



BOOKS·A·MILLION

To Our Stockholders:

Fiscal 2000 was a very successful year for Books-A-Million. Net sales once again reached record levels as we crossed the \$400 million threshold, and comparable store sales increased 8.2%.

Net sales for the 52-weeks ended January 29, 2000, increased 16.1% to a record \$404.1 million. Earnings before interest, taxes and depreciation increased 11.9% to \$27.6 million for fiscal 2000. Net income for the year was \$5.9 million, or \$0.33 per diluted share, compared with \$4.5 million, or \$0.26 per diluted share, a year ago.

Our balance sheet remains strong and continues to offer flexibility for growth. Stockholders' equity rose to \$121.4 million and long-term debt was down \$1.0 million from the prior year to \$35.9 million. The Company's total debt was 23.1% of total capitalization. Capital expenditures were \$13.5 million in fiscal 2000, the majority of which was spent on new store construction. At year-end we were operating 180 bookstores in 17 states.

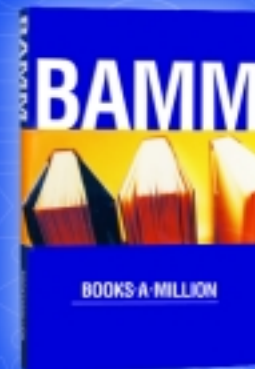
This year, we've made our annual report available on the Internet at our new corporate website. We hope you will visit us at www.booksamillioninc.com. You will find a number of helpful links and features there, including a store finder. We invite you to visit one of our stores soon and to shop our Internet store at www.booksamillion.com.

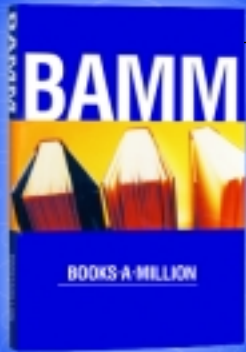
Fiscal 2000 will be a good benchmark as we proceed into the 21st century. We hope to continue our upward progress in store growth, financial results and profitability, and thank our stockholders, associates and customers for your loyalty and support.

Sincerely,



Clyde B. Anderson
Chairman and Chief Executive Officer





Books-A-Million /

Our Books-A-Million Superstore business had a great year. Our comparable store sales results were outstanding. We were very pleased with our holiday sales driven by a strong lineup of books and our ability to exploit the opportunities presented by interest in the millennium and the Pokémon phenomenon. Our Testament Shop department was a standout as well, led by the popularity of the Left Behind series in Christian fiction. We also opened 12 new stores in six states ranging from Katy, Texas, to Kokomo, Indiana.

Our plans for this year include the installation of new technology in all our superstores that will bring the power of the Internet to our customer service area. The goal is to empower our associates to give the highest level of service possible in an extremely competitive environment.

The Books-A-Million brand has grown to become a powerful asset that contributes to the growth and success of all of our business units.



Bookland /

Our Bookland division remains among our most profitable divisions. The 43 mostly mall-based stores achieved strong comparable store sales results for the fiscal year. Bookland stores, along with being profitable, have also proven to be valuable as we look for smaller market opportunities for expansion of our Books-A-Million brand. Our Cullman, Alabama experience provides an excellent example. We were able to enter the market with the Books-A-Million brand after it was well developed by a successful Bookland store. Our staff and customers made the transition seamlessly and we were rewarded with tremendous community acceptance and excellent sales growth.



Joe Muggs /

The Joe Muggs brand has grown to become both a tremendous asset in our Books-A-Million stores and as a vehicle for growth in new areas. The Joe Muggs Cafés had a great year. We made significant strides in training, product presentation, marketing and operations. It paid off in strong comparable store sales that built on the consistent growth trend we have seen since launching the concept. We have also begun to exploit the brand in exciting new ways. We continue to be encouraged about our newsstand concept. The Atlanta store has been an unqualified success and was recently named Best Newsstand in Atlanta by the readers of Atlanta Magazine. Our comparable store sales have been strong and we have worked to fine tune the model in anticipation of the continued rollout of this innovative café-magazine superstore concept. Our web development team also launched Joemuggs.com offering our coffee and related products online.

/ NetCentral

NetCentral, Inc. is our web development and services company based in Nashville, Tennessee. Along with providing development services to Booksamillion.com, the Company also serves a growing roster of outside clients. Starting with a modest staff after the acquisition in January of 1999 the Company has grown to a team of talented programmers, network specialists and web designers. The Company has developed a proprietary e-commerce platform which it licenses, as well as offering a suite of services including site development, web hosting and technical services. NetCentral has designed over 100 websites and currently provides hosting services for over 30 websites. A key priority for fiscal 2001 is the design of Books-A-Million's web based customer service system.



/ Booksamillion.com

Our Internet efforts started the year strong and finished stronger. Booksamillion.com is, not surprisingly, the fastest growing division in the company. We made significant improvements to our site throughout the year to enhance our customer's experience. Among the features we added were electronic and paper gift certificates, an improved customer "wallet", expanded gift options, improved searching capabilities and an innovative business-to-business functionality. Our emphasis on customer service remains core to our philosophy and we invested in people and technology to insure we continue to lead in this area. Behind the scenes we vastly improved our reporting tools, our customer service interface, and our site management capabilities. We are planning for continued aggressive growth in both sales and customers at Booksamillion.com and are committed to remaining competitive in this very competitive arena.



/ AWBC

This was a year of tremendous growth for our wholesale division. We invested significantly in the infrastructure to support our growing e-commerce fulfillment business and greatly expanded our title base. Our preparations for the holiday season assured timely fulfillment of our Internet customer's orders. In January we began fulfilling orders for Wal-Mart's e-commerce division. AWBC is based in Florence, Alabama. The Company's state of the art facility serves a broad range of customer types from retail bookstores, to warehouse clubs, department stores, and e-commerce companies. We see continued growth opportunities in each of these segments fueled by the integration of our retail expertise, wholesale capabilities and systems development experience.



General

The Company was founded in 1917 and currently operates 180 retail bookstores, including 135 superstores, concentrated in the southeastern United States.

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

Results of Operations

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

	Fiscal Year Ended		
	1/29/00	1/30/99	1/31/98
Net sales	100.0%	100.0%	100.0%
Gross profit	26.6%	26.2%	26.6%
Operating, selling and administrative expenses	19.8%	19.1%	18.2%
Depreciation and amortization	3.4%	3.7%	3.6%
Operating profit	3.4%	3.4%	4.8%
Interest expense, net	1.0%	1.3%	1.3%
Income before income taxes	2.4%	2.1%	3.5%
Provision for income taxes	0.9%	0.8%	1.3%
Net income	1.5%	1.3%	2.2%

Fiscal 2000 Compared to Fiscal 1999

Net sales increased \$56.2 million, or 16.1%, to \$404.1 million in fiscal 2000 from \$347.9 million in fiscal 1999. Comparable store sales increased 8.2% for fiscal year 2000. The increase in net sales resulted from net sales generated by 12 new stores opened during fiscal 2000, and 11 new stores opened in the second half of fiscal 1999. In addition, the Company closed five underperforming stores in fiscal 2000.

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

Gross profit increased \$16.6 million, or 18.3%, to \$107.7 million in fiscal 2000 from \$91.1 million in fiscal 1999. Gross profit as a percentage of net sales increased to 26.6% in fiscal 2000 from 26.2% in fiscal 1999, primarily due to decreased occupancy costs and lower warehouse distribution costs as a percentage of net sales.

Operating, selling and administrative expenses increased \$13.7 million, or 20.7%, to \$80.1 million in fiscal 2000, from \$66.4 million in fiscal 1999. Operating, selling and administrative expenses as a percentage of net sales increased to 19.8% in fiscal 2000 from 19.1% in fiscal 1999, primarily due to costs incurred related to the development of new business opportunities.

Depreciation and amortization increased \$0.8 million, or 6.6%, to \$13.8 million in fiscal 2000 from \$13.0 million in fiscal 1999. Depreciation and amortization as a percentage of net sales decreased to 3.4% in fiscal 2000 from 3.7% in fiscal 1999, primarily the result of lower capital expenditures due to fewer stores opened in fiscal 2000 than in the previous year.

Net interest expense was relatively constant with last year at \$4.2 million in fiscal 2000 versus net interest expense of \$4.4 million in fiscal 1999.

Fiscal 1999 Compared to Fiscal 1998

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

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

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

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

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

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

Seasonality and Quarterly Results

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

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

Liquidity and Capital Resources

The Company has a revolving credit facility that allows borrowings up to \$90.0 million, for which no principal repayments are due until the facility expires on June 18, 2003, and an unsecured working capital line of credit for \$10.0 million, which is subject to annual renewal. As of January 29, 2000, \$27.5 million was outstanding under these facilities combined. Additionally, as of January 29, 2000, the Company has outstanding borrowings associated with the issuance of an industrial revenue bond totaling \$7.5 million.

The Company's capital expenditures totaled \$13.5 million in fiscal 2000. These expenditures were primarily used to open new stores, perform renovations and make improvements to existing stores, and investments in management information systems. Management estimates that capital expenditures for fiscal 2001 will be approximately \$19.3 million and that such amounts will be used primarily for new stores, renovation and improvements to existing stores, expansion of existing warehouse facilities, and investments in management information systems. Management believes that existing cash balances and net cash from operating activities, together with borrowings under the Company's credit facilities, will be adequate to finance the Company's planned capital expenditures and to meet the Company's working capital requirements for fiscal 2001.

Related Party Activities

As discussed in Note 6 of Notes to Consolidated Financial Statements, the Company conducts business with other entities in which certain officers, directors and principal stockholders of the Company have controlling ownership interests. The most significant

related party transactions include inventory purchases from, and sales to, related parties. Related party inventory purchases decreased in fiscal 2000 due to lower related party magazine purchases. Related party sales transactions also decreased in fiscal 2000 due to lower related party bargain book sales. Management believes the terms of these related party transactions are substantially equivalent to those available from unrelated parties and, therefore, have no significant impact on gross profit.

Financial Position

During fiscal 2000, the Company opened 12 new superstores. The store openings resulted in increased inventory and property and equipment balances at January 29, 2000, as compared to January 30, 1999.

Year 2000 Compliance

During fiscal 2000, the Company evaluated, remediated and tested its systems in order to become Year 2000 compliant. The total costs incurred in fiscal 2000, to meet this objective, totaled \$496,000. To date, the Company is unaware of any Year 2000 compliance issues for the Company, its key suppliers and its key business services partners.

Consolidated Balance Sheets /

	As of	
	1/29/00	1/30/99
<i>(Dollars in thousands)</i>		
ASSETS		
Current Assets:		
Cash and temporary cash investments	\$ 4,920	\$ 4,322
Accounts receivable, net of allowance for doubtful accounts of \$1,489 and \$939, respectively	8,781	12,282
Related party receivables	4,161	3,998
Inventories	194,624	175,211
Prepayments and other	3,339	2,938
Deferred income taxes	5,084	3,715
Total Current Assets	220,909	202,466
Property and Equipment:		
Land	628	628
Buildings	5,442	7,142
Equipment	40,646	33,087
Furniture and fixtures	35,904	34,416
Leasehold improvements	42,235	41,434
Construction in process	599	299
	125,454	117,006
Less accumulated depreciation and amortization	61,222	49,629
Net Property and Equipment	64,232	67,377
Other Assets:		
Goodwill, net	1,453	1,495
Other	191	213
Total Other Assets	1,644	1,708
Total Assets	\$ 286,785	\$ 271,551
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
Current Liabilities:		
Accounts payable:		
Trade	\$ 94,090	\$ 92,176
Related party	9,415	9,014
Accrued income taxes	2,092	476
Accrued expenses	20,970	16,778
Current portion of long-term debt	470	0
Total Current Liabilities	127,037	118,444
Long-term Debt	35,936	36,944
Deferred Income Taxes	2,407	1,141
Commitments and Contingencies	-	-
Stockholders' Investment:		
Preferred stock, \$.01 par value; 1,000,000 shares authorized, no shares outstanding		
Common stock, \$.01 par value; 30,000,000 shares authorized, 18,080,646 and 18,016,525 shares issued and outstanding at January 29, 2000 and January 30, 1999, respectively	181	180
Additional paid-in capital	70,564	70,124
Treasury stock at cost (81,600 shares at January 29, 2000 and January 30, 1999)	(252)	(252)
Retained earnings	50,912	44,970
Total Stockholders' Investment	121,405	115,022
Total Liabilities and Stockholders' Investment	\$ 286,785	\$ 271,551

/ Consolidated Statements of Operations

<i>(In thousands, except per share data)</i>	Fiscal Year Ended		
	1/29/00	1/30/99	1/31/98
Net sales	\$ 404,057	\$ 347,877	\$ 324,762
Cost of products sold, including warehouse distribution and store occupancy costs ⁽¹⁾	296,316	256,793	238,342
Gross profit	107,741	91,084	86,420
Operating, selling and administrative expenses	80,117	66,394	59,260
Depreciation and amortization	13,830	12,974	11,588
Operating profit	13,794	11,716	15,572
Interest expense, net	4,211	4,435	4,331
Income before income taxes	9,583	7,281	11,241
Provision for income taxes	3,641	2,767	4,272
Net income	\$ 5,942	\$ 4,514	\$ 6,969
Weighted average number of shares outstanding - basic	17,981	17,497	17,425
Net income per share - basic	\$ 0.33	\$ 0.26	\$ 0.40
Weighted average number of shares outstanding - diluted	18,250	17,554	17,428
Net income per share - diluted	\$ 0.33	\$ 0.26	\$ 0.40

⁽¹⁾ Inventory purchases from related parties were \$34,548, \$36,836 and \$32,303, respectively, for the periods presented above.

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

Consolidated Statements of Stockholders' Investment

<i>(In thousands)</i>	Common Stock		Additional Paid-In Capital	Treasury Stock		Retained Earnings
	Shares	Amount		Shares	Amount	
Balance, February 1, 1997	17,409	\$ 174	\$ 62,829	–	\$ –	\$ 33,417
Net income	–	–	–	–	–	6,969
Issuance of stock for employee stock purchase plan	19	–	96	–	–	–
Balance, January 31, 1998	17,428	174	62,925	–	–	40,386
Net income	–	–	–	–	–	4,514
Issuance of stock for employee stock purchase plan	16	–	78	–	–	–
Purchase of treasury stock	–	–	–	82	(252)	–
Exercise of stock options	461	5	4,132	–	–	–
Tax benefit from exercise of stock options	–	–	2,333	–	–	–
Issuance of stock for acquisition accounted for as pooling of interests	112	1	2	–	–	70
Contributions from certain stockholders	–	–	1,054	–	–	–
Tax provision for contributions from certain stockholders	–	–	(400)	–	–	–
Balance, January 30, 1999	18,017	180	70,124	82	(252)	44,970
Net income	–	–	–	–	–	5,942
Issuance of stock for employee stock purchase plan	16	–	77	–	–	–
Exercise of stock options	48	1	306	–	–	–
Tax benefit from exercise of stock options	–	–	57	–	–	–
Balance, January 29, 2000	18,081	\$ 181	\$ 70,564	82	\$ (252)	\$ 50,912

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

/ Consolidated Statements of Cash Flows

<i>(Dollars in thousands)</i>	Fiscal Year Ended		
	1/29/00	1/30/99	1/31/98
Cash Flows from Operating Activities:			
Net income	\$ 5,942	\$ 4,514	\$ 6,969
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	13,830	12,974	11,588
(Gain) loss on sale of property	1,156	(472)	44
Deferred income tax provision, net	(103)	(912)	(97)
(Increase) decrease in assets:			
Accounts receivable, net	3,501	(550)	1,466
Related party receivables	(163)	3,561	(1,705)
Inventories	(19,413)	(23,899)	(9,882)
Prepayments and other	(444)	(2,223)	(214)
Increase (decrease) in liabilities:			
Accounts payable	2,315	22,258	(2,465)
Accrued income taxes	1,673	(321)	769
Accrued expenses	4,178	2,817	(718)
Total adjustments	6,530	13,233	(1,214)
Net cash provided by operating activities	12,472	17,747	5,755
Cash Flows from Investing Activities:			
Proceeds from sale of property and equipment	1,742	1,627	42
Capital expenditures	(13,462)	(15,682)	(14,355)
Net cash used in investing activities	(11,720)	(14,055)	(14,313)
Cash Flows from Financing Activities:			
Proceeds from exercise of stock options and purchase of shares under employee stock purchase plan	384	4,215	96
Contributions from certain stockholders	–	1,054	–
Purchase of treasury stock	–	(252)	–
Issuance of notes payable	1,409	–	–
Borrowings under credit facilities	169,103	153,475	152,296
Repayments under credit facilities	(171,050)	(161,771)	(144,701)
Net cash provided by (used in) financing activities	(154)	(3,279)	7,691
Net Increase (Decrease) in Cash and Temporary Cash Investments	598	413	(867)
Cash and Temporary Cash Investments at Beginning of Year	4,322	3,909	4,776
Cash and Temporary Cash Investments at End of Year	\$ 4,920	\$ 4,322	\$ 3,909
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the year for:			
Interest	\$ 4,318	\$ 4,625	\$ 4,276
Income taxes, net of refunds	\$ 1,882	\$ 4,026	\$ 4,023

The accompanying notes are an integral part of these consolidated 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 180 bookstores in 17 states, which are predominantly located in the southeastern United States. The Company also serves as a wholesale book distributor for certain other retailers and wholesalers and operates an internet business. The Company presently consists of Books-A-Million, Inc., and its wholly owned subsidiaries, American Wholesale Book Company, Inc. ("American Wholesale"), American Internet Services, Inc. and NetCentral, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

Basis of Presentation

The Company operates on a 52-53 week year, with the fiscal year ending on the Saturday closest to January 31. Fiscal years 2000, 1999 and 1998 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 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Inventories

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

Property and Equipment

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

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

Goodwill

The Company amortizes goodwill on a straight-line basis over 40 years. As of January 29, 2000 and January 30, 1999, accumulated amortization of goodwill was \$252,000 and \$210,000, respectively. The Company continually evaluates whether events or

circumstances have occurred that indicate the remaining estimated useful life of goodwill may warrant revision or that the remaining balance of goodwill may not be recoverable. When factors indicate that goodwill should be evaluated for possible impairment, the Company uses an estimate of the related operating profits over the remaining life of the goodwill in measuring recoverability.

Store Opening Costs

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

Insurance Accruals

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

Income Taxes

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

Statements of Cash Flows

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

Earnings Per Share

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

	Fiscal Year Ended		
<i>(In thousands)</i>	1/29/00	1/30/99	1/31/98
Weighted average shares outstanding:			
Basic	17,981	17,497	17,425
Dilutive effect of stock options outstanding	269	57	3
Diluted	18,250	17,554	17,428

Options outstanding of 464,000, 619,000 and 1,557,000 for the years ended January 29, 2000, January 30, 1999 and January 31, 1998, respectively, were not included in the table above as they were anti-dilutive.

Disclosure of Fair Value of Financial Instruments

Statement of Financial Accounting Standards ("SFAS") No. 107, Disclosure About Fair Value of Financial Instruments, requires all businesses to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized on the balance sheet, for which it is practicable to estimate fair value. Based upon their remaining term to maturity and the current interest environment, the estimated fair values of the Company's financial instruments recognized on the balance sheet at January 29, 2000 and January 30, 1999 approximate their carrying values at those dates. The Company maintains an interest rate swap agreement which fixes the interest rate for a portion of its variable rate debt. If this swap agreement had been terminated as of January 29, 2000 the Company would have recognized a \$1,100,000 benefit.

Legal

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

New Accounting Standards

In March 1998, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position ("SOP") 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. This statement requires capitalization of certain costs of internal-use software. This statement was adopted in fiscal 2000 and did not have a significant impact on the Company's financial statements.

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. In June 1999, the FASB issued SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133, which amends FASB Statement No. 133 to be effective for all fiscal years beginning after June 15, 2000 (January 1, 2001 for companies with calendar-year fiscal years). This statement is not expected to have a material effect on the Company's consolidated financial statements.

The AICPA has issued SOP 98-5, Reporting on the Costs of Start-up Activities. This statement provides guidance on the financial reporting of start-up costs and organization costs, and requires these costs to be expensed as incurred. The new rules were adopted in fiscal 2000 and did not have a significant impact on the Company's financial statements.

Business Combination

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

Contributions from Certain Stockholders

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

Prior Year Reclassifications

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

2. Income Taxes

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

	Fiscal Year Ended		
	1/29/00	1/30/99	1/31/98
Current:			
Federal	\$ 3,448	\$ 3,337	\$ 3,831
State	296	342	538
	3,744	3,679	4,369
Deferred taxes arising from:			
Depreciation	1,270	(321)	61
Accruals	(522)	(443)	4
Inventory	(113)	25	(181)
Other	(738)	(173)	19
	(103)	(912)	(97)
Provision for income taxes	\$ 3,641	\$ 2,767	\$ 4,272

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

	Fiscal Year Ended		
	1/29/00	1/30/99	1/31/98
Federal statutory income tax rate	34.0%	34.0%	34.0%
State income tax provision	2.8%	3.1%	3.2%
Other	1.2%	0.9%	0.8%
Effective income tax rate	38.0%	38.0%	38.0%

Temporary differences which created deferred tax assets and liabilities at January 29, 2000 and January 30, 1999, are detailed below (*dollars in thousands*):

	As of 1/29/00		As of 1/30/99	
	Current	Noncurrent	Current	Noncurrent
Depreciation	\$ –	\$ (2,275)	\$ –	\$ (1,005)
Accruals	3,136	–	2,614	–
Inventory	878	–	765	–
Other	1,070	(132)	336	(136)
Deferred tax asset (liability)	\$ 5,084	\$ (2,407)	\$ 3,715	\$ (1,141)

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

3. Debt and Lines of Credit

The Company has a revolving credit facility that allows borrowings up to \$90 million for which no principal repayments are due until the facility expires on June 18, 2003, and an unsecured working capital line of credit for \$10 million, which is subject to annual renewal. Both credit facilities have certain financial and non-financial covenants with which the Company is in compliance. As of January 29, 2000 and January 30, 1999, \$27.5 million and \$29.4 million, respectively, were outstanding under these credit facilities. The maximum and average outstanding balances during fiscal 2000 were \$74.6 million and \$61.6 million, respectively. The outstanding borrowings as of January 29, 2000, had interest rates ranging from 6.31% to 6.82%.

The Company is subject to interest rate fluctuations involving its credit facilities. However, the Company uses both fixed and variable debt to manage this exposure. On February 9, 1998, the company entered into an interest rate swap agreement with a five year term which carries a notional principal amount of \$ 30.0 million. The swap effectively fixes the interest rate on \$ 30.0 million of variable rate debt at 6.78%. The swap agreement expires on February 9, 2003. The counter party to the interest rate swap is one of the Company's primary banks. The Company believes the credit and liquidity risk of the counter party failing to meet its obligation is remote as the Company settles its interest position with the bank on a quarterly basis.

During fiscal 1996 and fiscal 1995, the Company financed the acquisition and construction of certain warehouse and distribution facilities through loans, obtained from the proceeds of an industrial development revenue bond (the "Bond"), which are secured by a mortgage interest in

these facilities. As of January 29, 2000 and January 30, 1999, there were \$7.5 million of borrowings outstanding under these arrangements, at variable rates. The Bond has a maturity date of December 1, 2019, with a purchase provision obligating the Company to repurchase the Bond on May 11, 2004, unless extended by the bondholder. Such an extension may be renewed annually by the bondholder, at the Company's request, to a date no more than five years from the renewal date.

4. Leases

The Company leases the premises for its retail bookstores under operating leases, which expire in various years through the year 2012. Many of these leases contain renewal options and require the Company to pay executory costs (such as property taxes, maintenance, and insurance). In addition to fixed minimum rentals, some of the Company's leases require contingent rentals based on a percentage of sales, which the Company records throughout the year based upon best available information.

The Company also leases certain office, warehouse and retail store space from related parties. Rental expense under these leases was approximately \$674,000, \$624,000 and \$411,000 in fiscal 2000, 1999 and 1998, respectively. Total minimum future rental payments under these leases are \$689,000.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of January 29, 2000, are as follows (*in thousands*):

Fiscal Year	
2001	\$ 23,278
2002	21,366
2003	19,502
2004	16,559
2005	16,853
Subsequent years	<u>46,732</u>
Total	<u>\$ 144,290</u>

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

	Fiscal Year Ended		
	1/29/00	1/30/99	1/31/98
Minimum rentals	\$ 23,458	\$ 21,151	\$18,171
Contingent rentals	596	425	690
Total	<u>\$ 24,054</u>	<u>\$ 21,576</u>	<u>\$18,861</u>

5. Employee Benefit Plans

401(k) Profit-Sharing Plan

The Company and its subsidiaries maintain a 401(k) plan covering all employees who have completed 12 months of service and who are at least 21 years of age, and permit participants to contribute from 2% to 15% of compensation to the plan. Company matching and supplemental contributions are made at management's discretion. The expense under this plan was \$554,000, \$333,000 and \$238,000 in fiscal 2000, 1999 and 1998, respectively.

Stock Option Plan

The Company maintains a stock option plan reserving 3,300,000 shares of the Company's common stock for grants to executive officers, directors, and key employees. Options granted generally vest over a five-year period, expire on the sixth anniversary of the grant date, and have exercise prices generally equal to the fair market value of the common stock on the date of grant. A summary of the status of the Company's stock option plan is as follows:

	Fiscal Year Ended					
	January 29, 2000		January 30, 1999		January 31, 1998	
	Weighted Average Exercise Shares	Price	Weighted Average Exercise Shares	Price	Weighted Average Exercise Shares	Price
Outstanding at beginning of year	1,335,400	\$ 8.25	1,571,130	\$ 7.57	1,164,060	\$ 8.32
Granted	636,550	8.21	431,850	10.83	458,250	5.80
Exercised	(49,160)	6.31	(460,550)	8.98	–	–
Forfeited	(355,940)	8.44	(207,030)	7.25	(51,180)	9.20
Outstanding at end of year	1,566,850	\$ 8.20	1,335,400	\$ 8.25	1,571,130	\$ 7.57
Exercisable at end of year	363,400	\$ 8.62	315,280	\$ 8.58	573,448	\$ 8.86
Weighted average fair value of options granted		\$ 7.33		\$ 9.30		\$ 2.89

During fiscal years 2000, 1999 and 1998, the Company recognized tax benefits related to the exercise of stock options in the amount of \$57,000, \$2,333,000 and \$0, respectively. The tax benefits were credited to paid-in capital in the respective years.

The following table summarizes information about stock options outstanding at January 29, 2000:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding at January 29, 2000	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at January 29, 2000	Weighted Average Exercise Price
\$ 4.44 - \$10.00	1,202,500	4.49	\$ 7.17	228,650	\$ 6.19
\$10.00 - \$16.88	364,350	3.99	\$ 11.73	134,750	\$ 12.75

In October 1995, the FASB issued SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123 established financial accounting and reporting standards for stock-based compensation and for transactions in which an entity issues its equity instruments to acquire goods and services for non-employees. In accordance with SFAS No. 123, the Company continues to account for and record compensation expense under APB No. 25. However, the Company adopted the disclosure only provisions of SFAS No. 123, as

required. If the Company had recorded compensation expense in accordance with SFAS No. 123 under the fair value based method, the Company's net income and net income per share would have been as indicated below:

<i>(In thousands except per share data)</i>	Fiscal Year Ended		
	1/29/00	1/30/99	1/31/98
Net income-as reported	\$ 5,942	\$ 4,514	\$ 6,969
Net income-pro forma	5,307	4,257	6,788
Net income per share-diluted, as reported	0.33	0.26	0.40
Net income per share-diluted, pro forma	0.29	0.24	0.39

For the purposes of the foregoing calculation, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The assumptions used in connection with this model show no expected dividend yield, a five-year expected life of the options, and an expected stock price volatility rate of 1.37 with risk-free interest rates ranging from 5.10% to 6.65%.

Employee Stock Purchase Plan

The Company maintains an employee stock purchase plan under which 200,000 shares of the Company's common stock are reserved for purchase by employees at 85% of the fair market value of the common stock. The reserve was increased to 200,000 shares at the fiscal 1999 annual meeting of the stockholders from 100,000 shares. Of the total reserved shares, 79,059 shares have been purchased as of January 29, 2000.

6. Related Party Transactions

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

The Company purchases a portion of its inventories for resale from related parties; such purchases amounted to \$34,548,000, \$36,836,000 and \$32,303,000 in fiscal 2000, 1999 and 1998, respectively. The Company sells a portion of its inventories to related parties; such sales amounted to \$2,841,000, \$5,301,000 and \$10,273,000 in fiscal 2000, 1999 and 1998, respectively. The Company also purchases logistics services from a related party that amounted to \$445,000, \$128,000 and \$0 in fiscal 2000, 1999 and 1998, respectively.

To Books-A-Million, Inc.:

We have audited the accompanying consolidated balance sheets of Books-A-Million, Inc. (a Delaware corporation), and its subsidiaries as of January 29, 2000, and January 30, 1999, and the related consolidated statements of operations, stockholders' investment, and cash flows for each of the three fiscal years in the period ended January 29, 2000. 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 generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Books-A-Million, Inc. and its subsidiaries as of January 29, 2000, and January 30, 1999, and the results of their operations and their cash flows for each of the three fiscal years in the period ended January 29, 2000, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Birmingham, Alabama

March 14, 2000

Summary of Quarterly Results (Unaudited) /

	Fiscal Year Ended January 29, 2000				Total
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	
<i>(In thousands, except per share data)</i>					
Net sales	\$ 85,127	\$ 89,878	\$ 91,162	\$ 137,890	\$ 404,057
Gross profit	22,357	23,364	22,081	39,939	107,741
Operating profit	1,517	1,196	(319)	11,400	13,794
Net income (loss)	310	19	(924)	6,537	5,942
Net income (loss) per share - basic	0.02	0.00	(0.05)	0.36	0.33
Net income (loss) per share -diluted	0.02	0.00	(0.05)	0.36	0.33

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

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

Board of Directors

Clyde B. Anderson
*Chairman of the Board
And Chief Executive Officer*

Charles C. Anderson
Director and Retired Chairman

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

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

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

Corporate Officers

Clyde B. Anderson
*Chairman of the Board
And Chief Executive Officer*

Sandra B. Cochran
President and Secretary

Terrance G. Finley
*President,
Booksamillion.com*

Richard S. Wallington
Chief Financial Officer

Corporate Office

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402 Industrial Lane
Birmingham, Alabama 35211
(205) 942-3737

Transfer Agent

Bank of New York
1-800-524-4458

Stockholder Inquiries:

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Church Street Station
New York, NY 10286
E-Mail address: shareowner-svcs@bankofny.com
Bank of New York's Stock Transfer Website:
<http://stock.bankofny.com>

Certificates for Transfer and Address Changes to:

Receive and Deliver Department - 11W
P.O. Box 11002
Church Street Station
New York, NY 10286

Independent Public Accountants

Arthur Andersen LLP
Birmingham, Alabama

Form 10-K and Investor Contact

A copy of the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2000, as filed with the Securities and Exchange Commission is available without charge to stockholders upon written request. Such requests and other investor inquiries should be directed to Richard S. Wallington, the Company's Chief Financial Officer, or you can view the Company's Annual Report 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 BAMM. The chart below sets forth the high and low stock prices for each quarter of the fiscal years ending January 29, 2000, and January 30, 1999.

Quarter Ended	High	Low
January, 2000	\$ 12	\$ 7 ⁵ / ₈
October, 1999	12 ³ / ₁₆	7 ¹ / ₂
July, 1999	16 ⁵ / ₈	7
April, 1999	17	8
January, 1999	47	2 ¹¹ / ₁₆
October, 1998	5	2 ¹ / ₄
July, 1998	7 ¹ / ₂	4 ¹ / ₈
April, 1998	6 ⁵ / ₈	5 ¹ / ₃₂

The closing price on April 17, 2000, was \$4.50. No cash dividends have been declared since completion of the Company's initial public offering. As of April 17, 2000, Books-A-Million, Inc., had approximately 19,200 stockholders based on the number of individual participants represented by security position listings.

Annual Meeting of Stockholders

The annual meeting of stockholders will be held on June 6, 2000, at 10:00 a.m. central time at The Harbert Center, 2019 Fourth Avenue North, Birmingham, Alabama 35203. Stockholders of record as of April 17, 2000, are invited to attend this meeting.

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