

BOOKS·A·MILLION

2006 ANNUAL REPORT

2006

Notice of 2006 Annual Meeting and Proxy Statement

Letter to Stockholders, Management's Discussion and Analysis,
Consolidated Financial Statements

COMPANY PROFILE

Books-A-Million is one of the nation's leading book retailers and sells on the Internet at *www.booksamillion.com*. The Company presently operates more than 200 stores in 19 states and the District of Columbia. The Company operates two distinct store formats, including large superstores operating under the names Books-A-Million and Books & Co. and traditional bookstores operating under the names Books-A-Million, Bookland and Joe Muggs Newsstand.

FIVE-YEAR HIGHLIGHTS

<i>(In thousands, except per share amounts)</i>	For the Fiscal Year Ended:				
	1/28/06	1/29/05	1/31/04 ⁽¹⁾	2/1/03 ⁽²⁾	2/2/02
Statement of Income Data	52 weeks	52 weeks	52 weeks	52 weeks	52 weeks
Net sales	\$503,751	\$474,099	\$457,234	\$435,339	\$434,829
Income before cumulative effect of a change in accounting principle ⁽²⁾	13,067	10,199	7,126	2,554	3,944
Net income	13,067	10,199	7,126	1,353	3,944
Earnings per share – diluted, before cumulative effect of a change in accounting principle ⁽²⁾	0.77	0.59	0.42	0.15	0.23
Earnings per share – diluted	0.77	0.59	0.42	0.08	0.23
Weighted average shares – diluted	16,964	17,178	16,789	16,566	16,945
Capital investment	11,297	14,923	10,402	19,836	12,688
Dividends per share - declared	0.23	0.23	0.00	0.00	0.00
Balance Sheet Data					
Property and equipment, net	\$ 51,001	\$ 55,946	\$ 59,892	\$ 68,912	\$ 67,941
Total assets	311,659	300,812	296,398	319,484	306,083
Long-term debt	7,200	7,500	20,640	44,942	38,846
Stockholders' equity	145,009	134,859	131,001	122,694	121,212
Other Data					
Working capital	\$106,637	\$ 95,382	\$104,723	\$112,810	\$105,638
Debt to total capital ratio	0.05	0.05	0.14	0.27	0.24
Operational Data					
Total number of stores	205	206	202	207	204
Number of superstores	173	168	163	163	157
Number of traditional stores	32	38	39	44	47

- (1) Effective February 2, 2003, the Company changed its method of accounting for inventories to the last-in, first-out method, as discussed in Note 1 of the Consolidated Financial Statements.
- (2) Effective February 3, 2002, the Company adopted the provisions of Emerging Issues Task Force ("EITF") No. 02-16, *Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor*, as discussed in Note 1 of the Consolidated Financial Statements.

TO OUR STOCKHOLDERS:

Fiscal year 2006 was one of continued progress for Books-A-Million. We achieved strong comparable store sales results while reducing inventory, improving margins, and strengthening our balance sheet.

Book sales were excellent. Nearly all categories showed increases. Highlights included children's books, the games category, teen reading, entertainment, biography, humor, history, cooking and inspirational books.

Media once again played a key role in driving sales. The release of *Harry Potter and The Half Blood Prince* was a major media event. Movie tie-ins such as *The Chronicles Of Narnia* and *Harry Potter* further drove business in children's books. The Sudoku craze, reinforced by exposure in countless newspapers and magazines, fueled the game book category. Oprah's pick of James Frey's *A Million Little Pieces* — and the resulting controversy — generated tremendous sales in the biography category. Food Network stars Paula Deen and Rachael Ray dominated the cookbook category. Ultimately, it was a great year for books, and our team did a good job planning for and making the most of these media-driven opportunities.

Our non-book departments also performed well. Games and puzzles grew rapidly, benefiting from the Sudoku craze. An initiative in inspirational gifts delivered strong results, as did executive gifts resulting from our increased emphasis on imported gift merchandise. The café business is increasingly competitive, but the cold-drink category continues to grow, and an expanded selection of specialty candy saw excellent sales.

The positive sales results, combined with improvements in systems and operations, contributed to another year of improving margins, better inventory turn, and reduced debt. We opened seven new stores in 2006 and continued our remodeling program.

As a result of our team's dedicated efforts, we saw net income increase more than 28% and earnings per share improve by more than 30%. We increased our quarterly dividend to \$0.08 per share, which is now at an annual rate of \$0.32 per share.

We look forward to the new year with a commitment to maintaining our focus on the fundamentals of our business and continued growth. Thank you for your interest and support.



Clyde B. Anderson
Executive Chairman of the Board



Sandra B. Cochran
President, Chief Executive Officer and Secretary

FINANCIAL HIGHLIGHTS

(In thousands, except per share amounts)

Fiscal Year Ended

	1/28/06	1/29/05
Net sales	\$503,751	\$474,099
Operating profit	23,037	18,092
Net income	13,067	10,199
Net income per share – diluted	0.77	0.59
Dividends per share – declared	0.23	0.23

(In thousands)

As of

	1/28/06	1/29/05
Working capital	\$106,637	\$ 95,382
Total assets	311,659	300,812
Stockholders' equity	145,009	134,859

SELECTED CONSOLIDATED FINANCIAL DATA

<i>(In thousands, except per share data)</i>	Fiscal Year Ended				
	1/28/06	1/29/05	1/31/04 ⁽¹⁾	2/1/03 ⁽²⁾	2/2/02
Statement of Operations Data:	52 weeks	52 weeks	52 weeks	52 weeks	52 weeks
Net sales	\$503,751	\$474,099	\$457,234	\$435,339	\$434,829
Cost of products sold, including warehouse distribution and store occupancy costs	357,166	339,012	330,150	316,257	311,398
Gross profit	146,585	135,087	127,084	119,082	123,431
Operating, selling and administrative expenses	109,160	99,207	93,974	91,567	95,254
Gain on insurance recovery	1,248	--	--	--	--
Depreciation and amortization	15,636	17,788	18,065	18,229	17,195
Operating profit	23,037	18,092	15,045	9,286	10,982
Interest expense, net	1,441	1,874	2,909	4,171	4,429
Income from continuing operations before income taxes and cumulative effect of change in accounting principle	21,596	16,218	12,136	5,115	6,553
Provision for income taxes	8,545	6,001	4,613	1,944	2,489
Income from continuing operations before cumulative effect of change in accounting principle	13,051	10,217	7,523	3,171	4,064
Discontinued operations:					
(Loss) income from discontinued operations (including impairment charge)	27	(29)	(641)	(996)	(192)
Income tax provision (benefit)	11	(11)	(244)	(379)	(72)
(Loss) income from discontinued operations	16	(18)	(397)	(617)	(120)
Income before cumulative effect of change in accounting principle	13,067	10,199	7,126	2,554	3,944
Cumulative effect of change in accounting principle, net of income taxes	--	--	--	(1,201)	--
Net income	\$ 13,067	\$ 10,199	\$ 7,126	\$ 1,353	\$ 3,944
Net income per common share:					
Basic:					
Income from continuing operations before cumulative effect of change in accounting principle	\$ 0.80	\$ 0.62	\$ 0.46	\$ 0.20	\$ 0.24
Loss from discontinued operations	--	--	(0.02)	(0.04)	--
Income before cumulative effect of change in accounting principle	0.80	0.62	0.44	0.16	0.24
Cumulative effect of change in accounting principle	--	--	--	(0.08)	--
Net income per share	\$ 0.80	\$ 0.62	\$ 0.44	\$ 0.08	\$ 0.24
Weighted average number of shares outstanding - basic	16,384	16,453	16,279	16,190	16,667
Diluted:					
Income from continuing operations before cumulative effect of change in accounting principle	\$ 0.77	\$ 0.59	\$ 0.45	\$ 0.19	\$ 0.24
Loss from discontinued operations	--	--	(0.03)	(0.04)	(0.01)
Income before cumulative effect of change in accounting principle	0.77	0.59	0.42	0.15	0.23
Cumulative effect of change in accounting principle	--	--	--	(0.07)	--
Net income per share	\$ 0.77	\$ 0.59	\$ 0.42	\$ 0.08	\$ 0.23
Weighted average number of shares outstanding - diluted	16,964	17,178	16,789	16,566	16,945
Dividends per share – declared	\$ 0.23	\$ 0.23	--	--	--
Pro forma amounts assuming the change in accounting principle was applied retroactively: ⁽¹⁾					
Net income	N/A	N/A	N/A	N/A	\$ 3,891
Net income per share - basic	N/A	N/A	N/A	N/A	0.23
Net income per share - diluted	N/A	N/A	N/A	N/A	0.23
Balance Sheet Data:					
Property and equipment, net	\$ 51,001	\$ 55,946	\$ 59,892	\$ 68,912	\$ 67,941
Total assets	311,659	300,812	296,398	319,484	306,083
Long-term debt	7,200	7,500	20,640	44,942	38,846
Stockholders' investment	145,009	134,859	131,001	122,694	121,212
Other Data:					
Working capital	\$106,637	\$ 95,382	\$104,723	\$112,810	\$105,638

- (1) Effective February 2, 2003, the Company changed from the first-in, first-out (FIFO) method of accounting for inventories to the last-in, first-out (LIFO) method, as discussed in Note 1 of the Consolidated Financial Statements.
- (2) Effective February 3, 2002, the Company adopted the provisions of Emerging Issues Task Force ("EITF") No. 02-16, *Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor*, as discussed in Note 1 of the Consolidated Financial Statements.

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

General

The Company was founded in 1917 and currently operates 205 retail bookstores concentrated primarily in the southeastern United States. Of the 205 stores, 173 are superstores that operate under the names Books-A-Million and Books & Co., and 32 are traditional stores that operate under the Bookland, Books-A-Million and Joe Muggs Newsstand names. In addition to the retail store formats, the Company offers its products over the Internet at www.booksamillion.com and www.joemuggs.com. As of January 28, 2006, the Company employed approximately 5,000 full and part-time employees.

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 under-performing stores. During fiscal 2006, the Company opened seven stores, closed eight stores and relocated three stores. In fiscal 2002, the Company began an extensive remodeling program to bring a consistent look to each store and also to update equipment. Certain stores completed a major remodeling, including new flooring, resetting the fixtures and / or relocating the café. Other stores completed a minor remodeling which was limited to resetting fixtures, new signage and paint. The remodeled stores have consistently shown improvement in comparable store sales in the first year after completing their remodel. During fiscal 2006, the Company remodeled 16 stores. Approximately 66% of the Company's stores have been remodeled to date as part of the remodel program.

The Company's performance is partially measured based on comparable store sales, which is similar to most retailers. Comparable store sales are determined each fiscal quarter during the year based on all stores that have been open at least 12 full months as of the first day of the fiscal quarter. Any stores closed during a fiscal quarter are excluded from comparable store sales as of the first day of the quarter in which they close. 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.

Change in Accountants

Upon the recommendation of the Audit Committee of the Board of Directors of the Company, Deloitte & Touche LLP ("Deloitte") was dismissed as the Company's independent auditor effective April 29, 2005. Deloitte served as the Company's independent auditor for fiscal years 2003, 2004 and 2005. The reports of Deloitte for those fiscal years did not contain an adverse opinion or disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope or accounting principles. During those fiscal years and for fiscal year 2006 through April 29, 2005 there were no (A) disagreements with Deloitte on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of Deloitte, would have caused Deloitte to make reference to such disagreements in its reports provided to the Company; and (B) reportable events (as defined in Item 304(a)(1)(v) of Regulation S-K).

Effective April 29, 2005, the Company's Audit Committee engaged Grant Thornton LLP to audit the Company's financial statements for the fiscal year ending on January 28, 2006. Prior to the engagement of Grant Thornton LLP, neither the Company nor anyone on behalf of the Company had consulted with Grant Thornton LLP during the Company's two most recent fiscal years and for fiscal year 2006 through April 29, 2005 in any matter regarding either: (A) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's financial statements, and neither was a written report nor oral advice provided to the Company that Grant Thornton LLP concluded was an important factor considered by the Company in reaching a decision as to the accounting, auditing or financial reporting issue; or (B) any matter which was the subject of either a disagreement or a reportable event, as each are defined in Item 304(a)(1)(iv) and (v) of Regulation S-K, respectively.

Critical Accounting Policies

General

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements require management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related footnotes. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. The Company believes that the likelihood is remote that materially different amounts will be reported related to actual results for the estimates and judgments described below. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates.

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 buildings and amortization of leasehold improvements, including remodels, is provided on the straight-line basis over the lesser of the assets estimated useful lives (ranging from five to 40 years) or, if applicable, the periods of the leases. Determination of useful asset life is based on several factors requiring judgment by management and adherence to generally accepted accounting principles for depreciable periods. Judgment used by management in the determination of useful asset life could relate to any of the following factors: expected use of the asset; expected useful life of similar assets; any legal, regulatory, or contractual provisions that may limit the useful life; and other factors that may impair the economic useful life of the asset. Maintenance and repairs are charged to expense as incurred. Improvement costs are capitalized 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.

Other Long-Lived Assets

The Company's other long-lived assets consist of property and equipment which includes leasehold improvements. At January 28, 2006, the Company had \$51.0 million of property and equipment, net of accumulated depreciation, accounting for approximately 16.4% of the Company's total assets. The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets.*" The Company evaluates long-lived assets for impairment at the individual store level, which is the lowest level at which individual cash flows can be identified. When evaluating long-lived assets for potential impairment, the Company will first compare the carrying amount of the assets to the individual store's estimated future undiscounted cash flows. If the estimated future cash flows are less than the carrying amount of the assets, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the assets to the individual store's fair value based on its estimated discounted future cash flows. If required, an impairment loss is recorded for that portion of the asset's carrying value in excess of fair value. Impairment losses totaled \$0.2 million, \$0.3 million and \$1.0 million in fiscal 2006, 2005 and 2004, respectively, and were recorded in selling, general and administrative costs. For all years presented, the impairment losses related to the retail trade business segment.

Goodwill

At January 28, 2006, the Company had \$1.4 million of goodwill, accounting for approximately 0.4% of the Company's total assets. SFAS No. 142, "*Goodwill and Other Intangible Assets,*" requires that goodwill and other unamortizable intangible assets no longer be amortized, but instead be tested for impairment at least annually or earlier if there are impairment indicators. The Company performs a two-step process for impairment testing of goodwill as required by SFAS No. 142. The first step of this test, used to identify potential impairment, compares the estimated fair value of a reporting unit with its carrying amount. The second step (if necessary) measures the amount of the impairment. The Company completed its annual impairment test on the goodwill during the fourth quarter of fiscal 2006 and deemed that no impairment charge was necessary. The Company has noted no subsequent indicators of impairment. Changes in market conditions, among other factors, could have a material impact on these estimates.

Closed Store Expenses

Management considers several factors in determining when to close or relocate a store. Some of these factors are: decreases in store sales from the prior year, decreases in store sales from the current year budget, annual measurement of individual store pre-tax future net cash flows, indications that an asset no longer has an economically useful life, remaining term of an individual store lease, or other factors that would indicate a store in the current location cannot be profitable.

When the Company closes or relocates a store, the Company charges unrecoverable costs to expense. Such costs include the net book value of abandoned fixtures and leasehold improvements, lease termination costs, costs to transfer inventory and usable fixtures, other costs in connection with vacating the leased location, and a provision for future lease obligations, net of expected sublease recoveries. Costs associated with store closings of \$40,000, \$55,000 and \$219,000 during fiscal 2006, 2005 and 2004, respectively, are included in selling and administrative expenses in the accompanying consolidated statements of operations.

Inventories

Inventories are taken throughout the fiscal period. Store inventory counts are performed by an independent inventory service, while warehouse inventory counts are performed internally. All physical inventory counts are reconciled to the Company's records. The Company's accrual for inventory shortages is based upon historical inventory shortage results.

Cost is assigned to store and warehouse inventories using the retail inventory method. Using this method, store and warehouse inventories are valued by applying a calculated cost-to-retail ratio to the retail value of inventories. The retail method is an averaging method that is widely used within the retail industry. Inventory costing also requires certain significant management estimates and judgments involving markdowns, the allocation of vendor allowances and shrinkage. These practices affect ending inventories at cost as well as the resulting gross margins and inventory turnover ratios.

The Company utilizes the last-in, first-out (LIFO) method of accounting for inventories. The cumulative difference between replacement and current cost of inventory over stated LIFO value is \$1.5 million as of January 28, 2006 and \$1.1 million as of January 29, 2005. The estimated replacement cost of inventory is the current FIFO value of \$206.3 million.

Vendor Allowances

The Company receives allowances from its vendors from a variety of programs and arrangements, including merchandise placement and cooperative advertising programs. Effective February 3, 2002, the Company adopted the provisions of Emerging Issues Task Force (“EITF”) No. 02-16, *Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor*, which addresses the accounting for vendor allowances. As a result of the adoption of this statement, vendor allowances in excess of incremental direct costs are reflected as a reduction of inventory costs and recognized in cost of products sold upon the sale of the related inventory.

Accrued Expenses

On a monthly basis, certain material expenses are estimated and accrued to properly record those expenses in the period incurred. Such estimates include those made for payroll and employee benefits costs, occupancy costs and advertising expenses among other items. Certain estimates are made based upon analysis of historical results. Differences in management’s estimates and assumptions could result in accruals that are materially different from the actual results.

Income Taxes

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that result in temporary differences between the amounts recorded in its financial statements and 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.

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		
	1/28/06	1/29/05	1/31/04
Net sales	100.0%	100.0%	100.0%
Gross profit	29.1%	28.5%	27.8%
Operating, selling, and administrative expenses	21.7%	20.9%	20.5%
Gain on insurance recoveries	(0.3%)	0.0%	0.0%
Depreciation and amortization	3.1%	3.8%	4.0%
Operating profit	4.6%	3.8%	3.3%
Interest expense, net	0.3%	0.4%	0.6%
Income from continuing operations before income taxes	4.3%	3.4%	2.7%
Provision for income taxes	1.7%	1.2%	1.0%
Income from continuing operations	2.6%	2.2%	1.7%
(Gain)/loss from discontinued operations (including impairment charge), net of tax	0.0%	0.0%	0.1%
Net income	2.6%	2.2%	1.6%

Fiscal 2006 Compared to Fiscal 2005

Consolidated net sales increased \$29.7 million, or 6.3%, to \$503.8 million in fiscal 2006 from \$474.1 million in fiscal 2005. Comparable store sales increased 3.3% when compared to the same 52-week period last year. The increase in comparable store sales was primarily attributable to an increase in book and gift sales. Several categories of book sales showed increases, including children’s books, the games category, teen reading, entertainment, biography, humor, history, cooking, and inspirational books. Media played a key role in driving sales. The release of *Harry Potter and The Half Blood Prince* was a major media event. Movie tie-ins such as *The Chronicles Of Narnia* and *Harry Potter* drove business in children’s books. The Sudoku craze fueled the game book category. Teen fiction continued to experience dynamic growth, predominately as a

result of interest in a wide ranging number of fiction titles. Oprah's pick of James Frey's *A Million Little Pieces* generated sales in the biography category. Bestselling titles *1776* and *The World is Flat* drove sales in the history category, and Food Network stars Paula Deen and Rachael Ray dominated the cookbook category.

The gift department also performed well. Games and puzzles grew rapidly, benefiting from the Sudoku craze. An initiative in inspirational gifts delivered strong results, as did executive gifts from our increased emphasis on imported gift merchandise. The café business is increasingly competitive, but the cold-drink category continues to grow, and an expanded selection of specialty candy helped improve sales.

The Company opened seven new stores during fiscal 2006 resulting in partial year sales of \$9.9 million and closed eight stores during fiscal 2006 with partial year sales of \$4.3 million. The stores in Biloxi, Mississippi, and Deerfield Beach, Florida, were temporarily closed due to the hurricanes, which decreased sales by \$1.4 million for fiscal 2006 versus fiscal 2005.

Net sales for the retail trade segment increased \$30.9 million, or 6.6%, to \$496.6 million in fiscal 2006 from \$465.7 million in fiscal 2005. The increase in comparable store sales was primarily attributable to the increases in book and gift sales described above.

Net sales for the electronic commerce segment increased \$0.9 million, or 3.6%, to \$27.6 million in fiscal 2006 from \$26.7 million in fiscal 2005. This increase was primarily due to growth in business-to-business sales volume during fiscal 2006.

Gross profit, which includes cost of sales, distribution costs and occupancy costs (including rent, common area maintenance, property taxes, utilities and merchant association dues), increased \$11.5 million, or 8.5%, to \$146.6 million in fiscal 2006 from \$135.1 million in fiscal 2005. Gross profit as a percentage of net sales increased to 29.1% in fiscal 2006 from 28.5% in fiscal 2005, partially due to increased sales of proprietary product which has a higher gross profit than regular product. Also, the Company was able to generate higher sales in fiscal 2006 with less promotional discounting.

Operating, selling and administrative expenses increased \$10.0 million, or 10.0%, to \$109.2 million in fiscal 2006, from \$99.2 million in fiscal 2005. Operating, selling and administrative expenses as a percentage of net sales increased to 21.7% in fiscal 2006 from 20.9% in fiscal 2005, primarily due to the impact of costs incurred for Sarbanes-Oxley compliance, costs associated with the NASDAQ de-listing hearing in October 2005 and other corporate expenses.

In fiscal 2006, the Company recognized an insurance gain of \$754,000, net of taxes, related to insurance recoveries for hurricane damage suffered at three stores in the third quarter of fiscal 2005. The insurance recovery amounts were finalized with the insurance company during fiscal 2006, therefore the gain was recorded in the current fiscal year.

Depreciation and amortization decreased \$2.2 million, or 12.1%, to \$15.6 million in fiscal 2006 from \$17.8 million in fiscal 2005. Depreciation and amortization as a percentage of net sales decreased to 3.1% in fiscal 2006 from 3.8% in fiscal 2005, due to lower capital expenditures in fiscal 2006, as well as the impact of certain assets becoming fully depreciated during the prior year.

Consolidated operating profit was \$23.0 million for fiscal 2006 compared to \$18.1 million in fiscal 2005. Operating profit for the retail trade segment was \$22.4 million in fiscal 2006 versus \$16.9 million in fiscal 2005. This increase was partially attributable to increased comparable store sales which resulted in higher gross profit for fiscal 2006. Also, gross profit improved as a percentage of sales due to increased sales of proprietary product which has a higher gross profit, as well as less promotional discounting due to the strong sales environment. These increases were partially offset by higher operating, selling and administrative expenses as a percentage of sales due to the costs incurred for Sarbanes-Oxley compliance, costs associated with the NASDAQ de-listing hearing and other corporate expenses. The operating profit for the electronic commerce segment was \$1.0 million compared to \$0.9 million in fiscal 2005. The improvement in operating results was due to improved gross margin as a result of increased sales.

Net interest expense decreased \$0.5 million, or 23.1%, to \$1.4 million in fiscal 2006 from \$1.9 million in fiscal 2005, primarily due to lower average debt levels during fiscal 2006.

The effective rate for income tax purposes was 39.6% for fiscal 2006 and 37.0% for fiscal 2005. The increase in the effective tax rate was due to a higher state effective tax rate in fiscal 2006.

The Company closed two stores in fiscal 2006 and 2005 in markets where the Company does not expect to retain the closed stores' customers at another store. The financial impact of these closings was reported as discontinued operations in the financial statements, but had a minimal impact on the financial results of the Company.

Fiscal 2005 Compared to Fiscal 2004

Consolidated net sales increased \$16.9 million, or 3.7%, to \$474.1 million in fiscal 2005 from \$457.2 million in fiscal 2004. Comparable store sales increased 2.5% when compared to the same 52-week period of fiscal 2004. The increase in comparable store sales was primarily attributable to an increase in book sales and increase in café sales. The book sales increase was due to strong sales performance in categories such as: Fiction, which had broad based strength in many titles; Inspirational, with strong sales of *The Purpose Driven Life*; Biography, with strong sales of Bill Clinton's *My Life*; and Humor, which was driven by sales of *Jon Stewart's America (The Book)* and *He's Just Not That Into You*. The café sales increase was driven by the strong performance in the frappe line of cold drinks. The Company opened six new stores during fiscal 2005 resulting in partial year sales of \$3.6 million and closed two stores during fiscal 2005 with partial year sales of \$1.0 million. One of the closed stores was located in Stewart, Florida, and was not reopened after substantial damage due to Hurricane Jean. Additional detail is discussed in the footnotes regarding Impairment of Long-Lived Assets, Closed Store Expenses and Discontinued Operations.

Net sales for the retail trade segment increased \$14.6 million, or 3.2%, to \$465.7 million in fiscal 2005 from \$451.1 million in fiscal 2004. The increase in comparable store sales was primarily attributable to an increase in book sales and increase in café sales. The book sales increase was due to strong sales performance in categories such as: Fiction, which had broad based strength in many titles; Inspirational, with strong sales of *The Purpose Driven Life*; Biography, with strong sales of Bill Clinton's *My Life*; and Humor, which was driven by sales of *Jon Stewart's America (The Book)* and *He's Just Not That Into You*. The café sales increase was driven by the strong performance in the frappe line of cold drinks. Net sales for the electronic commerce segment increased \$1.2 million, or 4.7%, to \$26.7 million in fiscal 2005 from \$25.5 million in fiscal 2004. This increase was primarily due to growth in business-to-business sales volume during fiscal 2005.

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, which includes cost of sales, distribution costs and occupancy costs (including rent, common area maintenance, property taxes, utilities and merchant association dues), increased \$8.0 million, or 6.3%, to \$135.1 million in fiscal 2005 from \$127.1 million in fiscal 2004. Gross profit as a percentage of net sales increased to 28.5% in fiscal 2005 from 27.8% in fiscal 2004, primarily due to less promotional discounting and improved margin due to increased sales of proprietary product.

Operating, selling and administrative expenses increased \$5.2 million, or 5.6%, to \$99.2 million in fiscal 2005, from \$94.0 million in fiscal 2004. Operating, selling and administrative expenses as a percentage of net sales increased to 20.9% in fiscal 2005 from 20.5% in fiscal 2004, partially due to the impact of costs incurred for Sarbanes-Oxley compliance, as well as increased general corporate expenses.

Depreciation and amortization decreased \$0.3 million, or 1.5%, to \$17.8 million in fiscal 2005 from \$18.1 million in fiscal 2004. Depreciation and amortization as a percentage of net sales decreased to 3.8% in fiscal 2005 from 4.0% in fiscal 2004, due to lower capital expenditures in fiscal 2005.

Consolidated operating profit was \$18.1 million for fiscal 2005 compared to \$15.0 million in fiscal 2004. Operating profit for the retail trade segment was \$16.9 million in fiscal 2005 versus \$14.2 million in fiscal 2004. This increase was primarily attributable to the higher comparable store sales during fiscal 2005. The operating profit for the electronic commerce segment was \$0.9 million compared to \$0.3 million in fiscal 2004. The improvement in operating results was due to improved gross margin as a result of increased sales, as well as improved sales mix.

Net interest expense decreased \$1.0 million, or 35.6%, to \$1.9 million in fiscal 2005 from \$2.9 million in fiscal 2004, primarily due to lower average debt levels during fiscal 2005.

The effective rate for income tax purposes was 37.0% for fiscal 2005 and 38.0% for fiscal 2004.

Loss from discontinued operations was \$0.0 million in fiscal 2005 compared to \$0.6 million in fiscal 2004. The income tax benefit on the loss from discontinued operations was \$0.0 million in fiscal 2005 and \$0.2 million in fiscal 2004. Loss from discontinued operations, net of tax, was \$0.0 million in fiscal 2005 compared to \$0.4 million in fiscal 2004. These losses in fiscal 2005 and fiscal 2004 represent the results during those years of two stores that were closed in fiscal 2006, two stores that were closed in fiscal 2005 and four stores that were closed in fiscal 2004 in markets where the Company does not expect to retain the closed stores' customers at another store.

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. The Company's results of operations depend significantly upon net sales generated during the fourth fiscal quarter, and any significant adverse trend in the net sales of such period would have a material adverse impact on the Company's results of operations for the full year.

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

The Company's primary sources of liquidity are cash flows from operations, including credit terms from vendors, and borrowings under its credit facilities. The Company has an unsecured revolving credit facility under a credit agreement with a syndicate of banks that allows borrowings up to \$100.0 million, for which no principal repayments are due until the facility expires in July 2007. Availability under the facility is reduced by outstanding letters of credit issued under this facility. The credit agreement contains certain financial and non-financial covenants, the most restrictive of which is the maintenance of a minimum fixed charge coverage ratio. As of January 28, 2006 and January 29, 2005, there were no outstanding balances under this credit facility and the face amount of letters of credit issued under the facility was \$3.0 million and \$2.6 million, respectively. The maximum and average outstanding borrowings under the credit facility (excluding the face amount of letters of credit issued thereunder) during fiscal 2006 were \$23.7 million and \$10.0 million, respectively.

During fiscal 1996 and fiscal 1995, the Company acquired and constructed certain warehouse and distribution facilities with the proceeds of loans made pursuant to an industrial development revenue bond (the "Bond"), which are secured by a mortgage interest in these facilities. As of January 28, 2006 and January 29, 2005, there was \$7.2 million and \$7.5 million of borrowings outstanding, respectively, under these arrangements, which bear interest at variable rates.

The Company's capital expenditures totaled \$11.3 million in fiscal 2006. These expenditures were primarily used for new store openings, renovation and improvements to existing stores, upgrades and expansion of warehouse distribution facilities and investment in management information systems. Management estimates that capital expenditures for fiscal 2007 will be approximately \$26.4 million and that such amounts will be used for purposes similar to fiscal 2006. The increase in capital expenditures projected for fiscal 2007 is partially due to more new stores expected to be opened and relocations expected in fiscal 2007 versus fiscal 2006, and partially due to a greater number of the new stores expected to be opened in fiscal 2007 being built entirely by the Company, with the Company then being reimbursed by the landlord through allowances treated as a sale/leaseback transaction. 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 2007.

Financial Position

During fiscal 2006, the Company opened seven stores and closed eight stores. Improved inventory management resulted in a decrease in inventory balances to \$204.8 million at January 28, 2006, as compared to \$210.3 million at January 29, 2005. The improvement in inventory management was driven by enhancements to the inventory replenishment systems which allowed the Company to more effectively manage inventory levels at the individual store level. Net property and equipment decreased due to lower capital expenditures in fiscal 2006. Additionally, cash and cash equivalents increased as of January 28, 2006 compared to January 29, 2005 primarily due to improved earnings, lower inventory balances and lower capital expenditures.

Future Commitments

The following table lists the aggregate maturities of various classes of obligations and expiration amounts of various classes of commitments related to Books-A-Million, Inc. at January 28, 2006:

<i>(in thousands)</i>	Payments Due Under Contractual Obligations						
	Total	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	Thereafter
Long-term debt – revolving credit facility	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Long-term debt – industrial revenue bond	7,200	--	7,200	--	--	--	--
Operating leases	138,506	30,916	27,343	22,083	17,028	13,404	27,732
Total of obligations	<u>\$145,706</u>	<u>\$30,916</u>	<u>\$34,543</u>	<u>\$22,083</u>	<u>\$17,028</u>	<u>\$13,404</u>	<u>\$27,732</u>

Guarantees

From time to time, the Company enters into certain types of agreements that require the Company to indemnify parties against third-party claims. Generally, these agreements relate to: (a) agreements with vendors and suppliers, under which the Company may provide customary indemnification to its vendors and suppliers in respect of actions they take at the Company's request or otherwise on its behalf, (b) agreements with vendors who publish books or manufacture merchandise specifically for the Company to indemnify the vendors against trademark and copyright infringement claims concerning the books published or merchandise manufactured on behalf of the Company, (c) real estate leases, under which the Company may agree to indemnify the lessors for claims arising from the Company's use of the property, and (d) agreements with the Company's directors, officers and employees, under which the Company may agree to indemnify such persons for liabilities arising out of their relationship with the Company. The Company has Directors and Officers Liability Insurance, which, subject to the policy's conditions, provides coverage for indemnification amounts payable by the Company with respect to its directors and officers up to specified limits and subject to certain deductibles.

The nature and terms of these types of indemnities vary. The events or circumstances that would require the Company to perform under these indemnities are transaction and circumstance specific. The overall maximum amount of the obligations cannot be reasonably estimated. Historically, the Company has not incurred significant costs related to performance under these types of indemnities. No liabilities have been recorded for these obligations on the Company's balance sheet at January 28, 2006 and January 29, 2005, as such liabilities are considered de minimis.

Cash Flows

Operating activities provided cash of \$36,713,000, \$47,193,000 and \$34,678,000 in fiscal 2006, 2005 and 2004 respectively, and included the following effects:

- Cash provided by inventories was \$5,481,000, \$1,321,000 and \$12,428,000 in fiscal 2006, fiscal 2005 and fiscal 2004, respectively. This was primarily the result of increased sales and improved inventory management during the respective years.
- Cash used by accounts payable (including related party payables) in fiscal 2006 of \$5,914,000 was due to lower inventory levels for fiscal 2006 which resulted in lower accounts payable balances. Cash provided by accounts payable (including related party payables) in fiscal 2005 of \$10,015,000 was the result of improved accounts payable leveraging with vendors in fiscal 2005. Cash used by accounts payable (including related party payables) in fiscal 2004 of \$11,895,000 was due to lower inventory levels for fiscal 2004 which resulted in lower accounts payable balances.
- Depreciation and amortization expenses were \$15,651,000, \$17,843,000 and \$18,325,000 in fiscal 2006, 2005 and 2004, respectively. The decrease in fiscal 2006 and 2005 was primarily due to certain assets becoming fully depreciated in those years.
- Cash provided by accrued expenses was \$5,519,000, \$6,379,000 and \$4,144,000 in fiscal 2006, 2005 and 2004, respectively. The increase in fiscal 2006, 2005 and 2004 was primarily due to increases in deferred revenues related to the Company's discount card, deferred rent related to landlord allowances and higher bonus accruals due to the Company's improved earnings performance in fiscal 2006, 2005 and 2004.

Cash used in investing activities in fiscal 2006, 2005 and 2004 reflected a net use of cash of \$11,286,000, \$14,879,000 and \$10,363,000, respectively. Cash was used to fund capital expenditures for new store openings, renovation and improvements to existing stores, warehouse distribution purposes and investments in management information systems.

Financing activities used cash of \$4,467,000 in fiscal 2006 primarily to purchase stock (\$5,324,000) and for dividend payments (\$3,273,000), offset by proceeds from the issuance of stock upon the exercise of stock options (\$4,430,000). Financing activities used cash of \$21,103,000 in fiscal 2005 primarily to repay debt under the credit facility (\$13,140,000), to purchase stock (\$6,359,000) and for dividend payments (\$3,009,000). Financing activities used cash of \$23,944,000 in fiscal 2004 representing a net repayment of debt under the credit facility.

Dividends

The Company paid \$3.3 million in dividends in fiscal 2006 and \$3.0 million in dividends in fiscal 2005. See the table below for summary of dividends declared each quarter.

	Dividends Declared	
	<u>Fiscal 2006</u>	<u>Fiscal 2005</u>
First quarter	\$0.05	--
Second quarter	\$0.05	\$0.15 (1)
Third quarter	\$0.05	\$0.03
Fourth quarter	<u>\$0.08</u>	<u>\$0.05</u>
Annual Total	<u>\$0.23</u>	<u>\$0.23</u>

(1) In August 2004 a special one-time dividend of \$0.12 per share was declared, as well as the first quarterly dividend of \$0.03 per share.

Outlook

For fiscal 2007, the Company currently expects to open approximately eight to ten new stores, relocate or remodel approximately 10 to 15 stores and close approximately two to four stores. Management estimates that capital expenditures for fiscal 2007 will be approximately \$26.4 million and that such amounts will be used primarily for new store openings, renovations and improvements to existing stores, warehouse distribution improvements, and investment in management information systems. The increase in capital expenditures versus prior years is partially due to more new stores and relocations projected in fiscal 2007, as well as a greater number of the new stores being built by the Company with the Company then being reimbursed by the landlord through allowances treated as a sale / leaseback transaction.

New Accounting Standards

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004, “*Share-Based Payment*”). SFAS No. 123R, “*Accounting for Stock-Based Compensation*,” is a revision of SFAS No. 123 and supersedes APB Opinion No. 25, “*Accounting for Stock Issued to Employees*.” SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. SFAS No. 123R is effective at the beginning of the first annual period beginning after June 15, 2005 (as modified by the SEC on April 14, 2005). Under APB Opinion No. 25, no stock-based compensation cost had been reflected in the net income of the Company for grants of stock options to employees. No new stock options have been granted to employees since December 2004. Beginning in fiscal 2007, the Company will recognize compensation expense in its financial statements based on the fair value of all share-based payments to employees. The impact of adopting this new accounting standard will be to reduce net income by approximately \$400,000, net of taxes, or \$0.02 per diluted share in fiscal 2007 for unvested options issued prior to January 28, 2006.

In November, 2004 FASB issued SFAS No. 151, “*Inventory Costs*,” which amends ARB No. 43, Chapter 4 “*Inventory Pricing*.” SFAS No. 151 clarifies the accounting for inventory costs related to abnormal amounts of idle facility expense, freight, handling costs and wasted material. This Statement requires that those items be recognized as current period charges regardless of whether they meet the criteria of “so abnormal.” SFAS No. 151 is effective with fiscal years beginning after June 15, 2005. The impact of adopting this new accounting standard on the Company’s financial position, results of operations or cash flows has not yet been determined.

In December, 2004 FASB issued SFAS No. 153, “*Exchanges of Nonmonetary Assets*,” which amends APB Opinion No. 29, “*Accounting For Nonmonetary Transactions*,” to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective in the first fiscal period beginning after June 15, 2005. The adoption of this new accounting standard is not expected to have a material effect on the Company’s financial position, results of operations or cash flows.

In May, 2005 FASB issued SFAS No. 154, “*Accounting Changes and Error Corrections*,” which replaced APB Opinion No. 20, “*Accounting Changes*” and SFAS No. 3, “*Reporting Accounting Changes in Interim Financial Statements*.” SFAS No. 154 changes the requirements for the accounting for, and the reporting of, a change in accounting principle. APB Opinion No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS No. 154 now requires retrospective application to prior periods’ financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 is effective with fiscal years beginning after December 15, 2005. The impact of adopting this new accounting standard on the Company’s financial position, results of operations or cash flows has not yet been determined.

FASB Staff Position No. 115-1, “*The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*” (“FSP 115-1”), was issued in November 2005, which amends SFAS No. 115, “*Accounting for Certain Investments in Debt and Equity Securities*,” SFAS No. 124, “*Accounting for Certain Investments Held by Not-for-Profit Organizations*,” and APB Opinion No. 18 “*The Equity Method of Accounting for Investments in Common Stock*.” FSP No. 115-1 addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary and the measurement of an impairment loss. FSP No. 115-1 is effective with fiscal periods beginning after December 15, 2005. The impact of adopting this new staff position on the Company’s financial position, results of operations or cash flows has not yet been determined.

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 of merchandise to, related parties. Related party inventory purchases increased by \$4.5 million, or 14.7%, to \$34.6 million in fiscal 2006 compared to fiscal 2005 purchases of \$30.1 million. The increase in related party purchases was primarily due to increased magazine purchases versus fiscal 2005. Related party sales transactions increased in fiscal 2006 to \$1.1 million, an increase of \$0.6 million as a result of increased book merchandise sales. The Company leases certain office, retail and warehouse space from related parties, for which the rents have remained relatively unchanged. Management believes the terms of these related party transactions are substantially equivalent to those available from unrelated parties.

Disclosure Regarding Forward-Looking Statements

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 areas; 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 the Internet and the Company’s Internet operations; 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, stockholders and prospective investors are cautioned not to place undue reliance on such forward-looking statements. The Company disclaims any obligation to update any such factors or to publicly announce the results of any of the forward-looking statements contained herein to reflect future events or developments.

CONSOLIDATED BALANCE SHEETS

<i>(Dollars In thousands, except per share amounts)</i>	As Of	
	1/28/06	1/29/05
Assets		
Current Assets:		
Cash and cash equivalents	\$ 37,519	\$ 16,559
Accounts receivable, net of allowance for doubtful accounts of \$840 and \$581, respectively	9,668	6,543
Related party receivables	1,134	73
Inventories	204,789	210,270
Prepayments and other	4,340	6,911
Deferred income taxes	-	1,704
Total Current Assets	<u>257,450</u>	<u>242,060</u>
Property and Equipment:		
Land	628	628
Buildings	6,470	6,439
Equipment	72,594	67,942
Furniture and fixtures	48,370	44,279
Leasehold improvements	73,404	71,323
Construction in process	2,072	5,353
Gross Property and Equipment	<u>203,538</u>	<u>195,964</u>
Less accumulated depreciation and amortization	<u>152,537</u>	<u>140,018</u>
Net Property and Equipment	<u>51,001</u>	<u>55,946</u>
Deferred Income Taxes	<u>1,662</u>	<u>-</u>
Other Assets:		
Goodwill	1,368	1,368
Other	178	1,438
Total Other Assets	<u>1,546</u>	<u>2,806</u>
Total Assets	<u>\$311,659</u>	<u>\$300,812</u>
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable:		
Trade	\$ 98,171	\$ 97,185
Related party	2,691	9,591
Accrued expenses	45,459	38,360
Accrued income taxes	1,838	1,542
Deferred income taxes	2,654	-
Total Current Liabilities	<u>150,813</u>	<u>146,678</u>
Long-term Debt	<u>7,200</u>	<u>7,500</u>
Deferred Income Taxes	<u>-</u>	<u>1,415</u>
Other Long-term Liabilities	<u>8,637</u>	<u>10,360</u>
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, \$.01 par value; 1,000,000 shares authorized, no shares outstanding	-	-
Common stock, \$.01 par value; 30,000,000 shares authorized 19,764,223 and 19,067,960 shares issued at January 28, 2006 and January 29, 2005, respectively	198	191
Additional paid-in capital	80,976	74,505
Treasury stock at cost (3,287,317 shares at January 28, 2006 and 2,792,869 shares at January 29, 2005, respectively)	(16,954)	(11,630)
Deferred compensation	(1,467)	(481)
Accumulated other comprehensive loss, net of tax	(7)	(195)
Retained earnings	82,263	72,469
Total Stockholders' Equity	<u>145,009</u>	<u>134,859</u>
Total Liabilities and Stockholders' Equity	<u>\$311,659</u>	<u>\$300,812</u>

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

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	Fiscal Year Ended		
	1/28/06	1/29/05	1/31/04
	52 weeks	52 weeks	52 weeks
Net sales	\$503,751	\$474,099	\$457,234
Cost of products sold, including warehouse distribution and store occupancy costs	357,166	339,012	330,150
Gross profit	146,585	135,087	127,084
Operating, selling and administrative expenses	109,160	99,207	93,974
Gain on insurance recoveries (note 10)	1,248	--	--
Depreciation and amortization	15,636	17,788	18,065
Operating profit	23,037	18,092	15,045
Interest expense, net	1,441	1,874	2,909
Income from continuing operations before income taxes	21,596	16,218	12,136
Provision for income taxes	8,545	6,001	4,613
Income from continuing operations	13,051	10,217	7,523
Discontinued operations:			
(Loss) income from discontinued operations before taxes (including impairment charge)	27	(29)	(641)
Income tax provision (benefit)	11	(11)	(244)
(Loss) income from discontinued operations	16	(18)	(397)
Net Income	\$13,067	\$10,199	\$7,126
Net income per common share:			
Basic			
Income from continuing operations	\$0.80	\$0.62	\$0.46
Loss from discontinued operations	--	--	(0.02)
Net Income per share	\$0.80	\$0.62	\$0.44
Weighted average number of shares outstanding – basic	16,384	16,453	16,279
Diluted			
Income from continuing operations	\$0.77	\$0.59	\$0.45
Loss from discontinued operations	--	--	(0.03)
Net Income per share	\$0.77	\$0.59	\$0.42
Weighted average number of shares outstanding – diluted	16,964	17,178	16,789
Dividends per share – declared	\$0.23	\$0.23	--

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

<i>(In thousands)</i>	Common Stock		Additional	Treasury Stock		Restricted	Retained	Accumulated	Total
	Shares	Amount	Paid-In	Shares	Amount	Stock	Earnings	Other	Stockholders'
			Capital			Amount		Comprehensive	Equity
								Income (Loss)	
Balance, February 1, 2003	18,212	\$182	\$70,849	2,010	\$(5,271)	\$ -	\$58,153	\$(1,219)	\$122,694
Net income							7,126		7,126
Unrealized gain on accounting for derivative instruments, net of tax provision of \$139								228	228
Reclassification of unrealized loss related to de-designation of cash flow hedge, net of tax benefit of \$174								284	284
Subtotal comprehensive income									7,638
Issuance of restricted stock	34		284			(284)			--
Issuance of stock for employee stock purchase plan	42		83						83
Exercise of stock options	177	3	442						445
Tax benefit from exercise of stock options			141						141
Balance, January 31, 2004	18,465	\$185	\$71,799	2,010	\$(5,271)	\$(284)	\$65,279	\$(707)	\$131,001
Net income							10,199		10,199
Unrealized gain on accounting for derivative instruments, net of tax provision of \$285								485	485
Reclassification of unrealized loss related to de-designation of cash flow hedge, net of tax benefit of \$16								27	27
Subtotal comprehensive income									10,711
Purchase of treasury stock, at cost				783	(6,359)				(6,359)
Dividends paid							(3,009)		(3,009)
Issuance of restricted stock	48	1	363			(364)			--
Amortization of deferred compensation related to restricted stock						167			167
Issuance of stock for employee stock purchase plan	22		46						46
Exercise of stock options	533	5	1,354						1,359
Tax benefit from exercise of stock options			943						943
Balance, January 29, 2005	19,068	\$191	\$74,505	2,793	\$(11,630)	\$(481)	\$72,469	\$(195)	\$134,859
Net income							\$13,067		\$13,067
Unrealized gain on accounting for derivative instruments, net of tax provision of \$89								141	141
Reclassification of unrealized loss related to de-designation of cash flow hedge, net of tax benefit of \$30								47	47
Subtotal comprehensive income									13,255
Purchase of treasury stock, at cost				494	(5,324)				(5,324)
Dividends paid							(3,273)		(3,273)
Issuance of restricted stock	43	1	1,433			(1,434)			--
Amortization of deferred compensation related to restricted stock						448			448
Issuance of stock for employee stock purchase plan	13		84						84
Exercise of stock options	640	6	4,341						4,347
Tax benefit from exercise of stock options			613						613
Balance, January 28, 2006	19,764	\$198	\$80,976	3,287	\$(16,954)	\$(1,467)	\$82,263	\$(7)	\$145,009

The accompanying notes are an integral part of these consolidated statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(In thousands)</i>	Fiscal Year Ended		
	1/28/06	1/29/05	1/31/04
Cash Flows from Operating Activities:			
Net income	\$13,067	\$10,199	\$7,126
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	15,651	17,843	18,325
Loss on impairment of assets	215	356	1,211
(Gain) loss on sale of property and equipment	(4)	(29)	73
Deferred income tax provision	1,281	2,352	1,934
Tax benefit of exercise of stock options	613	943	141
Reclassification of unrealized loss from de-designation of cash flow hedge	47	27	284
Deferred compensation amortization	448	167	-
(Increase) decrease in assets:			
Accounts receivable	(2,673)	728	528
Related party receivables	(1,061)	278	86
Inventories	5,481	1,321	12,428
Prepayments and other	2,571	(1,021)	(510)
Noncurrent assets (excluding amortization)	1,176	(533)	-
Increase (decrease) in liabilities:			
Accounts payable	986	9,201	(11,601)
Related party payables	(6,900)	814	(294)
Accrued income taxes	296	(1,832)	803
Accrued expenses	5,519	6,379	4,144
Total adjustments	23,646	36,994	27,552
Net cash provided by operating activities	36,713	47,193	34,678
Cash Flows from Investing Activities:			
Capital expenditures	(11,297)	(14,923)	(10,402)
Proceeds from sale of property and equipment	11	44	39
Net cash used in investing activities	(11,286)	(14,879)	(10,363)
Cash Flows from Financing Activities:			
Borrowings under credit facilities	189,120	171,400	192,490
Repayments under credit facilities	(189,420)	(184,540)	(216,790)
Proceeds from exercise of stock options and issuance of common stock under employee stock purchase plan	4,430	1,405	528
Purchase of treasury stock	(5,324)	(6,359)	-
Payment of dividends	(3,273)	(3,009)	-
Repayments of other debt	-	-	(172)
Net cash used in financing activities	(4,467)	(21,103)	(23,944)
Net Increase in Cash and Cash Equivalents	20,960	11,211	371
Cash and Cash Equivalents at Beginning of Year	16,559	5,348	4,977
Cash and Cash Equivalents at End of Year	\$37,519	\$16,559	\$5,348
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the year for:			
Interest	\$ 1,607	\$ 2,036	\$3,133
Income taxes, net of refunds	\$ 6,787	\$ 1,650	\$1,694

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. 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 205 bookstores in 19 states and the District of Columbia, which are predominantly located in the southeastern United States. The Company also operates a retail Internet website. The Company presently consists of Books-A-Million, Inc. and its two wholly owned subsidiaries, American Wholesale Book Company, Inc. (“American Wholesale”) and American Internet Service, Inc (“AIS”). All inter-company balances and transactions have been eliminated in consolidation. For a discussion of the Company’s business segments, see Note 8.

Fiscal Year

The Company operates on a 52 or 53-week year, with the fiscal year ending on the Saturday closest to January 31. Fiscal years 2006, 2005 and 2004 were all 52-week periods.

Use of Estimates in the Preparation of Financial Statements

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

Revenue Recognition

The Company recognizes revenue from the sale of merchandise at the time the merchandise is sold and the customer takes delivery. Returns are recognized at the time the merchandise is returned and processed. At each period end, an estimate of sales returns is recorded. Sales return reserves are based on historical returns as a percentage of sales activity. The historical returns percentage is applied to the sales for which returns are projected to be received after period end. The estimated returns percentage and return dollars have not materially changed in the last several years.

The Company sells its Millionaire’s Club Card, which entitles the customer to receive a ten percent discount on all purchases made during the twelve-month membership period, for a non-refundable fee. The Company recognizes this revenue over the twelve-month membership period based upon historical customer usage patterns. Related deferred revenue is included in accrued expenses.

Vendor Allowances

The Company receives allowances from its vendors from a variety of programs and arrangements, including placement and cooperative advertising programs. Effective February 3, 2002, the Company adopted the provisions of Emerging Issues Task Force (“EITF”) No. 02-16, *Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor*, which addresses the accounting for vendor allowances. As a result of the adoption of this statement, vendor allowances in excess of incremental direct costs are reflected as a reduction of inventory costs and recognized in cost of products sold upon the sale of the related inventory.

Inventories

Inventories are valued at the lower of cost or market, using the retail method. Market is determined based on the lower of replacement cost or estimated realizable value. Using the retail method, store and warehouse inventories are valued by applying a calculated cost to retail ratio to the retail value of inventories.

The Company currently utilizes the last-in, first-out (LIFO) method of accounting for inventories. The cumulative difference between replacement and current cost of inventory over stated LIFO value is \$1.5 million as of January 28, 2006 and \$1.1 million as of January 29, 2005. The estimated replacement cost of inventory is the current FIFO value of \$206.3 million.

Physical inventory counts are taken throughout the course of the fiscal period and reconciled to the Company’s records. Accruals for inventory shortages are estimated based upon historical shortage results.

Inventories were:

	Fiscal Year Ended	
	January 28, 2006	January 29, 2005
<i>(In thousands)</i>		
Inventories (at FIFO)	\$206,314	\$211,375
LIFO reserve	(1,525)	(1,105)
Net inventories	\$204,789	\$210,270

Property and Equipment

Property and equipment are recorded at cost. Depreciation of 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 buildings and amortization of leasehold improvements, including remodels, is provided on the straight-line basis over the lesser of the assets estimated useful lives (ranging from five to 40 years) or, if applicable, the periods of the leases. Determination of useful asset life is based on several factors requiring judgment by management and adherence to generally accepted accounting principles for depreciable periods. Judgment used by management in the determination of useful asset life could relate to any of the following factors: expected use of the asset; expected useful life of similar assets; any legal, regulatory, or contractual provisions that may limit the useful life; and other factors that may impair the economic useful life of the asset. Maintenance and repairs are charged to expense as incurred. Improvement costs, which extend the useful life of an asset, are capitalized to property accounts and depreciated over the asset's expected remaining life. 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.

Other Long-Lived Assets

The Company's other long-lived assets consist of property and equipment which includes leasehold improvements. At January 28, 2006, the Company had \$51.0 million of property and equipment, net of accumulated depreciation, accounting for approximately 16.4% of the Company's total assets. The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The Company evaluates long-lived assets for impairment at the individual store level, which is the lowest level at which individual cash flows can be identified. When evaluating long-lived assets for potential impairment, the Company will first compare the carrying amount of the assets to the individual store's estimated future undiscounted cash flows. If the estimated future cash flows are less than the carrying amount of the assets, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the assets to the individual store's fair value based on its estimated discounted future cash flows. If required, an impairment loss is recorded for that portion of the asset's carrying value in excess of fair value. Impairment losses totaled \$0.2 million, \$0.3 million and \$1.0 million in fiscal 2006, 2005 and 2004, respectively, and were recorded in selling, general administrative costs. For all years presented, the impairment losses related to the retail trade business segment.

Goodwill

At January 28, 2006, the Company had \$1.4 million of goodwill, accounting for approximately 0.4% of the Company's total assets. SFAS No. 142, "Goodwill and Other Intangible Assets," requires that goodwill and other unamortizable intangible assets no longer be amortized, but instead be tested for impairment at least annually or earlier if there are impairment indicators. The Company performs a two-step process for impairment testing of goodwill as required by SFAS No. 142. The first step of this test, used to identify potential impairment, compares the estimated fair value of a reporting unit with its carrying amount. The second step (if necessary) measures the amount of the impairment. The Company completed its annual impairment test on the goodwill during the fourth quarter of fiscal 2006 and deemed that no impairment charge was necessary. The Company has noted no subsequent indicators of impairment. Changes in market conditions, among other factors, could have a material impact on these estimates.

Deferred Rent

The Company recognizes rent expense by the straight-line method over the lease term, including lease renewal option periods that can be reasonably assured at the inception of the lease. The lease term commences on the date when the Company takes possession and has the right to control use of the leased premises. Also, funds received from the lessor intended to reimburse the Company for the cost of leasehold improvements are recorded as a deferred credit resulting from a lease incentive and are amortized over the lease term as a reduction of rent expense.

Loss from Discontinued Operations

The Company periodically closes under-performing stores. The Company believes that a store is a component under Statement of Financial Accounting Standard ("SFAS") No. 144. Therefore, each store closure would result in the reporting of a discontinued operation unless the operations and cash flows from the closed store could be absorbed in some part by surrounding Company stores(s) within the same market area. Management evaluates certain factors in determining whether a closed store's operations could be absorbed by surrounding store(s); the primary factor considered is the distance to the next closest Books-A-Million store. When a closed store results in a discontinued operation, the results of operations of the closed store include store closing costs and any related asset impairments. See Note 7 for discontinued operations disclosures.

Store Opening Costs

Non-capital expenditures incurred in preparation for opening new retail stores are expensed as incurred.

Store Closing Costs

The Company continually evaluates the profitability of its stores. When the Company closes or relocates a store, the Company incurs unrecoverable costs, including net book value of abandoned fixtures and leasehold improvements, lease termination payments, costs to transfer inventory and usable fixtures and other costs of vacating the leased location. Such costs are primarily expensed as incurred and are included in selling, general and administrative costs. During fiscal 2006, 2005 and 2004, the Company recognized store closing costs of \$40,000, \$55,000 and \$219,000, respectively.

In November 2004, the Emerging Issues Task Force ("EITF") issued EITF No. 03-13, "Applying the Conditions in Paragraph 42 of FASB No. 144 in Determining Whether to Report Discontinued Operations." EITF No. 03-13 addresses how an ongoing entity should evaluate whether the operations and cash flows of a disposed component have been or will be eliminated from the ongoing operations of the entity and the types of continuing involvement that constitute significant continuing involvement in the operations of the disposed component. EITF No. 03-13 became effective with the fiscal year beginning January 30, 2005. Prior to the effective date of EITF No. 03-13, the Company was already reporting certain closed stores as discontinued operations (see footnote 7). Therefore, adopting this new guidance did not impact the Company's financial position, results of operations or cash flows.

Advertising Costs

The costs of advertising are expensed as incurred. Advertising costs, net of applicable vendor reimbursements, are charged to operating, selling and administrative expenses, and totaled \$3,578,000, \$3,207,000 and \$2,995,000 for fiscal years 2006, 2005 and 2004, respectively.

Insurance Accruals

The Company is subject to large deductibles under its workers' compensation and health insurance policies. Amounts are accrued currently for the estimated cost of claims incurred, both reported and unreported.

Income Taxes

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that result in temporary differences between the amounts recorded in its financial statements and 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.

Accounts Receivable and Allowance for Doubtful Accounts

Receivables represent customer, landlord and other receivables due within one year and are net of any allowance for doubtful accounts. Net receivables were \$10,802,000 and \$6,616,000 for January 28, 2006 and January 29, 2005, respectively. Trade accounts receivable are stated at the amount the Company expects to collect and do not bear interest. The collectability of trade receivable balances is regularly evaluated based on a combination of factors such as customer credit-worthiness, past transaction history with the customer, current economic industry trends and changes in customer payment patterns. If it is determined that a customer will be unable to fully meet its financial obligation, such as the case of a bankruptcy filing or other material events impacting its business, a specific reserve for doubtful accounts is recorded to reduce the related receivable to the amount expected to be recovered.

Cash and Cash Equivalents

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.

Stockholders' Equity

Basic net income per share ("EPS") 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, using the treasury stock method, that could occur if stock options granted to employees are exercised and 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:

<i>(In thousands)</i>	Fiscal Year Ended		
	1/28/06	1/29/05	1/31/04
Weighted average shares outstanding:			
Basic	16,384	16,453	16,279
Dilutive effect of stock options outstanding	580	725	510
Diluted	16,964	17,178	16,789

Weighted options outstanding of 94,000, 157,000 and 801,000 for the years ended January 28, 2006, January 29, 2005 and January 31, 2004, respectively, were not included in the table above as they were anti-dilutive in those periods.

The Board of Directors discontinued a stock repurchase program in March of 2004 that was originally authorized in fiscal 2000. This program authorized the expenditure of \$6.0 million to repurchase Company outstanding shares. The Company repurchased 2,010,000 shares at a cost of \$5,271,000 under this program.

In March 2004, the Board of Directors authorized a new common stock repurchase program for up to an additional 1.6 million shares, or 10% of the outstanding stock. Under this plan, the Company has repurchased 1,221,000 and 783,000 shares at a cost of \$10,639,000 and \$6,359,000 as of fiscal 2006 and fiscal 2005, respectively.

Additionally, in June 2005 the Company commenced a modified “Dutch Auction” tender offer (the “Tender Offer”) to purchase up to 4,000,000 shares of its outstanding common stock at a price per share of not less than \$8.75 nor in excess of \$10.00 per share, for an aggregate purchase price of up to \$40.0 million. Pursuant to the Tender Offer, the Company purchased 56,406 shares of common stock at a purchase price of \$10.00 per share, plus expenses for completing the Tender Offer, for a total cost of \$1,044,000.

Disclosure of Fair Value of Financial Instruments

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are reflected in the accompanying financial statements at cost, which approximates fair value because of the short-term maturity of these instruments. Investments are reflected in the accompanying financial statements at current market value. Based on the borrowing rates currently available to the Company for bank loans with similar terms and maturities at January 28, 2006 and January 29, 2005, the Company’s debt approximates fair value.

Stock-Based Compensation

On June 1, 2005, the stockholders of the Company approved the adoption of the Books-A-Million, Inc. 2005 Incentive Award Plan. The Company’s board of directors had previously approved this plan subject to stockholder approval. An aggregate of 300,000 shares of common stock may be issued pursuant to awards granted under the Plan. On June 29, 2005, the Company granted 77,100 shares of restricted stock to the Company’s officers and key employees pursuant to the terms of the Plan. Additionally, the Company granted 3,333 shares of restricted stock to a Director that joined the Company’s Board of Directors in August 2005. The compensation expense related to these grants is being expensed over the vesting period for the individual grants. For fiscal 2006, the Company has recorded \$224,000 of stock-based compensation expense for the restricted stock grants.

The Company has one stock option plan that provides for the issuance of options to employees and members of the board of directors. Upon the approval of the 2005 Incentive Award Plan by our stockholders at the Company’s annual meeting, the Company determined that there will be no additional awards made under the Company’s stock option plan. The Company accounts for the plan under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, “*Accounting for Stock Issued to Employees*,” and related Interpretations. No stock-based employee compensation cost for this plan is reflected in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and net income per common share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 148 (“SFAS 148”) “Accounting for Stock-Based Compensation- Transaction and Disclosure – an Amendment of FASB statement No. 123” to stock-based employee compensation:

<i>(In thousands, except per share amounts)</i>	Fiscal Year Ended		
	1/28/06	1/29/05	1/31/04
Net income, as reported	\$13,067	\$10,199	\$7,126
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax effects	541	1,139	1,346
Pro forma net income	\$12,526	\$ 9,060	\$5,780
Net income per common share:			
Basic – as reported	\$ 0.80	\$ 0.62	\$ 0.44
Basic – pro forma	\$ 0.76	\$ 0.55	\$ 0.36
Diluted – as reported	\$ 0.77	\$ 0.59	\$ 0.42
Diluted – pro forma	\$ 0.74	\$ 0.53	\$ 0.34

The fair value of the options granted under the Company’s stock option plan during fiscal 2005 and 2004 was estimated on their date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: \$0.03 per quarter dividend yield for fiscal 2005 only; expected stock price volatility rate of 44% and 106%, respectively; risk free interest rates of 3.45% to 4.31% and 3.87% to 4.90%, respectively; and expected lives of six or ten years. No options were granted in fiscal year 2006. Stock-based compensation expense reflected in the above table for fiscal 2006 relates to the fair value of options granted in prior years that would be expensed over their vesting period.

Accounting for Derivative Instruments and Hedging Activities

In June 1998, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 133, “*Accounting for Derivative Instruments and Hedging Activities*,” amended by SFAS No. 137, “*Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133*,” and SFAS No. 138, “*Accounting for Certain Derivatives and Certain Hedging Activities*,” and SFAS No.149, “*Amendment of SFAS No. 133 on Derivatives and Hedging Activities*.” SFAS No. 133 established accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative’s fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative’s gains and losses to offset related results on the hedged item in the income statement and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. At January 28, 2006 and January 29, 2005, liabilities related to derivatives were classified as other long-term liabilities of \$61,000 and \$543,000, respectively.

Comprehensive Income (Loss)

Comprehensive income (loss) is net income or loss, plus certain other items that are recorded directly to stockholders’ equity. The only such items currently applicable to the Company are the unrealized gains (losses) on the derivative instruments explained in Note 3.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004, “*Share-Based Payment*”), SFAS No. 123R, “*Accounting for Stock-Based Compensation*” is a revision of SFAS No. 123, and supersedes APB Opinion No. 25, “*Accounting for Stock Issued to Employees*.” SFAS No. 123R requires all share-based payments to employees including grants of employee stock options, to be recognized in the financial statements based on their fair values. SFAS No. 123R is effective at the beginning of the first annual period beginning after June 15, 2005. Under APB Opinion No. 25, no stock-based compensation cost had been reflected in the net income of the Company for grants of stock options to employees. Beginning in fiscal 2007, the Company will recognize compensation expense in its financial statements based on the fair value of all share-based payments to employees. The impact of adopting this new accounting standard will be to reduce net income by approximately \$400,000, net of taxes, or \$0.02 per diluted shares in fiscal 2007.

In November 2004 FASB issued SFAS No. 151, “*Inventory Costs*,” which amends ARB No. 43, Chapter 4 “*Inventory Pricing*.” SFAS No. 151 clarifies the accounting for inventory costs related to abnormal amounts of idle facility expense, freight, handling costs and wasted material. This Statement requires that those items be recognized as current period charges regardless of whether they meet the criteria of “so abnormal.” SFAS No. 151 is effective with fiscal years beginning after June 15, 2005. The impact of adopting this new accounting standard on the Company’s financial position, results of operations or cash flows has not yet been determined.

In December 2004 FASB issued SFAS No. 153, “*Exchanges of Nonmonetary Assets*,” which amends APB Opinion No. 29, “*Accounting For Nonmonetary Transactions*,” to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective in the first fiscal period beginning after June 15, 2005. The adoption of this new accounting standard is not expected to have a material effect on the Company’s financial position, results of operations or cash flows.

In May 2005 FASB issued SFAS No. 154, “*Accounting Changes and Error Corrections*,” which replaced APB Opinion No. 20, “*Accounting Changes*” and SFAS No. 3 “*Reporting Accounting Changes in Interim Financial Statements*.” SFAS No. 154 changes the requirements for the accounting for, and the reporting of, a change in accounting principle. APB Opinion No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS No. 154 now requires retrospective application to prior periods’ financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 is effective with fiscal years beginning after December 15, 2005. The impact of adopting this new accounting standard on the Company’s financial position, results of operations or cash flows has not yet been determined.

FASB Staff Position No. 115-1, “*The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*” (“FSP 115-1”), was issued in November 2005, which amends SFAS No. 115, “*Accounting for Certain Investments in Debt and Equity Securities*,” SFAS No. 124, “*Accounting for Certain Investments Held by Not-for-Profit Organizations*,” and APB Opinion No. 18 “*The Equity Method of Accounting for Investments in Common Stock*.” FSP No. 115-1 addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary and the measurement of an impairment loss. FSP No. 115-1 is effective with fiscal periods beginning after December 15, 2005. The impact of adopting this new staff position on the Company’s financial position, results of operations or cash flows has not yet been determined.

Prior Year Reclassifications

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

2. Income Taxes

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

	Fiscal Year Ended		
	1/28/06	1/29/05	1/31/04
Current:			
Federal	\$6,495	\$4,000	\$2,916
State	899	102	25
	\$7,394	\$4,102	\$2,941
Deferred:			
Federal	\$1,000	\$1,681	\$1,558
State	162	207	(131)
	1,162	1,888	1,427
Provision for income taxes	\$8,556	\$5,990	\$4,368

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

	Fiscal Year Ended		
	1/28/06	1/29/05	1/31/04
Federal statutory income tax rate	35.0%	35.0%	34.0%
State income tax provision	3.5%	0.9%	0.2%
Nondeductible meals and entertainment expense	0.3%	0.5%	0.6%
Other	0.8%	0.6%	3.2%
Effective income tax rate	39.6%	37.0%	38.0%

Temporary differences (in thousands) which created deferred tax assets (liabilities) at January 28, 2006 and January 29, 2005, are as follows:

	As of 1/28/06		As of 1/29/05	
	Current	Noncurrent	Current	Noncurrent
Depreciation	\$ --	\$(1,612)	\$ --	\$(5,429)
Accruals	2,247	--	1,325	--
Interest rate swap	4	--	123	--
Inventory	(4,371)	--	(85)	--
State net operating loss carry forwards	--	398	--	903
Deferred Rent	571	3,061	1,963	3,300
Prepays	(1,464)	--	(1,866)	--
Other	359	(185)	244	(189)
Deferred tax asset (liability)	\$(2,654)	\$ 1,662	\$ 1,704	\$(1,415)

At January 28, 2006, the Company had state net operating loss carry forwards of approximately \$9,859,000 that expire beginning in 2006 through 2024.

A valuation allowance for net deferred income tax assets has been recorded for \$139,000 related to deferred taxes for a wholly-owned subsidiary. There are no other valuation allowances as the realization of the balance of the recorded deferred tax assets is considered more likely than not.

3. Debt and Lines of Credit

The Company's current credit facility allows for unsecured borrowings up to \$100 million for which no principal payments are due until the facility expires in July 2007. Availability under the facility is reduced by outstanding letters of credit issued thereunder. Interest on borrowings under the credit facility is determined based upon applicable LIBOR rates and the Company's rate spread, which varies depending on the maintenance of certain covenants. The credit facility contains financial and non-financial covenants, the most restrictive of which is the maintenance of a minimum fixed charge coverage ratio. As of January 28, 2006 and January 29, 2005 there were no outstanding borrowings under this credit facility and the face amount of letters of credit issued under the credit facility were \$3.0 million and \$2.6 million, respectively. The maximum and average outstanding borrowings under the credit facility (excluding letters of credit issued thereunder) during fiscal 2006 were \$23.7 million and \$ 10.0 million, respectively.

The Company is subject to interest rate fluctuations on borrowings under its credit facility. To manage this exposure, the Company has used interest rate swaps in the past to fix the interest rate on variable debt. The Company entered into two separate \$10.0 million swaps on July 24, 2002. Both expired in August 2005 and, prior to the payoff of the debt, effectively fixed the interest rate on \$20.0 million of variable debt at 5.13%. The counter parties to the interest rate swaps were two of the Company's primary banks. The Company did not replace the swaps at expiration.

During fiscal 1996 and fiscal 1995, the Company acquired and constructed certain warehouse and distribution facilities with the proceeds of loans made pursuant to an industrial development revenue bond (the "Bond"), which are secured by a mortgage interest in these facilities. As of January 28, 2006 and January 29, 2005, there was \$7.2 million and \$7.5 million of borrowings outstanding, respectively, under these arrangements, which bear interest at variable rates. The net book value of the collateral property securing the Bond was \$5,283,000 as of January 28, 2006. The Bond has a maturity date of December 1, 2019, with a purchase provision obligating the Company to repurchase the Bond on May 30, 2007, 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. The Company maintains a \$7.5 million interest rate swap that effectively fixes the interest rate on the Bond at 8.73%. The swap was entered into in May 1996 and will expire in May 2006. The Company does not intend to enter into a new swap to manage the exposure to interest rate fluctuations on the Bond.

The Company's hedges are designated as cash flow hedges because they are interest rate swaps that convert variable payments to fixed payments. Cash flow hedges protect against the variability in future cash outflows of current or forecasted debt and related interest expense. The changes in the fair value of these hedges are reported on the balance sheet with a corresponding adjustment to accumulated other comprehensive income (loss) or in earnings, depending on the type of hedging relationship. Over time, the amounts held in accumulated other comprehensive income (loss) will be reclassified to earnings if the hedge transaction becomes ineffective.

The Company's interest rate swaps were reported as a liability classified in other long-term liabilities in the accompanying consolidated balance sheets at their fair value of \$61,000 and \$543,000 as of January 28, 2006 and January 29, 2005, respectively. For the fiscal years ending January 28, 2006, January 29, 2005 and January 31 2004, adjustments of \$141,000, \$485,000, and \$228,000 were recorded as unrealized gains in accumulated other comprehensive income (loss), after tax. During the fourth quarter of fiscal 2005, one of the \$10 million interest rate swaps no longer qualified for hedge accounting under SFAS No. 133. Therefore, the Company de-designated the hedge resulting in an expense of \$27,000 in fiscal 2005. Previously, in the fourth quarter of fiscal 2004, the other \$10 million interest rate swap no longer qualified for hedge accounting under SFAS No. 133 and the Company de-designated that hedge resulting in an expense of \$284,000 in fiscal 2004.

4. Leases

The Company leases the premises for its retail bookstores under operating leases, which expire in various years through the year 2017. 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. The Company also has minimal operating leases for equipment and trailer trucks.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of January 28, 2006 are as follows (*in thousands*):

Fiscal Year	Future Minimum Rent
2007	\$30,916
2008	27,343
2009	22,083
2010	17,028
2011	13,404
Subsequent years	27,732
Total	<u>\$138,506</u>

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

	Fiscal Year Ended		
	1/28/06	1/29/05	1/31/04
Minimum rentals	\$30,944	\$28,332	\$28,194
Contingent rentals	249	466	684
Total	\$31,193	\$28,798	\$28,878

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 six months of service and who are at least 21 years of age, and permit participants to contribute from 1% to 15% of compensation and participants over 50 years of age are allowed to make catch-up contributions. Limits to contributions by employees are established by the Internal Revenue Code. Company matching and supplemental contributions are made at management's discretion. Company matching contributions were 70%, 70% and 75% for fiscal 2006, fiscal 2005 and fiscal 2004, respectively. The employer contributions are made on employee contributions up to a maximum of 6% of the employee's salary. The expense under this plan was \$806,000, \$675,000 and \$467,000 in fiscal 2006, 2005 and 2004, respectively.

2005 Incentive Award Plan

On June 1, 2005, the stockholders of the Company approved the adoption of the Books-A-Million, Inc. 2005 Incentive Award Plan. An aggregate of 300,000 shares of common stock may be issued pursuant to awards granted under the Plan. On June 29, 2005, the Company granted 77,100 shares of restricted stock to the Company's officers and key employees pursuant to the terms of the Plan. Additionally, the Company granted 3,333 shares of restricted stock to a Director that joined the Company's Board of Directors in August 2005. The compensation expense related to these grants is being expensed over the vesting period for the individual grants. For Fiscal 2006, the Company has recorded \$224,000 of stock-based compensation expense for the restricted stock grants.

Stock Option Plan

The Company has one stock option plan for grants to executive officers, directors, and key employees. Upon the approval of the 2005 Incentive Award Plan by the Company's stockholders at the Company's annual meeting, the Company closed this plan to further issuance of option grants. Options previously issued are still valid and subject to the vesting schedule. Prior to January 9, 2001 all options granted to employees become exercisable in equal annual increments over a five-year period and expire on the sixth anniversary of the date of grant. On January 9, 2001, the Compensation Committee of the Board of Directors approved an amendment to the Stock Option Plan that allows all options granted on or after that date to vest in equal annual increments over the three-year period beginning on the date of the grant and expire on the tenth anniversary of the date of the grant. All stock options have exercise prices 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 (*shares in thousands*):

	Fiscal Year Ended					
	January 28, 2006		January 29, 2005		January 31, 2004	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	1,506	\$ 5.19	2,296	\$ 5.22	2,576	\$4.90
Granted	0	N/A	35	8.64	266	6.45
Exercised	(640)	6.82	(533)	2.54	(177)	2.51
Forfeited	(52)	7.13	(292)	10.65	(369)	5.24
Outstanding at end of year	814	\$ 3.77	1,506	\$ 5.19	2,296	\$5.22
Exercisable at end of year	566	\$ 3.30	949	\$ 5.71	1,525	\$5.52
Weighted average fair value of options granted		N/A		\$ 8.64		\$5.87

During fiscal years 2006, 2005 and 2004, the Company recognized tax benefits related to the exercise of stock options in the amount of \$613,000, \$943,000 and \$141,000, respectively. The tax benefits were credited to paid-in capital in the respective years.

The following table summarizes information about stock options outstanding at January 28, 2006 (*shares in thousands*):

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding at January 28, 2006	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at January 28, 2006	Weighted Average Exercise Price
\$1.38 - \$ 2.37	367	6.08	\$2.08	271	\$1.98
\$2.39 - \$ 7.69	422	7.01	\$4.91	271	\$4.06
\$7.90 - \$11.13	25	8.92	\$9.59	24	\$9.61
Totals	814	6.65	\$3.77	566	\$3.30

The Company previously established separate option plans for its subsidiaries, however options were never granted under these plans. During fiscal 2006 the separate subsidiary option plans were dissolved and closed.

Employee Stock Purchase Plan

The Company maintains an employee stock purchase plan under which 400,000 shares of the Company's common stock are reserved for purchase by employees at 85% of the fair market value of the common stock at the lower of the market value for the Company's stock as of the beginning of the fiscal year or the end of the fiscal year. Of the total reserved shares, 258,902 shares have been purchased as of January 28, 2006.

Executive Incentive Plan

The Company maintains an Executive Incentive Plan (the "Incentive Plan"). The Incentive Plan provides for awards to certain executive officers of either cash or shares of restricted stock. The Company has always issued awards in the form of restricted stock. Issuance of awards under the Incentive Plan is based on the Company achieving pre-established performance goals during a three consecutive fiscal year performance period. Awards issued under the Incentive Plan for a particular performance period vest on the third anniversary of the last day of such performance period if the recipient remains employed by the Company on such vesting date. Awards under the Incentive Plan are expensed ratably over the period from the date that the issuance of such awards becomes probable through the end of the restriction period. Awards granted under the Incentive Plan for the three year performance periods ended January 28, 2006, January 29, 2005, and January 31, 2004 totaled \$592,000 (50,824 shares), \$364,000 (39,116 shares) and \$284,000 (45,528 shares), respectively.

Executives' Deferred Compensation Plan

During fiscal 2006, the Board adopted the Books-A-Million, Inc. Executives' Deferred Compensation Plan (the "Executives' Deferred Compensation Plan"). The Executives' Deferred Compensation Plan provides a select group of management or highly compensated employees of the Company and certain of its subsidiaries (the "Participants") with the opportunity to defer the receipt of certain cash compensation. Each Participant may elect to defer under the Executives' Deferred Compensation Plan a portion of his or her cash compensation that may otherwise be payable in a calendar year. A Participant's compensation deferrals are credited to the Participant's bookkeeping account (the "Account") maintained under the Executives' Deferred Compensation Plan. Each Participant's Account is credited with a deemed rate of interest and/or earnings or losses depending upon the investment performance of the deemed investment option.

With certain exceptions, a Participant's Account will be paid after the earlier of: (1) a fixed payment date, as elected by the Participant (if any); or (2) the Participant's separation from service with Company or its subsidiaries. Participants may generally elect that payments be made in a single sum or installments in the year specified by the Participant or upon their separation from service with the Company. Additionally, a Participant may elect to receive payment upon a Change of Control, as defined in, and to the extent permitted by, Section 409A of the Internal Revenue Code of 1986, as amended.

Directors' Deferred Compensation Plan

During fiscal 2006, the Board adopted the Books-A-Million, Inc. Directors' Deferred Compensation Plan (the "Directors' Deferred Compensation Plan"). The Directors' Deferred Compensation Plan provides the Non-Employee Directors with the opportunity to defer the receipt of certain amounts payable for serving as a member of the Board (the "Fees"). A Non-Employee Director's Fee deferrals are credited to the Non-Employee Director's bookkeeping account (the "Account") maintained under the Directors' Deferred Compensation Plan. Each participating Non-Employee Director's Account is credited with a deemed rate of interest and/or earnings or losses depending upon the investment performance of the deemed investment option.

With certain exceptions, a participating Non-Employee Director's Account will be paid after the earlier of: (1) a fixed payment date, as elected by the participating Non-Employee Director (if any); or (2) the participating Non-Employee Director's separation from service on the Board. The participating Non-Employee Director may generally elect that payments be made in a single sum or installments in the year specified by the participating Non-Employee Director or upon the Non-Employee Director's separation from service on the Board. Additionally, a participating Non-Employee Director may elect to receive payment upon a Change of Control, as defined in, and to the extent permitted by, Section 409A of the Internal Revenue Code of 1986, as amended.

6. Related Party Transactions

Certain stockholders and directors (including certain officers) 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:

The Company purchases a substantial portion of its magazines as well as certain seasonal music and newspapers from Anderson Media Corporation ("Anderson Media"), an affiliate through common ownership. During fiscal 2006, 2005 and 2004, purchases of these items from Anderson Media totaled \$30,746,000, \$27,405,000 and \$28,160,000, respectively. The Company purchases certain of its collectibles, gifts and books from Anderson Press, Inc. ("Anderson Press"), an affiliate through common ownership. During fiscal 2006, 2005 and 2004, such purchases from Anderson Press totaled \$1,272,000, \$1,122,000 and \$853,000, respectively. The

Company purchases certain of its greeting cards and gift products from C.R. Gibson, Inc., an affiliate through common ownership. The purchases of these items in fiscal 2006, 2005 and 2004 were \$223,000, \$371,000 and \$265,000, respectively. The Company purchases certain magazine subscriptions from Magazines.com, an affiliate through common ownership. During fiscal 2006, 2005 and 2004, purchases of these items were \$71,000, \$78,000 and \$89,000, respectively. The Company purchases content for publication from Publication Marketing Corporation, an affiliate through common ownership. During fiscal 2006, 2005 and 2004, purchases of these items were \$71,000, \$72,000 and \$72,000, respectively. The Company utilizes import sourcing and consolidation services from Anco Far East Importers, LTD (“Anco Far East”), an affiliate through common ownership. The total paid to Anco Far East was \$2,113,000, \$1,075,000 and \$910,000 for fiscal 2006, 2005 and 2004, respectively. These amounts paid to Anco Far East primarily included the actual cost of the product, as well as fees for sourcing and consolidation services. All other costs, other than the sourcing and consolidation service fees, were passed through from other vendors. Anco Far East fees, net of the passed-through costs, were \$148,000, \$75,000 and \$77,000, respectively. The Company purchased certain store fixtures from K&A Crylics, an affiliate through common ownership. In fiscal 2006 these purchases were \$64,000. Prior to fiscal 2006, K&A Crylics was not a related party.

The Company sold books to Anderson Media in the amounts of \$1,017,000, \$115,000 and \$383,000 in fiscal 2006, 2005 and 2004, respectively. During fiscal 2006, 2005 and 2004, the Company provided \$11,000, \$296,000, and \$226,000, respectively, of Internet services to Magazines.com. The Company provided internet services to American Promotional Events of \$77,000, \$68,000 and \$50,000 in fiscal 2006, 2005 and 2004, respectively.

The Company leases its principal executive offices from a trust, which was established for the benefit of the grandchildren of Mr. Charles C. Anderson, a former member of the Board of Directors. The initial lease expired on January 31, 2006, and a short-term extension was signed through June 30, 2006. During fiscal 2006, 2005 and 2004, the Company paid rent of \$137,000 in each year to the trust under this lease. Anderson & Anderson LLC (“A&A”), which is an affiliate through common ownership, also leases three buildings to the Company. During fiscal 2006, 2005 and 2004, the Company paid A&A a total of \$445,000, \$441,000, and \$446,000, respectively, in connection with such leases. There were no future minimum rental payments on any of the four leases at January 28, 2006. The Company subleases certain property to Hibbett Sporting Goods, Inc. (“Hibbett”), a sporting goods retailer in the southeastern United States. The Company’s Executive Chairman, Clyde B. Anderson, is a member of Hibbett’s board of directors. During fiscal 2006, 2005 and 2004, the Company received \$191,000 each year in rent payments from Hibbett.

The Company shares ownership of a plane, which the Company uses in the operations of its business, with an affiliated company. The Company rents the plane to affiliated companies at rates that cover all the variable costs and a portion of the fixed costs of operating the plane. The total amounts received from affiliated companies for use of the plane in fiscal 2006, 2005 and 2004 were \$146,000, \$110,000 and \$270,000, respectively. The Company also occasionally rents a plane from A&A at rates that cover all of the variable costs and a portion of the fixed costs of operating the plane. The amounts paid to A&A for plane rental were \$70,000, \$92,000 and \$44,000 for fiscal 2006, 2005 and 2004, respectively.

7. Income or (Loss) from Discontinued Operations

Discontinued operations represent the results for the closed stores for the years presented due to the fiscal 2006 closure of two retail stores in markets located in Tennessee and West Virginia, the fiscal 2005 closure of two retail stores in markets located in Florida and Mississippi and the fiscal 2004 closure of four retail stores in markets located in Georgia (two stores), Louisiana and North Carolina where the Company does not expect another of its existing stores to absorb the closed store customers. For fiscal 2006, 2005 and 2004 the closed stores had sales of \$689,000, \$2,503,000 and \$5,382,000, and pretax operating income (loss) of \$27,000, \$(29,000) and \$(641,000), respectively. Included in the loss on discontinued operations are impairment losses of \$0, \$14,000 and \$228,000 for fiscal 2006, 2005 and 2004, respectively. Also, included in the loss on discontinued operations are store closing costs of \$20,000, \$50,000, and \$64,000 for fiscal 2006, 2005 and 2004, respectively.

8. Business Segments

The Company has two reportable segments: retail trade and electronic commerce trade. The retail trade segment is a strategic business segment that is engaged in the retail trade of mostly book merchandise and includes the Company's distribution center operations, which supplies merchandise predominantly to the Company's retail stores. The electronic commerce trade segment is a strategic business segment that transacts business over the Internet and is managed separately due to divergent technology and marketing requirements. The Company evaluates performance of the segments based on profit and loss from operations before interest and income taxes. Certain intersegment cost allocations have been made based upon consolidated and segment revenues. Shipping income related to internet sales is included in net sales, and shipping expense is included in cost of sales.

Segment information <i>(in thousands)</i>	Fiscal Year Ended		
	1/28/06	1/29/05	1/31/04
Net Sales			
Retail Trade	\$496,609	\$465,732	\$451,075
Electronic Commerce Trade	27,605	26,656	25,451
Intersegment Sales Elimination	(20,463)	(18,289)	(19,292)
Net Sales	<u>\$503,751</u>	<u>\$474,099</u>	<u>\$457,234</u>
Operating Profit			
Retail Trade	\$ 22,431	\$ 16,908	\$ 14,171
Electronic Commerce Trade	1,027	909	332
Intersegment Elimination of Certain Costs	(421)	275	542
Total Operating Profit	<u>\$ 23,037</u>	<u>\$ 18,092</u>	<u>\$ 15,045</u>
Assets			
Retail Trade	\$ 310,447	\$299,703	
Electronic Commerce Trade	1,286	1,372	
Intersegment Sales Elimination	(74)	(263)	
Total Assets	<u>\$311,659</u>	<u>\$300,812</u>	

9. Commitments and Contingencies

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, results of operations or cash flows of the Company.

From time to time, the Company enters into certain types of agreements that require the Company to indemnify parties against third party claims. Generally, these agreements relate to: (a) agreements with vendors and suppliers, under which the Company may provide customary indemnification to its vendors and suppliers in respect of actions they take at the Company's request or otherwise on its behalf, (b) agreements with vendors who publish books or manufacture merchandise specifically for the Company to indemnify the vendors against trademark and copyright infringement claims concerning the books published or merchandise manufactured on behalf of the Company, (c) real estate leases, under which the Company may agree to indemnify the lessors for claims arising from the Company's use of the property, and (d) agreements with the Company's directors, officers and employees, under which the Company may agree to indemnify such persons for liabilities arising out of their relationship with the Company. The Company has Directors and Officers Liability Insurance, which, subject to the policy's conditions, provides coverage for indemnification amounts payable by the Company with respect to its directors and officers up to specified limits and subject to certain deductibles.

The nature and terms of these types of indemnities vary. The events or circumstances that would require the Company to perform under these indemnities are transaction and circumstance specific. The overall maximum amount of obligations cannot be reasonably estimated. Historically, the Company has not incurred significant costs related to performance under these types of indemnities. No liabilities have been recorded for these obligations on the Company's balance sheet at January 28, 2006 and January 29, 2005, as such liabilities are considered de minimis.

The Company is subject to potential ongoing sales and use tax audits, income tax audits and other tax issues for both its retail and internet segments. It is the policy of the Company to estimate any potential tax contingency liabilities based on various factors such as ongoing state and federal tax audits, historical results of audits at the state or federal level and specific tax issues. Accruals for potential tax contingencies are recorded by the Company when they are deemed to have a probable likelihood of a liability and the liability can be reasonably estimated.

10. Gain on Insurance Recoveries

In fiscal 2006 the Company recognized an insurance gain of \$754,000, net of taxes, related to insurance recoveries for hurricane damage suffered at three stores in the third quarter of fiscal 2005. The insurance recovery amounts were finalized with the insurance company during the third quarter of fiscal 2006, therefore the gain was recorded in the current fiscal year.

11. Cash Dividend

On March 15, 2006, the Board of Directors declared a quarterly dividend of \$0.08 per share to be paid on April 12, 2006 to stockholders of record at the close of business on March 29, 2006. The Company intends to pay quarterly dividends in the future, subject to Board approval.

12. Summary of Quarterly Results (Unaudited)

The following tables set forth certain unaudited financial data for the quarters indicated:

	Fiscal Year Ended January 28, 2006				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
<i>(In thousands, except per share amounts)</i>					
Net sales	\$112,866	\$122,277	\$107,515	\$161,093	\$503,751
Gross profit	31,611	34,054	28,117	52,803	146,585
Operating profit (loss)	2,105	3,182	(1,019)	18,769	23,037
Net income (loss)	1,060	1,701	(873)	11,179	13,067
Net income (loss) per share – basic	0.07	0.10	(0.05)	0.68	0.80
Net income (loss) per share – diluted	0.06	0.10	(0.05)	0.66	0.77
	Fiscal Year Ended January 29, 2005				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
<i>(In thousands, except per share amounts)</i>					
Net sales	\$107,792	\$113,370	\$103,945	\$148,992	\$474,099
Gross profit	30,155	30,993	27,787	46,152	135,087
Operating profit (loss)	2,484	2,079	(1,329)	14,858	18,092
Net income (loss)	1,228	989	(1,172)	9,154	10,199
Net income (loss) per share – basic	0.07	0.06	(0.07)	0.56	0.62
Net income (loss) per share – diluted ⁽¹⁾	0.07	0.06	(0.07)	0.54	0.59

(1) The sum of 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.

**REPORT OF GRANT THORNTON, LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM, ON
FINANCIAL STATEMENTS**

Board of Directors and
Shareholders of Books-A-Million, Inc.

We have audited the accompanying balance sheet of Books-A-Million, Inc. as of January 28, 2006 and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended. 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 audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (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 audit provides 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. as of January 28, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule II for the year ended January 28, 2006 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Books-A-Million, Inc.'s internal control over financial reporting as of January 28, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 22, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ GRANT THORNTON LLP

Atlanta, Georgia
March 22, 2006

**REPORT OF GRANT THORNTON, LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM, ON
INTERNAL CONTROL OVER FINANCIAL REPORTING**

Board of Directors and
Shareholders of Books-A-Million, Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Controls Over Financial Reporting, that Books-A-Million, Inc. maintained effective internal control over financial reporting as of January 28, 2006, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Books-A-Million, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Books-A-Million, Inc. maintained effective internal control over financial reporting as of January 28, 2006, is fairly stated, in all material respects, based on the Internal Control – Integrated Framework issued by the COSO. Also in our opinion, Books-A-Million, Inc. maintained, in all material respects, effective internal control over financial reporting as of January 28, 2006, based on criteria established in Internal Control – Integrated Framework issued by the COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheet of Books-A-Million, Inc. as of January 28, 2006, and the related statements of income, stockholders' equity, and cash flows for the year then ended and our report dated March 22, 2006 expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

Atlanta, Georgia
March 22, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF
BOOKS-A-MILLION, INC.
BIRMINGHAM, ALABAMA

We have audited the accompanying consolidated balance sheets of Books-A-Million, Inc. and subsidiaries (the "Company") as of January 29, 2005 and January 31, 2004 and the related consolidated statements of income, stockholders' equity, and cash flows for the fiscal years then ended. 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 auditing standards of the Public Company Accounting Oversight Board (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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, such consolidated financial statements referred to above present fairly, in all material respects, the financial position of Books-A-Million, Inc. and subsidiaries as of January 29, 2005 and January 31, 2004, and the results of their operations and their cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the Consolidated Financial Statements, effective February 2, 2003, the Company changed its method of accounting for inventories.

DELOITTE & TOUCHE LLP

Birmingham, Alabama
April 25, 2005 (April 12, 2006 as to Note 7)

DIRECTORS AND CORPORATE OFFICERS

Board of Directors

Clyde B. Anderson
Executive Chairman of the Board

Terry C. Anderson
*Chief Executive Officer and President,
American Promotional Events, Inc.*

Ronald G. Bruno
*President,
Bruno Capital Management Corporation*

Albert C. Johnson
*Independent Financial Consultant and
Retired Partner, Arthur Andersen LLP*

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

William H. Rogers, Jr.
*Executive Vice President,
SunTrust Banks, Inc.*

Corporate Officers

Clyde B. Anderson
Executive Chairman of the Board

Sandra B. Cochran
President, Chief Executive Officer and Secretary

Terrance G. Finley
President, Books-A-Million, Inc. Merchandising Group

Richard S. Wallington
Chief Financial Officer

CORPORATE INFORMATION

Corporate Office

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

Transfer Agent

Wells Fargo Shareowner Services
(800) 468-9716

Stockholder Inquiries Address:

161 North Concord Exchange
South St. Paul, Minnesota 55075
E-Mail address: stocktransfer@wellsfargo.com
Wells Fargo Stock Transfer Website: www.wellsfargo.com/com/shareowner_services/index

Certificates for Transfer and Address Changes to:

Shareowner Services
Post Office Box 64854
St Paul, Minnesota 55164-0854
Fax: (651) 450-4033

Independent Registered Public Accounting Firm

Grant Thornton LLP
Atlanta, Georgia

Form 10-K and Investor Contact

A copy of the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2006, as filed with the Securities and Exchange Commission, as well as key committee charters and code of conduct, are available without charge to stockholders upon written request. Such requests and other investor inquiries should be directed to Richard S. Wallington, the Company's Chief Financial Officer, or you can view those items at www.booksamillioninc.com.

Market and Dividend Information

Common Stock

The Common Stock of Books-A-Million, Inc., is traded in the Nasdaq National Market under the symbol BAMB. The chart below sets forth the high and low stock prices for each quarter of the fiscal years ending January 28, 2006 and January 29, 2005.

Quarter Ended	High	Low	Dividends Declared
January 2006	\$11.55	\$8.76	\$0.08
October 2005	10.29	8.16	0.05
July 2005	10.26	7.47	0.05
April 2005	9.82	7.25	0.05
January 2005	10.29	8.02	0.05
October 2004	8.52	6.18	0.03
July 2004	7.74	5.15	0.15
April 2004	6.49	5.11	0.00

The closing price on April 10, 2006 was \$11.62. As of that date Books-A-Million, Inc., had approximately 7,800 stockholders based on the number of individual participants represented by security position listings. Cash dividends were declared and paid for the first time starting with the second quarter of fiscal 2005.

ANNUAL MEETING OF STOCKHOLDERS

The annual meeting of stockholders will be held on June 8, 2006, at 10:00 a.m. central time, at The Harbert Center, 2019 Fourth Avenue North, Birmingham, Alabama 35203. Stockholders of record as of April 10, 2006, are invited to attend this meeting.

BOOKS•A•MILLION

April 27, 2006

Dear Stockholder:

You are cordially invited to attend the 2006 Annual Meeting of Stockholders of Books-A-Million, Inc., which will be held at 10:00 a.m. on Thursday, June 8, 2006, at The Harbert Center, 2019 Fourth Avenue North, Birmingham, Alabama 35203.

The principal business of the meeting will be to (i) elect a class of directors to serve a three-year term expiring in 2009; (ii) approve an amendment to increase the shares available under the 2005 Incentive Award Plan; and (iii) transact such other business as may properly come before the meeting. During the meeting, we will also review the results of the past fiscal year and report on significant aspects of our operations during the first quarter of fiscal 2007.

Regardless of whether you plan to attend the Annual Meeting, please complete, sign, date and return the enclosed proxy card in the postage-prepaid envelope provided so that your shares will be voted at the meeting. If you decide to attend the meeting, you may, of course, revoke your proxy and personally cast your votes.

Sincerely yours,

A handwritten signature in black ink that reads "Clyde B. Anderson". The signature is written in a cursive, flowing style.

Clyde B. Anderson
Executive Chairman of the Board

BOOKS-A-MILLION, INC.
402 Industrial Lane
Birmingham, Alabama 35211

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

You are cordially invited to attend the 2006 Annual Meeting of Stockholders of Books-A-Million, Inc., which will be held at 10:00 a.m. on Thursday, June 8, 2006, at The Harbert Center, 2019 Fourth Avenue North, Birmingham, Alabama 35203. The meeting is called for the following purposes:

- (1) To elect a class of directors for a three-year term expiring in 2009;
- (2) To approve an amendment to increase the shares available under the 2005 Incentive Award Plan; and
- (3) To transact such other business as may properly come before the meeting.

The Board of Directors has fixed the close of business on April 10, 2006 as the record date for the purpose of determining the stockholders who are entitled to notice of and to vote at the meeting and any adjournment or postponement thereof.

By Order of the Board of Directors,



Sandra B. Cochran
President, Chief Executive Officer and Secretary

April 27, 2006
Birmingham, Alabama

REGARDLESS OF WHETHER YOU PLAN TO ATTEND THE MEETING, YOU ARE REQUESTED TO COMPLETE, SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD SO THAT YOUR SHARES WILL BE REPRESENTED. IF YOU ATTEND THE MEETING, YOU MAY REVOKE YOUR PROXY AND VOTE YOUR SHARES PERSONALLY IF YOU DESIRE.

BOOKS-A-MILLION, INC.
402 Industrial Lane
Birmingham, Alabama 35211

PROXY STATEMENT

This Proxy Statement is furnished by and on behalf of the Board of Directors of Books-A-Million, Inc. (the "Company") in connection with the solicitation of proxies for use at the Annual Meeting of Stockholders of the Company to be held at 10:00 a.m. on Thursday, June 8, 2006, at The Harbert Center, 2019 Fourth Avenue North, Birmingham, Alabama 35203 and at any adjournments or postponements thereof (the "Annual Meeting"). This Proxy Statement and the enclosed proxy card will be first mailed on or about April 27, 2006 to the Company's stockholders of record on the Record Date, as defined below.

THE BOARD OF DIRECTORS URGES YOU TO COMPLETE, SIGN, DATE AND RETURN THE ENCLOSED PROXY CARD IN THE POSTAGE-PREPAID ENVELOPE PROVIDED.

SHARES ENTITLED TO VOTE

Proxies will be voted as specified by the stockholder or stockholders granting the proxy. Unless contrary instructions are specified, if the enclosed proxy card is executed and returned (and not revoked) prior to the Annual Meeting, the shares of common stock, \$.01 par value per share (the "Common Stock"), of the Company represented thereby will be voted **FOR** the election as director of the nominees listed in this Proxy Statement and **FOR** the approval of the amendment to increase shares available in the 2005 Incentive Award Plan. The submission of a signed proxy will not affect a stockholder's right to attend and to vote in person at the Annual Meeting. A stockholder who executes a proxy may revoke it at any time before it is voted by filing with the Secretary of the Company either a written revocation or an executed proxy bearing a later date or by attending and voting in person at the Annual Meeting.

Only holders of record of Common Stock as of the close of business on April 10, 2006 (the "Record Date") will be entitled to vote at the Annual Meeting. As of the close of business on the Record Date, there were 16,569,577 shares of Common Stock (the "Shares") outstanding. Holders of Shares authorized to vote are entitled to cast one vote per Share on all matters. The holders of a majority of the Shares entitled to vote must be present or represented by proxy to constitute a quorum. Shares as to which authority to vote is withheld and abstentions are counted in determining whether a quorum exists.

Under Delaware law and the Company's by-laws, directors are elected by the affirmative vote, in person or by proxy, of a plurality of the shares entitled to vote in the election at a meeting at which a quorum is present. Only votes actually cast will be counted for the purpose of determining whether a particular nominee received more votes than the persons, if any, nominated for the same seat on the Board of Directors.

Approval of any other matters that may properly come before the Annual Meeting, requires the affirmative vote of a majority of the Shares represented in person or by proxy and entitled to vote on such matter at a meeting at which a quorum is present. Abstentions, votes withheld and, unless a broker's authority to vote on a particular matter is limited, shares held in street name that are not voted are counted in determining the votes present at a meeting and entitled to vote, such as for quorum purposes. Abstentions will be counted in determining the minimum number of votes required for approval and will, therefore, have the effect of votes against such proposal. However, a share that is held in street name that is not voted because the broker's authority to vote on that matter is limited and the broker did not receive direction on how to vote the share on that matter from the beneficial owner (a "broker non-vote") is not considered entitled to vote and is thus not calculated as a vote cast at a meeting (either for or against the proposal). Under the rules that govern brokers who are voting with respect to shares held in street name, brokers have discretion to vote such shares on routine matters including the election of directors, increases in authorized common stock for general corporate purposes and ratification of auditors. Non-routine matters include amendments to stock plans.

With respect to any other matters that may come before the Annual Meeting, if proxies are executed and returned, such proxies will be voted in a manner deemed by the proxy representatives named therein to be in the best interests of the Company and its stockholders.

PROPOSAL I - ELECTION OF DIRECTORS

The Board of Directors of the Company is divided into three classes of directors serving staggered terms of office. Upon the expiration of the term of office of a class of directors, the nominees for that class are elected for a term of three years to serve until the election and qualification of their successors. The current terms of Mr. Clyde B. Anderson and Mr. Ronald G. Bruno expire upon the election and qualification of the directors to be elected at this Annual Meeting. The Board of Directors has nominated Mr. Clyde B. Anderson and Mr. Ronald G. Bruno for re-election to the Board of Directors at the Annual Meeting, to serve until the 2009 annual meeting of stockholders and until their successors are duly elected and qualified.

The Board of Directors has increased the size of the Board from 6 to 7, and nominated Ms. Sandra B. Cochran for election to the new board seat for the class of directors that will serve until the 2009 annual meeting and until their successors are elected and duly qualified.

All Shares represented by properly executed proxies received in response to this solicitation will be voted for the election of the directors as specified therein by the stockholders. Unless otherwise specified in the proxy, it is the intention of the persons named on the enclosed proxy card to vote FOR the election of Mr. Clyde B. Anderson, Mr. Ronald G. Bruno and Sandra B. Cochran to the Board of Directors. Mr. Anderson, Mr. Bruno and Ms. Cochran have consented to serve as directors of the Company if elected. If at the time of the Annual Meeting, Mr. Anderson, Mr. Bruno or Ms. Cochran are unable or decline to serve as a director, the discretionary authority provided in the enclosed proxy card will be exercised to vote for a substitute candidate designated by the Board of Directors. The Board of Directors has no reason to believe that Mr. Anderson, Mr. Bruno or Ms. Cochran will be unable or will decline to serve as a director.

Stockholders may withhold their votes from a nominee by so indicating in the space provided on the enclosed proxy card.

Set forth below is certain information furnished to the Company by Mr. Anderson, Mr. Bruno, Ms. Cochran and by each of the incumbent directors whose terms will continue following the Annual Meeting.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR THE ELECTION AS DIRECTOR OF THE NOMINEES NAMED ABOVE.

Nominee For Election - Term Expiring 2009

CLYDE B. ANDERSON
Age: 45

Clyde B. Anderson has served as Executive Chairman of the Board of Directors since February 2004 and has served as a director of the Company since August 1987. Mr. Anderson served as the Chairman of the Board of Directors from January 2000 until February 2004 and also served as the Chief Executive Officer of the Company from July 1992 until February 2004. Mr. Anderson also served as the President of the Company from November 1987 to August 1999. From November 1987 to March 1994, Mr. Anderson also served as the Company's Chief Operating Officer. Mr. Anderson serves on the Board of Directors of Hibbett Sporting Goods, Inc., a sporting goods retailer. Mr. Anderson is the brother of Terry C. Anderson, a member of the Company's Board of Directors.

RONALD G. BRUNO
Age: 54

Ronald G. Bruno has served as the President of Bruno Capital Management Corporation, an investment company, since September 1995 and has served as a director of the Company since September 1992. Formerly, Mr. Bruno served as the Chairman and Chief Executive Officer of Bruno's Supermarkets, Inc., a supermarket retailing chain. Mr. Bruno is a director of Russell Corporation, a sports apparel manufacturing company.

SANDRA B. COCHRAN

Age: 47

Sandra B. Cochran was appointed to the position of Chief Executive Officer in February 2004, in addition to her duties as President and Secretary. Ms. Cochran has served as President of the Company since August 1999 and Secretary since June 1998. Ms. Cochran served as the Company's Executive Vice President from February 1996 to August 1999 and as its Chief Financial Officer from September 1993 to August 1999. Ms. Cochran previously served as Vice President and Assistant Secretary of the Company from August 1992 to September 1993. Prior to joining the Company, Ms. Cochran served as a Vice President (as well as in other capacities) of SunTrust Securities, Inc., a subsidiary of SunTrust Banks, Inc. for more than five years. Sandra B. Cochran serves as an officer and a board member of certain affiliated companies.

Incumbent Directors – Term Expiring 2007

J. BARRY MASON

Age: 65

J. Barry Mason has served as a director of the Company since April 1998. Dr. Mason has held the positions of Dean and Thomas D. Russell Professor of Business Administration at the Culverhouse College of Commerce, The University of Alabama since 1988. Dr. Mason also served as the Interim President of The University of Alabama during 2002 – 2003.

WILLIAM H. ROGERS, JR.

Age: 48

William H. Rogers, Jr. has served as a director of the Company since November 2000. Mr. Rogers serves as Executive Vice President responsible for the Wealth & Investment Management, Commercial, and Mortgage Lines of Business, SunTrust Banks, Incorporated. He has held various other positions with SunTrust since 1980. Mr. Rogers is a director of SunTrust Capital Markets, an investment banking firm.

Incumbent Directors – Term Expiring 2008

TERRY C. ANDERSON

Age: 48

Terry C. Anderson has served as a director of the Company since April 1998. Mr. Anderson serves as the President and Chief Executive Officer of American Promotional Events, Inc., an importer and wholesaler of pyrotechnics, since July 1988. Mr. Anderson is the brother of Clyde B. Anderson, the Executive Chairman of the Company's Board of Directors.

ALBERT C. JOHNSON

Age: 61

Albert C. Johnson has served as director of the Company since August 2005. Mr. Johnson is an independent financial consultant and a retired CPA. He retired from Arthur Andersen LLP in 1994 after a 30-year career. Mr. Johnson most recently served as Senior Vice President and Chief Financial Officer of Dunn Investment Company from 1994 to 1998. He also is a director of Regions Morgan Keegan Mutual Funds.

PROPOSAL II
APPROVAL OF THE AMENDMENT TO INCREASE SHARES
AVAILABLE UNDER THE
BOOKS-A-MILLION, INC. 2005 INCENTIVE AWARD PLAN

The purpose of the Books-A-Million, Inc. 2005 Incentive Award Plan (the “Incentive Plan”) is to promote the success and enhance the value of the Company by linking the personal interests of members of the Board of Directors, employees and consultants to those of Company stockholders and by providing individuals with an incentive for outstanding performance to generate superior returns to Company stockholders. The Incentive Plan is further intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of members of the Board of Directors, employees and consultants upon whose judgment, interest, and special effort the successful conduct of the Company’s operation is largely dependent. The Board of Directors feels that the Incentive Plan has proved to be of substantial value in stimulating the efforts of the members of the Board of Directors, employees and consultants by increasing their ownership stake in the Company.

In light of the Company's continued growth, the number of shares remaining for issuance under the Incentive Plan is insufficient to provide adequately for the continued participation of members of the Board of Directors, employees and consultants in the Incentive Plan in future years. The Incentive Plan currently provides for up to 300,000 shares of Common Stock to be issued to members of the Board of Directors, employees and consultants. As of March 30, 2006, 209,623 restricted shares of the Company’s Common Stock (net of forfeitures) had been granted under the Incentive Plan, leaving only 90,377 shares available for additional grants. Accordingly, on March 30, 2006, the Compensation Committee (the “Committee”) of the Board of Directors adopted an amendment to the Incentive Plan, subject to shareholder approval, to increase the number of shares available for issuance under the Incentive Plan by an additional 300,000 shares of Common Stock.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE APPROVAL OF THE
AMENDMENT TO THE COMPANY’S 2005 INCENTIVE AWARD PLAN

INFORMATION CONCERNING THE BOARD OF DIRECTORS

The Company’s Board of Directors held eight meetings during the Company’s fiscal year ended January 28, 2006 (“fiscal 2006”). The Board has an Audit Committee, a Compensation Committee and a Nominating Committee. Each director attended at least 75% of the meetings of the Board and the committees of the Board on which he served.

Directors are encouraged to attend annual meetings of Books-A-Million stockholders. All Directors were present at the last annual meeting of stockholders.

Board Independence. The Board of Directors currently has six members, four of whom are independent within the meaning of the NASDAQ Stock Market, Inc. independence standards. On March 30, 2006, the Board increased the size of the Board from six to seven, by increasing the number of directors whose term will expire in 2009 from two to three.

Committees of the Board of Directors. The Audit Committee consists of Messrs. J. Barry Mason, Ronald G. Bruno, Albert C. Johnson and William H. Rogers, Jr. J. Barry Mason served as chair of the committee during fiscal 2006; as of March 30, 2006 Albert C. Johnson became the chair of this committee. The responsibilities of the Audit Committee include, in addition to such other duties as the Board may specify, appointing independent auditors, reviewing with the independent auditors the scope and results of the audit engagement, monitoring the Company’s financial policies and control procedures and reviewing and monitoring the performance of non-audit services by the Company’s auditors. The Audit Committee held thirteen meetings in fiscal 2006.

The Board of Directors has determined that each of the members of the Audit Committee are independent directors, as defined by the Audit Committee Charter and the NASDAQ National Market. The Audit Committee acts under a written charter first adopted in 1992 and last updated on March 15, 2006. The updated Audit Committee charter is attached as Appendix A. The Audit Committee Charter is also available free of charge on the Company’s website at www.booksamillioninc.com. The Board of Directors has determined that Mr. Albert C. Johnson is qualified as an audit committee financial expert.

Mr. Johnson's background and description of positions are summarized in the section "Incumbent Directors – Term Expiring 2008" on page 4 of this proxy. Mr. Johnson was a practicing CPA and auditor with Arthur Andersen LLP for approximately 30 years, where he served many public companies and several retail clients. He retired in 1994 from Arthur Andersen, as the Managing Partner of the firm's Birmingham office and head of the Audit Practice, in which capacities he oversaw the administrative and financial operations of the office and Audit Practice. He then became Senior Vice President and CFO of Dunn Investment Company, where he supervised the financial operations of three operating divisions. He currently is an independent financial consultant and sits on the Boards of Directors of several private and public companies. Mr. Johnson's extensive background in business, finance and accounting provides him with strong financial skills for use in his role on the Company's Audit Committee.

The Compensation Committee consists of Messrs. William H. Rogers Jr., Chairman of the Committee, J. Barry Mason and Ronald G. Bruno. The responsibilities of the Compensation Committee include, in addition to such other duties as the Board may specify, establishing salaries, bonuses and other compensation for the Company's executive officers and administering the Company's Stock Option Plan, Employee Stock Purchase Plan, Executive Incentive Plan (the "Incentive Plan"), the 2005 Incentive Award Plan, the Executive Deferred Compensation Plan and the Director's Deferred Compensation Plan. The Compensation Committee held three meetings in fiscal 2006.

The Nominating Committee consists of Messrs. Ronald G. Bruno, Chairman of the Committee, J. Barry Mason and William H. Rogers, Jr. The responsibilities of the Nominating Committee include, in addition to such other duties as the Board may specify, developing and reviewing background information for candidates for the Board of Directors, and making recommendations to the Board regarding such candidates. The Nominating Committee held one meeting in fiscal 2006.

The Board of Directors has determined that the members of the Nominating Committee are independent directors, as defined by the Nominating Committee Charter and the NASDAQ National Market. The Nominating Committee acts under a written charter first adopted in 2004. The Nominating Committee charter is available free of charge on the Company's website at www.booksamillioninc.com.

Stockholder Nominations of Director Candidates. The bylaws of the Company provide that any stockholder entitled to vote on the election of directors at a meeting called for such purpose may nominate persons for election to the Board by following the procedures set forth in the section titled "Notice of Stockholder Nominees." You may contact the Books-A-Million Corporate Secretary at the Company's executive offices for a free copy of the Company's bylaws.

Identifying and Evaluating Nominees for Directors. The Nominating Committee utilizes a variety of methods for identifying and evaluating nominees for director. The Nominating Committee regularly assesses the appropriate size of the Board, and whether any vacancies on the Board are expected due to retirement or otherwise. In the event that vacancies are anticipated, or otherwise arise, the Nominating Committee considers various potential candidates for director. Candidates may come to the attention of the Nominating Committee through current Board members, professional search firms, stockholders or other persons. These candidates are evaluated at regular or special meetings of the Nominating Committee, and may be considered at any point during the year. The Nominating Committee will consider suggestions from stockholders for nominees for election as directors. Stockholders who wish to submit a proposed nominee to the Nominating Committee should send written notice to Mr. Ronald G. Bruno, Nominating Committee Chairman, Books-A-Million, Inc., 402 Industrial Lane, Birmingham, Alabama 35211.

Such notice should set forth all information relating to such nominee as is required to be disclosed in solicitations of proxies for elections of directors pursuant to Regulation 14A under the Exchange Act, including such person's written consent to being named in the Proxy Statement as a nominee and to serve as a director if elected, the name and address of such stockholder or beneficial owner on whose behalf the proposed nomination is being made, and the class and number of shares of the Company owned beneficially and of record by such stockholder or beneficial owner. The Nominating Committee will consider nominees suggested by stockholders on the same terms as nominees provided by search firms or other parties. The Nominating Committee seeks to achieve a balance of knowledge, experience and capability on the Board.

The Nominating Committee believes that nominees for election to the Board must possess certain minimum qualifications and attributes. The nominee: 1) must exhibit strong personal integrity, character and ethics, and a commitment to ethical business and accounting practices, 2) must not serve on more than two other public company boards, 3) must not be involved in on-going litigation with the Company or be employed by an entity which is engaged in such litigation, and 4) must not be the subject of any on-going criminal investigations, including investigations for fraud or financial misconduct.

Compensation of Directors. Directors who are not employees of the Company (“Non-Employee Directors”) receive an annual retainer fee of \$25,000 and an attendance fee of \$1,000 for each Board, Compensation and Nominating Committee meeting attended, as well as reimbursement of all out-of-pocket expenses incurred in attending all such meetings. Audit Committee members receive \$2,000 per meeting attended and the Chairman of the Audit Committee receives \$3,000 per meeting, as well as reimbursement of all out-of-pocket expenses incurred in attending all such meetings.

In addition, the Company’s Non-Employee Directors are eligible to receive formula grants of restricted stock under the Company’s Restricted Stock Plan. Under the Company’s Restricted Stock Plan, each director who is not an employee of the Company or its subsidiary is, on the first day he serves as a director, granted 3,333 shares of Common Stock from the Company at the fair market value (as defined in the Restricted Stock Plan) of such Common Stock on such date. These shares will vest in three equal installments on the first, second, and third anniversaries of the effective date of the initial award. Further, each such director who is serving as a director on the date of the annual meeting and who has served as a director for more than eleven consecutive months shall be granted 2,000 shares of Common Stock from the Company at the fair market value of the Common Stock on such date. These shares will vest in three equal installments on the first, second, and third anniversaries of the effective date of the initial award. Any award which is not vested upon the Participant’s termination of employment shall there upon be forfeited immediately and without any further action by the company.

Director’s Deferred Compensation Plan. During fiscal 2006, the Board has also adopted the Books-A-Million, Inc. Directors’ Deferred Compensation Plan (the “Directors’ Deferred Compensation Plan”). The Directors’ Deferred Compensation Plan provides the Non-Employee Directors with the opportunity to defer the receipt of certain amounts payable for serving as a member of the Board (the “Fees”). A Non-Employee Director’s Fee deferrals are credited to the Non-Employee Director’s bookkeeping account (the “Account”) maintained under the Directors’ Deferred Compensation Plan. Each participating Non-Employee Director’s Account is credited with a deemed rate of interest and/or earnings or losses depending upon the investment performance of the deemed investment option.

With certain exceptions, a participating Non-Employee Director’s Account will be paid after the earlier of: (1) a fixed payment date, as elected by the participating Non-Employee Director (if any); or (2) the participating Non-Employee Director’s separation from service on the Board. The participating Non-Employee Director may generally elect that payments be made in a single sum or installments in the year specified by the participating Non-Employee Director or upon the Non-Employee Director’s separation from service on the Board. Additionally, a participating Non-Employee Director may elect to receive payment upon a Change of Control, as defined in, and to the extent permitted by, Section 409A of the Internal Revenue Code of 1986, as amended.

Communication with Directors. Individuals may communicate with the Board by submitting the communication to the Company’s executive offices at 402 Industrial Lane, Birmingham, Alabama 35211. The communication should be directed to: Internal Auditor. The Company’s Internal Auditor reports directly to the Audit Committee of the Board of Directors, and will immediately communicate the information to the Audit Committee and / or all members of the Board.

Auditor Fees and Services

Upon the recommendation of the Audit Committee of the Board of Directors of the Company, Deloitte & Touche LLP (“Deloitte”) was dismissed as the Company’s independent auditor effective April 29, 2005. Deloitte served as the Company’s independent auditor for fiscal years 2003, 2004 and 2005. The reports of Deloitte for those fiscal years did not contain an adverse opinion or disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope or accounting principles. During those fiscal years and for fiscal year 2006 through April 29, 2005 there were no (A) disagreements with Deloitte on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of Deloitte, would have caused Deloitte to make reference to such disagreements in its reports provided to the Company; and (B) reportable events (as defined in Item 304(a)(1)(v) of Regulation S-K).

Effective April 29, 2005, the Company’s Audit Committee engaged Grant Thornton LLP to audit the Company’s financial statements for the fiscal year ending on January 28, 2006. Prior to the engagement of Grant Thornton LLP, neither the Company nor anyone on behalf of the Company had consulted with Grant Thornton LLP during the Company’s two most recent fiscal years and for fiscal year 2006 through April 29, 2005 in any matter regarding either: (A) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company’s financial statements, and neither

was a written report nor oral advice provided to the Company that Grant Thornton concluded was an important factor considered by the Company in reaching a decision as to the accounting, auditing or financial reporting issue; or (B) any matter which was the subject of either a disagreement or a reportable event, as each are defined in Item 304(a)(1)(iv) and (v) of Regulation S-K, respectively.

The Audit Committee of the Board of Directors selected Grant Thornton LLP to serve as the Company's independent registered public accounting firm for the 2006 fiscal year. Deloitte & Touche LLP served as the Company's independent registered public accounting firm for fiscal years 2003, 2004 and 2005. Representatives of Grant Thornton LLP are expected to be present at the annual meeting. They will be provided an opportunity to make a statement if they desire to do so and they will be available to respond to appropriate questions.

The following table shows the fees paid or accrued, including out-of-pocket expenses, by the Company for the audit provided by Grant Thornton LLP for fiscal year 2006 and Deloitte & Touche LLP for fiscal year 2005:

Fees	2006	2005
Audit Fees (1)	\$1,042,098	\$330,873
Audit-related Fees (2)	46,398	21,000
Tax Fees (3)	13,574	30,820
All Other Fees (4)	0	0
Total	\$1,102,070	\$382,693

- (1) Audit fees represent fees for professional services provided in connection with the audit of the Company's financial statements and review of quarterly financial statements and audit services provided in connection with other statutory or regulatory filings.
- (2) Audit-related fees represent the aggregate fees billed during the past two years for assurance and related services by the principal accountants that are reasonably related to their performance of the audit or review of the Company's financial statements that are not covered by the prior item.
- (3) Tax fees principally included tax compliance fees and tax advice and planning fees.
- (4) All other fees for products and services rendered in the past two years that are not already disclosed pursuant to prior three items.

The Audit Committee has required that a majority of its members pre-approve all audit-related and non-audit services not prohibited by law to be performed by the Company's independent auditors.

The Audit Committee has considered whether the provision of non-audit services by the Company's independent registered public accounting firm is compatible with maintaining the independent registered public accounting firm's independence, and believes that the provision of such services is compatible.

Report of the Audit Committee

The Audit Committee is comprised of four directors, all of whom have been determined to be independent by the Board as defined by the NASDAQ National Market and the Securities and Exchange Commission. The Audit Committee operates under a written charter adopted by the Board of Directors. A copy of the Audit Committee's charter is available on the Company's website at www.booksamillioninc.com or to any stockholder otherwise requesting a copy.

The members of the Audit Committee are Messrs. Albert C. Johnson (Chairman), J. Barry Mason, Ronald G. Bruno and William H. Rogers. The Board has determined that Mr. Johnson is an audit committee financial expert as defined by the Securities and Exchange Commission.

The primary function of the Audit Committee is to provide advice with respect to the Company's financial matters and to assist the Board of Directors in fulfilling its oversight responsibilities regarding (i) the quality and integrity of the Company's financial statements, (ii) the Company's compliance with legal and regulatory requirements, (iii) the qualifications and independence of the independent registered public accounting firm serving as auditors of the Company and (iv) the performance of the Company's internal audit function and the independent registered public accounting firm. The Audit Committee's primary duties and responsibilities relate to:

- a. maintenance by management of the reliability and integrity of the accounting policies and financial reporting and financial disclosure practices of the Company;

- b. establishment and maintenance by management of processes to assure that an adequate system of internal controls is functioning within the Company; and
- c. retention and termination of the independent registered public accounting firm.

Management is responsible for the Company's internal controls and the financial reporting process. The independent registered public accounting firm is responsible for performing an independent audit of the Company's consolidated financial statements in accordance with U.S. generally accepted auditing standards and to issue a report thereon. The Audit Committee's responsibility is to monitor and oversee these processes.

The Audit Committee held thirteen meetings during fiscal 2006, including regular meetings in conjunction with the close of each fiscal quarter during which the Audit Committee reviewed and discussed the Company's financial statements with management and Grant Thornton LLP, its independent registered public accounting firm.

The Audit Committee reviewed and discussed the audited financial statements of the Company for the fiscal year ended January 28, 2006 with the Company's management, and management represented to the Audit Committee that the Company's financial statements were prepared in accordance with accounting principles generally accepted in the United States. The Audit Committee discussed with Grant Thornton LLP matters required to be discussed by Statement on Auditing Standards ("SAS") No. 61 (Communication with Audit Committees) as amended by SAS No. 91.

The Audit Committee received the written disclosures and the letter from Grant Thornton LLP required by Independence Standards Board Standard No. 1 (Independence Discussion with Audit Committees), and the Audit Committee discussed with Grant Thornton LLP its independence from the Company. It considered the non-audit services provided by Grant Thornton LLP and determined that the services provided are compatible with maintaining Grant Thornton LLP's independence. The Audit Committee approved 100% of all audit, audit related, tax and other services provided by Grant Thornton LLP for the fiscal year ended January 28, 2006. The total fees paid to Grant Thornton LLP for the fiscal year 2006 is described above under "Auditor Fees and Services."

Based on the Audit Committee's discussions with management and the independent registered public accounting firm, the Audit Committee's review of the representation of management and the report of the independent registered public accounting firm to the Audit Committee, the Audit Committee recommended to the Board of Directors that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2006 for filing with the Securities and Exchange Commission.

By the Audit Committee of the Board of Directors:

Albert C. Johnson, Chairman
J. Barry Mason
Ronald G. Bruno
William H. Rogers, Jr.

Code of Conduct

The Company has adopted a code of business conduct and ethics for all directors, officers (including the Company's principal executive officer, principal financial officer and controller) and employees. The Company's Code of Business Conduct is available free of charge on the Company's website at www.booksamillioninc.com. Stockholders may also request a free copy of the Code of Business Conduct by writing to the attention of Investor Relations at the Company's executive offices at 402 Industrial Lane, Birmingham, Alabama 35211.

Beneficial Ownership of Common Stock

The following table sets forth information concerning the beneficial ownership of Common Stock of the Company of (i) those persons known by management of the Company to own beneficially more than 5% of the Company's outstanding Common Stock, (ii) the directors of the Company, (iii) the executive officers named in the Summary Compensation Table included elsewhere herein and (iv) all current directors and executive officers as a group. Such information is provided as of March 1, 2006. The outstanding Common Stock of the Company on March 1, 2006 was 16,402,272 shares. According to rules adopted by the SEC, a person is the "beneficial owner" of securities if he or she has or shares the power to vote them or to direct their investment or has the right to acquire beneficial ownership of such securities within 60 days through the exercise of an option, warrant, right of conversion of a security or otherwise. Except as otherwise noted, the indicated owners have sole voting and investment power with respect to shares beneficially owned. An asterisk in the percent of class column indicates beneficial ownership of less than 1% percent of the outstanding Common Stock.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Charles C. Anderson ^{1/}	2,611,373 ^{2/}	15.5 %
Clyde B. Anderson ^{3/}	1,974,527 ⁴	12.0
Joel R. Anderson ^{1/}	1,782,440 ^{5/}	10.5
Dimensional Fund Advisors, Inc. ^{6/}	1,251,857	7.4
Aegis Financial Corp. ^{7/}	1,159,342	6.9
Richard Rubin ^{8/}	1,053,268	6.2
Terry C. Anderson	465,272 ^{9/}	2.8
Harold M. Anderson ^{10/}	448,480	2.7
Charles C. Anderson, Jr. ^{11/}	341,605	2.0
Sandra B. Cochran	268,028 ^{12/}	1.6
Terrance G. Finley	184,822 ^{13/}	1.1
Richard S. Wallington	75,107 ^{14/}	*
Ronald G. Bruno	67,000 ^{15/}	*
William H. Rogers, Jr.	34,000 ^{16/}	*
J. Barry Mason	12,000 ^{17/}	*
Albert C. Johnson	3,333 ^{18/}	*
All current directors and executive officers as a group (9 persons)	3,084,089 ^{19/}	18.8%

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- (1) The business address of Mr. Charles C. Anderson and Mr. Joel R. Anderson is 202 North Court Street, Florence, Alabama 35630. Mr. Charles C. Anderson served on the Company's Board of Directors until June 3, 2004. Mr. Joel R. Anderson does not serve as an officer or director of the Company.
- (2) Includes 83,000 shares held by a charitable foundation of which Mr. Charles C. Anderson is the Chairman of the Board of Directors.
- (3) Mr. Clyde B. Anderson's business address is 402 Industrial Lane, Birmingham, Alabama 35211.
- (4) Includes 83,000 shares and 50,000 shares held by charitable foundations of which Mr. Clyde B. Anderson is a member of the Board of Directors and the Executive Chairman of the Board of Directors, respectively. This number also includes 88,668 shares subject to options exercisable on or before April 30, 2006 and 17,779 shares of restricted stock.
- (5) Includes 83,000 shares held by a charitable foundation of which Mr. Joel R. Anderson is the Chairman of the Board of Directors.
- (6) Dimensional Fund Advisors, Inc. is an investment advisor with its business address at 1299 Ocean Avenue, 11th Floor, Santa Monica, California 90401.
- (7) Aegis Financial Corporation is an investment advisor with its business address at 1100 North Glebe Road Suite 1040, Arlington, Virginia 22201.
- (8) Richard Rubin and Hawkeye Capital Management's business address is 800 Third Avenue, 10th Floor, New York, New York 10022.
- (9) Includes 12,000 shares subject to options exercisable on or before April 30, 2006.
- (10) The business address of Mr. Harold M. Anderson is 3101 Clairmont Road Suite C, Atlanta, GA 30329
- (11) The business address of Mr. Charles C. Anderson, Jr. is 6016 Brookvale Lane, Ste. 151, Knoxville, TN 37919
- (12) Includes 202,833 shares subject to options exercisable on or before April 30, 2006 and 42,543 shares of restricted stock.
- (13) Includes 140,667 shares subject to options exercisable on or before April 30, 2006 and 39,043 shares of restricted stock.
- (14) Includes 51,667 shares subject to options exercisable on or before April 30, 2006 and 14,279 shares of restricted stock.
- (15) Includes 30,000 shares subject to options exercisable on or before April 30, 2006.
- (16) Represents options exercisable on or before April 30, 2006.
- (17) Represents options exercisable on or before April 30, 2006.
- (18) Represents shares of restricted stock.
- (19) Includes 571,835 shares subject to options exercisable on or before April 30, 2006 and 116,977 shares of restricted stock.

Compliance with Section 16(a) of the Securities Exchange Act of 1934. Section 16(a) of the Exchange Act requires the Company's directors, executive officers and persons who own beneficially more than 10% of the Company's Common Stock to file reports of ownership and changes in ownership of such stock with the Securities and Exchange Commission (the "SEC") and the NASDAQ Stock Market, Inc. Directors, executive officers and greater than 10% stockholders are required by SEC regulations to furnish the Company with copies of all such forms they file. To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations that no other reports were required, its directors, executive officers and greater than 10% stockholders complied during fiscal 2006 with all applicable Section 16(a) filing requirements.

EXECUTIVE COMPENSATION

Pursuant to SEC rules for Proxy Statement disclosure of executive compensation, the Compensation Committee of the Board of Directors of the Company has prepared the following Report on Executive Compensation. The Committee intends that this report clearly describe the current executive compensation program of the Company, including the underlying philosophy of the program and the specific performance criteria on which executive compensation is based. This report also discusses in detail the compensation paid to Ms. Sandra B. Cochran, the Company's Chief Executive Officer, during fiscal 2006.

Report On Executive Compensation

The Compensation Committee, which consists of Messrs. William H. Rogers, Jr. (who served as Chairman throughout fiscal 2006), J. Barry Mason and Ronald G. Bruno, was responsible for establishing salaries, bonuses and other compensation for the Company's executive officers for fiscal 2006, as well as for administering the Company's 2005 Incentive Award Plan, Stock Option Plan, Employee Stock Purchase Plan and Executive Incentive Plan. Each member of the Compensation Committee is a non-employee director. Clyde B. Anderson, in his position as Executive Chairman of the Board, provided input to the Compensation Committee as to the compensation for the Company's other officers.

During fiscal 2006, the shareholders approved an incentive award plan designed to continue attracting, motivating, and retaining the best talent in the industry, and which will continue to focus and align senior management with the creation of long-term shareholder value. A combination of performance-based and service-based restricted stock was introduced into the annual equity compensation program to maintain alignment with shareholder interests as well as link performance directly to the measures that most drive shareholder value. The Committee continues to monitor the compensation programs with the assistance of input from outside advisors in order to ensure compliance with the changing landscape of executive pay.

Compensation Policy. The Company's executive compensation policy is designed to provide levels of compensation that integrate compensation with the Company's annual and long-term performance goals and reward above-average corporate performance, thereby allowing the Company to attract and retain qualified executives. Specifically, the Company's executive compensation policy is intended to:

- Provide compensation levels that are consistent with the Company's business plan, financial objectives and operating performance;
- Reward performance that facilitates the achievement of the Company's business plan;
- Motivate executives to achieve strategic operating objectives; and
- Align the interests of executives with those of stockholders and the long-term interest of the Company by providing long-term incentive compensation in the form of stock options and shares of restricted stock.

In light of the Company's compensation policy, the components of its executive compensation program for fiscal 2006 were base salaries, cash bonuses and restricted stock bonuses.

Base Salary. Each executive officer's base salary (including the Chief Executive Officer's base salary) is based upon a number of factors, including the responsibilities borne by the executive officer, his or her performance and his or her length of service to the Company. Each executive officer's base salary is reviewed annually and generally adjusted to account for inflation, the Company's financial performance, any change in the executive officer's responsibilities and the executive officer's overall performance. Factors considered in evaluating performance include financial results such as increases in sales, net income before taxes and earnings per share, as well as non-financial measures such as

improvements in service and relationships with customers, suppliers and employees, employee safety and leadership and management development. These non-financial measures are subjective in nature. No particular weight is given by the Compensation Committee to any particular factor.

Cash Bonuses. Each executive officer, including the Chief Executive Officer, is eligible to receive an annual cash bonus of up to 100% of his or her base salary at the time of the award, including cash awards provided under the Executive Incentive Plan. Cash bonuses generally are paid pursuant to a bonus program established at the beginning of a fiscal year in connection with the preparation of the Company's annual operating budget for such year. Under this bonus program, an executive officer (including the Chief Executive Officer) is eligible to receive a bonus upon the Company achieving certain pre-tax income goals and the executive officer accomplishing certain individual performance goals related to his or her job functions.

Stock Options. In September 1992, the Company adopted a Stock Option Plan under which executive officers, including the Chief Executive Officer, are eligible to receive stock options. In fiscal 2006, the company discontinued the issuance of any additional options under this plan. No options were granted to any officer during fiscal 2006. Under the Stock Option Plan, all stock options granted have had exercise prices no less than the fair market value (generally, the closing sale price of a share) of the Company's Common Stock on the date of grant. Prior to January 9, 2001, all options granted to employees became exercisable in equal annual increments over the five-year period beginning on the date of the grant and expired on the sixth anniversary of the date of grant. On January 9, 2001, the Compensation Committee approved an amendment to the Stock Option Plan that allows all options granted after that date to vest in equal annual increments over the three-year period beginning on the date of the grant and expired on the tenth anniversary of the date of the grant. The Compensation Committee believes that these features serve to align the interests of executives with those of stockholders and the long-term interests of the Company.

Executive Incentive Plan. During fiscal 1995, the Company adopted the Books-A-Million, Inc. Executive Incentive Plan. The Incentive Plan provides for awards to certain executive officers of cash, shares of restricted stock, or both, based on the achievement of specific pre-established performance goals during a three consecutive fiscal year performance period. During Fiscal 2006, awards were made under this plan to Mr. Clyde B. Anderson, Executive Chairman of the Board, Ms. Sandra B. Cochran, President and Chief Executive Officer, Mr. Terrance G. Finley, Executive Vice President, and Mr. Richard S. Wallington, Chief Financial Officer. The awards were made in restricted stock according to the provisions of the plan. Effective in fiscal 2007, no future awards will be made under the Executive Incentive Plan.

2005 Incentive Award Plan. During fiscal 2006, the Board of Directors (the "Board") adopted, the Books-A-Million 2005 Incentive Award Plan (the "Plan") for members of the Board, employees and consultants of the Company and its subsidiaries. The Plan became effective in June 2005 when the Plan was approved by the affirmative vote of the holders of the majority of our Common Stock present, or represented, and entitled to vote thereon at the Annual Meeting of Stockholders. The plan maintains a total share reserve of 300,000 and as of January 28, 2006 there was a total of 258,867 shares still available to be granted under the plan.

The Board believes that the Plan will promote the success and enhance the value of the Company by continuing to link the personal interest of participants to those of Company stockholders and by providing participants with an incentive for outstanding performance.

The Plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock, stock appreciation rights, performance shares, performance stock units, dividend equivalents, stock payments, deferred stock, restricted stock units, and/or performance-based awards to eligible individuals. During Fiscal 2006, awards were made under this plan to Mr. Clyde B. Anderson, Executive Chairman of the Board, Ms. Sandra B. Cochran, President and Chief Executive Officer, Mr. Terrance G. Finley, Executive Vice President, and Mr. Richard S. Wallington, Chief Financial Officer. The awards were made in restricted stock according to the provisions of the plan. See the Summary Compensation Table on page 14 for more information on awards to named executive officers.

Executives' Deferred Compensation Plan. During fiscal 2006, the Board adopted the Books-A-Million, Inc. Executives' Deferred Compensation Plan (the "Executives' Deferred Compensation Plan"). The Executives' Deferred Compensation Plan provides a select group of management or highly compensated employees of Company and certain of its subsidiaries (the "Participants") with the opportunity to defer the receipt of certain cash compensation. Under the Executives' Deferred Compensation Plan each Participant may elect to defer a portion of his or her cash compensation that may otherwise be payable in a calendar year. A Participant's compensation deferrals are credited to the Participant's bookkeeping account (the "Account") maintained under the Executives' Deferred Compensation Plan. Each Participant's Account is credited with a deemed rate of interest and/or earnings or losses depending upon the investment performance of the deemed investment option selected by the participant.

With certain exceptions, a Participant's Account will be paid after the earlier of: (1) a fixed payment date, as elected by the Participant (if any); or (2) the Participant's separation from service with Company or its subsidiaries. Participants may generally elect that payments be made either in a single sum or in installments in the year specified by the Participant or upon their separation from service with the Company. Additionally, a Participant may elect to receive payment upon a Change of Control, as defined in, and to the extent permitted by, Section 409A of the Internal Revenue Code of 1986, as amended.

Compensation of Chief Executive Officer. During fiscal 2006, the Company's Chief Executive Officer, Ms. Sandra B. Cochran, earned compensation comprised of each of the base salary, cash bonus, Executive Incentive Plan and 2005 Incentive Award Plan components of the Company's executive compensation program described above. The Compensation Committee established her compensation after reviewing the compensation packages of other chief executive officers of publicly-traded retailers (as reported in such companies' proxy statements). The Compensation Committee considered the size, location, revenues, earnings and capital structure of the retailers whose chief executive officers' compensation packages were reviewed, and attempted to provide Ms. Cochran with comparable compensation based upon the Committee's subjective comparison of the size, location, revenues, earnings and capital structure of the Company.

Limitations on Deductibility of Compensation. Under the 1993 Omnibus Budget Reconciliation Act, a portion of annual compensation payable after 1993 to any of the Company's five highest paid executive officers would not be deductible by the Company for federal income tax purposes to the extent such officer's overall compensation exceeds \$1,000,000. Qualifying performance-based incentive compensation, however, would be both deductible and excluded for purposes of calculating the \$1,000,000 limit. Although the Compensation Committee does not presently intend to award compensation in excess of the \$1,000,000 limit, it will continue to address this issue when formulating compensation arrangements for the Company's executive officers.

Mr. William H. Rogers, Jr. (Chairman)

Dr. J. Barry Mason

Mr. Ronald G. Bruno

The Report on Executive Compensation of the Compensation Committee of the Board of Directors shall not be deemed to be incorporated by reference as a result of any general incorporation by reference of this Proxy Statement or any part hereof in the Company's Annual Report to Stockholders or its Annual Report on Form 10-K.

Compensation Committee Interlocks and Insider Participation

Interlocks. As indicated above, the Compensation Committee of the Board of Directors consists of Messrs., William H. Rogers, Jr., J. Barry Mason and Ronald G. Bruno. None of these directors had interlock relationships.

Certain Relationships and Related Transactions

During fiscal 2006, Charles C. Anderson, Clyde B. Anderson, Terry C. Anderson and Sandra B. Cochran served as executive officers or directors of a total of seven companies owned or controlled by the Anderson family (the "Other Companies"). None of the Other Companies have securities registered under, or otherwise are required to file periodic reports under, the Exchange Act, and if the Other Companies were to have securities registered under, or otherwise were required to file periodic reports under, the Exchange Act, none of the relationships of Charles C. Anderson, Clyde B. Anderson, Terry C. Anderson and Sandra B. Cochran with the Company and the Other Companies would constitute "interlocks," as defined by Item 402(j) of Regulation S-K. Even so, the Company notes that during fiscal 2006, (i) Clyde B. Anderson served as an officer and a member of the Board of Directors of the Company and as a member of the boards of directors and/or compensation committees of certain of the Other Companies, (ii) Charles C.

Anderson is a major shareholder of the company and he served as an executive officer or member of the boards of directors and/or compensation committees of certain of the Other Companies, (iii) Terry C. Anderson served as a member of the Board of Directors of the Company and as an executive officer of certain of the Other Companies and (iv) Sandra B. Cochran served as an officer of the Company and as a member of the Board of Directors of certain of the Other Companies.

During fiscal 2006, the Company entered into certain transactions in the ordinary course of business with certain entities affiliated with Messrs. Charles C. Anderson, Terry C. Anderson and Clyde B. Anderson. The Board of Directors of the Company believes that all such transactions were on terms no less favorable to the Company than terms available from unrelated parties for comparable transactions. Significant activities with these entities are discussed in the following paragraphs.

The Company purchases a substantial portion of its magazines as well as certain of its seasonal music and newspapers from Anderson Media Corporation (“Anderson Media”), virtually all of the outstanding stock of which is owned by members of the Anderson family. During fiscal 2006, purchases of these items from Anderson Media totaled \$30,745,862. The Company also purchases certain of its collectibles, gifts and books from Anderson Press, Inc. (“Anderson Press”), which is wholly owned by members of the Anderson family. During fiscal 2006, such purchases from Anderson Press totaled \$1,271,736. The Company purchases gifts and cards from C.R. Gibson, of which the Anderson family controls virtually all of the outstanding stock. Such purchases from C.R. Gibson totaled \$223,018 during fiscal 2006. Certain magazine subscriptions purchases from Magazines.com, which is partially owned by Anderson Media, were \$70,779 for fiscal 2006. The Company purchases promotional material from Publication Marketing Corporation, which is majority owned by members of the Anderson family. During fiscal 2006, those purchases totaled \$71,105. The Company utilizes Anco Far East Importers, LTD (“Anco Far East”), a company which is wholly owned by members of the Anderson family, to assist in purchasing and importing certain gift items. The total cash paid to Anco Far East for fiscal 2006 was \$2,113,436, which primarily consisted of the actual cost of the product, but also included fees for sourcing and consolidation services. All of the costs other than the sourcing and consolidation services fees, which totaled \$147,941, were passed through from other vendors. The Company purchases certain store fixtures from K & A Crylics, which is partially owned by Mr. Clyde B. Anderson and Ms. Sandra B. Cochran. During fiscal 2006, these purchases totaled \$63,941. Prior to fiscal 2006, K & A Crylics was not a related party.

The Company also sold books to Anderson Media in fiscal 2006 totaling \$1,017,410. In fiscal 2006, the Company provided internet-related services to American Promotional Events in the amount of \$77,016.

The Company leases its principal executive offices from a trust, which was established for the benefit of the grandchildren of Mr. Charles C. Anderson. The initial lease expired on January 31, 2006 and a short-term extension was signed through June 30, 2006. During fiscal 2006, the Company paid rent of \$137,189 to the trust under this lease. Anderson & Anderson, LLC (“A&A”), which is wholly owned by members of the Anderson family, also leases three buildings to the Company. During fiscal 2006, the Company paid A&A a total of \$444,908 in connection with such leases.

The Company subleases certain property to Hibbett Sporting Goods, Inc. (“Hibbett”), a sporting goods retailer in the Southeastern United States. The Company’s Executive Chairman, Clyde B. Anderson, serves as a director for Hibbett. During fiscal 2006, the Company received \$190,800 in rent payments from Hibbett.

The Company shares ownership of a plane used by Books-A-Million in the operation of its business with an affiliated company. The Company rents the plane to affiliated companies at rates that cover all the variable costs and a portion of the fixed costs of operating the plane. The total amount received from affiliated companies for use of the plane in fiscal 2006 was \$145,769. In addition, the Company paid amounts to A&A for the use of their plane in the amount of \$70,130.

Executive Officer Compensation

This section of the Proxy Statement discloses the compensation awarded, paid to or earned by, the Company’s Chief Executive Officer and its three most highly compensated officers other than the Chief Executive Officer during fiscal 2006. Such executive officers are hereinafter referred to as the Company’s “Named Executive Officers.”

Table I - Summary Compensation Table

The following table presents the total compensation of the Company's Named Executive Officers during each of the fiscal years set forth below.

TABLE I - SUMMARY COMPENSATION TABLE

Name	Fiscal Year	Annual Compensation			Long-Term Compensation		
		Salary \$	Bonus \$	Other Annual Compensation \$ ^{1/}	Restricted Stock Awards \$ ^{2/}	Number of Securities Underlying Options (#) ^{3/}	All Other Compensation (\$)
Sandra B. Cochran President, Chief Executive Officer and Secretary	2006	420,000	385,000	6,069	104,498	0	7,585 ^{4/}
	2005	400,000	380,000	4,725	116,990	0	3,218 ^{5/}
	2004	360,000	360,000	0	111,995	50,000	3,384 ^{6/}
Clyde B. Anderson Executive Chairman of the Board	2006	325,000	253,854	86,855	84,398	0	7,253 ^{4/}
	2005	325,000	232,188	76,669	86,993	0	6,273 ^{5/}
	2004	410,000	410,000	15,095	0	40,000	8,683 ^{6/}
Terrance G. Finley President of Books-A-Million, Inc. Merchandising Group	2006	271,000	209,429	0	69,323	0	7,534 ^{4/}
	2005	260,000	221,000	0	116,990	0	7,139 ^{5/}
	2004	250,000	212,500	0	111,995	25,000	8,650 ^{6/}
Richard S. Wallington Chief Financial Officer	2006	187,000	126,854	0	49,223	0	5,022 ^{4/}
	2005	180,000	116,250	0	86,993	0	4,866 ^{5/}
	2004	175,000	131,250	0	0	10,000	3,449 ^{6/}

(1) Other Annual Compensation includes transportation related benefits, which consist of personal use of Company aircraft and car allowances. The benefits for personal use of Company aircraft for Clyde B. Anderson were \$80,355, \$70,169 and \$15,095 for fiscal 2006, fiscal 2005 and fiscal 2004, respectively. In addition, Clyde B. Anderson received a car allowance of \$6,500 for both fiscal 2006 and fiscal 2005. Sandra B. Cochran received benefits for personal use of Company aircraft of \$6,069 and \$4,725 for fiscal 2006 and fiscal 2005, respectively. The calculation of the benefits for personal use of Company aircraft is based on the estimated aggregate incremental cost to the Company at the time of the benefits.

(2) In fiscal 1995, the Company's Board of Directors adopted the Books-A-Million, Inc. Executive Incentive Plan and authorized Sandra B. Cochran and Terrance G. Finley to participate in such plan. Richard S. Wallington and Clyde B. Anderson were authorized to participate in fiscal 2002. Restricted stock awards of 17,310 shares were issued to both Ms. Cochran and Mr. Finley on January 30, 2004, the last trading day of the fiscal year for awards earned for the three-year performance period ended January 31, 2004. The per share value on that day was \$6.47. The shares are subject to a three-year vesting schedule and are contingent upon Ms. Cochran's and Mr. Finley's continued employment through the end of the vesting period.

After final fiscal 2004 earnings were calculated and the audit was finalized in March 2004, additional awards of \$29,997 were granted in restricted stock to each of Ms. Cochran and Mr. Finley for additional amounts earned for the three-year performance period ended January 31, 2004. These awards of 5,454 shares each were granted and issued on March 15, 2004. The per share value on that day was \$5.50. The shares are subject to a three-year vesting schedule and are contingent upon Ms. Cochran's and Mr. Finley's continued employment through the end of the vesting period.

Restricted stock awards of 9,344 shares were issued to each of Sandra B. Cochran, Clyde B. Anderson, Terrance G. Finley and Richard S. Wallington on January 28, 2005, the last trading day of the fiscal year for awards earned for the three-year performance period ended January 29, 2005. The per share value on that day was \$9.31. The shares are subject to a three-year vesting schedule and are contingent upon continued employment through the end of the vesting period.

After final fiscal 2005 earnings were calculated and the audit was finalized in March 2005, additional awards of \$3,998 were granted in restricted stock to each of Sandra B. Cochran, Clyde B. Anderson, Terrance G. Finley and Richard S. Wallington for additional amounts earned for the three-year performance period ended January 29, 2005. These awards of 435 shares each were granted and issued on March 15, 2005. The per share value on that day was \$9.19. The shares are subject to a three-year vesting schedule and are contingent upon Ms. Cochran's, Mr. Anderson's, Mr. Finley's and Mr. Wallington's continued employment through the end of the vesting period.

In fiscal 2006 the Company's Board of Directors adopted the Books-A-Million, Inc. 2005 Incentive Award Plan and authorized Sandra B. Cochran, Clyde B. Anderson, Terrance G. Finley and Richard S. Wallington to participate in such plan. Restricted stock awards were granted for 10,000, 8,000, 6,500 and 4,500 shares, respectively. The shares were issued on June 28, 2005 and the per share value on that day was \$10.05. The shares are subject to a five year, cliff vest schedule and are contingent upon employment through the end of the vesting period.

(3) Options granted become exercisable in equal increments on the first, second and third anniversaries of the date of grant and expire ten years from the date of grant (or earlier if the optionee dies or ceases to be employed full-time by the Company).

(4) For fiscal 2006, the amounts shown include (i) matching contributions by the Company to the Company's 401(k) savings plan of \$6,150, \$6,150, \$6,150 and \$4,443 on behalf of Sandra B. Cochran, Clyde B. Anderson, Terrance G. Finley and Richard S. Wallington, respectively and (ii) life insurance premiums of \$1,435, \$1,103, \$1,384 and \$579 on behalf of each of Sandra B. Cochran, Clyde B. Anderson, Terrance G. Finley and Richard S. Wallington, respectively.

(5) For fiscal 2005, the amounts shown include (i) matching contributions by the Company to the Company's 401(k) savings plan of \$1,848, \$5,539, \$5,810 and \$4,309 on behalf of Sandra B. Cochran, Clyde B. Anderson, Terrance G. Finley and Richard S. Wallington, respectively and (ii) life insurance premiums of \$1,370, \$734, \$1,329 and \$557 on behalf of each of Sandra B. Cochran, Clyde B. Anderson, Terrance G. Finley and Richard S. Wallington, respectively.

(6) For fiscal 2004, the amounts shown include (i) matching contributions by the Company to the Company's 401(k) savings plan of \$7,559, \$2,403, \$7,985 and \$3,018 on behalf of Clyde B. Anderson, Sandra B. Cochran, Terrance G. Finley and Richard S. Wallington, respectively and (ii) life insurance premiums of \$1,124, \$981, \$665 and \$431 on behalf of each of Clyde B. Anderson, Sandra B. Cochran, Terrance G. Finley and Richard S. Wallington, respectively.

Stock Option Information

The Company previously maintained the Books-A-Million, Inc. Stock Option Plan (the "Stock Option Plan"). In fiscal 2006, the company discontinued the issuance of any additional options under the Stock Option Plan. No options were granted to any officer during fiscal 2006. A total of 3,800,000 shares of Common Stock were authorized to be made available for issuance under the Stock Option Plan. Options granted under the Stock Option Plan were either incentive stock options or nonqualified options. The Stock Option Plan contained certain limitations with respect to incentive stock options that were intended to satisfy applicable Internal Revenue Code requirements. Under the Stock Option Plan, the Company was authorized to issue options to certain officers, employees, consultants and directors of the Company and its subsidiaries.

The Company previously maintained separate stock option plans for four of its subsidiaries: American Internet Services, Inc., Booksamillion.com, Inc., NetCentral, Inc. and FaithPoint, Inc. In fiscal 2006, the company terminated these plans with the adoption of the 2005 Incentive Award Plan. A total of 10,000 shares of Common Stock were authorized to be made available for issuance under each of the subsidiary plans, but no shares were ever issued under any of these plans.

Table II - Option Exercises In Fiscal 2006 and Fiscal 2006 Year-End Option Values

The following table shows the number of shares of Common Stock subject to exercisable and unexercisable stock options held by each of the Named Executive Officers as of January 28, 2006. The table also reflects the values of such options based on the positive spread between the exercise price of such options and \$11.33, which was the closing sale price of a share of Common Stock reported in the NASDAQ National Market on January 27, 2006 (the last trading day prior to the end of the Company's fiscal year).

TABLE II - FISCAL 2006 YEAR-END OPTION VALUES

<u>Name</u>	<u>Shares Acquired on Exercise</u>	<u>Value Realized⁽¹⁾</u>	<u>Number of Shares Subject to Unexercised Options at January 28, 2006</u>	<u>Value of Unexercised In-the-Money Options at January 28, 2006</u>
			<u>Exercisable / Unexercisable</u>	<u>Exercisable / Unexercisable</u>
Sandra B. Cochran	170,500	\$ 232,835	202,833 / 16,667	\$1,704,765 / \$81,000
Clyde B. Anderson	75,000	\$ 80,250	88,668 / 13,333	\$ 671,408 / \$64,798
Terrance G. Finley	50,000	\$ 116,018	140,667 / 8,333	\$1,201,361 / \$40,500
Richard S. Wallington	20,000	\$ 36,200	51,667 / 3,333	\$ 435,795 / \$16,200

- (1) The value realized is based upon the difference between the market price of the shares purchased on the exercise date and the exercise price times the number of shares covered by the exercised option.

Equity Compensation Plan Information

The following table provides information as of January 28, 2006 with respect to the Company's common stock that may be issued under the Company's equity compensation plans.

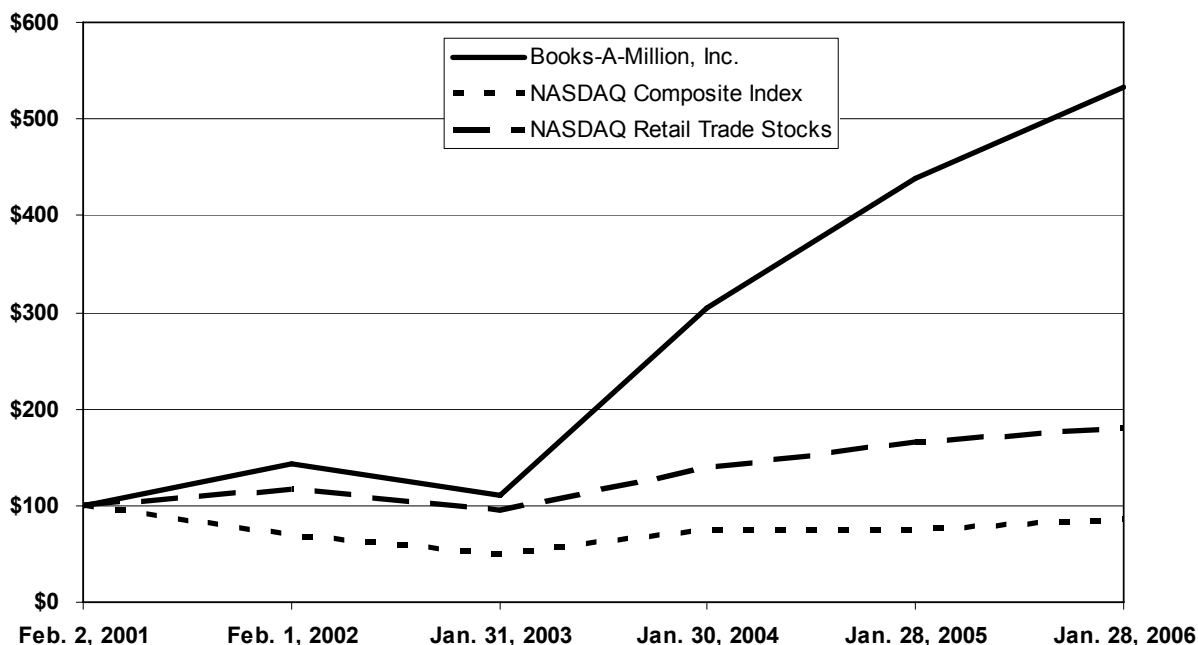
<u>Plan Category</u>	<u>A</u>	<u>B</u>	<u>C</u>
	<u>Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights</u>	<u>Weighted Average Exercise Price of Outstanding Options, Warrants and Rights</u>	<u>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column A)</u>
Equity Compensation Plans Approved by Shareholders	813,736 ⁽¹⁾	\$3.77	415,321 ⁽²⁾
Equity Compensation Plans Not Approved by Shareholders	---	---	---
Total	813,736	\$3.77	415,321

- (1) Includes 813,736 shares in the Stock Option Plan.

- (2) Includes 141,098 shares in the Employee Stock Purchase Plan, 15,356 in the Executive Incentive Plan and 258,867 in the Incentive Award Plan.

Performance Graph

The following indexed line graph indicates the Company's total return to stockholders from February 2, 2001 to January 27, 2006, the last trading day prior to the Company's 2006 fiscal year end, as compared to the total return for the NASDAQ Composite Index and the NASDAQ Retail Trade Stock Index for the same period.



	Feb. 2, 2001	Feb. 1, 2002	Jan. 31, 2003	Jan. 30, 2004	Jan. 28, 2005	Jan. 27, 2006
Books-A-Million, Inc.	\$100	\$143	\$111	\$304	\$438	\$533
NASDAQ Composite Index	\$100	\$69	\$48	\$75	\$74	\$85
NASDAQ Retail Trade Stocks	\$100	\$115	\$94	\$138	\$165	\$179

OTHER MATTERS

The Board of Directors knows of no other matters to be brought before the Annual Meeting. However, if any other matters are properly brought before the Annual Meeting, the persons appointed in the accompanying proxy intend to vote the Shares represented thereby in accordance with their best judgment.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board of Directors selected Grant Thornton LLP to serve as the Company's independent registered public accounting firm for the 2006 fiscal year. Deloitte & Touche LLP served as the Company's independent registered public accounting firm for fiscal years 2003, 2004 and 2005. Representatives of Grant Thornton LLP are expected to be present at the annual meeting. They will be provided an opportunity to make a statement if they desire to do so, and they will be available to respond to appropriate questions.

SOLICITATION OF PROXIES

The cost of the solicitation of proxies on behalf of the Company will be borne by the Company. In addition, directors, officers and other employees of the Company may, without additional compensation except reimbursement for actual expenses, solicit proxies by mail, in person or by telecommunication. The Company will reimburse brokers, fiduciaries, custodians and other nominees for out-of-pocket expenses incurred in sending the Company's proxy materials to, and obtaining instructions relating to such materials from, beneficial owners.

STOCKHOLDER PROPOSALS FOR 2006 ANNUAL MEETING

Any proposal that a stockholder may desire to have included in the Company's proxy material for presentation at the 2007 annual meeting pursuant to Rule 14a-8 under the Exchange Act must be received by the Company at its executive offices at 402 Industrial Lane, Birmingham, Alabama 35211, Attention: Ms. Sandra B. Cochran, on or prior to December 26, 2006. Any such proposal received after March 15, 2007 will be considered untimely for purposes of the 2007 annual meeting, and proxies delivered for the 2007 annual meeting will confer discretionary authority to vote on any such matters.

ANNUAL REPORT

The Company's Annual Report to Stockholders for fiscal 2006 (which is not part of the Company's proxy soliciting material) is being mailed to the Company's stockholders with this proxy statement.

April 27, 2006
Birmingham, Alabama

Appendix A

AUDIT COMMITTEE CHARTER

This Audit Committee Charter was adopted by the Board of Directors (the “Board”) of Books-A-Million, Inc. (the “Company”) and last updated on March 15, 2006.

Purpose

The Audit Committee (the “Committee”) is a committee of the Board of Directors. The purpose of the Committee is to oversee the accounting and financial reporting processes of the Company and the audits of the financial statements of the Company, including, without limitation, reviewing:

- the financial information provided to the shareholders and others.
- the systems of internal controls, which Management and the Board of Directors have established.
- the independent auditor’s qualifications and processes.
- the Director of Internal Audit’s qualifications and activities.

In doing so, it is the responsibility of the Committee to provide an open avenue of communication between the Board of Directors, Management, internal audit and the independent accountants.

In addition to the powers and responsibilities expressly delegated to the Committee in this Charter, the Committee may exercise any other powers and carry out any other responsibilities delegated to it by the Board from time to time consistent with the Company’s bylaws.

Organization

- The Committee shall be appointed by the Board of Directors, upon recommendation of the Nominating Committee of the Board, and may be removed by the Board, with or without cause.
- The Committee shall consist of at least three members.
- Each of the members of the Committee shall be independent. The independence of a director is defined by the requirements of the NASDAQ Stock Market, Inc. and the Securities and Exchange Commission (“SEC”).
- Each member of the Committee must be able to read and understand financial statements, including the Company’s balance sheet, income statement, cash flow statement, and statement of changes in shareholder’s equity.
- At least one member of the Committee shall have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual’s financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities. In addition, at least one member of the Committee shall be an “audit committee financial expert” as defined by the SEC (however, the lack of any such member shall not invalidate or otherwise affect the actions taken by the Committee).
- The Board shall appoint one of the members of the Committee as Chairperson. The committee shall have the authority to establish its own rules and procedures for notice and conduct so long as they are not inconsistent with any provisions of the Company’s bylaws. It is the responsibility of the Chairperson to schedule all meetings of the Committee and to provide the Committee with the written agenda.

In meeting its responsibilities, the Committee shall:

General

- Have the power to conduct or authorize investigations into any matters within the Committee's scope of responsibilities. The Committee shall have unrestricted access to members of Management and relevant information.
- Have the power to retain independent counsel, experts and advisors the Committee believes necessary or appropriate. The Company shall provide appropriate funding, as determined by the Committee, for payment of compensation to the independent auditor for the purpose of rendering or issuing an audit report or performing other audit, review or attest services, for payment of compensation to any person employed or retained by the Committee and for ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.
- Meet four times per year or more frequently as circumstances require.
- Report Committee actions to the Board of Directors with recommendations, as the Committee may deem appropriate.
- Review and update the Committee's formal charter annually as well as file the charter with the annual proxy statement as required.
- Meet from time to time as necessary (but, in any event, at least annually) with the independent accountants, internal audit and management in separate sessions to discuss any matters that the Committee believes should be discussed privately with the Committee.
- The Chair of the Audit Committee will meet independently with Internal Audit on a quarterly basis to discuss current audit activities, management remediation of audit findings, and all other relevant issues.
- Provide the Company with the report of the Committee required by Item 306 of Regulation S-K for inclusion in each of the Company's annual proxy statements.
- Recommend to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K.
- All Audit Committee members will review the Audit Committee Charter annually and sign a statement of acknowledgement indicating they understand and agree with the responsibilities stated in the Charter.
- All Audit Committee members will complete an annual self-evaluation.

Internal Controls and Risk Assessment

- Review and evaluate the effectiveness of the Company's annual risk assessment process, including fraud assessment and prevention, and the impact on the Company's internal control over financial reporting.
- Review and approve management's assessment plan for evaluating internal control over financial reporting.
- Approve third-parties retained to document and test internal control over financial reporting.
- Evaluate qualifications of individuals overseeing management's process of evaluating internal control over financial reporting.
- Consider and review with Management, internal audit and the independent accountants:
 - The effectiveness of or weaknesses in the Company's internal control over financial reporting.
 - Any analysis prepared by Management, Internal Audit, or the independent auditors setting forth significant financial reporting issues and judgments made in connection with the Company's financial statements, together with Management's responses including the timetable for implementation of recommendations to correct weaknesses in the internal control over financial reporting.
 - Major issues regarding accounting principles and financial statement presentations.
 - The effect of regulatory accounting initiatives, as well as off-balance sheet structures.
- Instruct the independent accountants to communicate directly to the Committee any serious difficulties or disputes with Management. The independent accountant is ultimately responsible to the Board of Directors and Audit Committee of the Company.

Internal Audit Function

- Approve the appointment and replacement of the internal auditor. The Director of Internal Audit reports directly to the Audit Committee.
- Empower the Director of Internal Audit to perform duties without restriction.
- Review and approve all changes to the Internal Audit Charter and the Internal Audit Policies and Procedures.
- Evaluate the internal process for establishing the annual internal audit plan and the focus on risk.
- Evaluate each year the scope of the audit and the role of internal audit.
- Conduct an annual evaluation of the Internal Audit function
- Consider and review with Management:
 - Significant findings and Management's response including the timetable for implementation to correct weaknesses.
 - Any difficulties encountered in the course of their audit such as restrictions on the scope of their work or access to information.
 - Any changes required in the planned scope of their audit plan.
 - The internal audit budget.
- Establish procedures for the receipt, retention, evaluation, and treatment of complaints received by the Company regarding accounting, internal auditing, internal controls over financial reporting or auditing matters and procedures for the confidential and anonymous submission by employees regarding questionable accounting or auditing matters.

Financial Reporting

- Advise the Board and management, based upon its review and evaluation, whether anything has come to the Committee's attention that causes it to believe that the audited financial statements included or proposed to be included in the Company's Form 10-K contain an untrue statement of a material fact or omit to state a material fact.
- Review with Management and the independent accountants at the completion of the annual examination:
 - The Company's annual financial statements and related footnotes.
 - The independent accountant's audit of the financial statements and their report.
 - Any significant changes required in the independent accountant's audit plan.
 - Any difficulties or disputes with Management encountered during the audit.
 - The quality of the Company's accounting principles.
 - Other matters related to conduct, which should be communicated to the Committee under generally accepted auditing standards.
- Discuss with independent auditors its report regarding all critical accounting policies and practices, all alternative treatments within GAAP (including the ramifications of such use and the independent auditor's preferred treatment) and all material written communications between the independent auditors and Management.
- The Chair of the Audit Committee and the Board Financial Expert will review with Management interim financial statements on a quarterly basis, including the Company's quarterly Form 10-Q filings. The Board Financial Expert will report his opinion regarding the financial statements to the entire Board of Directors.

External Auditor

- Direct the appointment, compensation, retention and oversight of the work of the independent auditor for the purpose of preparing or issuing an audit report or related work or performing other audit, review or attest services for the Company. The independent auditor shall report directly to the Committee.
- Conduct an annual evaluation of the independent auditors.
- Review the scope and approach of the annual audit with the independent accountants.
- Assess the external auditor's process for identifying and responding to key audit and internal control risks.
- Pre-approve all audit and non-audit services performed by the independent auditors.
- Establish pre-approval policies and procedures regarding the Company's engagement of the independent auditor, provided the policies and procedures are detailed as to the particular service, the policies and procedures provide that the Committee is informed of each service provided and such policies and procedures do not include delegation of the Committee's responsibilities under the Exchange Act to the Company's management.
- Receive, at least annually, a written statement from the Company's independent auditors setting forth all relationships between the independent auditors and the Company consistent with Independence Standards Board Standard No. 1, discuss with the independent auditors such relationships and its independence and take such actions to satisfy itself of the independent auditors' independence.
- Discuss with the independent auditors the matters required by Statement on Accounting Standards No. 61.
- Confirm with the independent auditors its compliance with the partner rotation requirements established by the SEC.

Compliance with Codes of Ethical Conduct

- Review and evaluate, the Company's code of conduct and its impact on internal control over financial reporting.

Related Party Transactions

- Review and approve related party transactions that are required to be disclosed on Form 10-K, pursuant Regulation S-K.

While the Committee has the responsibilities and the powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of management and the independent accountants.

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