effective for fiscal years beginning after June 15, 1999. This statement is not expected to have a material effect on the Company’s financial statements.

In March 1998, the American Institute of Certified Public Accountants (“AICPA”) issued Statement of Position (“SOP”) 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. This statement requires capitalization of certain costs of internal-use software. The Company will adopt this statement in fiscal 2000 and does not anticipate a significant impact on the Company’s financial statements.

The AICPA has issued SOP 98-5, *Reporting on the Costs of Start-up Activities*. This statement provides guidance on the financial reporting of start-up costs and organization costs, and requires these costs to be expensed as incurred. The new rules are not expected to have a significant impact on the Company’s financial statements.

*Business Combination*

The acquisition of NetCentral, Inc. was accounted for as a pooling of interests; however, the Company’s previously reported consolidated results have not been restated to include the effect of the acquisition prior to the acquisition date of January 5, 1999, since the effect is not material.

*Contributions from Certain Shareholders*

In fiscal 1999, contributions of short-swing profits from certain stockholders were received by the Company totaling \$1,054,000 with a related tax provision of \$400,000 charged to paid-in capital.

*Prior-Year Reclassifications*

Certain prior-year amounts have been reclassified to conform to the current year presentation.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. INCOME TAXES

A summary of the components of the income tax provision is as follows (dollars in thousands):

	Fiscal Year Ended		
	1/30/99	1/31/98	2/1/97
Current:			
Federal	\$ 3,337	\$ 3,831	\$ 3,325
State	342	538	240
	<u>3,679</u>	<u>4,369</u>	<u>3,565</u>
Deferred taxes arising from:			
Depreciation	( 321)	61	463
Accruals	( 443)	4	(330)
Inventory	25	(181)	(436)
Other	( 173)	19	288
	<u>( 912)</u>	<u>(97)</u>	<u>(15)</u>
Provision for income taxes	<u>\$ 2,767</u>	<u>\$ 4,272</u>	<u>\$ 3,550</u>

A reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

	Fiscal Year Ended		
	1/30/99	1/31/98	2/1/97
Federal statutory income tax rate	34.0%	34.0%	34.0%
State income tax provision	3.1%	3.2%	3.0%
Other	0.9%	0.8%	1.0%
Effective income tax rate	<u>38.0%</u>	<u>38.0%</u>	<u>38.0%</u>

Temporary differences which created deferred tax assets and liabilities at January 30, 1999, and January 31, 1998, are detailed below (dollars in thousands):

	As of 1/30/99		As of 1/31/98	
	Current	Noncurrent	Current	Noncurrent
Depreciation	\$ -	\$ (1,005)	\$ -	\$ (1,326)
Accruals	2,614	-	2,171	-
Inventory	765	-	790	-
Other	336	(136)	137	(110)
Deferred tax asset (liability)	<u>\$ 3,715</u>	<u>\$ (1,141)</u>	<u>\$ 3,098</u>	<u>\$ (1,436)</u>

No valuation allowance is deemed necessary by management, as the realization of recorded deferred tax assets is considered more likely than not.

3. DEBT AND LINES OF CREDIT

The Company has a revolving credit facility that allows borrowings of up to \$90 million for which no principal repayments are due until the facility expires on June 18, 2003, and an unsecured working capital line of credit for \$10 million, which is subject to annual renewal. Both credit facilities have certain financial and nonfinancial covenants with which the Company is in



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

compliance. As of January 30, 1999 and January 31, 1998, \$29.4 million and \$37.7 million, respectively, were outstanding under these credit facilities. The maximum and average outstanding balances during fiscal 1999 were \$77.7 million and \$59.0 million, respectively. The outstanding borrowings as of January 30, 1999, had interest rates ranging from 5.53% to 6.06%.

The Company is subject to interest rate fluctuations involving its credit facilities. However, the Company utilizes both fixed and variable debt to manage this exposure. On February 9, 1998, the Company entered into an interest rate swap agreement which carries a notional principal amount of \$30.0 million. The swap effectively fixes the interest rate on \$30.0 million of variable rate debt at 6.73%. The swap agreement expires on February 9, 2003. A hypothetical increase or decrease of 10% in interest rates would not cause the Company's interest expense to increase or decrease significantly.

During fiscal 1996 and fiscal 1995, the Company financed the acquisition and construction of certain warehouse and distribution facilities through loans, obtained from the proceeds of an industrial development revenue bond (the "Bond"), which are secured by a mortgage interest in these facilities. As of January 30, 1999 and January 31, 1998, there was \$7.5 million of borrowings outstanding under these arrangements, at variable rates. The Bond has a maturity date of December 1, 2019, with a purchase provision obligating the Company to repurchase the Bond on December 1, 2003, unless extended by the bondholder. Such an extension may be renewed annually by the bondholder, at the Company's request, to a date no more than five years from the renewal date.

In the opinion of management, the carrying value of all debt instruments at January 30, 1999, approximates fair value.

4. LEASES

The Company leases the premises for its retail bookstores under operating leases which expire in various years through the year 2011. Many of these leases contain renewal options and require the Company to pay executory costs (such as property taxes, maintenance, and insurance). In addition to fixed minimum rentals, some of the Company's leases require contingent rentals based on a percentage of sales which the Company records throughout the year based upon the best available information.

The Company also leases certain office, warehouse and retail store space from related parties. Effective April 1, 1998, a lease agreement was entered into with a related party for 280,450 square feet of warehouse space in Tusculumbia, Alabama. Rental expense under these leases was approximately \$624,000, \$411,000 and \$407,000 in fiscal 1999, 1998 and 1997, respectively. Total minimum future rental payments under these leases are \$687,000.

Minimum future rental payments under noncancelable operating leases having remaining terms in excess of one year as of January 30, 1999, are as follows (in thousands):

Fiscal Year	
2000	\$ 20,378
2001	19,700
2002	18,478
2003	17,129
2004	13,759
Subsequent years	51,301
	<u>\$ 140,745</u>



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Rental expense for all operating leases consisted of the following (in thousands):

	Fiscal Year Ended		
	1/30/99	1/31/98	2/1/97
Minimum rentals	\$ 21,151	\$ 18,171	\$ 14,627
Contingent rentals	425	690	493
	<u>\$ 21,576</u>	<u>\$ 18,861</u>	<u>\$ 15,120</u>

5. EMPLOYEE BENEFIT PLANS

401(k) Profit-Sharing Plan

The Company and its subsidiaries maintain a 401(k) plan covering all employees who have completed 12 months of service and who are at least 21 years of age, and permit participants to contribute from 2% to 15% of compensation to the plan. Company matching and supplemental contributions are made at management's discretion. The expenses under this plan were \$333,000, \$238,000 and \$341,000 in fiscal 1999, 1998 and 1997, respectively.

Stock Option Plan

The Company maintains a stock option plan reserving 3,300,000 shares of the Company's common stock for grants to executive officers, directors, and key employees. The reserve was increased by 1,500,000 shares at the fiscal 1998 annual meeting of the stockholders from 1,800,000 shares. Options granted generally vest over a five-year period, expire on the sixth anniversary of the grant date, and have exercise prices generally equal to the fair market value of the common stock on the date of grant.

A summary of the status of the Company's stock option plan is as follows:

	Fiscal Year Ended					
	January 30, 1999		January 31, 1998		February 1, 1997	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	1,571,130	\$ 7.57	1,164,060	\$ 8.32	834,730	\$ 9.61
Granted	431,850	10.83	458,250	5.80	389,200	5.81
Exercised	(460,550)	8.98	-	-	(6,600)	7.94
Forfeited	(207,030)	7.25	(51,180)	9.20	(53,270)	12.13
Outstanding at end of year	<u>1,335,400</u>	<u>\$ 8.25</u>	<u>1,571,130</u>	<u>\$ 7.57</u>	<u>1,164,060</u>	<u>\$ 8.32</u>
Exercisable at end of year	<u>315,280</u>	<u>\$ 8.58</u>	<u>573,448</u>	<u>\$ 8.86</u>	<u>408,336</u>	<u>\$ 9.35</u>
Weighted average fair value of options granted		<u>\$ 9.30</u>		<u>\$ 2.89</u>		<u>\$ 5.34</u>

The following table summarizes information about stock options outstanding at January 30, 1999:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding at January 30, 1999	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at January 30, 1999	Weighted Average Exercise Price
\$3.38-\$8.00	814,960	3.50	\$6.06	202,390	\$6.15
\$8.00-\$16.88	520,440	3.97	\$11.68	112,890	\$12.92



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In October 1995, the FASB issued SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 123 established financial accounting and reporting standards for stock-based compensation and for transactions in which an entity issues its equity instruments to acquire goods and services for nonemployees. In accordance with SFAS No. 123, the Company continues to account for and record compensation expense under APB No. 25. However, the Company adopted the disclosure only provisions of SFAS No. 123, as required. If the Company had recorded compensation expense in accordance with SFAS No. 123 under the fair value based method, the Company's net income and net income per share would have been as indicated below (in thousands, except per share data):

	Fiscal Year Ended		
	1/30/99	1/31/98	2/1/97
Net income-as reported	\$ 4,514	\$ 6,969	\$ 5,792
Net income-pro forma	4,257	6,788	5,727
Net income per share-diluted, as reported	0.26	0.40	0.33
Net income per share-diluted, pro forma	0.24	0.39	0.33

For the purposes of the foregoing calculation, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The assumptions used in connection with this model show no expected dividend yield, a five-year expected life of the options, and an expected stock price volatility rate of 1.35 with risk-free interest rates ranging from 4.53% to 5.79%. During fiscal years 1999, 1998, and 1997, the Company recognized tax benefits related to the exercise of stock options in the amount of \$2,333,000, \$0, and \$19,000, respectively. The tax benefits were credited to paid-in capital in the respective years.

*Employee Stock Purchase Plan*

The Company maintains an employee stock purchase plan under which 100,000 shares of the Company's common stock are reserved for purchase by employees at 85% of the fair market value of the common stock. Of the total reserved shares, 63,698 shares have been purchased as of January 30, 1999.

6. RELATED-PARTY TRANSACTIONS

Certain majority stockholders of the Company have controlling ownership interests in other entities with which the Company conducts business. Transactions between the Company and these various other entities ("related parties") are summarized in the following paragraphs and Note 4.

The Company purchases a portion of its inventories for resale from related parties; such purchases amounted to \$36,836,000, \$32,303,000 and \$23,120,000 in fiscal 1999, 1998, and 1997, respectively. The Company sells a portion of its inventories to related parties; such sales amounted to \$5,301,000, \$10,273,000 and \$9,819,000 in fiscal 1999, 1998 and 1997, respectively. The Company purchases promotional marketing material from a related party; such purchases amounted to \$29,000, \$202,000 and \$47,000 in fiscal 1999, 1998 and 1997, respectively. The Company utilizes the logistics services of a related party; such services amounted to \$128,000, \$0 and \$0 in fiscal 1999, 1998 and 1997, respectively.



REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Books-A-Million, Inc.:

We have audited the accompanying consolidated balance sheets of Books-A-Million, Inc. (a Delaware corporation), and its subsidiaries as of January 30, 1999, and January 31, 1998, and the related consolidated statements of income, stockholders' investment, and cash flows for each of the three fiscal years in the period ended January 30, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Books-A-Million, Inc., and its subsidiaries as of January 30, 1999, and January 31, 1998, and the results of their operations and their cash flows for each of the three fiscal years in the period ended January 30, 1999, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Birmingham, Alabama  
March 16, 1999



## SUMMARY OF QUARTERLY RESULTS

(Unaudited)

(In thousands, except per share data)

	Fiscal Year Ended January 30, 1999				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net sales	\$ 74,469	\$ 77,955	\$ 78,962	\$ 116,491	\$ 347,877
Gross profit	18,995	19,413	18,720	33,956	91,084
Operating profit	1,135	351	(1,026)	11,256	11,716
Net income (loss)	10	(514)	(1,459)	6,477	4,514
Net income (loss) per share - basic	0.00	(0.03)	(0.08)	0.37	0.26
Net income (loss) per share - diluted <sup>(1)</sup>	0.00	(0.03)	(0.08)	0.36	0.26

	Fiscal Year Ended January 31, 1998				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net sales	\$ 68,237	\$ 71,867	\$ 71,613	\$ 113,045	\$ 324,762
Gross profit	17,541	18,686	17,480	32,713	86,420
Operating profit	1,606	2,024	652	11,290	15,572
Net income (loss)	369	527	(300)	6,373	6,969
Net income (loss) per share - basic	0.02	0.03	(0.02)	0.37	0.40
Net income (loss) per share - diluted	0.02	0.03	(0.02)	0.37	0.40

<sup>(1)</sup> The sum of the quarterly per share amounts are different from the annual per share amounts because of differences in the weighted average number of common and common equivalent shares used in the quarterly and annual computations.



## EXECUTIVE OFFICERS AND DIRECTORS

**Charles C. Anderson**  
Chairman of the Board

**John E. Southwood**  
Director and Retired Chairman,  
Third National Bank

**Ronald G. Bruno**  
Director and Retired Chairman,  
Bruno's, Inc.

**Dr. J. Barry Mason**  
Director and Dean,  
Culverhouse College of Commerce  
The University of Alabama

**Terry C. Anderson**  
Director and President,  
American Promotional  
Events, Inc.

**Clyde B. Anderson**  
Chief Executive Officer,  
President and Director

**Sandra B. Cochran**  
Executive Vice President,  
Chief Financial Officer  
and Secretary

**Terrance G. Finley**  
President,  
Booksamillion.com

## CORPORATE DATA

**Corporate Office**  
Books-A-Million, Inc.  
402 Industrial Lane  
Birmingham, Alabama 35211  
(205) 942-3737

**Transfer Agent**  
Bank of New York  
1-800-524-4458  
*Shareholder inquires:*  
Shareholder Relations Department - 11E  
P.O. Box 11258  
Church Street Station  
New York, NY 10286

E-Mail address: shareowner-svcs@bankofny.com  
Bank of New York's Stock Transfer Website:  
<http://stock.bankofny.com>

*Certificates for Transfer and Address Changes to:*  
Receive and Deliver Department - 11W  
P.O. Box 11002  
Church Street Station  
New York, NY 10286

**Independent Public Accountants**  
Arthur Andersen LLP  
Birmingham, Alabama

**Form 10-K and Investor Contact**  
A copy of the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 1999, as filed with the Securities and Exchange Commission is available without charge to stockholders upon written request. Such requests and other investor inquiries should be directed to Sandra B. Cochran, the Company's Executive Vice President, Chief Financial Officer, and Secretary.

### Market and Dividend Information

*Common Stock*

The Common Stock of Books-A-Million, Inc., is traded in the Nasdaq National Market under the symbol BAMM. The chart below sets forth the high and low stock prices for each quarter of the fiscal years ending January 30, 1999, and January 31, 1998.

Quarter Ended	High	Low
January, 1999	\$47	\$ 2 <sup>11</sup> / <sub>16</sub>
October, 1998	5	2 <sup>1</sup> / <sub>8</sub>
July, 1998	7 <sup>1</sup> / <sub>2</sub>	4 <sup>1</sup> / <sub>8</sub>
April, 1998	6 <sup>5</sup> / <sub>8</sub>	5 <sup>1</sup> / <sub>32</sub>
January, 1998	7 <sup>3</sup> / <sub>8</sub>	5 <sup>3</sup> / <sub>8</sub>
October, 1997	7 <sup>1</sup> / <sub>4</sub>	4 <sup>33</sup> / <sub>64</sub>
July, 1997	5 <sup>3</sup> / <sub>8</sub>	4 <sup>1</sup> / <sub>2</sub>
April, 1997	5 <sup>7</sup> / <sub>8</sub>	4 <sup>1</sup> / <sub>8</sub>

The closing price on April 13, 1999, was \$ 9 <sup>15</sup>/<sub>16</sub>. No cash dividends have been declared since completion of the Company's initial public offering. As of April 13, 1999, Books-A-Million, Inc., had approximately 25,300 stockholders based on the number of individual participants represented by security position listings.

### Annual Meeting of Stockholders

The annual meeting of stockholders will be held on June 3, 1999, at 10:00 a.m. central time at The Harbert Center, 2019 Fourth Avenue North, Birmingham, Alabama 35203. Stockholders of record as of April 19, 1999, are invited to attend this meeting.