



BOOKS·A·MILLION

07 | ANNUAL
REPORT

Notice of 2007 Annual Meeting & Proxy Statement

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 20 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 and Bookland.

FIVE-YEAR HIGHLIGHTS

<i>(In thousands, except per share amounts)</i>	For the Fiscal Year Ended:				
	2/3/07	1/28/06	1/29/05	1/31/04 ⁽¹⁾	2/1/03 ⁽²⁾
Statement of Income Data	53 weeks	52 weeks	52 weeks	52 weeks	52 weeks
Net revenue	\$520,416	\$ 503,751	\$ 474,099	\$ 457,234	\$ 435,339
Income before cumulative effect of a change in accounting principle ⁽²⁾	18,887	13,067	10,199	7,126	2,554
Net income	18,887	13,067	10,199	7,126	1,353
Earnings per share – diluted, before cumulative effect of a change in accounting principle ⁽²⁾	1.12	0.77	0.59	0.42	0.15
Earnings per share – diluted	1.12	0.77	0.59	0.42	0.08
Weighted average shares – diluted	16,805	16,888	17,178	16,789	16,566
Capital investment	14,907	11,297	14,923	10,402	19,836
Dividends per share - declared	0.33	0.23	0.23	0.00	0.00
Balance Sheet Data					
Property and equipment, net	\$ 51,471	\$ 51,001	\$ 55,946	\$ 59,892	\$ 68,912
Total assets	304,037	311,659	300,812	296,398	319,484
Long-term debt	7,100	7,200	7,500	20,640	44,942
Stockholders' equity	157,034	145,009	134,859	131,001	122,694
Other Data					
Working capital	\$117,737	\$ 106,637	\$ 95,382	\$ 104,723	\$ 112,810
Debt to total capital ratio	0.04	0.05	0.05	0.14	0.27
Operational Data					
Total number of stores	206	205	206	202	207
Number of superstores	179	173	168	163	163
Number of traditional stores	27	32	38	39	44

(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 2007 was both challenging and rewarding for our entire team. While the sales environment proved difficult, we continued to make progress in inventory management, margin improvement and cost control. As a result, we were able to achieve improved operating results despite the highly competitive atmosphere.

Comparable book sales for the year ended flat as we cycled both *Harry Potter and the Half Blood Prince* and the effects of the hurricane season in the prior year. A soft media environment, the absence of a major book-related movie tie-in, and a dearth of non-fiction bestsellers all contributed to softer fourth-quarter sales.

Several book categories performed well. Fiction, graphic novels, religion, teen reading, politics, and diet and health all delivered solid growth. A diet book, *You: On A Diet*, proved to be a surprise fourth-quarter bestseller, and John Grisham’s non-fiction bestseller *Innocent Man* drove sales in the social science category. These successes were offset by tough comparisons in the children’s book category, driven by the phenomenal sales of *The Chronicles of Narnia* and *Harry Potter* in the prior year.

Our bargain book business did well in the highly competitive environment, and our gift business held its own, producing strong trends in book accessories, stationery and games.

Given the challenging sales environment, we were gratified that our team’s efforts in managing our margins, inventory and operating costs, allowed us to improve net income and earnings per share by 45%. We also increased our quarterly dividend, which now is at an annual rate of \$0.36 per share.

We look forward to fiscal 2008, anticipating an historic bookselling event – the publication of *Harry Potter and the Deathly Hallows* on July 21, 2007. We hope to see you in one of our stores soon and 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	
	2/3/07	1/28/06
Net revenue	\$520,416	\$503,751
Operating profit	30,099	23,037
Net income	18,887	13,067
Net income per share – diluted	1.12	0.77
Dividends per share – declared	0.33	0.23

(In thousands)

	As of	
	2/3/07	1/28/06
Working capital	\$117,737	\$106,637
Total assets	304,037	311,659
Stockholders’ equity	157,034	145,009

SELECTED CONSOLIDATED FINANCIAL DATA

<i>(In thousands, except per share data)</i>	Fiscal Year Ended				
	2/3/07	1/28/06	1/29/05	1/31/04 ⁽¹⁾	2/1/03 ⁽²⁾
Statement of Operations Data:					
Net revenue	53 weeks \$520,416	52 weeks \$503,751	52 weeks \$474,099	52 weeks \$457,234	52 weeks \$435,339
Cost of products sold, including warehouse distribution and store occupancy costs	363,688	357,166	339,012	330,150	316,257
Gross profit	156,728	146,585	135,087	127,084	119,082
Operating, selling and administrative expenses	112,560	109,160	99,207	93,974	91,567
Gain on insurance recovery	--	1,248	--	--	--
Depreciation and amortization	14,069	15,636	17,788	18,065	18,229
Operating profit	30,099	23,037	18,092	15,045	9,286
Interest expense, net	105	1,441	1,874	2,909	4,171
Income from continuing operations before income taxes and cumulative effect of change in accounting principle	29,994	21,596	16,218	12,136	5,115
Provision for income taxes	11,107	8,545	6,001	4,613	1,944
Income from continuing operations before cumulative effect of change in accounting principle	18,887	13,051	10,217	7,523	3,171
Discontinued operations:					
(Loss) income from discontinued operations (including impairment charge)	--	27	(29)	(641)	(996)
Income tax provision (benefit)	--	11	(11)	(244)	(379)
(Loss) income from discontinued operations	--	16	(18)	(397)	(617)
Income before cumulative effect of change in accounting principle	18,887	13,067	10,199	7,126	2,554
Cumulative effect of change in accounting principle, net of income taxes	--	--	--	--	(1,201)
Net income	\$ 18,887	\$ 13,067	\$ 10,199	\$ 7,126	\$ 1,353
Net income per common share:					
Basic:					
Income from continuing operations before cumulative effect of change in accounting principle	\$ 1.16	\$ 0.80	\$ 0.62	\$ 0.46	\$ 0.20
Loss from discontinued operations	--	--	--	(0.02)	(0.04)
Income before cumulative effect of change in accounting principle	1.16	0.80	0.62	0.44	0.16
Cumulative effect of change in accounting principle	--	--	--	--	(0.08)
Net income per share	\$ 1.16	\$ 0.80	\$ 0.62	\$ 0.44	\$ 0.08
Weighted average number of shares outstanding - basic	16,352	16,275	16,453	16,279	16,190
Diluted:					
Income from continuing operations before cumulative effect of change in accounting principle	\$ 1.12	\$ 0.77	\$ 0.59	\$ 0.45	\$ 0.19
Loss from discontinued operations	--	--	--	(0.03)	(0.04)
Income before cumulative effect of change in accounting principle	1.12	0.77	0.59	0.42	0.15
Cumulative effect of change in accounting principle	--	--	--	--	(0.07)
Net income per share	\$ 1.12	\$ 0.77	\$ 0.59	\$ 0.42	\$ 0.08
Weighted average number of shares outstanding - diluted	16,805	16,888	17,178	16,789	16,566
Dividends per share – declared	\$ 0.33	\$ 0.23	\$ 0.23	--	--
Balance Sheet Data:					
Property and equipment, net	\$ 51,471	\$ 51,001	\$ 55,946	\$ 59,892	\$ 68,912
Total assets	304,037	311,659	300,812	296,398	319,484
Long-term debt	7,100	7,200	7,500	20,640	44,942
Stockholders' investment	157,034	145,009	134,859	131,001	122,694
Other Data:					
Working capital	\$117,737	\$106,637	\$ 95,382	\$104,723	\$112,810

- (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 206 retail bookstores concentrated primarily in the southeastern United States. Of the 206 stores, 179 are superstores that operate under the names Books-A-Million and Books & Co., and 27 are traditional stores that operate under the Bookland and Books-A-Million names. In addition to the retail store formats, the Company offers its products over the Internet at www.booksamillion.com. As of February 3, 2007, 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 2007, the Company opened nine stores, closed eight stores and relocated two stores. The Company also reopened two stores temporarily closed due to hurricane damage in fiscal 2006.

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; or (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. Additionally, the Company's Audit Committee engaged Grant Thornton LLP to audit the Company's financial statements for the fiscal year ending on February 3, 2007.

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 of America. 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 February 3, 2007, the Company had \$51.5 million of property and equipment, net of accumulated depreciation, accounting for approximately 16.9% 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 \$0.3 million, \$0.2 million and \$0.3 million in fiscal 2007, 2006 and 2005, 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 February 3, 2007, the Company had \$1.4 million of goodwill, accounting for approximately 0.5% 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 2007 and determined 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 \$418,000, \$40,000 and \$55,000 during fiscal 2007, 2006 and 2005, respectively, are included in selling and administrative expenses in the accompanying consolidated statements of income.

Inventories

Inventories are taken throughout the fiscal year. 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 \$2.1 million as of February 3, 2007 and \$1.5 million as of January 28, 2006. The estimated replacement cost of inventory is the current FIFO value of \$202.3 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		
	2/3/07	1/28/06	1/29/05
Net revenue	100.0%	100.0%	100.0%
Gross profit	30.1%	29.1%	28.5%
Operating, selling, and administrative expenses	21.6%	21.7%	20.9%
Gain on insurance recoveries	0.0%	(0.3%)	0.0%
Depreciation and amortization	2.7%	3.1%	3.8%
Operating profit	5.8%	4.6%	3.8%
Interest expense, net	0.0%	0.3%	0.4%
Income from continuing operations before income taxes	5.8%	4.3%	3.4%
Provision for income taxes	2.2%	1.7%	1.2%
Income from continuing operations	3.6%	2.6%	2.2%
(Gain)/loss from discontinued operations (including impairment charge), net of tax	0.0%	0.0%	0.0%
Net income	3.6%	2.6%	2.2%

Fiscal 2007 Compared to Fiscal 2006

Consolidated net revenue increased \$16.6 million, or 3.3%, to \$520.4 million for the 53-week period ended February 3, 2007 from \$503.8 million for the 52-week period ended January 28, 2006. Sales for the 52-week period ended January 27, 2007 increased 1.6%. Comparable store sales for the 52-week period ended January 27, 2007 decreased 0.6% when compared to the same 52-week period last year. The decrease in comparable store sales was primarily attributable to a decrease in magazines sales and café sales, with book and gift sales primarily flat with the previous year. The café business is increasingly competitive with saturation of the market from new competitor store openings. Magazines sales continue to experience negative comparable sales as book retailers' shares decline due to grocery and convenience store offerings.

Included in net revenue is \$3.2 million of gift card breakage income of which \$2.3 million relates to periods prior to fiscal 2007. In fiscal 2007 the Company formed a gift card subsidiary, Books-A-Million Card Services (“Card Services”), and began recording gift card breakage income for those cards for which the likelihood of redemption is deemed to be remote (after 24 months of inactivity) and which there is no legal obligation to remit the value of such unredeemed gift cards to the relevant jurisdictions. The primary function of Card Services is to administer the Company’s gift card program and to provide a more advantageous legal structure. The \$2.3 million represents a change in estimate in the escheat liability due to operational changes related to the creation of Card Services.

Several categories of book sales showed increases, including adventure books, inspirational books, fiction, the gift category, social sciences, pets, teen reading, and cooking. These increases were offset by lower sales in the children’s book category driven by the phenomenal sales of *The Chronicles of Narnia* and *Harry Potter and the Half Blood Prince* in the prior year. John Grisham’s non-fiction bestseller, *Innocent Man*, drove sales in the social science category. The gift category experienced growth from import book accessories. The pet category increases were driven by sales of two titles—*Marley and Me* and *Caesar’s Way*. Teen fiction continued to experience dynamic growth, predominately as a result of interest in a wide ranging number of fiction titles and Food Network stars Paula Deen and Rachael Ray dominated the cookbook category. A diet book, *You: On A Diet*, proved to be a surprise fourth-quarter bestseller in the cookbook category.

The Company opened nine new stores during fiscal 2007 resulting in partial year sales of \$12.6 million and closed eight stores during fiscal 2007 with partial year sales of \$3.9 million. The stores in Biloxi, Mississippi, and Deerfield Beach, Florida, which were temporarily closed due to the hurricanes in the prior year, were reopened in fiscal 2007.

Net sales for the retail trade segment increased \$16.4 million, or 3.3%, to \$513.0 million in fiscal 2007 from \$496.6 million in fiscal 2006. In addition to the factors discussed above, the increase in net sales for the retail trade segment was primarily due to new stores opened during fiscal 2007 and the additional selling week in fiscal 2007.

Net sales for the electronic commerce segment decreased \$1.6 million, or 5.6%, to \$26.0 million in fiscal 2007 from \$27.6 million in fiscal 2006. The decrease in net sales for the electronic commerce segment for fiscal 2007 was primarily due to sales of *Harry Potter and the Half Blood Prince* during fiscal 2006, which were not replaced in fiscal 2007.

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 \$10.1 million, or 6.9%, to \$156.7 million in fiscal 2007 from \$146.6 million in fiscal 2006. Gross profit as a percentage of net sales increased to 30.1% in fiscal 2007 from 29.1% in fiscal 2006, partially due to gift card breakage income discussed above as well as 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 2007 with less promotional discounting.

Operating, selling and administrative expenses increased \$3.4 million, or 3.1%, to \$112.6 million in fiscal 2007, from \$109.2 million in fiscal 2006. Operating, selling and administrative expenses as a percentage of net sales remained relatively flat at 21.6% in fiscal 2007 compared to 21.7% in fiscal 2006. Higher stock based compensation expense in fiscal 2007 was offset by a reduction in costs incurred for Sarbanes-Oxley compliance, other corporate expenses and the non-recurrence of costs associated with the NASDAQ de-listing hearing in October 2005.

In fiscal 2006 the Company recognized an insurance gain of \$754,000, net of taxes, related to insurance recoveries for hurricane damage suffered at certain stores in fiscal 2005. The insurance recovery amount was finalized with the insurance company during the third quarter of fiscal 2006 (for stores damaged by hurricanes in fiscal 2005), and therefore the gain was recorded in the respective period.

Depreciation and amortization decreased \$1.5 million, or 10.0%, to \$14.1 million in fiscal 2007 from \$15.6 million in fiscal 2006. Depreciation and amortization as a percentage of net sales decreased to 2.7% in fiscal 2007 from 3.1% in fiscal 2006, due to lower capital expenditures in fiscal 2007, as well as the impact of certain assets becoming fully depreciated during the prior year.

Consolidated operating profit was \$30.1 million for fiscal 2007 compared to \$23.0 million in fiscal 2006. Operating profit for the retail trade segment was \$29.2 million in fiscal 2007 versus \$22.4 million in fiscal 2006. This increase was partially attributable to increased store sales for the reasons set forth above, which resulted in higher gross profit for fiscal 2007. Also, gross profit improved as a percentage of sales due to increased gift card breakage income, increased sales of proprietary product which has a higher gross profit, as well as less promotional discounting. These increases were partially offset by higher operating, selling and administrative expenses due to higher store selling costs and other corporate expenses. The operating profit for the electronic commerce segment was \$1.4 million compared to \$1.0 million in fiscal 2006. The improvement in operating results was primarily due to lower costs incurred for shipping and warehouse handling.

Net interest expense decreased \$1.3 million, or 92.7%, to \$0.1 million in fiscal 2007 from \$1.4 million in fiscal 2006, primarily due to lower average debt levels and increased short term investments during fiscal 2007.

The effective rate for income tax purposes was 37.0% for fiscal 2007 and 39.6% for fiscal 2006. The decrease in the effective tax rate was due to a lower state effective tax rate in fiscal 2007.

The Company closed one store in fiscal 2007 in a market where the Company does not expect to retain the closed stores' customers at another store in the same market. The store's sales and operating results for fiscal 2007 have not been included in discontinued operations because the impact on the financial statements was immaterial. The Company continues to report in discontinued operations for prior year stores closed where the Company does not expect to retain the closed stores' customers at another store. Two such stores were closed in fiscal 2006. 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 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.

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, 2011. 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 February 3, 2007 and January 28, 2006, there were no outstanding balances under this credit facility and the face amount of letters of credit issued under the facility was \$2.9 million and \$3.0 million, respectively. The maximum and average outstanding borrowings under the credit facility (excluding the face amount of letters of credit issued there under) during fiscal 2007 were \$1.8 million and \$26,000, 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"). As of February 3, 2007 and January 28, 2006, there was \$7.1 million and \$7.2 million of borrowings outstanding, respectively, under these arrangements, which bear interest at variable rates.

The Company's capital expenditures totaled \$16.2 million in fiscal 2007. 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.

Financial Position

During fiscal 2007, the Company opened nine stores, closed eight stores and re-opened two other stores. Improved inventory management resulted in a decrease in inventory balances to \$200.3 million at February 3, 2007, as compared to \$204.8 million at January 28, 2006. 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 increased due to higher capital expenditures primarily for nine new stores opened and two other stores re-opened in fiscal 2007. Additionally, cash and cash equivalents decreased by \$3.4 million as of February 3, 2007 as compared with the balance as of January 28, 2006 primarily due to the timing of vendor payments in the current year which were made before the Company's fiscal year end in 2007. Offsetting the reduced cash balance was lower accounts payable balances of \$14.5 million between fiscal years. The decrease in accounts payable was primarily due to the timing of payments for fourth quarter merchandise versus the prior year.

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 February 3, 2007:

<i>(in thousands)</i>	Payments Due Under Contractual Obligations						
	Total	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Thereafter
Long-term debt – revolving credit facility	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Long-term debt	7,100	--	--	--	--	7,100	--
Operating leases	143,387	33,445	28,038	22,438	17,634	12,257	29,575
Total of obligations	<u>\$150,487</u>	<u>\$33,445</u>	<u>\$28,038</u>	<u>\$22,438</u>	<u>\$17,634</u>	<u>\$19,357</u>	<u>\$29,575</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 February 3, 2007 and January 28, 2006, as such liabilities are considered de minimis. Currently no such agreements are in place.

Cash Flows

Operating activities provided cash of \$21,306,000, \$36,713,000 and \$47,193,000 in fiscal 2007, 2006 and 2005 respectively, and included the following effects:

- Cash provided by inventories was \$4,512,000, \$5,481,000 and \$1,321,000 in fiscal 2007, 2006 and 2005, 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 2007 of \$14,455,000 was due to the timing of vendor payments for fourth quarter merchandise versus the prior year end and lower inventory levels for fiscal 2007 which resulted in lower accounts payable balances. 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.
- Depreciation and amortization expenses were \$14,069,000, \$15,651,000 and \$17,843,000 in fiscal 2007, 2006 and 2005, respectively. The decrease in fiscal 2007 and 2006 was primarily due to the impact of certain assets becoming fully depreciated during the prior years.
- Cash used by accrued expenses was \$3,090,000 in fiscal 2007 and was primarily due to a lower gift card liability due to the recognition of gift card breakage, lower capital expenditure accruals and lower audit fee accruals. Cash provided by accrued expenses was \$5,519,000 and \$6,379,000 in fiscal 2006 and 2005, respectively. The increase in fiscal 2006 and 2005 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 and 2005.

Cash used in investing activities in fiscal 2007, 2006 and 2005 reflected a net use of cash of \$16,176,000, \$11,286,000 and \$14,879,000, 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 \$8,528,000 in fiscal 2007 primarily to purchase stock (\$7,460,000) and for dividend payments (\$5,303,000), offset by proceeds from the issuance of stock upon the exercise of stock options (\$1,768,000) and related tax benefits (\$2,567,000). 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 (\$4,431,000). 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).

Dividends

The Company paid \$5.3 million in dividends in fiscal 2007 and \$3.3 million in dividends in fiscal 2006. See the table below for summary of dividends declared each quarter. On March 30, 2007, the Company's Board of Directors increased the quarterly dividend to \$0.09 per share.

	<u>Dividends Declared</u>	
	<u>Fiscal 2007</u>	<u>Fiscal 2006</u>
First quarter	\$0.08	\$0.05
Second quarter	\$0.08	\$0.05
Third quarter	\$0.08	\$0.05
Fourth quarter	<u>\$0.09</u>	<u>\$0.08</u>
Annual Total	<u>\$0.33</u>	<u>\$0.23</u>

Outlook

For fiscal 2008, the Company currently expects to open approximately eight to ten new stores, relocate or remodel approximately five to ten stores and close approximately one to two stores. Management estimates that capital expenditures for fiscal 2008 will be approximately \$23.4 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 primarily due to more new stores and more relocations projected in fiscal 2008. 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 2008.

New Accounting Standards

In February 2006 the Financial Accounting Standards Board ("FASB") issued SFAS No. 155, "*Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140*" ("SFAS No. 155"). SFAS No. 155 provides entities with relief from having to separately determine the fair value of an embedded derivative that would otherwise be required to be bifurcated from its host contract in accordance with SFAS No. 133. It will also allow an entity to make an irrevocable election to measure such a hybrid financial instrument at fair value in its entirety, with changes in fair value recognized in earnings. SFAS No. 155 is effective for all instruments acquired, issued or subject to a re-measurement (new basis) event occurring after the beginning of an entity's first fiscal year that begins after September 15, 2006. The adoption of SFAS No. 155 is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

In March 2006, the FASB issued SFAS No. 156, "*Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140*" ("SFAS No. 156"). SFAS No. 156 requires an entity to recognize a servicing asset or servicing liability at fair value each time it undertakes an obligation to service a financial asset by entering into a servicing contract under certain situations. The Company is required to adopt SFAS No. 156 as of the beginning of its fiscal year that begins after September 15, 2006. The adoption of SFAS No. 156 is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

In June 2006, the FASB issued FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "*Accounting for Income Taxes.*" The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the potential impact of adopting FIN 48.

In June 2006, the Emerging Issues Task Force (“EITF”) reached consensus on EITF Issue No. 06-3, *Disclosure Requirements for Taxes Assessed by a Government Authority on Revenue-Producing Transactions* (“EITF No. 06-3”). EITF 06-3 requires disclosure of a company’s accounting policy with respect to presentation of taxes collected on a revenue producing transaction between a seller and a customer. For taxes that are reported on a gross basis (included in revenues and costs), EITF 06-3 also requires disclosure of the amounts of taxes included in the financial statements. The Company records sales tax collected from its customers on a net basis. The Company adopted the recognition provisions of EITF 06-3 as of February 3, 2007 and has disclosed its policy within Note 1, “Summary of Significant Accounting Policies” of its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (“SFAS No. 157”). SFAS No. 157 was issued to provide increased consistency and comparability in fair value measurements. Specifically, SFAS No. 157 creates a significant definition of fair value emphasizing fair value as a market-based measurement. The Company is required to adopt SFAS No. 157 as of the beginning of its fiscal year that begins after November 15, 2007. The adoption of SFAS No. 157 is not expected to have a material effect on the Company’s financial position, results of operations or cash flows.

In September 2006, the Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin No. 108 *“Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements”* (“SAB 108”), in which the Staff provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of assessing materiality. The Company adopted SAB 108 as of February 3, 2007, as required. The adoption of SAB 108 did not have a material impact on the Company’s financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities: Including an amendment of FASB No. 115* (“SFAS No. 159”). SFAS No. 159 permits all entities to elect to measure many financial instruments and certain other items at fair value with changes in fair value reported in earnings. The fair value option is generally applied on an instrument-by-instrument basis and may be elected for a single item without electing other identical items, even if issued in a single transaction. The Company is required to adopt SFAS No. 159 as of the beginning of its fiscal year that begins after November 15, 2007. The adoption of SFAS No. 159 is not expected to have a material effect on the Company’s financial position, results of operations or cash flows.

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 decreased by \$5.4 million, or 15.7%, to \$29.0 million in fiscal 2007 compared to fiscal 2006 purchases of \$34.4 million. The decrease in related party purchases was primarily due to decreased magazine purchases versus fiscal 2006. Related party sales transactions increased in fiscal 2007 to \$2.5 million, an increase of \$1.4 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

	As of	
<i>(Dollars in thousands, except per share amounts)</i>	2/3/07	1/28/06
Assets		
Current Assets:		
Cash and cash equivalents	\$ 34,121	\$ 37,519
Accounts receivable, net of allowance for doubtful accounts of \$711 and \$840, respectively	7,524	9,668
Related party receivables	2,647	1,134
Inventories	200,277	204,789
Prepayments and other	4,365	4,340
Total Current Assets	<u>248,934</u>	<u>257,450</u>
Property and Equipment:		
Land	628	628
Buildings	6,869	6,470
Equipment	77,806	72,594
Furniture and fixtures	51,354	48,370
Leasehold improvements	74,263	73,404
Construction in process	54	2,072
Gross Property and Equipment	<u>210,974</u>	<u>203,538</u>
Less accumulated depreciation and amortization	<u>159,503</u>	<u>152,537</u>
Net Property and Equipment	<u>51,471</u>	<u>51,001</u>
Deferred Income Taxes	<u>2,031</u>	<u>1,662</u>
Other Assets:		
Goodwill	1,368	1,368
Other	233	178
Total Other Assets	<u>1,601</u>	<u>1,546</u>
Total Assets	<u>\$304,037</u>	<u>\$311,659</u>
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable:		
Trade	\$ 83,419	\$ 98,171
Related party	2,988	2,691
Accrued expenses	38,584	45,459
Accrued income taxes	2,714	1,838
Deferred income taxes	3,492	2,654
Total Current Liabilities	<u>131,197</u>	<u>150,813</u>
Long-term Debt	<u>7,100</u>	<u>7,200</u>
Other Long-term Liabilities	<u>8,706</u>	<u>8,637</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 20,461,333 and 19,764,223 shares issued at February 3, 2007 and January 28, 2006, respectively	205	198
Additional paid-in capital	85,396	79,509
Treasury stock at cost (3,818,356 shares at February 3, 2007 and 3,287,317 shares at January 28, 2006, respectively)	(24,414)	(16,954)
Retained earnings	95,847	82,263
Accumulated other comprehensive loss, net of tax	-	(7)
Total Stockholders' Equity	<u>157,034</u>	<u>145,009</u>
Total Liabilities and Stockholders' Equity	<u>\$304,037</u>	<u>\$311,659</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		
	2/3/07	1/28/06	1/29/05
	53 weeks	52 weeks	52 weeks
Net revenue	\$520,416	\$503,751	\$474,099
Cost of products sold, including warehouse distribution and store occupancy costs	363,688	357,166	339,012
Gross profit	156,728	146,585	135,087
Operating, selling and administrative expenses	112,560	109,160	99,207
Gain on insurance recoveries (note 10)	--	1,248	--
Depreciation and amortization	14,069	15,636	17,788
Operating profit	30,099	23,037	18,092
Interest expense, net	105	1,441	1,874
Income from continuing operations before income taxes	29,994	21,596	16,218
Provision for income taxes	11,107	8,545	6,001
Income from continuing operations	18,887	13,051	10,217
Discontinued operations:			
Income (loss) from discontinued operations before taxes (including impairment charge)	--	27	(29)
Income tax provision (benefit)	--	11	(11)
Income (loss) from discontinued operations	--	16	(18)
Net Income	\$ 18,887	\$ 13,067	\$ 10,199
Net income per common share:			
Basic			
Income from continuing operations	\$ 1.16	\$ 0.80	\$ 0.62
Income (loss) from discontinued operations	--	--	--
Net Income per share	\$ 1.16	\$ 0.80	\$ 0.62
Weighted average number of shares outstanding – basic	16,352	16,276	16,453
Diluted			
Income from continuing operations	\$ 1.12	\$ 0.77	\$ 0.59
Income (loss) from discontinued operations	--	--	--
Net Income per share	\$ 1.12	\$ 0.77	\$ 0.59
Weighted average number of shares outstanding – diluted	16,805	16,888	17,178
Dividends per share – declared	\$ 0.33	\$ 0.23	\$ 0.23

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Additional	Treasury Stock		Retained	Accumulated	Total
	Shares	Amount	Paid-In Capital	Shares	Amount	Earnings	Other Comprehensive Income (Loss)	Stockholders' Equity
<i>(In thousands)</i>								
Balance, January 31, 2004	18,465	\$185	\$71,515	2,010	\$(5,271)	\$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	(1)					--
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	\$74,024	2,793	\$(11,630)	\$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)					--
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	\$79,509	3,287	\$(16,954)	\$82,263	\$ (7)	\$145,009
Net income						18,887		18,887
Unrealized gain on accounting for derivative instruments, net of tax provision of \$4							7	7
Subtotal comprehensive income								18,894
Purchase of treasury stock, at cost				531	(7,460)			(7,460)
Dividends paid						(5,303)		(5,303)
Issuance of restricted stock	148	1	1,558					1,559
Issuance of stock for employee stock purchase plan	9		88					88
Exercise of stock options	540	6	1,674					1,680
Tax benefit from exercise of stock options			2,567					2,567
Balance, February 3, 2007	20,461	\$205	\$85,396	3,818	\$(24,414)	\$95,847	\$ --	\$157,034

The accompanying notes are an integral part of these consolidated statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(In thousands)</i>	Fiscal Year Ended		
	2/3/07	1/28/06	1/29/05
Cash Flows from Operating Activities:			
Net income	\$18,887	\$13,067	\$10,199
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	14,069	15,651	17,843
Stock-based compensation	1,559	448	167
Loss on impairment of assets	336	215	356
(Gain) loss on sale of property and equipment	228	(4)	(29)
Deferred income tax provision	465	1,281	2,352
Excess tax benefit of exercise of stock options	(2,567)	613	943
Reclassification of unrealized loss from de-designation of cash flow hedge	--	47	27
(Increase) decrease in assets:			
Accounts receivable	2,144	(2,673)	728
Related party receivables	(1,513)	(1,061)	278
Inventories	4,512	5,481	1,321
Prepayments and other	(25)	2,571	(1,021)
Noncurrent assets (excluding amortization)	(124)	1,176	(533)
Increase (decrease) in liabilities:			
Accounts payable	(14,752)	986	9,201
Related party payables	297	(6,900)	814
Accrued income taxes	880	296	(1,832)
Accrued expenses	(3,090)	5,519	6,379
Total adjustments	2,419	23,646	36,994
Net cash provided by operating activities	21,306	36,713	47,193
Cash Flows from Investing Activities:			
Capital expenditures	(16,191)	(11,297)	(14,923)
Proceeds from sale of property and equipment	15	11	44
Net cash used in investing activities	(16,176)	(11,286)	(14,879)
Cash Flows from Financing Activities:			
Borrowings under credit facilities	2,850	189,119	171,400
Repayments under credit facilities	(2,950)	(189,420)	(184,540)
Proceeds from exercise of stock options and issuance of common stock under employee stock purchase plan	1,768	4,431	1,405
Purchase of treasury stock	(7,460)	(5,324)	(6,359)
Payment of dividends	(5,303)	(3,273)	(3,009)
Excess tax benefit from exercise of stock options	2,567	--	--
Net cash used in financing activities	(8,528)	(4,467)	(21,103)
Net (Decrease) increase in Cash and Cash Equivalents	(3,398)	20,960	11,211
Cash and Cash Equivalents at Beginning of Year	37,519	16,559	5,348
Cash and Cash Equivalents at End of Year	\$34,121	\$37,519	\$16,559
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the year for:			
Interest	\$ 910	\$ 1,607	\$ 2,036
Income taxes, net of refunds	\$ 7,199	\$ 6,787	\$ 1,650
Supplemental Disclosures of Non Cash Investing Activities:			
Capital expenditures in accrued expenses	\$ (1,284)	\$ --	\$ --

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 206 bookstores in 20 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 three wholly owned subsidiaries, American Wholesale Book Company, Inc. (“American Wholesale”), American Internet Service, Inc (“AIS”) and Books-A-Million Card Services, Inc. (“Card Services”). 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 year 2007 was a 53-week period while fiscal years 2006 and 2005 were 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 of America 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. Sales tax collected is recorded net and is not recognized as revenue and is included on the consolidated balance sheets in accrued expenses.

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.

The Company sells gift cards to its customers in its retail stores. The gift cards do not have an expiration date. Income is recognized from gift cards when: (1) the gift card is redeemed by the customer; or (2) the likelihood of the gift card being redeemed by the customer is remote (gift card breakage) and there is no legal obligation to remit the value of the unredeemed gift cards to the relevant jurisdictions. The gift card breakage rate is determined based upon historical redemption patterns. Based on this historical information, the likelihood of a gift card remaining unredeemed can be determined after 24 months of card inactivity. At that time, breakage income is recognized for those cards for which the likelihood of redemption is deemed to be remote and which there is no legal obligation to remit the value of such unredeemed gift cards to the relevant jurisdictions. In fiscal 2007, the Company formed a gift card subsidiary, Books-A-Million Card Services to administer the Company’s gift card program and to provide a more advantageous legal structure. During fiscal 2007, the Company recognized \$3.2 million of gift card breakage income, of which \$2.3 million relates to periods prior to fiscal 2007. Breakage income for fiscal 2006 and 2005 was \$482,000 and \$70,000, respectively. The \$2.3 million represents a change in estimate in the escheat liability due to operational changes related to the creation of Card Services. Gift card breakage income is included in revenue.

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.

Accounts Payable

The Company classifies its checks written but not yet cleared by the bank in Accounts Payable. Amounts included in Accounts Payable as of February 3, 2007 and January 28, 2006 was \$12,719,000 and \$28,985,000, respectively.

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 \$2.1 million as of February 3, 2007 and \$1.5 million as of January 28, 2006. The estimated replacement cost of inventory is the current FIFO value of \$202.3 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:

<i>(In thousands)</i>	Fiscal Year Ended	
	February 3, 2007	January 28, 2006
Inventories (at FIFO)	\$202,327	\$206,314
LIFO reserve	(2,050)	(1,525)
Net inventories	\$200,277	\$204,789

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.

Long-Lived Assets

The Company's long-lived assets consist of property and equipment which includes leasehold improvements. At February 3, 2007, the Company had \$51.5 million of property and equipment, net of accumulated depreciation, accounting for approximately 16.9% 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 \$0.3 million, \$0.2 million and \$0.3 million in fiscal 2007, 2006 and 2005, 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 February 3, 2007, the Company had \$1.4 million of goodwill, accounting for approximately 0.5% of the Company's total assets. SFAS No. 142, "Goodwill and Other Intangible Assets," requires that goodwill and other indefinite life 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 2007 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 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.

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.

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 2007, 2006 and 2005, the Company recognized store closing costs of \$418,000, \$40,000 and \$55,000, respectively.

Advertising Costs

The costs of advertising are expensed as incurred. Advertising costs, net of applicable vendor reimbursements of \$1,413,000, \$1,647,000 and \$1,745,000, are charged to operating, selling and administrative expenses, and totaled \$3,629,000, \$3,578,000 and \$3,207,000 for fiscal years 2007, 2006 and 2005, 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 \$10,171,000 and \$10,802,000 for February 3, 2007 and January 28, 2006, 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.

Sales and Use Tax Contingencies

The Company is subject to potential ongoing sales and use tax audits, income tax audits and other tax issues for both its retail and electronic commerce 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.

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 are exercised or restricted stock granted to employees vested and resulted in an increase 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 and restricted stock, 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		
	2/3/07	1/28/06	1/29/05
Weighted average shares outstanding:			
Basic	16,352	16,276	16,453
Dilutive effect of stock options outstanding	453	612	725
Diluted	16,805	16,888	17,178

Weighted options outstanding of 0, 94,000 and 157,000 for the years ended February 3, 2007, January 28, 2006 and January 29, 2005, 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 a total of 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 ("The March 2004 Plan"). Under the March 2004 Plan, the Company had repurchased 1,452,000 and 1,221,000 shares at a cost of \$13,667,000 and \$10,639,000 as of February 3, 2007 and January 28, 2006, respectively.

On June 8, 2006, the Board approved a new stock repurchase program ("The June 2006 Plan"). The program authorized the repurchase of up to \$10 million in shares of the Company's common stock over the next twelve months, but no specific number of shares was approved. This stock repurchase program replaced the March 2004 Plan.

On August 23, 2006, the Board approved an additional stock repurchase program ("The August 2006 Plan"). This program authorized the repurchase of up to additional \$25 million in shares of the Company's common stock over the next eighteen months. This program is in addition to the June 2006 Plan to repurchase up to \$10 million in shares of common stock. Under the August 2006 Plan, the Company repurchased 300,000 shares at a cost of \$4,436,000. Approximately \$30.6 million in share repurchase authorization remained under the June 2006 and August 2006 Plans at February 3, 2007.

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 \$1,040,000.

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 February 3, 2007 and January 28, 2006, the Company's debt approximates fair value.

Stock-Based Compensation

On January 29, 2006, the Company adopted the provisions of SFAS No. 123(R), "Share-Based Payment," which revises SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion 25, "Accounting for Stock Issued to Employees." SFAS No. 123(R) requires the Company to recognize expense related to the fair value of its stock-based compensation awards, including employee stock options.

Prior to the adoption of SFAS No. 123(R), the Company accounted for stock-based compensation awards using the intrinsic value method as required by APB Opinion 25. Accordingly, the Company did not recognize compensation expense in the statement of income for options granted that had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant. However, the Company did record compensation expense related to restricted stock units based on the market value of its stock at the date of grant. As required by SFAS No. 123, the Company also provided certain pro forma disclosures for stock-based awards as if the fair-value-based approach of SFAS No. 123 had been applied.

The Company has elected to use the modified prospective transition method as permitted by SFAS No. 123(R) and, therefore, has not restated its financial results for prior periods. Under this transition method, the Company applied the provisions of SFAS No. 123(R) to new awards and to awards modified, repurchased or cancelled after January 29, 2006. In addition, the Company will recognize compensation cost for the portion of awards for which the requisite service has not been rendered (unvested awards) that are outstanding as of January 29, 2006, as the remaining service is rendered. The compensation cost recorded for these awards will be based on their grant-date fair value as calculated for the pro forma disclosures required by SFAS No. 123.

Prior to fiscal 2007, the Company accounted for stock-based employee compensation 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
Net income, as reported	\$13,067	\$10,199
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax effects	541	1,139
Pro forma net income	\$12,526	\$ 9,060
Net income per common share:		
Basic – as reported	\$ 0.80	\$ 0.62
Basic – pro forma	\$ 0.76	\$ 0.55
Diluted – as reported	\$ 0.77	\$ 0.59
Diluted – pro forma	\$ 0.74	\$ 0.53

The Company’s pre-tax compensation cost for stock-based employee compensation was \$1,559,000 (\$982,000 net of taxes), \$448,000 (\$270,000 net of taxes) and \$167,000 (\$105,000) for the years ended February 3, 2007, January 28, 2006 and January 29, 2005, respectively. As a result of the adoption of SFAS No. 123(R), the financial results were lower than under our previous accounting method for share-based compensation for fiscal 2007 by the following amounts:

<i>(In thousands)</i>	2/3/07
Income from continuing operations before income taxes	\$591,000
Income from continuing operations	\$372,000
Net income	\$372,000
Basic and diluted net earnings per common share	\$ 0.02

Prior to the adoption of SFAS No. 123(R), the Company presented all tax benefits resulting from the exercise of stock options as operating cash flows in the Consolidated Statements of Cash Flows. SFAS No. 123(R) requires that cash flows from the exercise of stock options resulting from tax benefits in excess of recognized cumulative compensation cost (excess tax benefits) be classified as financing cash flows. For the year ended February 3, 2007 \$2,567,000, of such excess tax benefits was classified as financing cash flows. Excess tax benefits for the years ended January 28, 2006 and January 29, 2005 were \$613,000 and \$943,000, respectively.

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 February 3, 2007 and January 28, 2006, liabilities related to derivatives were classified as other long-term liabilities of \$0 and \$61,000, 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 February 2006 the Financial Accounting Standards Board (“FASB”) issued SFAS No. 155, “*Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140*” (“SFAS No. 155”). SFAS No. 155 provides entities with relief from having to separately determine the fair value of an embedded derivative that would otherwise be required to be bifurcated from its host contract in accordance with SFAS No. 133. It will also allow an entity to make an irrevocable election to measure such a hybrid financial instrument at fair value in its entirety, with changes in fair value recognized in earnings. SFAS No. 155 is effective for all instruments acquired, issued or subject to a re-measurement (new basis) event occurring after the beginning of an entity’s first fiscal year that begins after September 15, 2006. The adoption of SFAS No. 155 is not expected to have a material effect on the Company’s financial position, results of operations or cash flows.

In March 2006 FASB issued SFAS No. 156, “*Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140*” (“SFAS No. 156”). SFAS No. 156 requires an entity to recognize a servicing asset or servicing liability at fair value each time it undertakes an obligation to service a financial asset by entering into a servicing contract under certain situations. The Company is required to adopt SFAS No. 156 as of the beginning of its fiscal year that begins after September 15, 2006. The adoption of SFAS No. 156 is not expected to have a material effect on the Company’s financial position, results of operations or cash flows.

In June 2006 FASB issued FASB Interpretation No. 48, “*Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*” (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, “*Accounting for Income Taxes.*” The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the potential impact of adopting FIN 48.

In June 2006, the Emerging Issues Task Force (“EITF”) reached consensus on EITF Issue No. 06-3, *Disclosure Requirements for Taxes Assessed by a Government Authority on Revenue-Producing Transactions* (“EITF No. 06-3”). EITF 06-3 requires disclosure of a company’s accounting policy with respect to presentation of taxes collected on a revenue producing transaction between a seller and a customer. For taxes that are reported on a gross basis (included in revenues and costs), EITF 06-3 also requires disclosure of the amounts of taxes included in the financial statements. The Company records sales tax collected from its customers on a net basis. The Company adopted the recognition provisions of EITF 06-3 as of February 3, 2007 and has disclosed its policy within Note 1, “*Summary of Significant Accounting Policies*”.

In September 2006, FASB issued SFAS No. 157, “*Fair Value Measurements*” (“SFAS No. 157”). SFAS No. 157 was issued to provide increased consistency and comparability in fair value measurements. Specifically, SFAS No. 157 creates a significant definition of fair value emphasizing fair value as a market-based measurement. The Company is required to adopt SFAS No. 157 as of the beginning of its fiscal year that begins after November 15, 2007. The adoption of SFAS No. 157 is not expected to have a material effect on the Company’s financial position, results of operations or cash flows.

In September 2006, the Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin No. 108 “*Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*” (“SAB 108”), in which the Staff provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of assessing materiality. The Company adopted SAB 108 as of February 3, 2007, as required. The adoption of SAB 108 did not have a material impact on the Company’s financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, “*The Fair Value Option for Financial Assets and Financial Liabilities: Including an amendment of FASB No. 115*” (“SFAS No. 159”). SFAS No. 159 permits all entities to elect to measure many financial instruments and certain other items at fair value with changes in fair value reported in earnings. The fair value option is generally applied on an instrument-by-instrument basis and may be elected for a single item without electing other identical items, even if issued in a single transaction. The Company is required to adopt SFAS No. 159 as of the beginning of its fiscal year that begins after November 15, 2007. The adoption of SFAS No. 159 is not expected to have a material effect on the Company’s financial position, results of operations or cash flows.

2. Income Taxes

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

	Fiscal Year Ended		
	2/3/07	1/28/06	1/29/05
Current:			
Federal	\$10,089	\$6,495	\$4,000
State	553	899	102
	\$10,642	\$7,394	\$4,102
Deferred:			
Federal	\$338	\$1,000	\$1,681
State	127	162	207
	465	1,162	1,888
Provision for income taxes	\$11,107	\$8,556	\$5,990

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

	Fiscal Year Ended		
	2/3/07	1/28/06	1/29/05
Federal statutory income tax rate	35.0%	35.0%	35.0%
State income tax provision	1.7%	3.5%	0.9%
Nondeductible meals and entertainment expense	0.2%	0.3%	0.5%
Other	0.1%	0.8%	0.6%
Effective income tax rate	37.0%	39.6%	37.0%

Temporary differences (in thousands) which created deferred tax assets (liabilities) at February 3, 2007 and January 28, 2006, are as follows:

	As of 2/3/07		As of 1/28/06	
	Current	Noncurrent	Current	Noncurrent
Depreciation	\$ --	\$ (1,215)	\$ --	\$ (1,612)
Accruals	2,639	--	2,247	--
Interest rate swap	--	--	4	--
Inventory	(5,769)	--	(4,371)	--
State net operating loss carry forwards	--	204	--	537
Deferred Rent	822	3,680	571	3,061
Prepays	(1,477)	--	(1,464)	--
Amortization	--	(303)	--	(185)
Allowance for bad debts	293	--	359	--
State tax	--	(139)	--	--
	(3,492)	2,227	(2,654)	1,801
Less: Valuation allowances	--	(196)	--	(139)
Deferred tax asset (liability)	\$ (3,492)	\$ 2,031	\$ (2,654)	\$ 1,662

At February 3, 2007, the Company had state net operating loss carry forwards of approximately \$4,814,000 that expire beginning in 2007 through 2024.

A valuation allowance for net deferred income tax assets has been recorded for \$196,000 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 2011. Availability under the facility is reduced by outstanding letters of credit issued there under. 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. The Company was in compliance with all covenants for fiscal 2007 and as of February 3, 2007. As of February 3, 2007 and January 28, 2006 there were no outstanding borrowings under this credit facility and the face amount of letters of credit issued under the credit facility were \$2.9 million and \$3.0 million, respectively. The maximum and average outstanding borrowings under the credit facility (excluding letters of credit issued there under) during fiscal 2007 were \$1.8 million and \$26,000, 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 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 was secured by a mortgage interest in these facilities. As of February 3, 2007 and January 28, 2006, there was \$7.1 million and \$7.2 million of borrowings outstanding, respectively, under these arrangements, which bear interest at variable rates (7.08% as of February 3, 2007). The Bond has a maturity date of December 1, 2019, with a purchase provision obligating the Company to repurchase the Bond, unless extended by the bondholder. In fiscal 2007, an unrelated bank purchased the Bond from the existing bondholder, and the new bondholder extended the date of the Company's purchase obligation of the Bond until July 1, 2011 and did not require a mortgage interest to secure the bond. 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 entered into a \$7.5 million interest rate swap in May 1996 that expired on June 7, 2006 and effectively fixed the interest rate on the Bond during that period at 8.73% (the "Bond Hedge"). The Company did not replace the Bond Hedge when it expired.

The Company's hedges were 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) were reclassified to earnings if the hedge transaction became ineffective.

Prior to its expiration, the Bond Hedge was reported as a liability in the accompanying consolidated balance sheets at a fair value of \$61,000 as of January 28, 2006. For the fiscal years ending February 3, 2007, January 28, 2006 and January 29, 2005, adjustments of \$7,000, \$141,000, and \$485,000 were recorded as unrealized gains in accumulated other comprehensive income (loss), after tax. During fiscal 2006, a portion of the bond hedge no longer qualified for hedge accounting under SFAS No. 133. Therefore, the Company de-designated a portion of the hedge resulting in an expense of \$47,000 in fiscal 2006. During fiscal 2005, one of the \$10 million interest rate swaps no longer qualified for hedge accounting under SFAS No. 133 and the Company de-designated the hedge resulting in an expense of \$27,000 in fiscal 2005.

4. Leases

The Company leases the premises for its retail bookstores under operating leases, which expire in various years through the year 2022. 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 February 3, 2007 are as follows (*in thousands*):

Fiscal Year	Future Minimum Rent
2008	\$ 33,445
2009	28,038
2010	22,438
2011	17,634
2012	12,257
Subsequent years	29,575
Total	<u>\$143,387</u>

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

	Fiscal Year Ended		
	2/3/07	1/28/06	1/29/05
Minimum rentals	\$33,205	\$30,944	\$28,332
Contingent rentals	53	249	466
Total	\$33,258	\$31,193	\$28,798

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 70% for fiscal 2007, 2006 and 2005, 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 \$472,000, \$806,000 and \$675,000 in fiscal 2007, 2006 and 2005, 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 (the "2005 Plan") for a total of 300,000 shares. On June 8, 2006, the stockholders of the Company approved an additional 300,000 shares to be awarded under the Plan. An aggregate of 600,000 shares of common stock may be awarded under the 2005 Plan. From June 1, 2005 through February 3, 2007, awards under the 2005 Plan consisted solely of awards of restricted stock. Each year the compensation committee makes awards to the Company's officers and key employees pursuant to the terms of the plan. In addition, directors who have served eleven consecutive months are eligible for awards as well as new directors appointed to the Board. Shares granted under the 2005 Plan (net of cancellations) were 161,800 and 78,933 in fiscal 2007 and 2006, respectively. The compensation expense related to these grants is being expensed over the vesting period for the individual grants. The Company has recorded \$643,000 and \$224,000 of stock-based compensation for the restricted stock grants in fiscal 2007 and 2006, respectively.

There are two types of restricted stock awards to employees. The first type of restricted stock award is "career based shares." Career based shares are completely unvested until the last day of the fifth fiscal year after the date of the grant whereupon such career based shares vest in full if the employee who received the grant is then employed by the Company. The compensation expense for these shares is recognized ratably over the five-year requisite service period. The second type of restricted stock award is "performance based shares." Performance based shares are earned based on the achievement of certain performance goals for the fiscal year in which they are granted. If the performance goals are met, the performance based shares vest in 50% increments at the end of the first and second fiscal years after the fiscal year in which they were granted if the employee who received the grant is then employed by the Company. Compensation expense for these shares is recognized ratably over the period beginning on the date the Company determines that it is probable the performance goals will be achieved and ending on the last day of the vesting period.

Additionally, there are annual restricted stock grants to directors. Each director who has served at least eleven consecutive months as of the Company's annual meeting of stockholders receives a restricted stock grant, which shares of restricted stock vest in one-third increments on each of the first, second and third anniversaries of the grant date. The expense related to the directors' grants is recognized ratably over the three-year vesting period.

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 February 3, 2007, January 28, 2006, and January 29, 2005 totaled \$100,000 (6,707 shares), \$592,000 (50,824 shares) and \$364,000 (39,116 shares), respectively. The final grant for the Incentive Plan was awarded in March 2006 for the January 28, 2006 three year performance period. There will be no future awards under the Incentive Plan.

Restricted Stock Table

A combined summary of the status of restricted stock grants to employees and directors under the 2005 Incentive Award Plan and the Executive Incentive Plan is as follows (*shares in thousands*):

	Fiscal Year Ended	
	February 3, 2007	
	Weighted Average Grant Date	
	Shares	Fair Value
Shares at beginning of period	214	\$ 9.70
Shares granted	169	\$12.29
Shares vested	(66)	\$ 7.82
Shares forfeited	(36)	\$10.72
Shares at end of period	281	\$11.56

Stock Option Plan

In April 1999, the Company adopted the Stock Option Plan which provided for option 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 held in June 2005, the board determined that no more awards would be made under the Stock Option Plan. Options previously issued under the Stock Option Plan remain valid. All options granted prior to January 9, 2001 vested over a five-year period and expired on the sixth anniversary of the date of grant, and all options granted on and after January 9, 2001 vest over a three-year period and expire on the tenth anniversary of the date of grant. All 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					
	February 3, 2007		January 28, 2006		January 29, 2005	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	814	\$3.77	1,506	\$ 5.19	2,296	\$ 5.22
Granted	--	N/A	--	N/A	35	8.64
Exercised	(540)	3.11	(640)	6.82	(533)	2.54
Forfeited	(4)	4.80	(52)	7.13	(292)	10.65
Outstanding at end of year	270	\$5.09	814	\$ 3.77	1,506	\$ 5.19
Exercisable at end of year	268	\$5.08	566	\$ 3.30	949	\$ 5.71
Weighted average fair value of options granted		N/A		N/A		\$ 8.64

The fair value of the options granted under the Company's stock option plan during fiscal 2005 were 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; expected stock price volatility rate of 44%; risk free interest rate of 3.45% to 4.31%; and expected lives of six or ten years. No options were granted in fiscal year 2007 and 2006.

During fiscal years 2007, 2006 and 2005, the Company recognized tax benefits related to the exercise of stock options in the amount of \$2,567,000, \$613,000 and \$943,000, respectively. The tax benefits were credited to paid-in capital in the respective years.

The total intrinsic value of stock options exercised during the year ended February 3, 2007 was \$6,878,000.

The following table summarizes information about stock options outstanding as of February 3, 2007 (*shares in thousands*):

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding at February 3, 2007	Weighted Average Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at February 3, 2007	Weighted Average Exercise Price
\$1.69 - \$ 2.37	50	5.95	\$2.35	50	\$2.35
\$2.68 - \$ 5.85	71	5.21	\$3.07	69	\$2.99
\$6.13 - \$9.62	149	7.13	\$6.98	149	\$6.98
Totals	270	6.40	\$5.09	268	\$5.08

The aggregate intrinsic values of outstanding options and exercisable options under the Stock Option Plan at February 3, 2007 were \$3,661,000 and \$3,637,000, respectively.

Other Information

As of February 3, 2007 the Company has \$2,185,000 of total unrecognized compensation cost related to non-vested awards granted under our various share-based plans, which it expects to recognize over the following fiscal years:

Fiscal Year	Stock-based Compensation Expense
2008	\$ 986,000
2009	\$ 750,000
2010	\$ 265,000
2011	\$ 184,000
Total	\$2,185,000

The Company received cash from options exercised during the fiscal years 2007, 2006 and 2005 of \$1,680,000, \$4,347,000, and \$1,359,000 respectively. The impact of these cash receipts is included in financing activities in the accompanying Consolidated Statements of Cash Flows.

The number of shares of common stock currently reserved under the 2005 Plan for stock-based compensation programs as of February 3, 2007 is 427,000 shares.

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, 268,167 shares have been purchased as of February 3, 2007.

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 2007, 2006 and 2005, purchases of these items from Anderson Media totaled \$24,702,000, \$30,746,000 and \$27,405,000, respectively. The Company purchases certain of its collectibles, gifts and books from Anderson Press, Inc. ("Anderson Press"), an affiliate through common ownership. During fiscal 2007, 2006 and 2005, such purchases from Anderson Press totaled \$1,423,000, \$1,272,000 and \$1,122,000, 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 2007, 2006 and 2005 were \$447,000, \$223,000 and \$371,000, 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 \$2,391,000, \$2,113,000 and \$1,075,000 for fiscal 2007, 2006 and 2005, 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 \$167,000, \$148,000 and \$75,000, respectively.

The Company sold books to Anderson Media in the amounts of \$2,430,000, \$1,017,000 and \$115,000 in fiscal 2007, 2006 and 2005, respectively. During fiscal 2007, 2006 and 2005, the Company provided \$0, \$11,000, and \$296,000, respectively, of Internet services to Magazines.com.

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 lease term is month to month. During fiscal 2007, 2006 and 2005, 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 2007, 2006 and 2005, the Company paid A&A a total of \$448,000, \$445,000, and \$441,000, respectively, in connection with such leases. There were no future minimum rental payments on any of the four leases at February 3, 2007. 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 2007, 2006 and 2005, 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 2007, 2006 and 2005 were \$388,000, \$146,000 and \$110,000, 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 \$47,000, \$70,000 and \$92,000 for fiscal 2007, 2006 and 2005, respectively.

7. Income or (Loss) from Discontinued Operations

The Company closed one store in fiscal 2007 in a market located in Georgia where the Company does not expect another of its existing stores to absorb the closed store customers. The store sales and operating results for fiscal 2007 have not been included in discontinued operations because the impact on the financial statements was immaterial. The Company continues to report in discontinued operations stores closed in prior years where the Company does not expect to retain the closed stores’ customers at another store. For fiscal 2007 the closed store had sales of \$139,000 and pretax operating loss of \$90,000.

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 and the fiscal 2005 closure of two retail stores in markets located in Florida and Mississippi where the Company does not expect another of its existing stores to absorb the closed store customers. For fiscal 2006 and 2005 the closed stores had sales of \$689,000 and \$2,503,000, and pretax operating income (loss) of \$27,000 and \$(29,000), respectively. Included in the loss on discontinued operations are impairment losses of \$0 and \$14,000 for fiscal 2006 and 2005, respectively. Also, included in the loss on discontinued operations are store closing costs of \$20,000 and \$50,000 for fiscal 2006 and 2005, 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		
	2/3/07	1/28/06	1/29/05
Net Sales			
Retail Trade	\$512,967	\$496,609	\$465,732
Electronic Commerce Trade	26,048	27,605	26,656
Intersegment Sales Elimination	(18,599)	(20,463)	(18,289)
Net Sales	\$520,416	\$503,751	\$474,099
Operating Profit			
Retail Trade	\$ 29,223	\$ 22,431	\$ 16,908
Electronic Commerce Trade	1,400	1,027	909
Intersegment Elimination of Certain Costs	(524)	(421)	275
Total Operating Profit	\$ 30,099	\$ 23,037	\$ 18,092
Assets			
Retail Trade	\$303,110	\$310,447	
Electronic Commerce Trade	927	1,286	
Intersegment Sales Elimination	--	(74)	
Total Assets	\$304,037	\$311,659	

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 February 3, 2007 and January 28, 2006, as such liabilities are considered de minimis.

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 certain stores in fiscal 2005. The insurance recovery amount was finalized with the insurance company during the third quarter of fiscal 2006 (for stores damaged by hurricanes in fiscal 2005), and therefore the gain was recorded in the respective period.

11. Cash Dividend

On March 30, 2007, the Board of Directors declared a quarterly dividend of \$0.09 per share to be paid on April 27, 2007 to stockholders of record at the close of business on April 13, 2007. The Company intends to pay quarterly dividends in the future, subject to Board approval.

12. Accrued Expenses

Accrued expenses consist of the following (*in thousands*):

	As of 2/3/07	As of 1/28/06
Accrued expenses:		
Salaries, wages and employee benefits	\$ 7,548	\$ 9,356
Giftcard liabilities to customers	9,612	8,968
Deferred club card income	5,399	4,815
Taxes, other than income	4,992	4,314
Rent	2,754	3,009
Other	8,279	14,997
	<u>\$38,584</u>	<u>\$45,459</u>

13. Summary of Quarterly Results (Unaudited)

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

<i>(In thousands, except per share amounts)</i>	Fiscal Year Ended February 3, 2007				
	First Quarter	Second Quarter	Third Quarter	Fourth (2) Quarter	Total Year
Net revenue	\$113,887	\$121,209	\$110,692	\$174,628	\$520,416
Gross profit	32,610	34,918	29,087	60,113	156,728
Operating profit (loss)	2,592	4,053	(314)	23,768	30,099
Net income (loss)	1,512	2,457	(201)	15,119	18,887
Net income (loss) per share – basic ⁽¹⁾	0.09	0.15	(0.01)	0.92	1.16
Net income (loss) per share – diluted	0.09	0.14	(0.01)	0.90	1.12

<i>(In thousands, except per share amounts)</i>	Fiscal Year Ended January 28, 2006				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Net revenue	\$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

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

(2) The Company changed its estimate of gift card liabilities which resulted in recognition of \$2.3 million in gift card breakage income during the fourth quarter of fiscal 2007 as disclosed in note 1.

**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 consolidated balance sheets of Books-A-Million, Inc. and subsidiaries as of February 3, 2007 and January 28, 2006 and the related statements of income, changes in stockholders' equity, and cash flows for the 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Books-A-Million, Inc. and subsidiaries as of February 3, 2007 and January 28, 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, Books-A-Million, Inc. adopted the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), "*Share-Based Payment*" effective January 29, 2006.

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 February 3, 2007, 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 April 18, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal controls over financial reporting.

/s/ GRANT THORNTON LLP

Atlanta, Georgia
April 18, 2007

**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 February 3, 2007, 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 February 3, 2007, 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 February 3, 2007, 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 sheets of Books-A-Million, Inc. as of February 3, 2007 and January 28, 2006, and the related statements of income, stockholders' equity, and cash flows for the years then ended and our report dated April 18, 2007 expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

Atlanta, Georgia
April 18, 2007

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 statements of income, stockholders' equity, and cash flows of Books-A-Million, Inc. and subsidiaries (the "Company") for the fiscal year ended January 29, 2005. 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 results of operations and cash flows for the fiscal year ended January 29, 2005 of Books-A-Million, Inc. and subsidiaries, in conformity with accounting principles generally accepted in the United States of America.

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

Sandra B. Cochran
President, Chief Executive Officer and Secretary

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

Douglas G. Markham
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 February 3, 2007, 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 Douglas G. Markham, 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 February 3, 2007 and January 28, 2006.

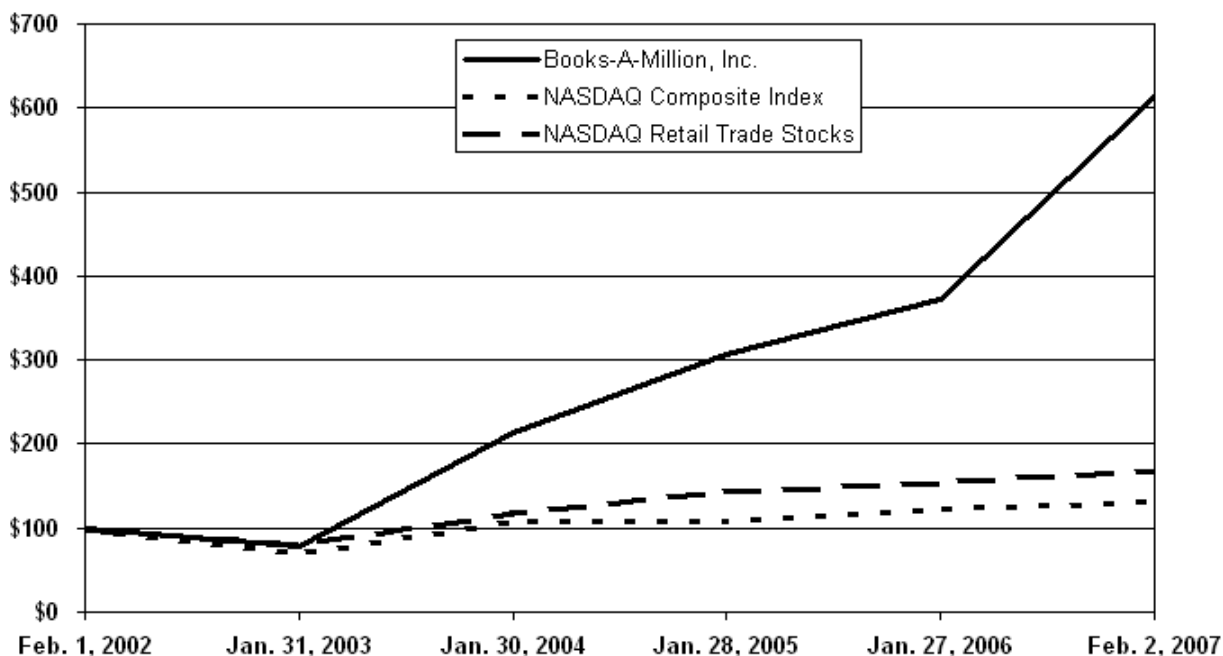
Quarter Ended	High	Low	Dividends Declared
January 2007	\$22.69	\$18.65	\$0.09
October 2006	20.11	14.64	0.08
July 2006	18.49	14.00	0.08
April 2006	13.45	10.62	0.08
January 2006	11.55	8.76	0.08
October 2005	10.29	8.16	0.05
July 2005	10.26	7.47	0.05
April 2005	9.82	7.25	0.05

The closing price on March 30, 2007 was \$14.14. As of that date Books-A-Million, Inc. had approximately 7,250 stockholders based on the number of individual participants represented by security position listings.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN*

Among Books-A-Million, Inc., The NASDAQ Composite Index and The NASDAQ Retail Trade Stock Index

The following indexed line graph indicates the Company’s total return to stockholder’s from February 1, 2002 to February 2, 2007, the last trading day prior to the Company’s 2007 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 1, 2002	Jan 31, 2003	Jan 30, 2004	Jan 28, 2005	Jan 27, 2006	Feb 2, 2007
Books-A-Million, Inc.	\$100	\$78	\$213	\$306	\$373	\$613
NASDAQ Composite Index	\$100	\$70	\$109	\$107	\$122	\$131
NASDAQ Retail Trade Stocks	\$100	\$81	\$119	\$143	\$155	\$168

This graph is being furnished and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liability of that section. This graph shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except as otherwise noted in such filing.

ANNUAL MEETING OF STOCKHOLDERS

The annual meeting of stockholders will be held on May 29, 2007, at 10:00 a.m. central time, at The Harbert Center, 2019 Fourth Avenue North, Birmingham, Alabama 35203. Stockholders of record as of March 30, 2007, are invited to attend this meeting.

BOOKS·A·MILLION®

Letter to the Stockholders

Notice of Annual Meeting of Stockholders

2007 Proxy Statement

BOOKS•A•MILLION

April 25, 2007

Dear Stockholder:

You are cordially invited to attend the 2007 Annual Meeting of Stockholders of Books-A-Million, Inc., which will be held at 10:00 a.m. on Tuesday, May 29, 2007, 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 2010; and (ii) 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.

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 2007 Annual Meeting of Stockholders of Books-A-Million, Inc., which will be held at 10:00 a.m. on Tuesday, May 29, 2007, 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 2010;
- (2) To transact such other business as may properly come before the meeting.

The Board of Directors has fixed the close of business on March 30, 2007 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

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 Tuesday, May 29, 2007, 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 25, 2007 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. 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 March 30, 2007 (the "Record Date") will be entitled to vote at the Annual Meeting. As of the close of business on the Record Date, there were 16,638,477 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 Dr. J. Barry Mason and Mr. William H. Rogers, Jr. expire upon the election and qualification of the directors to be elected at this Annual Meeting. The Board of Directors has nominated Dr. J. Barry Mason and Mr. William H. Rogers, Jr. for re-election to the Board of Directors at the Annual Meeting, to serve until the 2010 annual meeting of stockholders and until their successors are duly elected and 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 Dr. J. Barry Mason and Mr. William H. Rogers, Jr. to the Board of Directors. Dr. Mason and Mr. Rogers have consented to serve as directors of the Company if elected. If at the time of the Annual Meeting, Dr. Mason or Mr. Rogers 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 Dr. Mason or Mr. Rogers 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 Dr. Mason, Mr. Rogers 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 2010

J. BARRY MASON

Age: 66

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. Dr. Mason has been determined to be independent by the Board as defined by the NASDAQ National Market and the Securities and Exchange Commission.

WILLIAM H. ROGERS, JR.

Age: 49

William H. Rogers, Jr. has served as a director of the Company since November 2000. Mr. Rogers serves as Corporate Executive Vice President with responsibilities for the wealth and investment management, commercial, corporate and investment banking and mortgage lines of business, SunTrust Banks, Incorporated. He has held other positions with SunTrust since 1980. Mr. Rogers has been determined to be independent by the Board as defined by the NASDAQ National Market and the Securities and Exchange Commission.

INCUMBENT DIRECTORS - TERM EXPIRING 2008

TERRY C. ANDERSON

Age: 49

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. Mr. Anderson is not an independent director.

ALBERT C. JOHNSON

Age: 62

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. Mr. Johnson has been determined to be independent by the Board as defined by the NASDAQ National Market and the Securities and Exchange Commission.

INCUMBENT DIRECTORS - TERM EXPIRING 2009**CLYDE B. ANDERSON**

Age: 46

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. Mr. Anderson is not an independent director.

RONALD G. BRUNO

Age: 55

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 has been determined to be independent by the Board as defined by the NASDAQ National Market and the Securities and Exchange Commission.

SANDRA B. COCHRAN

Age: 48

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. Ms. Cochran is not an independent director.

INFORMATION CONCERNING THE BOARD OF DIRECTORS

The Company's Board of Directors held eight meetings during the Company's fiscal year ended February 3, 2007 ("fiscal 2007"). The Board has an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. Each director attended at least 75% of the meetings of the Board and the committees of the Board on which he or she 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 seven members, four of whom are independent within the meaning of the NASDAQ Stock Market, Inc. independence standards. Each year the Board makes a determination as to the independence of each Board member.

Committees of the Board of Directors. The Audit Committee consists of Messrs. Albert C. Johnson, Chairman of the Committee, J. Barry Mason and William H. Rogers. During fiscal 2007 Ronald G. Bruno served as a member of the Audit 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, reviewing related party activity, 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 four meetings in fiscal 2007.

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 Stock Market and the Securities and Exchange Commission listing requirements. The Audit Committee acts under a written charter first adopted in 1992 and last updated on March 29, 2007. 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 Employee Stock Purchase Plan, the 2005 Incentive Award Plan, the Executive Deferred Compensation Plan and the Director's Deferred Compensation Plan. The Compensation Committee held two meetings in fiscal 2007. The Board of Directors has determined that the members of the Compensation Committee are independent directors, as defined by the NASDAQ National Market. The Compensation Committee acts under a written charter adopted in 2007. The Compensation Committee charter is available free of charge on the Company's website at www.booksamillioninc.com.

The Nominating and Corporate Governance Committee consists of Messrs. Ronald G. Bruno, Chairman of the Committee, J. Barry Mason and William H. Rogers, Jr. The responsibilities of the Nominating and Corporate Governance 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 and Corporate Governance Committee held one meeting in fiscal 2007.

The Board of Directors has determined that the members of the Nominating and Corporate Governance Committee are independent directors, as defined by the Nominating and Corporate Governance Committee Charter and the NASDAQ National Market. The Nominating and Corporate Governance Committee acts under a written charter first adopted in 2004 and last updated on March 29, 2007. The Nominating and Corporate Governance Committee charter is available free of charge on the Company's website at www.booksamillioninc.com.

Identifying and Evaluating Nominees for Directors. The Nominating and Corporate Governance Committee utilizes a variety of methods for identifying and evaluating nominees for director. The Nominating and Corporate Governance 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 and Corporate Governance Committee considers various potential candidates for director. Candidates may come to the attention of the Nominating and Corporate Governance Committee through current Board members, professional search firms, stockholders or other persons. These candidates are evaluated at regular or special meetings of the Nominating and Corporate Governance Committee, and may be considered at any point during the year.

The Nominating and Corporate Governance Committee will consider suggestions from stockholders for nominees for election as directors. 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." Stockholders who wish to submit a proposed nominee to the Nominating and Corporate Governance Committee should send written notice to Mr. Ronald G. Bruno, Nominating and Corporate Governance 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 and Corporate Governance Committee will consider nominees suggested by stockholders on the same terms as nominees provided by search firms or other parties. The Nominating and Corporate Governance Committee seeks to achieve a balance of knowledge, experience and capability on the Board and 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.

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 2007 fiscal year. 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 years 2007 and 2006:

<u>Fees</u>	<u>2007</u>	<u>2006</u>
Audit fees (1)	\$916,415	\$1,042,098
Audit-related fees (2)	38,066	46,398
Tax fees (3)	15,750	13,574
Total	<u>\$970,231</u>	<u>\$1,102,070</u>

(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.

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 members of the Audit Committee are Messrs. Albert C. Johnson (Chairman), J. Barry Mason and William H. Rogers. During fiscal 2007 Ronald G. Bruno served as a member of the Audit Committee. 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:

- Managing the reliability and integrity of accounting policies and financial reporting and disclosure practices of the Company;
- Ensuring that an adequate system of internal controls is functioning within the Company; and
- Selecting 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 four meetings during fiscal 2007, 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 February 3, 2007 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 of America. 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 and tax services provided by Grant Thornton LLP for the fiscal year ended February 3, 2007. The total fees paid to Grant Thornton LLP for the fiscal year 2007 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 February 3, 2007 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 April 17, 2007. The outstanding Common Stock of the Company on April 17, 2007 was 16,659,386 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 any of the below columns indicates a number amounting to less than 1% percent of the outstanding Common Stock. Unless otherwise indicated, the address for the following stockholders is c/o Books-A-Million, Inc., 402 Industrial Lane, Birmingham, Alabama 35211.

REPORTING PERSON	NUMBER OF	PERCENTAGE	REGISTERED	
	SHARES	OF	SHARES	PERCENTAGE
	BENEFICIALLY	OUTSTANDING		
	OWNED	SHARES		
Anderson BAMB Holdings, LLC ⁽¹⁾	8,027,938 ⁽²⁾	48.2%	1,533,302 ⁽³⁾	9.2%
Charles C. Anderson ⁽⁴⁾	8,027,938 ⁽²⁾	48.2%	2,089,000 ⁽⁵⁾	12.5%
Hilda B. Anderson ⁽⁶⁾	8,027,938 ⁽²⁾	48.2%	2,089,000 ⁽⁷⁾	12.5%
Joel R. Anderson ⁽⁸⁾	8,027,938 ⁽²⁾	48.2%	1,582,440 ⁽⁹⁾	9.5%
Charles C. Anderson, Jr. ⁽¹⁰⁾	8,027,938 ⁽²⁾	48.2%	273,284	1.6%
Charles C. Anderson III ⁽¹¹⁾	8,027,938 ⁽²⁾	48.2%	*	*
Terrence C. Anderson ⁽¹²⁾	8,039,938 ⁽²⁾	48.2%	355,954 ⁽¹³⁾	2.1%
Clyde B. Anderson	8,041,272 ⁽²⁾	48.2%	1,430,978 ⁽¹⁴⁾	8.6%
Harold M. Anderson ⁽¹⁵⁾	8,027,938 ⁽²⁾	48.2%	348,480	2.1%
Hayley Anderson Milam ⁽¹⁶⁾	8,027,938 ⁽²⁾	48.2%	*	*
Sandra B. Cochran ⁽¹⁷⁾	8,044,605 ⁽²⁾	48.2%	205,755 ⁽¹⁸⁾	1.2%
Ashley Anderson Billingsley ⁽¹⁹⁾⁽²⁰⁾	8,027,938 ⁽²⁾	48.2%	*	*
The Ashley Anderson Trust ⁽²⁰⁾⁽²¹⁾	8,027,938 ⁽²⁾	48.2%	*	*

REPORTING PERSON	NUMBER OF SHARES BENEFICIALLY OWNED	PERCENTAGE OF OUTSTANDING SHARES	REGISTERED SHARES	PERCENTAGE
Irrevocable Trust of Charles C. Anderson, Jr. for the Primary Benefit of Lauren Artis Anderson ⁽²²⁾	8,027,938 ⁽²⁾	48.2%	*	*
Olivia Barbour Anderson 1995 Trust ⁽²³⁾	8,027,938 ⁽²⁾	48.2%	*	*
Alexandra Ruth Anderson Irrevocable Trust ⁽²⁴⁾	8,027,938 ⁽²⁾	48.2%	*	*
First Anderson Grandchildren's Trust FBO Charles C. Anderson III ⁽²⁵⁾	8,027,938 ⁽²⁾	48.2%	*	*
First Anderson Grandchildren's Trust FBO Hayley E. Anderson ⁽²⁵⁾	8,027,938 ⁽²⁾	48.2%	*	*
First Anderson Grandchildren's Trust FBO Lauren A. Anderson ⁽²⁵⁾	8,027,938 ⁽²⁾	48.2%	*	*
Second Anderson Grandchildren's Trust FBO Alexandra R. Anderson ⁽²⁵⁾	8,027,938 ⁽²⁾	48.2%	*	*
Third Anderson Grandchildren's Trust FBO Taylor C. Anderson ⁽²⁵⁾	8,027,938 ⁽²⁾	48.2%	*	*
Fourth Anderson Grandchildren's Trust FBO Carson C. Anderson ⁽²⁵⁾	8,027,938 ⁽²⁾	48.2%	*	*
Fifth Anderson Grandchildren's Trust FBO Harold M. Anderson ⁽²⁵⁾	8,027,938 ⁽²⁾	48.2%	*	*
Sixth Anderson Grandchildren's Trust FBO Bentley B. Anderson ⁽²⁵⁾	8,027,938 ⁽²⁾	48.2%	*	*
The Charles C. Anderson Family Foundation ⁽²⁶⁾	8,027,938 ⁽²⁾	48.2%	*	*
The Joel R. Anderson Family Foundation ⁽²⁶⁾ ...	8,027,938 ⁽²⁾	48.2%	*	*
The Clyde B. Anderson Family Foundation ⁽²⁶⁾	8,077,888 ⁽²⁾	48.2%	*	*
Bear Stearns Asset Management, Inc. ⁽²⁷⁾	1,853,188	11.1%	1,853,188	11.1%
Terrance G. Finley	192,361 ⁽²⁸⁾	1.1%	192,361 ⁽²⁸⁾	1.1%
Ronald G. Bruno	66,500 ⁽²⁹⁾	*	66,500 ⁽²⁹⁾	*
William H. Rogers, Jr.	34,090 ⁽³⁰⁾	*	34,090 ⁽³⁰⁾	*
Douglas G. Markham	25,000 ⁽³¹⁾	*	25,000 ⁽³¹⁾	*
J. Barry Mason	16,500 ⁽³²⁾	*	16,500 ⁽³²⁾	*
Albert C. Johnson	5,833 ⁽³³⁾	*	5,833 ⁽³³⁾	*
All current directors and executive officers as a group (9 persons) ⁽³⁶⁾	8,410,223	49.9%	2,332,971	13.8%

- (1) Anderson BAMB Holdings, LLC is an investment company with its business address at 201 South Court Street, Florence, Alabama 35630.
- (2) 8,027,938 shares may be deemed to be beneficially held as a "group" as such term is defined in Section 13(d)(3) of the Exchange Act. Members of the group filed on Schedule 13D with the Securities and Exchange Commission on April 9, 2007 and filed Amendment No. 1 to Schedule 13D with the Securities and Exchange Commission on April 20, 2007. Members of the group do not have (i) any direct or indirect pecuniary interest in or (ii) the power to vote or dispose of, or the power to direct the vote or disposition of, any Common Stock of the Company held by any other person, including, without limitation, any other person who may be deemed to be a member of such group. Accordingly, members of the group disclaim beneficial ownership of any securities of the Company held by any other person, including, without limitation, any other person who may be deemed to be a member of such group, and this Proxy Statement shall not be deemed an admission that the reporting person is the beneficial owner of such securities for the purposes of Section 16 under the Exchange Act or otherwise. The 8,039,938 shares for Terrence C. Anderson reflect an additional 12,000 shares subject to options exercisable on or before June 19, 2007. The 8,041,272 shares for Clyde B. Anderson reflect an additional 13,333 shares subject to options exercisable on or before June 19, 2007. The 8,044,605 shares for Sandra B. Cochran reflect an additional 16,667 shares subject to options exercisable on or before June 19, 2007.
- (3) Anderson BAMB Holdings, LLC issued membership interests to certain of the beneficial owners of more than 5% of the Company's outstanding Common Stock in exchange for shares of Common Stock of the Company held by such persons, as specified in the Limited Liability Company Agreement of Anderson BAMB Holdings, LLC attached as Exhibit 2 to the Schedule 13D filed with the Securities and Exchange Commission on April 9, 2007, as amended by Amendment No. 1 to Schedule 13D filed with the Securities and Exchange Commission on April 20, 2007.
- (4) The business address of Mr. Charles C. Anderson is 202 North Court Street, Florence, Alabama 35630. Charles C. Anderson served on the Company's Board of Directors until June 3, 2004.
- (5) Includes 83,000 shares held by The Charles C. Anderson Family Foundation. Charles C. Anderson is the Chairman of the Board of Directors of the foundation and has sole voting and dispositive power over these shares. Also includes 6,000 shares owned of record by his wife, Hilda B. Anderson.
- (6) The business address of Mrs. Hilda B. Anderson is c/o Abrams & Associates, 201 South Court Street, Suite 610, Florence, Alabama 35630.
- (7) Includes 2,000,000 shares owned of record by her husband, Charles C. Anderson, and 83,000 shares owned of record by The Charles C. Anderson Family Foundation over which shares Charles C. Anderson has sole voting and dispositive power.

- (8) The business address of Mr. Joel R. Anderson is 202 North Court Street, Florence, Alabama 35630. Joel R. Anderson does not serve as an officer or director of the Company.
- (9) Includes 83,000 shares held by The Joel R. Anderson Family Foundation. Joel R. Anderson is the Chairman of the Board of Directors of the foundation and has sole voting and dispositive power over these shares.
- (10) The business address of Mr. Charles C. Anderson, Jr. is 6016 Brookvale Lane, Suite 151, Knoxville, Tennessee 37919.
- (11) The business address of Mr. Charles C. Anderson III is 5/F Lippon Leighton Tower, 103-109 Leighton Road, Causeway Bay, Hong Kong.
- (12) The business address of Mr. Terrence C. Anderson is 4511 Helton Drive, Florence, Alabama 35630.
- (13) Includes 12,000 shares subject to options exercisable on or before June 19, 2007 and 4,500 shares of restricted stock, 666 shares of which vest on or before June 19, 2007 and 3,834 shares of which vest after June 19, 2007.
- (14) Includes 46,000 shares held by The Clyde B. Anderson Family Foundation. Clyde B. Anderson is the Chairman of the Board of Directors of the foundation and has sole voting and dispositive power over these shares. Also includes 13,334 shares subject to options exercisable on or before June 19, 2007 and 79,485 restricted shares all of which vest after June 19, 2007.
- (15) The business address of Mr. Harold M. Anderson is 3101 Clairmont Road Suite C, Atlanta, Georgia 30329.
- (16) The business address of Ms. Hayley Anderson Milam is 202 North Court Street, Florence, Alabama 35630.
- (17) The business address of Ms. Sandra B. Cochran is 402 Industrial Lane, Birmingham, Alabama 35211.
- (18) Includes 16,667 shares subject to options exercisable on or before June 19, 2007 and 127,485 shares of restricted stock all of which vest after June 19, 2007.
- (19) The business address of Ms. Ashley Anderson Billingsley is 202 North Court Street, Florence, Alabama 35630.
- (20) The shares over which Ashley Anderson Billingsley has shared voting power and shared dispositive power are held of record by The Ashley Anderson Trust.
- (21) The trustee of the Ashley Anderson Trust is CitiCorp Trust South Dakota, and the co-trustee of such Trust Reporting Person is Ashley Anderson Billingsley. The business address of the Ashley Anderson Trust, and of Ashley Anderson Billingsley as co-trustee, is c/o Abroms & Associates, 201 South Court Street, Suite 610, Florence, Alabama 35630. The business address of CitiCorp Trust South Dakota is 1300 West 57th Street, Suite G100, Sioux Falls, South Dakota 57108.
- (22) The trustee of the Irrevocable Trust of Charles C. Anderson, Jr. for the Primary Benefit of Lauren Artis Anderson is Carl M. Boley. The business address of the Irrevocable Trust of Charles C. Anderson, Jr. for the Primary Benefit of Lauren Artis Anderson is c/o Abroms & Associates, 201 South Court Street, Suite 610, Florence, Alabama 35630. The business address of Carl M. Boley is 6016 Brookvale Lane, Suite 151, Knoxville, Tennessee 37919.
- (23) The business address of the Olivia Barbour Anderson Irrevocable Trust, and for Lisa S. Anderson as trustee of such trust, is c/o Abroms & Associates, 201 South Court Street, Suite 610, Florence, Alabama 35630.
- (24) The business address of the Alexandra Ruth Anderson Irrevocable Trust, and for Lisa S. Anderson as trustee of such trust, is c/o Abroms & Associates, 201 South Court Street, Suite 610, Florence, Alabama 35630.
- (25) The trustee for (i) First Anderson Grandchildren's Trust FBO Charles C. Anderson III, (ii) First Anderson Grandchildren's Trust FBO Hayley E. Anderson, (iii) First Anderson Grandchildren's Trust FBO Lauren A. Anderson, (iv) Second Anderson Grandchildren's Trust FBO Alexandra R. Anderson, (v) Third Anderson Grandchildren's Trust FBO Taylor C. Anderson, (vi) Fourth Anderson Grandchildren's Trust FBO Carson C. Anderson, (vii) Fifth Anderson Grandchildren's Trust FBO Harold M. Anderson and (viii) Sixth Anderson Grandchildren's Trust FBO Bentley B. Anderson, in each case, is SunTrust Bank Alabama. The business address of each trust is c/o Abroms & Associates, 201 South Court Street, Suite 610, Florence, Alabama 35630. The business address of SunTrust Bank Alabama is 201 South Court Street, Florence, Alabama 35630.
- (26) The business address of (i) The Charles C. Anderson Family Foundation, (ii) The Joel R. Anderson Family Foundation and (iii) The Clyde B. Anderson Family Foundation is, in each case, c/o Abroms & Associates, 201 South Court Street, Suite 610, Florence, Alabama 35630.
- (27) Bear Stearns Asset Management, Inc. is an investment advisor with its business address at 383 Madison Avenue, New York, New York 10179.
- (28) Includes 99,000 shares subject to options exercisable on or before June 19, 2007 and 62,235 shares of restricted stock which vest after June 19, 2007.
- (29) Includes 24,000 shares subject to options exercisable on or before June 19, 2007. Also includes 4,500 shares of restricted stock, 666 of which vest on or before June 19, 2007 and 3,834 of which vest after June 19, 2007.
- (30) Includes 24,000 shares subject to options exercisable on or before June 19, 2007. Also includes 4,500 shares of restricted stock, 666 of which vest on or before June 19, 2007 and 3,834 of which vest after June 19, 2007.
- (31) Represents shares of restricted stock which vest after June 19, 2007.
- (32) Includes 12,000 shares subject to options exercisable on or before June 19, 2007. Also includes 4,500 shares of restricted stock, 666 of which vest on or before June 19, 2007 and 3,834 of which vest after June 19, 2007.
- (33) Includes 4,722 shares of restricted stock which vest after June 19, 2007.
- (34) Includes 201,000 shares subject to options exercisable on or before June 19, 2007 and 316,927 shares of restricted stock, 3,996 of which vest on or before June 19, 2007 and 312,931 of which vest after June 19, 2007.

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 2007 with all applicable Section 16(a) filing requirements.

COMPENSATION DISCUSSION AND ANALYSIS

Pursuant to SEC rules for Proxy Statement disclosure of executive compensation, the Company has prepared the following Compensation Discussion and Analysis ("CD&A"). The CD&A addresses the objectives and implementation of the Company's executive compensation programs and focuses on the policies and decisions behind the programs. In addition, the Company intends that the CD&A 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.

Compensation Program Objectives

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 reflect the competitive marketplace so that the Company can attract, retain and motivate the most talented executives;
- Provide compensation levels that are consistent with the Company's business plan, financial objectives and operating performance;
- Reward performance that facilitates the achievement of specific results and goals in furtherance of the Company's business plan;
- Motivate executives to make greater personal contributions to the performance of the Company helping it to achieve its strategic operating objectives; and
- Provide proper motivation for enhancing stockholder value by providing long-term incentive compensation, in the form of stock options and shares of restricted stock, in order to align the interests of executives with those of stockholders and the long-term interest of the Company.

The compensation program is designed to reward Officers for above average year over year company and personal performance, the development of long term growth strategies, as well as longevity with the Company.

In light of the Company's compensation policy, the components of its executive compensation program for fiscal 2007 were base salaries, cash bonuses and restricted stock bonuses.

The Company believes that each of the elements of compensation are competitive and consistent with current market expectations for leaders with an organization our size in our field.

Elements of Compensation

Base Salary. Each 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 is eligible to receive an annual cash bonus of up to 100% of his or her base salary at the time of the award. Generally, the Company establishes a bonus program at the beginning of each fiscal year in connection with the preparation of the Company's annual operating budget for such year. Under this bonus program, an 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, the actual amount of the cash bonus is determined by reference to the level of achievement with respect to the preset goals.

Restricted Stock. Currently the Company only issues restricted stock from the 2005 Incentive Award Plan. Prior to fiscal 2007 the Company also had the Executive Incentive Award Plan. No further awards will be issued out of the Executive Incentive Award 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, 300,000 shares were made available for grants under the plan at that time. 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. On June 8, 2006, the Shareholders approved the First Amendment to the 2005 Incentive Award plan that increased the shares available under the plan by 300,000 shares. The plan maintains a total share reserve of 600,000 and as of February 3, 2007 there was a total of 353,327 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 2007, 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, President of the Merchandising Group, and Mr. Douglas G. Markham, Chief Financial Officer. The awards were made in restricted stock according to the provisions of the plan. See the Summary Compensation Table on page 17 for more information on awards to named executive officers. An independent compensation consultant makes a presentation recommending share aware levels based on market data, taking into consideration such things as prior grants of awards and numbers of outstanding unvested awards.

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. 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.

Stock Options. In September 1992, the Company adopted a Stock Option Plan under which executive officers were eligible to receive stock options. Under the Stock Option Plan, all stock options were awarded at prices no less than the fair market value (the closing sale price of a share) of the Company's Common Stock on the date of grant. 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 or 2007.

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 and Mr. Terrance G. Finley, President of the Merchandising Group. These awards were granted as they related performance achievement of fiscal 2006 goals. 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.

The Company believes that maintaining a sound leadership team is fundamental to the Company's success, and having the correct mix of compensation elements furthers this important objective. A combination of base salary plus performance based bonuses allows for stability and growth both personally and professionally and provides motivation and incentive during the near term. Restricted stock further encourages actual ownership of part of the company and is a powerful motivating tool in aligning employees' objectives with the company's objectives. Equity ownership in general, and restricted stock in particular, also makes employees more focused on meeting long term goals and increasing overall stockholder value, as well as encouraging highly valued employees to remain with the Company.

Compensation Policies

Compensation of Executive Officers. During fiscal 2007, the Company's executive officers earned compensation comprised of base salary, cash bonus and restricted stock as described above.

Distribution between long term and currently paid out compensation. Having a balance between short and long term compensation is a fundamental part of the Company's compensation package. Base salaries and cash bonuses provide for the immediate necessity of attracting and retaining a well qualified staff, with the bonus component rewarding high levels of performance by both the Company and the individual.

The Restricted Stock program addresses both short and long term objectives of the Company with the intention to reward individuals who are committed to the continued success of the company. Although restricted stock awards are generally made on the basis of current year Company performance and current employment, the restricted stock awards vest over time such that only those holders who maintain employment with the Company for a period of 2 to 5 years recognize a benefit from the awards. Thus, the restricted stock awards are intended in part to provide longer term compensation opportunities that compliment other compensation paid in the short term.

Restricted stock encourages our employees to behave like owners and provides a clear link between the interests of the stockholder and the interests of the recipient. As employees have more impact on corporate performance, their main incentive should be profitably growing the company, which aligns their interest with that of our stockholders. Accordingly, as the executives' levels of responsibility increase, more of their compensation is provided in the form of restricted stock. This approach ties the executive's level of responsibility for the Company's performance to the amount of risk to such executive's total pay.

Allocating between cash and non-cash compensation, and among different forms of non-cash compensation. The Company believes that a fair balance between cash and non-cash compensation has been established. 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. Generally, as an executive's level of responsibilities increases a greater percentage of his or her compensation is tied to Company performance and a greater percentage is therefore subject to the risk tied to the return to the Company's stockholders.

The Committee directly retains a compensation consultant, who advises it regarding "best practices" in executive compensation and analyzes the Company's competitive position and the levels of compensation for the three components of the Company's executive compensation program including base salaries, bonuses and long-term incentives, such as restricted stock awards. This consultant also advises the Committee with respect to specific executive compensation decisions.

Award Determination. Base salary, cash bonuses and restricted stock awards are determined once a year, usually in March. Once the Company's financial statements have been audited by an independent audit firm, the Compensation Committee will determine base salaries and bonuses, and awards of restricted stock as well as the measurement goals for achieving the various awards. The committee will also determine what portion of the restricted stock awards which were authorized the previous year have been earned and issue those shares of restricted stock as they have been earned.

Compensation Policies and Corporate Performance. Compensation policies are primarily driven by desire and intent to link the fundamental characteristics of the retail sector to various objectives related to making the Company successful. By taking specific positive traits of thriving retail companies into account when reviewing compensation, management keeps the Company continuously striving for continued success. These goals might include achieving certain earnings per share increases, new store growth, return on assets, and return on equity and Sarbanes-Oxley compliance.

The Company maintains a policy seeking reimbursement from the Officers and other key management positions of certain bonuses and other incentive-based or equity-based compensation to the extent deemed appropriate by the Compensation Committee and the Board of Directors. In particular, the Company shall seek reimbursement of such compensation for the relevant period if the Company's financial results are required to be restated due to material noncompliance of the Company as a result of misconduct.

Company's performance and the executive's individual performance. Base salary is paid regardless of the individual's or Company's performance, however for employment to be maintained the associate is expected to maintain certain levels of responsibility, time commitments and performance levels. In addition, individuals are unlikely to receive an increase in base salary if they have not demonstrated a commitment to individual and Company performance.

Cash bonuses reward personal and Company performance. However, if the Company does not achieve certain minimum performance levels, the personal bonus will not be awarded.

Restricted stock to some extent emulates the spirit of the cash bonus program. The "Performance Based Shares" measurements are similar to the Company performance measurements maintained in connection with the bonus program. While the "Career Based Shares" may be issued to current employees, it requires longevity with the Company before the shares become vested.

Material changes to compensation. Material changes in compensation are based on performance (both personal and Company performance), responsibility and time commitment.

The impact of accounting and tax treatments. Base salary and cash bonuses are taxed at current Federal Income Tax rates in the years that the monies are paid. Restricted stock allows for the individual to select when the awards will be taxed. Generally, in accordance with Federal tax laws, restricted stock must be reported as taxable income in the year that the restricted shares vest. The amount of taxable income is calculated by multiplying the number of shares that vest in a given year times the stock price on the date the shares vest. Alternatively, individuals may elect to make a special tax election which allows them to report the taxable income in the year the shares are granted based on the number of shares granted and the value of the shares on that date.

Ownership Requirements. Executive Officers are required to maintain a certain level of ownership of company stock as determined by the Compensation Committee. The level of ownership is determined on an individual basis and is based upon the level of responsibility of each executive. As levels of responsibilities increase so may the requirement of ownership.

The role of executive officers in the compensation process. Executive officers participate in the compensation process to the extent of developing and presenting ideas and concepts, with the assistance of the independent Compensation Consultant. The independent Compensation Consultant prepares a report for the compensation committee with input from the executive officers. The independent Compensation Committee has the final authority to determine all components of compensation structure.

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.

COMPENSATION COMMITTEE REPORT

The Compensation Committee, which consists of Messrs. William H. Rogers, Jr. (who served as Chairman throughout fiscal 2007), J. Barry Mason and Ronald G. Bruno, was responsible for establishing salaries, bonuses and other compensation for the Company's executive officers for fiscal 2007, as well as for administering the Company's 2005 Incentive Award Plan, and Employee Stock Purchase Plan. Each member of the Compensation Committee is a non-employee director. Clyde B. Anderson, in his position as Executive Chairman of the Board and Sandra B. Cochran, in her position as President and Chief Executive Officer, provided input to the Compensation Committee as to the compensation for the Company's other officers.

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. The Compensation Committee held two meetings during fiscal 2007. The Compensation Committee has reviewed and discussed the Company's CD&A with management; and based upon this review and discussion, the Compensation Committee recommended to the Board that the CD&A be included in the Company's Annual Report on Form 10-K and in this Proxy Statement.

By the Compensation Committee of the Board of Directors:

Mr. William H. Rogers, Jr. (Chairman)
Dr. J. Barry Mason
Mr. Ronald G. Bruno

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

Procedures for Approval of Related Party Transactions. The Audit Committee pre-approves all related party transactions and approves any changes to existing contracts as well as approving new contracts. At the end of each year, the Audit Committee will review all related party transactions and determine if the Company is compliant with current contracts. This formal process approves and monitors all transactions of companies that could be considered related. Related Parties are defined by Regulation S-K and the NASDAQ National Market and further explained in the Company's Code of Conduct and in the following paragraph. The Audit Committee has the authority to make waivers on conflicts of interest.

In accordance to the Company's Code of Conduct, conflicts of interest are defined by outside employment, improper personal benefits, financial interests, loans or other financial transactions, service on outside Boards and Committees and actions of family members. The Code of Conduct defines a company as material if the customer has made payments to the Company in the past year in excess of \$200,000 or 5%, whichever is greater, of either the Company's or the customer's gross revenues. A company is a material supplier to the Company if the supplier has received payments from the Company in excess of \$200,000 or 5%, whichever is greater, of the supplier's or the companies gross revenues.

Related Party Transactions. As described below during fiscal 2007, the Company entered into certain transactions in the ordinary course of business with certain entities affiliated with Messrs. Charles C. Anderson, Sr., Terry C. Anderson, Joel R. Anderson, Harold M. Anderson, Charles C. Anderson, Jr. and Clyde B. Anderson, who own 70% or more of these companies and serve as Officers and or Directors. 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. All of the related party transactions were reviewed and approved by the Audit Committee in accordance with the Company's policy. Significant activities with these entities are:

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"). Purchases in fiscal 2007 totaled \$24,702,000. The Company sold books to Anderson Media in fiscal 2007 totaling \$2,430,000. The Company purchases certain of its collectibles, gifts and books from Anderson Press, Inc. ("Anderson Press"). During fiscal 2007, purchases from Anderson Press totaled \$1,423,000. The Company purchases gifts and cards from C.R. Gibson. Purchases from C.R.

Gibson totaled \$447,000 during fiscal 2007. The Company utilizes Anco Far East Importers, LTD ("Anco Far East") to assist in purchasing and importing certain gift items. The total cash paid to Anco Far East for fiscal 2007 was \$2,391,000, which primarily consisted of the actual cost of product, but also included fees for sourcing and consolidation services. All of the costs other than the sourcing and consolidation services fees, which totaled \$167,000 for fiscal 2007, were passed through from other vendors. The Company leases its principal executive offices from a trust established for the benefit of the grandchildren of Charles C. Anderson, Sr. The lease term is month to month. During fiscal 2007, the Company paid rent of \$137,000 to the trust under this lease. Anderson & Anderson, LLC ("A&A") leases three buildings to the Company. During fiscal 2007, the Company paid A&A a total of \$448,000 under such leases. In addition, the Company and A&A jointly own an airplane that is used by the Company in its business. The Company also rents the plane to other 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 2007 was \$388,000. In addition, the Company paid amounts to other affiliated companies for the use of their planes in the amount of \$47,000. 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 the Board of Directors for Hibbett. During fiscal 2007, the Company received \$191,000 in rent payments from Hibbett.

EXECUTIVE OFFICER COMPENSATION

This section of the Proxy Statement discloses the compensation awarded, paid to or earned by, each individual who served as the Company's Principal Executive Officer or Principal Financial Officer during fiscal 2007 and the next two most highly compensated officers other than the Principal Executive Officer or Principal Financial Officer during fiscal 2007.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$)	Bonus (\$) (1)	Stock Awards (\$) (2)	Option Awards (3)	Non-Equity Incentive Plan Compensation (\$) (4)	All Other Compensation (\$) (5)	Total (\$)
Sandra B. Cochran President, Chief Executive Officer and Secretary (Principal Executive Officer)	2007	430,000	-	236,080	107,835	385,000	27,151(5)	1,186,066
Clyde B. Anderson Executive Chairman of the Board	2007	330,000	-	147,353	86,271	253,855	17,739(6)	835,218
Terrance G. Finley President of Merchandising Group	2007	290,000	-	176,019	53,921	209,429	16,949(7)	746,318
Douglas G. Markham Chief Financial Officer (Principal Financial Officer) (8)	2007	125,415	25,000	15,445	-	-	457(7)	166,317
Richard S. Wallington Chief Financial Officer (Principal Financial Officer) (8)	2007	190,000	-	47,618	21,571	126,855	8,439(7)	394,483

- (1) Bonus amounts were paid in conjunction with sign on and relocation bonuses.
- (2) The amounts included in the "Stock Awards" column represent the compensation cost that was recognized in fiscal 2007 related to non-option stock awards in accordance with Statement of Financial Accounting Standards No. 123R. The valuation assumptions used in determining such amounts are described in Note 5 to our consolidated financial statements included in our annual report on Form 10-K for the year ended February 3, 2007. Please see the "Grants of Plan Based Awards Table" for more information regarding stock awards that were granted in fiscal 2007.
- (3) There were no options granted in fiscal 2007. The amounts included in the "Option Awards" Column represent the compensation cost we recognized in fiscal year 2007 related to options granted in prior fiscal years determined in accordance with Statement of Financial Accounting Standards No. 123R.
- (4) Non-Equity Incentive Plan Compensation is composed entirely of the Company cash bonus program and is awarded for the prior year's accomplishments but paid in the current year. All goals are predetermined and measurable and are paid at the determination of the Compensation Committee.
- (5) All Other Compensation for fiscal 2007 includes (i) matching contributions by the Company to the Company's 401(k) savings plan of \$8,950 on behalf of Sandra B. Cochran, (ii) life insurance premiums of \$1,481 on behalf of Sandra B. Cochran, and (iii) transportation related benefits, which consist of personal use of Company aircraft and car allowance of \$6,500 for fiscal 2007. The estimated aggregate incremental cost to the Company for fiscal 2007 for personal use of Company aircraft by Sandra B. Cochran was \$10,220. The estimated aggregate incremental cost to the Company of personal use of the Company aircraft is calculated based on the average variable operating costs to the Company. Variable operating costs include fuel, maintenance, weather-monitoring, on-board catering, landing/ramp fees and other miscellaneous variable costs. The total annual variable costs are divided by the annual number of hours the Company aircraft flew to

derive an average variable cost per hour. This average variable cost per hour is then multiplied by the hours flown for personal use to derive the estimated aggregate incremental cost. Since the Company aircraft is used primarily for business travel, the methodology excludes fixed costs that do not change based on usage, such as pilots' and other employees' salaries, purchase costs of the aircraft and non-trip related hangar expenses. On certain occasions, an executive's spouse, other family member or guest may accompany the executive on a flight. No additional direct operating cost is incurred in such situations under the foregoing methodology.

- (6) All Other Compensation for fiscal 2007 includes (i) matching contributions by the Company to the Company's 401(k) savings plan of \$8,950 on behalf of Clyde B. Anderson, (ii) life insurance premiums of \$1,121 on behalf of Clyde B. Anderson and (iii) transportation related benefits, which consist of personal use of Company aircraft and car allowance of \$6,500 for fiscal 2007. The estimated aggregate incremental cost to the Company for fiscal 2007 for personal use of Company aircraft by Clyde B. Anderson was \$1,168. The estimated aggregate incremental cost to the Company was calculated in the same manner as for Sandra B. Cochran.
- (7) For fiscal 2007, the amounts shown include (i) matching contributions by the Company to the Company's 401(k) savings plan of \$8,950 and \$7,845 on behalf of Terrance G. Finley and Richard S. Wallington, respectively and (ii) life insurance premiums of \$1,498, \$594 and \$457 on behalf of each of Terrance G. Finley, Richard S. Wallington and Douglas G. Markham, respectively. In addition, Terrance G. Finley received a car allowance of 6,500 for fiscal 2007.
- (8) Douglas G. Markham replaced Richard S. Wallington as the Company's Principal Financial Officer effective July 5, 2006. Mr. Wallington continued to serve as an employee of the Company through the end of March 2007.

GRANTS OF PLAN-BASED AWARDS TABLE

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)			All Other Stock Awards: Number of Shares of Stock or Units (#)	Grant Date Fair Value of Stock Awards (2)
		Threshold (\$)	Target (\$)	Maximum (\$)		
Sandra B. Cochran	March 30, 2006	129,000	387,108	430,000	10,000 (3)	114,900
	March 30, 2006				30,000 (4)	334,700
	March 30, 2006				12,706 (5)	146,000
Clyde B. Anderson	March 30, 2006	84,150	252,520	280,500	8,000 (3)	91,920
	March 30, 2006				15,000 (4)	172,350
	March 30, 2006				12,706 (5)	146,000
Terrance G. Finley	March 30, 2006	73,950	221,912	246,500	6,500 (3)	74,685
	March 30, 2006				10,000 (4)	114,900
	March 30, 2006				12,706 (5)	146,000
Douglas G. Markham	July 5, 2006	32,250	96,750	107,500		
	July 14, 2006				7,500 (4)	121,350
Richard S. Wallington	March 30, 2006	42,750	128,286	142,500	2,250 (3)	25,852

- (1) Cash bonuses generally are paid pursuant to a program and goals 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 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.
- (2) The amounts set forth in the "Grant Date Fair Value of Stock Awards" column represent the full grant date fair value of our restricted stock awards as determined in accordance with Financial Accounting Standards No. 123R. The valuation assumptions used in determining such amounts are described in Note 5 to our consolidated financial statements included in our annual report on Form 10-K for the year ended February 3, 2007.
- (3) Upon achieving the requisite Company performance goals, our Compensation Committee is authorized to approve awards of restricted stock to the executive officers. Such awards each vest and all applicable restrictions lapse (i) with respect to 50% of the shares subject to the award on February 3, 2007, and (ii) with respect to 50% of the shares subject to the award on February 2, 2008, provided in each case that the executive remains continuously employed in active service by the Company through such date. The executives have all the rights of a stockholder with respect to shares subject to the award, including the right to vote the shares and to receive all dividends or other distributions paid or made with respect to the shares subject to the award.
- (4) The Board also awards restricted stock to executive officers each year on a fully discretionary basis. These discretionary awards generally vest with respect to 100% of the shares subject to the award on January 30, 2011, provided in each case that the executive remains continuously employed in active service by the Company through such date. The executives have all the rights of a stockholder with respect to shares subject to the award, including the right to vote the shares and to receive all dividends or other distributions paid or made with respect to the shares subject to the award.
- (5) Upon achieving requisite Company performance goals, the Compensation Committee is authorized to approve awards of restricted stock to the executive officers, in conjunction with the Executive Incentive Award Plan. Such awards each vest and all applicable restrictions with respect to 100% of the shares subject to the award on January 31, 2009, provided in each case that the executive remains continuously employed in active service by the Company through such date. The executives have all the rights of a stockholder with respect to shares subject to the award, including the right to vote the shares and to receive all dividends or other distributions paid or made with respect to the shares subject to the award.

EQUITY-RELATED INTERESTS
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 or 2007. 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.

OUTSTANDING EQUITY AWARDS AT FISCAL 2007 YEAR-END

The following table shows the outstanding awards representing potential amounts that may be received by the executive officers in the future, including such information as the amounts of the securities underlying exercisable and unexercisable options, and the market value of such potential amounts as of February 3, 2007. The table reflects the values of such awards based on the closing sale price of a share of Common Stock reported in the NASDAQ National Market on February 2, 2007 (the last trading day prior to the end of the Company's fiscal year) which was \$18.65.

Name	Option Awards			Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)
Sandra B. Cochran	16,667	6.47	January 30, 2014	67,485	1,258,595
Clyde B. Anderson	13,334	6.47	January 30, 2014	49,485	922,895
Terrance G. Finley	37,000	3.04	February 1, 2012	42,235	787,683
	37,000	2.367	January 31, 2013	-	-
	25,000	6.47	January 30, 2014	-	-
Douglas G. Markham	-	-	-	7,500	139,875
Richard S. Wallington	3,334	6.47	July 7, 2007	6,707	125,086

FISCAL 2007 OPTION EXERCISES AND STOCK VESTED

The following table shows the amounts received upon exercise of options and the vesting of restricted stock during fiscal year 2007. The table reflects the values of stock awards based on the closing sale price of a share of Common Stock reported in the NASDAQ National Market on February 2, 2007 (the last trading day prior to the end of the Company's fiscal year) which was \$18.65.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Sandra B. Cochran	202,833	2,488,892	27,764	517,799
Clyde B. Anderson	26,500	470,788	4,000	74,600
Terrance G. Finley	50,000	711,575	26,014	485,161
Douglas G. Markham	-	-	-	-
Richard S. Wallington	51,666	788,419	2,250	41,963

DIRECTORS COMPENSATION TABLE

The following table presents the total compensation of the Company's directors for Fiscal 2007. The amounts included in the "Stock Awards" column represents the compensation cost that was recognized in fiscal 2007 related to non-option stock awards determined in accordance with FAS 123R. The valuation assumptions used in determining such amounts are described in Note 5 to our consolidated financial statements included in our annual report on Form 10-k for the year ended February 3, 2007.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Total (\$)
Terrance Anderson	35,000	32,000	67,000
Ronald Bruno	46,000	32,000	78,000
Albert C. Johnson	46,000	-	46,000
J. Barry Mason	47,000	32,000	79,000
William Rogers	43,000	32,000	75,000

Compensation of Directors. The Board utilizes the services of an outside human resources consulting firm to periodically analyze the compensation of directors at various peer companies as compared with the compensation of the 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 and Corporate Governance 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 as well as reimbursement of all out-of-pocket expenses incurred in attending such meetings. On March 29, 2007 the Compensation Committee approved changes in Non-Employee Director compensation effective with fiscal 2008. Pursuant to these changes, the Chairman of the Audit Committee will receive an additional annual retainer fee of \$7,500 and the Chairman of the Compensation Committee will receive an additional annual retainer fee of \$2,500.

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 an "Initial Award" of 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 a "Continuing Award" of 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 such Non-Employee Director's termination as a director shall there upon be forfeited immediately and without any further action by the company. On March 29, 2007 the Compensation Committee approved a change in Non-Employee Director compensation effective with fiscal 2008. Pursuant to these changes, initial awards will be increased to 3,750 shares of Common Stock and Continuing Awards will increase to 2,500 shares of Common Stock. Continuing awards for Non-Employee Directors will be effective on the date of the year-end Compensation Committee meeting.

Director's 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 selected by the participant.

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.

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 and 2007 fiscal years. 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 2007 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 2007 (which is not part of the Company's proxy soliciting material) is being mailed to the Company's stockholders with this proxy statement.

BOOKS·A·MILLION®

402 Industrial Lane
Birmingham, Alabama 35211
www.booksamillioninc.com