

BOOKS A MILLION INC
Form 10-K
April 19, 2007
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended February 3, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE
REQUIRED]

For the transition period from _____ to _____

Commission File No. **0-20664**

BOOKS-A-MILLION, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

63-0798460
(IRS Employer
Identification No.)

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402 Industrial Lane
Birmingham, Alabama
(Address of principal executive offices)

35211
(Zip Code)

Registrant's telephone number, including area code: **(205) 942-3737**

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

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

Common Stock, par value \$.01 per share

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements

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incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The aggregate market value of the voting stock held by non-affiliates of the Registrant (assuming for these purposes, but without conceding, that all executive officers and directors are "affiliates" of the Registrant) as of

July 28, 2006 (based on the closing sale price as reported on the NASDAQ National Market on such date), was \$119,846,926.

The number of shares outstanding of the Registrant's Common Stock as of March 30, 2007 was 16,638,477.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Stockholders for the fiscal year ended February 3, 2007 are incorporated by reference into Parts I and II of this report.

Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on May 29, 2007 are incorporated by reference into Part III of this report.

BOOKS-A-MILLION, INC. AND SUBSIDIARIES

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PART I

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

This document contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, that involve a number of risks and uncertainties. A number of factors could cause the actual results, performance or, achievements of Books-A-Million, Inc. the Company, or the results of its industry 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 initiative; 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 obligations to update any such factors or to publicly announce the results of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

ITEM 1. BUSINESS

General

Books-A-Million, Inc. is a leading book retailer in the southeastern United States. The Company was founded in 1917 and operates both superstores and traditional bookstores. Superstores, the first of which was opened in 1987, range in size from 8,000 to 36,000 square feet and operate under the names "Books-A-Million" and Books and Co. Traditional bookstores are smaller stores operated under the names Bookland, and Books-A-Million. These stores range in size from 2,000 to 7,000 square feet and are located primarily in enclosed malls. All store formats generally offer an extensive selection of best sellers and other hardcover and paperback books, magazines, and newspapers. In addition to the retail store formats, we offer our products over the Internet at *Booksamillion.com*.

We were founded in 1917, originally incorporated under the laws of the State of Alabama in 1964 and reincorporated in Delaware in September 1992. Our principal executive offices are located at 402 Industrial Lane, Birmingham, Alabama 35211, and our telephone number is (205) 942-3737. Unless the context otherwise requires, references to we, our or the Company include our wholly owned subsidiaries, American Wholesale Book Company, Inc. ("American Wholesale"), American Internet Service, Inc. (AIS) and Books-A-Million Card Services, Inc. (Card Services).

Our periodic and current reports filed with the SEC are made available on our website at *www.booksamillioninc.com* as soon as reasonably practicable. Our corporate governance guidelines, code of conduct and key committee charters are also available on our website. These reports are available free of charge to stockholders upon written request. Such requests should be directed to Douglas G. Markham, our Chief Financial Officer. You may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street N.E., Room 1850, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us, at *http://www.sec.gov*.

Business Segments

We have two reportable segments: retail trade and electronic commerce trade. In the retail trade segment we are engaged in the retail trade of primarily book merchandise. The retail trade segment includes our distribution center operations which predominantly supplies merchandise to our retail stores. In the electronic commerce trade segment we transact business over the Internet primarily. This segment is managed separately due to divergent technology and marketing requirements. For additional information, see Note 8 "Business Segments" in the Notes to Consolidated Financial Statements in the Annual Report to Stockholders for the fiscal year ended February 3, 2007 incorporated herein by reference.

Retail Stores

We opened our first Books-A-Million superstore in 1987. We developed superstores to capitalize on the growing consumer demand for the convenience, selection and value associated with the superstore retailing format. Each superstore is designed to be a receptive and open environment conducive to browsing and reading and includes ample space for promotional events open to the public, including book autograph sessions and children's storytelling. We operated 179 superstores as of February 3, 2007.

Our superstores emphasize selection, value and customer service. Each of our superstores offers an extensive selection of best sellers and other hardcover and paperback books, magazines, local newspapers and gifts and dedicates space to bargain books that are sold at a discount from publishers' originally suggested retail prices. Each superstore has a service center staffed with associates who are knowledgeable about the store's merchandise and who are trained to answer customers' questions, assist customers in locating books within the store and place special orders. The majority of our superstores also include a Joe Muggs café, serving Joe Muggs coffee and assorted pastries. Our superstores are conveniently located on major, high-traffic roads and in enclosed malls or strip shopping centers with adequate parking, and generally operate for extended hours up to 11:00 pm local time.

Our traditional stores are tailored to the size, demographics and competitive conditions of the particular market area. Traditional stores are located primarily in enclosed malls and generally feature a wide selection of books, magazines and gift items. We had 27 traditional stores as of February 3, 2007.

Merchandising

We employ several value-oriented merchandising strategies. Books on our best-seller list, which is developed by us based on the sales and customer demand in our stores, are generally sold in the Company's superstores below publishers' suggested retail prices. In addition, customers can join the Millionaire's Club and save 10% on all purchases in any of our stores, including already discounted best-sellers. Our point-of-sale computer system provides data designed to enable us to anticipate consumer demand and customize store inventory selection to reflect local customer interest.

Marketing

We promote our bookstores principally through the use of direct mail advertising, as well as point-of-sale materials posted and distributed in the stores. In certain markets, television and newspaper advertising is also used on a selective basis. We also arrange for special appearances and book autograph sessions with recognized authors to attract customers and to build and reinforce customer awareness of our stores. A substantial portion of our advertising expenses are reimbursed from publishers through their cooperative advertising programs.

Store Operations and Site Selection

In choosing specific store sites within a market area, we apply standardized site selection criteria that

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takes into account numerous factors, including the local demographics, desirability of available leasing arrangements, proximity to our existing operations and overall level of retail activity. In general, stores are located on major high-traffic roads convenient to customers and have adequate parking. We generally negotiate short-term leases with renewal options. We also periodically review the profitability trends and prospects of each of our stores and evaluate whether or not any underperforming stores should be closed, converted to a different format or relocated to more desirable locations.

Internet Operations

Through our wholly owned subsidiary, AIS, we sell a broad range of products over the Internet under the names *Booksamillion.com* and *Joemuggs.com*. On *Booksamillion.com* we sell a wide selection of books, magazines and gift items similar to those sold in our Books-A-Million superstores. We also operate an online café under the name *Joemuggs.com* where we offer a wide selection of whole bean coffee, confections and related gift items for purchase over the Internet.

Internet development efforts are assisted through a wholly owned subsidiary of AIS, NetCentral, Inc., which is based in Nashville, Tennessee. They provide all web development and maintenance for all of our internet sites and networking initiatives.

Purchasing

Our purchasing decisions are made by our merchandising department on a centralized basis. Our buyers negotiate terms, discounts and cooperative advertising allowances for all of our bookstores and decide which books to purchase, in what quantity and for which stores. The buyers use current inventory and sales information provided by our in-store point-of-sale computer system to make reorder decisions.

We purchase merchandise from over 1,500 vendors. We purchase the majority of our collectors' supplies from Anderson Press and substantially all of our magazines from Anderson Media, each of which is a related party (see Certain Relationships & Related Transactions on page 16 of the Proxy). No one vendor accounted for over 13.0% of our overall merchandise purchases in the fiscal year ended February 3, 2007. In general, in excess of 80% of our inventory may be returned for credit, which substantially reduces our risk of inventory obsolescence.

Distribution Capabilities

American Wholesale receives a substantial portion of our inventory shipments, including substantially all of our books, at its two facilities located in Florence and Tuscumbia, Alabama. Orders from our bookstores are processed by computer and assembled for delivery to the stores on pre-determined weekly schedules. Substantially all deliveries of inventory from American Wholesale's facilities are made by their dedicated transportation fleet. At the time deliveries are made to each of our stores, returns of slow moving or obsolete books are picked up and returned to the American Wholesale returns processing center. American Wholesale then returns these books to publishers for credit.

Competition

The retail bookstore industry is highly competitive and includes competitors that have substantially greater financial and other resources than we have. We compete directly with national bookstore chains, independent bookstores, booksellers on the Internet and certain mass merchandisers. Our largest competitors are Barnes and Noble, Inc. and Borders Group, Inc. In recent years, competing bookstore chains have been expanding their businesses, and certain leading regional and national chains have developed and opened superstores and Internet web sites. We also compete indirectly with retail specialty stores that offer books in a particular area of specialty. We believe that the key competitive factors in the retail book industry are convenience of location, selection, customer service and price.

Seasonality

Similar to many retailers, our business is seasonal, with the highest retail sales, gross profit and net income historically occurring in our fourth fiscal quarter. This seasonal pattern reflects the increased demand for books and gifts during the year-end holiday selling season. Working capital requirements are generally at their highest during the third fiscal quarter and the early part of the fourth fiscal quarter due to the seasonality of our business. As a result, our 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 effect on our results of operations for the full year. In addition to seasonality, our 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. Accordingly, the addition of a large number of new stores in a particular fiscal quarter could adversely affect our results of operations for that quarter.

Trademarks

Books-A-Million, BAM!, Bookland, Books & Co., Millionaire s Club, Sweet Water Press, Thanks-A-Million, Big Fat Coloring Book, Night Reader, Read & Save Rebate, Readables Accessories for Readers, Kids-A-Million, Teachers First, The Write-Price, Bambeanos, Book\$mart, BAMB, BAMB.com, BOOKSAMILLION.com, Chillatte, Joe Muggs Newsstand, Page Pets, JOEMUGGS.com, LA FAITHPOINT.com, Joe Muggs, Anderson s Bookland, Snow Joe, The Testaments Shoppe and NetCentral are the primary registered trademarks of the Company. Management does not believe that these trademarks are materially important to the continuation of our operations.

Employees

As of fiscal year end, we employed approximately 3,000 full-time associates and 2,000 part-time associates. The number of part-time associates employed fluctuates based upon seasonal needs. None of our associates are covered by a collective bargaining agreement. We believe that relations with our associates are good.

ITEM 1A. RISK FACTORS

The following risk factors and other information included in this Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks occur, our business, financial condition, operating results, and cash flows could be materially adversely affected.

Intense competition from traditional retail sources and the Internet may adversely affect our business.

The retail book business is highly competitive, and competition within the industry is fragmented. We face direct competition from other superstores, such as Barnes & Noble and Borders, and we also face competition from mass merchandisers, such as Wal-Mart and Costco, and online retailers such as Amazon, Barnes and Noble, Borders and Wal-Mart. Our bookstores also compete with specialty retail stores that offer books in particular subject areas, independent single store operators, variety discounters, drug stores, warehouse clubs, mail order clubs and other retailers offering books. In addition, our bookstores may face additional competition from the expanding market for electronic books and from other categories of retailers entering the retail book market.

Many of our current and potential competitors have longer operating histories, larger customer bases, greater brand recognition, and significantly greater financial, marketing, and other resources than we have. They may be able to secure merchandise from vendors on more favorable terms and may be able to adopt more aggressive pricing policies. Competitors in both the retail and electronic commerce trade also may be able to devote more resources to technology development, fulfillment, and marketing than we are able to.

Competition in electronic commerce trade may intensify. The online market is rapidly evolving and intensely competitive, with few barriers to entry. Companies in the retail and electronic commerce trade may enter into business combinations or alliances that strengthen their competitive positions. This increased competition may reduce our sales, operating profits, or both.

Our business is highly seasonal.

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Our business is highly seasonal with sales and earnings generally highest in the fourth quarter and lowest in the first quarter. Our results of operations depend significantly upon the holiday selling season in the fourth quarter. During the fiscal year ended February 3, 2007, approximately 34% of our sales and approximately 79% of our operating income were generated in the fourth quarter. If we do not stock popular products in sufficient amounts or fail to have sources to timely restock popular products during the busy holiday period such that we fail to meet customer demand, it could significantly affect our revenue and earnings and our future growth. In addition, if we experience less than satisfactory net sales during the fourth quarter, we may not be able to sufficiently compensate for any losses which may be incurred during the first three quarters of the year.

Our business is dependent upon consumer spending patterns.

Sales of books may depend upon discretionary consumer spending, which may be affected by general economic conditions, consumer confidence and other factors beyond our control. Weather, among other things, can affect comparable store sales, because inclement weather can require us to close certain stores temporarily and thus reduce store traffic. Even if stores are not closed, customers may decide to avoid going to stores in bad weather. In addition, sales are dependant in part on

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the strength of new release titles offered by vendors. A decline in consumer spending on books could have a material adverse effect on our financial condition and results of operations.

Our business may be affected by our relationships with suppliers and delays in product shipments.

We rely heavily upon our suppliers to provide us with new products as quickly as possible. The loss of any of our suppliers could reduce our product offerings, which could cause us to be at a competitive disadvantage. In addition, we depend upon the business terms we can obtain from suppliers, including competitive prices, unsold product return policies, new release title quantity allocations, advertising and market development allowances, freight charges and payment terms. Our failure to maintain favorable business terms with our suppliers could adversely affect our ability to offer products to consumers at competitive prices. To the extent that our suppliers rely on overseas sources for a large portion of their products, any event causing a disruption of imports, including the imposition of import restrictions in the form of tariffs or quotas and currency fluctuations, could hurt our business.

Our vendor relationships subject us to a number of risks, and we heavily rely on one supplier for magazine purchases that is a related party.

Although we purchase merchandise from over 1,500 vendors and no one vendor accounted for more than 13% of our inventory purchases in the fiscal year ended February 3, 2007, we have significant vendors that are important to us. If our current vendors were to stop selling merchandise to us on acceptable terms, we may not be able to acquire merchandise from other suppliers in a timely and efficient manner and on acceptable terms. We have entered into and may, in the future, enter into various transactions and agreements with entities wholly or partially owned by certain stockholders or directors (including certain officers) of the Company. We believe that the transactions and agreements that we have entered into with related parties are on terms that are at least as favorable to us as could reasonably have been obtained at such time from third parties.

If we do not successfully optimize inventory and manage our distribution, our business could be harmed

If we do not successfully optimize our inventory and operate our distribution centers, it could significantly limit our ability to meet customer demand. Because it is difficult to predict demand, we may not manage our facilities in an optimal way, which may result in excess or insufficient inventory or warehousing, fulfillment, or distribution capacity. Additionally, if we open new stores in new geographic areas where we do not currently have a presence, we may not be able to provide those stores with efficient distribution and fulfillment services which may impact our stores in those markets. We may be unable to adequately staff our fulfillment and customer service centers to meet customer demand. There can be no assurance that we will be able to operate our network effectively.

We rely heavily on the American Wholesale warehouse distribution facilities for merchandise distribution functions and to maintain inventory stock for our retail stores. Our ability to distribute merchandise to our stores and maintain adequate inventory levels may be materially impacted by any material damage incurred at our warehouse facilities caused by inclement weather, fire, flood, power loss, earthquakes, acts of war or terrorism, acts of God and similar factors.

We also rely heavily on American Wholesale's dedicated transportation fleet for deliveries of inventory. As a result, our ability to receive inbound inventory efficiently may be negatively affected by inclement weather, fire, flood, power loss, earthquakes, labor disputes, acts of war or terrorism, acts of God and similar factors.

Any of the inventory risk factors set forth above may adversely affect our financial condition, operating results and cash flows.

Failure to retain key personnel

Our continued success depends to a significant extent upon the efforts and abilities of our senior management. The failure to retain our senior managers could have a material adverse effect on our business and our results of operations. We do not maintain key man life insurance on any of our senior managers.

Failure to attract and retain qualified associates and other labor issues could adversely affect our financial performance.

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Our ability to continue to expand our operations depends on our ability to attract and retain a large and growing number of qualified associates. Our ability to meet our labor needs generally while controlling our associate wage and related labor costs is subject to numerous external factors, including the availability of a sufficient number of qualified persons in the work force, unemployment levels, prevailing wage rates, changing demographics, health and other insurance costs and changes in employment legislation. If we are unable to locate, attract and retain qualified personnel or if our costs of labor or related costs increase significantly, our financial performance could be affected adversely.

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We rely extensively on communication and computer systems to process transactions, summarize results and manage our business. Disruptions in these systems could harm our ability to run our business.

Given the number of individual transactions we have each year, it is critical that we maintain uninterrupted operation of our computer and communications hardware and software systems. Our systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches, catastrophic events such as acts of God, fires, tornadoes, hurricanes, floods, earthquakes, power losses, telecommunications failures, acts of war or terrorism, physical or electronic break-ins, and similar events or disruptions, and usage errors by our employees. If our systems are damaged or cease to function properly, we may have to make a significant investment to fix or replace them, and we may suffer interruptions in our operations in the interim. Any material interruption in our computer operations may have a material adverse effect on our business or results of operations.

Our electronic commerce trade faces business risks, which include:

risks associated with a limited operating history;

competition from other Internet-based companies and traditional retailers;

risks associated with a failure to manage growth effectively;

risks of the Internet as a medium for commerce, including internet security risks;

risks associated with the need to keep pace with rapid technological change;

risks of system failure or inadequacy; and

risks associated with the maintenance of domain names.

If any of these risks materializes, it could have an adverse effect on our electronic commerce trade.

Government regulation of the Internet and E-commerce is evolving and unfavorable changes could harm our business.

We are subject to general business regulations and laws, as well as regulations and laws specifically governing the Internet and e-commerce. Such existing and future laws and regulations may impede the growth of the Internet or other online services. These regulations and laws may cover taxation, privacy, data protection, pricing, content, copyrights, distribution, electronic contracts and other communications, consumer protection, the provision of online payment services, unencumbered Internet access to our services, and the characteristics and quality of products and services. It is not clear how existing laws governing issues such as property ownership, sales and other taxes, libel, and personal privacy apply to the Internet and e-commerce. Unfavorable resolution of these issues may harm our business.

We could be liable for breaches of security on our website.

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A fundamental requirement for e-commerce is the secure storage and transmission of confidential information. Although we have developed systems and processes that are designed to protect consumer information and prevent fraudulent credit card transactions and other security breaches, failure to prevent or mitigate such fraud or breaches may adversely affect our operating results.

We are subject to a number of risks related to payments we accept.

We accept payments by a variety of methods, including credit card, debit card, gift cards, direct debit from a customer's bank account, physical bank check and cash. For certain payment transactions, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs and lower our profit margins. We are also subject to payment card association operating rules, certification requirements and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. If we fail to comply with these rules or requirements, we may be subject to fines and higher transaction fees and lose our ability to accept credit and debit card payments from our customers, process electronic funds transfers, or facilitate other types of online payments, and our business and operating results could be adversely affected. If one or more of these agreements are terminated and we are unable to replace them on similar terms, or at all, it could adversely affect our operating results. In addition, as we offer new payment options to our customers, we may be subject to additional regulations and compliance requirements and a greater risk of fraud.

We may be unable to protect our intellectual property, which could harm our brand and reputation.

To protect our proprietary rights in our intellectual property, we rely generally on copyright, trademark and trade secret laws. Although we do not believe that our trademarks and other intellectual property are materially important to the continuation of our operations, our failure or inability to maintain or protect our proprietary rights could materially decrease their value, and our brand and reputation could be impaired as a result.

We are subject to certain legal proceedings that may affect our financial condition and results of operation.

We are involved in a number of legal proceedings. 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 our financial condition or results of operations. However, we can give no assurances that certain lawsuits either now or in the future will not materially affect our financial condition or results of operations.

Our stock price may be subject to volatility.

The trading price of our common stock may fluctuate in response to a number of events and factors, many of which are beyond our control, such as:

general economic conditions;

changes in interest rates;

conditions or trends in the retail book and electronic commerce trade industries;

fluctuations in the stock market in general;

quarterly variations in operating results;

new products, services, innovations, and strategic developments by our competitors or us, or business combinations and investments by our competitors or us;

changes in financial estimates by us or securities analysts and recommendations by securities analysts;

changes in regulation;

changes in our capital structure, including issuance of additional debt or equity to the public;

corporate restructurings, including layoffs or closures of facilities;

changes in the valuation methodology of, or performance by, others in the retail book and electronic trade industries; and

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transactions in our common stock by major investors, and analyst reports, news, and speculation.

Any of these events may cause our stock price to rise or fall and may adversely affect our financial condition or results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our bookstores are generally located either in enclosed malls or strip shopping centers. All of our stores are leased. Generally, these leases have terms ranging from five to ten years and require that we pay a fixed minimum rental fee and/or a

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rental fee based on a percentage of net sales together with certain customary costs (such as property taxes, common area maintenance and insurance).

Our principal executive offices are located in a 20,550 square foot leased building located in Birmingham, Alabama. We also lease a 37,000 square foot building located in Irondale, Alabama for additional corporate office space. Both leases involve related parties (see "Certain Relationships & Related Transactions" on page 16 of the Proxy). The Birmingham, Alabama office space is leased month-to-month. The Irondale, Alabama office space is leased month-to-month. In addition, we lease approximately 4,025 square feet of office space in Nashville, Tennessee for the offices of NetCentral. The NetCentral space is leased month-to-month. We believe that the loss of any office space currently leased on a month-to-month basis would not have a material adverse effect on our business, financial condition or results of operations.

American Wholesale owns its wholesale distribution center located in an approximately 290,000 square foot facility in Florence, Alabama. During fiscal 1995 and 1996, we financed the acquisition and construction of the wholesale distribution facility through loans obtained from the proceeds of an industrial development revenue bond (the "Bond"). We also lease on a month to month basis, from a related party, a second 210,000 square foot warehouse facility located in Tuscumbia, Alabama. We believe that the failure to extend the lease for this warehouse facility currently leased on a month-to-month basis would not have a material adverse effect on our business, financial condition or results of operations. In addition we lease all of the tractors that pull the company-owned trailers, which comprise our transportation fleet.

ITEM 3. LEGAL PROCEEDINGS

We are a party to various legal proceedings incidental to our 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 our financial condition or results of operations.

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

Not Applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The information under the heading "Market and Dividend Information" on page 35 of the Annual Report to Stockholders for the year ended February 3, 2007, is incorporated herein by reference.

Neither we nor any of our affiliates made any purchases of Books-A-Million, Inc. Common Stock during the fourth quarter of the fiscal year ended February 3, 2007. Approximately \$30.6 million in share repurchase authorization remained as of February 3, 2007.

ITEM 6. SELECTED FINANCIAL DATA

The information under the heading "Selected Consolidated Financial Data" for the years ended February 1, 2003, through February 3, 2007 on page 3 of the Annual Report to Stockholders for the year ended February 3, 2007, is incorporated herein by reference.

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

The information under the heading "Management's Discussion & Analysis of Financial Condition & Results of Operations" on pages 4 through 12 of the Annual Report to Stockholders for the year ended February 3, 2007, is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to interest rate fluctuations involving our credit facilities. In prior periods, we used fixed interest rate hedges to manage this exposure. We entered into a \$7.5 million interest rate swap in May 1996 that expired on June 7, 2006

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and effectively fixed the interest rate on the Bond during that period at 8.73% (the Bond Hedge). We did not replace the Bond Hedge when it expired.

To illustrate the sensitivity of our results of operations to changes in interest rates on our debt, we estimate that a 66% increase in LIBOR rates would have increased interest expense by approximately \$253,000 for the fiscal year ended February 3, 2007 due to average debt of \$7,218,000. The average debt under our credit agreement and the Bond was \$26,000 and \$7.2 million, respectively, for the fiscal year ended February 3, 2007. Likewise, a 66% decrease in LIBOR rates would have decreased interest expense by \$253,000 for the fiscal year ended February 3, 2007. This hypothetical change in LIBOR rates was calculated based on the fluctuation in LIBOR in 2002, which was the maximum LIBOR fluctuation in the last ten years.

The information in note 3 Debt and Lines of Credit in the Notes to Consolidated Financial Statements on page 23 of the Annual Report to Stockholders for the fiscal year ended February 3, 2007 is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following financial statements of the Registrant and its subsidiaries included in the Annual Report to Stockholders for the year ended February 3, 2007 are incorporated herein by reference:

Consolidated Balance Sheets as of February 3, 2007 and January 28, 2006.

Consolidated Statements of Income for the Fiscal Years Ended February 3, 2007, January 28, 2006, and January 29, 2005.

Consolidated Statements of Changes in Stockholders' Equity for the Fiscal Years Ended February 3, 2007, January 28, 2006, and January 29, 2005.

Consolidated Statements of Cash Flows for the Fiscal Years Ended February 3, 2007, January 28, 2006, and January 29, 2005.

Notes to Consolidated Financial Statements.

Report of Independent Registered Public Accounting Firms

The information in footnote 13, Summary of Quarterly Results (Unaudited) on page 30 of the Annual Report to Stockholders for the Fiscal Years Ended February 3, 2007 and January 28, 2006 is incorporated herein by reference.

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

DISCLOSURE

Upon the recommendation of the Audit Committee of our Board of Directors, Deloitte and Touche LLP (Deloitte) was dismissed as our independent auditor effective April 29, 2005. Deloitte served as our independent auditor for the fiscal years ended January 31, 2004 and January 29, 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 the period from January 30, 2005 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 us; and (B) reportable events (as defined in Item 304(a)(1)(v) of Regulation S-K).

Effective April 29, 2005, our Audit Committee engaged Grant Thornton LLP to audit our financial statements for the fiscal year ending on January 28, 2006. Prior to the engagement of Grant Thornton LLP, neither we nor anyone on behalf of us had consulted with Grant Thornton LLP during our two most recent fiscal years and for the period from January 30, 2005 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 our financial statements, and neither was a written report nor oral advice provided to us that Grant Thornton LLP concluded was an important factor considered by us 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.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

We are committed to maintaining disclosure controls and procedures designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer, Chief Financial Officer and the Board of Directors, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures and implementing controls and procedures based on the application of management's judgment.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon their evaluation and subject to the foregoing, the Chief Executive Officer and the Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective at the reasonable assurance level.

(b) Management's Report on Internal Control over Financial Reporting.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. As defined in Exchange Act Rule 13a-15(f), internal control over financial reporting is a process designed by, or under the supervision of, the principal executive and principal financial officer and effected by the board of directors, management and other personnel, 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 and includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) 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 (iii) 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.

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, we carried out an evaluation of the effectiveness of our internal control over financial reporting as of the end of the period covered by this report based on the Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based upon this evaluation, we concluded that our internal control over financial reporting was effective as of the end of the period covered by this report.

Grant Thornton LLP, the independent registered public accounting firm that audited our financial statements included in this report, has also audited management's assessment of the ef