

BOOKS A MILLION INC  
Form 10-Q  
December 07, 2006  
UNITED STATES

**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

(mark one)

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

For the quarterly period ended: October 28, 2006

- OR -

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

For the transaction period from                    to                   

COMMISSION FILE NUMBER 0-20664

BOOKS-A-MILLION, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of (IRS Employer Identification No.) incorporation or organization)

63-0798460

402 Industrial Lane, Birmingham, Alabama

(Address of principal executive offices)

35211

(Zip Code)

Edgar Filing: BOOKS A MILLION INC - Form 10-Q

(205) 942-3737

(Registrant's phone number including area code)

**NONE**

(Former name, former address and former fiscal year, if changed since last period)

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 whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Shares of common stock, par value \$.01 per share, outstanding as of November 24, 2006 were 16,642,476 shares.

**BOOKS-A-MILLION, INC. AND SUBSIDIARIES**

**INDEX**

**Page No.**

**PART I. FINANCIAL INFORMATION**

Item 1. Condensed Consolidated Financial Statements (**unaudited**)

Condensed Consolidated Balance Sheets	3
Condensed Consolidated Statements of Operations	4
Condensed Consolidated Statement of Changes in Stockholders' Equity	5
Condensed Consolidated Statements of Cash Flows	6
Notes to Condensed Consolidated Financial Statements	7

Item 2. Management's Discussion and Analysis of Financial Condition

and Results of Operations	17
---------------------------	----

Item 3. Quantitative and Qualitative Disclosures about Market Risk	23
--	----

Item 4. Controls and Procedures	24
---------------------------------	----

**PART II. OTHER INFORMATION**

Item 1. Legal Proceedings	25
---------------------------	----

Item 1A. Risk Factors	25
-----------------------	----

Edgar Filing: BOOKS A MILLION INC - Form 10-Q

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	25
Item 3. Defaults Upon Senior Securities	25
Item 4. Submission of Matters to a Vote of Security-Holders	25
Item 5. Other Information	25
Item 6. Exhibits	25
Signatures	26

**PART 1. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****BOOKS-A-MILLION, INC. & SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(dollars in thousands except per share and share amounts)

	As of October 28, 2006 (unaudited)	As of January 28, 2006
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 13,585	\$ 37,519
Accounts receivable, net	6,497	9,668
Related party accounts receivable, net	1,149	1,134
Inventories	228,987	204,789
Prepayments and other	6,707	4,340
<b>Total Current Assets</b>	<b>256,925</b>	<b>257,450</b>
<b>Property and Equipment:</b>		
Gross property and equipment	215,067	203,538
Less accumulated depreciation and amortization	(162,790)	(152,537)
<b>Net Property and Equipment</b>	<b>52,277</b>	<b>51,001</b>
<b>Deferred Income Taxes</b>	<b>2,266</b>	<b>1,662</b>
<b>Other Assets</b>	<b>1,579</b>	<b>1,546</b>
<b>Total Assets</b>	<b>\$ 313,047</b>	<b>\$ 311,659</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 106,293	\$ 98,171
Related party accounts payable	5,695	2,691
Accrued expenses	40,385	45,459
Accrued income taxes	--	1,838
Deferred income taxes	1,666	2,654
<b>Total Current Liabilities</b>	<b>154,039</b>	<b>150,813</b>
<b>Long-Term Debt</b>	<b>7,200</b>	<b>7,200</b>
<b>Other Long-Term Liabilities</b>	<b>9,053</b>	<b>8,637</b>
<b>Total Non-Current Liabilities</b>	<b>16,253</b>	<b>15,837</b>
<b>Commitments and Contingencies (Note 6)</b>		
<b>Stockholders Equity:</b>		
Preferred stock, \$.01 par value, 1,000,000 shares authorized, no shares outstanding	--	--
Common stock, \$.01 par value, 30,000,000 shares authorized, 20,458,498 and 19,764,223 shares issued at October 28, 2006 and	205	198

Edgar Filing: BOOKS A MILLION INC - Form 10-Q

January 28, 2006, respectively		
Additional paid-in capital	84,914	79,509
Less treasury stock, at cost (3,818,356 and 3,287,317 shares at October 28, 2006 and January 28, 2006, respectively)	(24,424)	(16,954)
Accumulated other comprehensive loss, net of tax	--	(7)
Retained earnings	82,060	82,263
<b>Total Stockholders' Equity</b>	<b>142,755</b>	<b>145,009</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 313,047</b>	<b>\$ 311,659</b>

See accompanying notes

## BOOKS-A-MILLION, INC. &amp; SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	<u>Thirteen Weeks Ended</u>		<u>Thirty-Nine Weeks Ended</u>	
	<u>October 28, 2006</u>	<u>October 29, 2005</u>	<u>October 28, 2006</u>	<u>October 29, 2005</u>
<b>Net Sales</b>	\$ 110,692	\$ 107,638	\$ 345,648	\$ 341,958
Cost of products sold (including warehouse distribution and store occupancy costs)	81,604	79,566	249,014	248,313
<b>Gross Profit</b>	29,088	28,072	96,634	93,645
Operating, selling and administrative expenses	26,154	26,445	79,990	78,681
Gain on insurance recovery (Note 13)	163	1,248	163	1,248
Depreciation and amortization	3,399	3,881	10,388	11,888
<b>Operating Income (Loss)</b>	(302)	(1,006)	6,419	4,324
Interest expense, net	64	378	229	1,178
<b>Income (loss) from continuing operations before income taxes</b>	(366)	(1,384)	6,190	3,146
Income taxes provision (benefit)	(173)	(530)	2,367	1,204
<b>Income (loss) from continuing operations</b>	(193)	(854)	3,823	1,942
<b>Discontinued Operations (Note 11)</b>				
Loss from discontinued operations before income taxes	(12)	(31)	(89)	(86)
Income tax benefit	(4)	(12)	(34)	(32)
<b>Loss from discontinued operations</b>	(8)	(19)	(55)	(54)
<b>Net Income (Loss)</b>	\$ (201)	\$ (873)	\$ 3,768	\$ 1,888
<b>Net Income Per Common Share:</b>				
<b>Basic:</b>				
<b>Income (loss) from continuing operations</b>	\$ (0.01)	\$ (0.05)	\$ 0.23	\$ 0.12
<b>Loss from discontinued operations</b>	--	--	--	--
<b>Net Income (Loss)</b>	\$ (0.01)	\$ (0.05)	\$ 0.23	\$ 0.12
<b>Weighted Average Number of Shares Outstanding</b>	<b>Basic</b> 16,312	16,364	16,346	16,227
<b>Diluted:</b>				
<b>Income (loss) from continuing operations</b>	\$ (0.01)	\$ (0.05)	\$ 0.23	\$ 0.12
<b>Loss from discontinued operations</b>	--	--	(0.01)	(0.01)
<b>Net Income (Loss)</b>	\$ (0.01)	\$ (0.05)	\$ 0.22	\$ 0.11
<b>Weighted Average Number of Shares Outstanding</b>				
<b>Diluted</b>	16,312	16,364	16,826	16,829
<b>Dividends per share - declared</b>	\$ 0.08	\$ 0.05	\$ 0.24	\$ 0.15

See accompanying notes





**BOOKS-A-MILLION, INC. & SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY****(dollars in thousands)****(unaudited)**

(in thousands)	Common Stock			Treasury Stock		Accumulated		Total
	Shares	Amount	Additional Paid-In Capital	Shares	Amount	Retained Earnings	Other Comprehensive Income (Loss)	
<b>Balance January 28, 2006</b>	19,764	\$198	\$79,509	3,287	\$(16,954)	\$82,263	\$(7)	\$145,009
Net income						3,768		3,768
Unrealized gain on accounting for derivative instruments, net of tax provision of \$4							7	7
Subtotal comprehensive income								3,775
Purchase of treasury stock				531	(7,470)			(7,470)
Dividends paid						(3,971)		(3,971)
Stock-based compensation	147	1	1,081					1,082
Issuance of stock for employee stock purchase plan	9	--	87					87
Exercise of stock options	538	6	1,667					1,673
Tax benefit from exercise of stock options			2,570					2,570
<b>Balance October 28, 2006</b>	20,458	\$205	\$84,914	3,818	\$(24,424)	\$82,060	\$--	\$142,755

See accompanying notes

**BOOKS-A-MILLION, INC. & SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(dollars in thousands)

(unaudited)

**Thirty-Nine Weeks Ended****October 28, 2006****October 29, 2005****Cash Flows from Operating Activities:**

Net income	\$	3,768	\$	1,888
Adjustments to reconcile net income to net cash used in operating activities:				
Depreciation and amortization		10,401		11,925
Stock-based compensation		1,082		287
Loss on impairment of assets		--		210
Excess tax benefit from exercise of stock options		(2,570)		(391)
(Gain)/loss on disposal of property		(12)		1
Change in deferred income taxes		(1,592)		(3,161)
(Increase)/decrease in inventories		(24,198)		(16,579)
Increase in accounts payable		11,126		2,835
Changes in certain other assets and liabilities		(3,215)		(4,184)
Total adjustments		(8,978)		(9,057)
Net cash used in operating activities		(5,210)		(7,169)

**Cash Flows from Investing Activities:**

Capital expenditures		(11,628)		(9,521)
Proceeds from sale of equipment		15		8
Net cash used in investing activities		(11,613)		(9,513)

**Cash Flows from Financing Activities:**

Borrowings under credit facilities		1,050		146,650
Payments under credit facilities		(1,050)		(139,410)
Purchase of treasury stock		(7,470)		(2,711)
Proceeds from exercise of stock options and employee stock purchase plan, net		1,760		2,719
Excess tax benefit from exercise of stock options		2,570		391
Payment of dividends		(3,971)		(2,446)
Net cash (used in) provided by financing activities		(7,111)		5,193
Net decrease in cash and cash equivalents		(23,934)		(11,489)
Cash and cash equivalents at beginning of period		37,519		16,559
Cash and cash equivalents at end of period	\$	13,585	\$	5,070

**Supplemental Disclosures of Cash Flow Information:**

Cash paid during the thirty-nine week period for:

Interest	\$	532	\$	1,206
Income taxes, net of refunds	\$	7,120	\$	6,387

**See accompanying notes**

**BOOKS-A-MILLION, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(unaudited)

**1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and include all adjustments that, in the opinion of management, are necessary for a fair presentation of the results of the periods presented. All such adjustments are considered of a normal recurring nature. Quarterly results of operations are not necessarily indicative of annual results.

Certain financial information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended January 28, 2006 and the notes thereto contained in our Annual Report on Form 10-K for the year ended January 28, 2006.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates and assumptions.

We have also experienced, and expect to continue to experience, significant variability in sales and net income from quarter to quarter. Therefore, the results of the interim periods presented herein are not necessarily indicative of the results to be expected for any other interim period or the full year.

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

*Stock-Based Compensation*

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

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

We have elected to use the modified prospective transition method as permitted by SFAS No. 123(R) and, therefore, have not restated our financial results for prior periods. Under this transition method, we have applied the provisions of SFAS No. 123(R) to new awards and to

## Edgar Filing: BOOKS A MILLION INC - Form 10-Q

awards modified, repurchased or cancelled after January 29, 2006. In addition, we will recognize compensation cost for the portion of awards for which the requisite service has not been rendered (unvested awards) that are outstanding as of January 29, 2006, as the remaining service is rendered. The compensation cost we record for these awards will be based on their grant-date fair value as calculated for the pro forma disclosures required by SFAS No. 123.

Our pre-tax compensation cost for stock-based employee compensation was \$1,082,000 (\$668,000 net of taxes) and \$287,000 (\$177,000 net of taxes) for the thirty-nine weeks ended October 28, 2006 and October 29, 2005, respectively. As a result of the adoption of SFAS No. 123(R), our financial results were lower than under our previous accounting method for share-based compensation by the following amounts:

	Thirteen Weeks	Thirty-Nine Weeks
	Ended	Ended
	October 28, 2006	October 28, 2006
Income from continuing operations before income taxes	\$148,000	\$443,000
Income from continuing operations	\$92,000	\$274,000
Net income	\$92,000	\$274,000
Basic and diluted net earnings per common share	\$0.01	\$0.02

**BOOKS-A-MILLION, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(unaudited)**

Prior to the adoption of SFAS No. 123(R), we presented all tax benefits resulting from the exercise of stock options as operating cash flows in the Consolidated Statements of Cash Flows. SFAS No. 123(R) requires that cash flows from the exercise of stock options resulting from tax benefits in excess of recognized cumulative compensation cost (excess tax benefits) be classified as financing cash flows. For the thirteen and thirty-nine weeks ended October 28, 2006, \$435,000 and \$2,570,000 of such excess tax benefits were classified as financing cash flows, respectively.

*Stock Option Plan*

In April 1999, the Company adopted the Stock Option Plan which provided for option grants to executive officers, directors, and key employees. Upon the approval of the 2005 Incentive Award Plan by the Company's stockholders at the Company's annual meeting held in June 2005, the board determined that no more awards would be made under the Stock Option Plan. Options previously issued under the Stock Option Plan remain valid. All options granted prior to January 9, 2001 vested over a five-year period and expired on the sixth anniversary of the date of grant, and all options granted on and after January 9, 2001 vest over a three-year period and expire on the tenth anniversary of the date of grant. All options have exercise prices equal to the fair market value of the common stock on the date of grant. A summary of the status of the Stock Option Plan is as follows (*shares in thousands*):

	Thirty-Nine Weeks Ended October 28, 2006	
	Shares	Weighted Average Exercise Price
Options outstanding at beginning of period	814	\$3.77
Options granted	-	-
Options exercised	(538)	\$3.11
Options forfeited	(2)	\$5.67
Options outstanding at end of period	274	\$5.07
Options exercisable at end of period	199	\$4.56

The total intrinsic value of stock options exercised during the thirty-nine weeks ended October 28, 2006 was \$6,828,000.

The following table summarizes information about stock options granted pursuant to the Stock Option Plan that are outstanding and exercisable under the Stock Option Plan at October 28, 2006 (*shares in thousands*):

Edgar Filing: BOOKS A MILLION INC - Form 10-Q

Range of Exercise Price	Options Outstanding			Options Exercisable		
	Options Outstanding at October 28, 2006	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Options Exercisable at October 28, 2006	Weighted Average Remaining Exercisable Life (Years)	Weighted Average Exercise Price
\$1.69-\$2.37	52	6.19	\$2.34	52	6.19	\$2.34
\$2.68-\$5.85	72	5.45	\$3.07	69	5.39	\$2.99
\$6.13-\$9.62	150	7.39	\$6.98	78	7.52	\$7.44
	274	6.66	\$5.07	199	6.43	\$4.56

The aggregate intrinsic values of outstanding options and exercisable options under the Stock Option Plan at October 28, 2006 were \$4,025,000 and \$3,025,000, respectively.

**BOOKS-A-MILLION, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

*2005 Incentive Award Plan*

On June 1, 2005, the stockholders of the Company approved the adoption of the Books-A-Million, Inc. 2005 Incentive Award Plan (the "2005 Plan") for a total of 300,000 shares. On June 8, 2006, the stockholders of the Company approved an additional 300,000 shares to be awarded under the Plan. An aggregate of 600,000 shares of common stock may be awarded under the 2005 Plan. From June 1, 2005 through July 29, 2006, awards under the 2005 Plan consisted solely of awards of restricted stock.

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

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

*Executive Incentive Plan*

The Company maintains an Executive Incentive Plan (the "Incentive Plan"); however, no new grants after the fiscal 2006 performance period are being awarded under the Incentive Plan. The Incentive Plan provides for awards to certain executive officers of either cash or shares of restricted stock. The Company has always issued awards in the form of restricted stock. Issuance of awards under the Incentive Plan is based on the Company achieving pre-established performance goals during a three consecutive fiscal year performance period. Awards issued under the Incentive Plan for a particular performance period vest on the third anniversary of the last day of such performance period if the recipient remains employed by the Company on such vesting date. Awards under the Incentive Plan are expensed ratably over the period from the date that the issuance of such awards becomes probable through the end of the restriction period. The final grant for the Incentive Plan was awarded in March 2006. There will be no future awards under the Incentive Plan.

*Restricted Stock Table*



Edgar Filing: BOOKS A MILLION INC - Form 10-Q

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

		Thirty-Nine Weeks Ended October 28, 2006
	Shares	Weighted Average Grant Date Fair Value
Shares at beginning of period (0 vested; 126 unvested)	126	\$ 8.44
Shares granted	180	\$12.03
Shares vested	-	-
Shares forfeited	(33)	\$10.64
Shares at end of period (0 vested; 273 unvested)	273	\$10.54

**BOOKS-A-MILLION, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

*Other Information*

As of October 28, 2006, we have \$2,826,000 of total unrecognized compensation cost related to non-vested awards granted under our various share-based plans, which we expect to recognize over the following fiscal years:

Fiscal Year	Stock-based Compensation Expense
2007	\$ 579,000
2008	\$1,093,000
2009	\$ 719,000
2010	\$ 251,000
2011	\$ 184,000
Total	\$2,826,000

We received cash from options exercised during the first thirty-nine weeks of fiscal years 2007 and 2006 of \$1,673,000 and \$2,636,000, respectively. The impact of these cash receipts is included in financing activities in the accompanying Condensed Consolidated Statements of Cash Flows.

The number of shares of common stock currently reserved under the 2005 Plan for stock-based compensation programs as of October 28, 2006 is 353,000 shares.

**2. Net Income Per Share**

Basic net income per share ( EPS ) 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 or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. Diluted EPS has been computed based on the weighted average number of shares outstanding including the effect of outstanding stock options and restricted stock, if dilutive, in each respective thirteen and thirty-nine week period. A reconciliation of the weighted average shares for basic and diluted EPS is as follows:

For the Thirteen Weeks Ended  
(in thousands)  
October 28, 2006

October 29, 2005

Edgar Filing: BOOKS A MILLION INC - Form 10-Q

Weighted average shares outstanding:		
Basic	16,312	16,364
Dilutive effect of stock options and restricted		
stock outstanding	--	--
Diluted	16,312	16,364

	For the Thirty-Nine Weeks Ended	
	(in thousands)	
	October 28, 2006	October 29, 2005
Weighted average shares outstanding:		
Basic	16,346	16,227
Dilutive effect of stock options and restricted		
stock outstanding	480	602
Diluted	16,826	16,829

Options outstanding to purchase 0 and 24,500 shares of common stock as of October 28, 2006 and October 29, 2005, respectively, were not included in the table above as they were anti-dilutive under the treasury stock method.

**BOOKS-A-MILLION, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(unaudited)

**3. Related Party Transactions**

Charles C. Anderson, a former director of the Company, Terry C. Anderson, a director of the Company, and Clyde B. Anderson, a director and officer of the Company, have controlling ownership interests in other entities with which the Company conducts business. Significant transactions between the Company and these various other entities ( related parties ) are summarized in the following paragraphs.

The Company purchases a substantial portion of its magazines as well as certain of its seasonal music from Anderson Media Corporation ("Anderson Media"), an affiliate through common ownership. During the thirty-nine weeks ended October 28, 2006 and October 29, 2005, purchases of these items from Anderson Media totaled \$18,054,000 and \$25,425,000, respectively. The Company purchases certain of its collectibles and books from Anderson Press, Inc. ("Anderson Press"), an affiliate through common ownership. During the thirty-nine weeks ended October 28, 2006 and October 29, 2005, such purchases from Anderson Press totaled \$1,103,000 and \$1,162,000, respectively. The Company purchases certain of its gift products from C.R. Gibson, Inc., an affiliate through common ownership. The purchases of these products during the thirty-nine weeks ended October 28, 2006 and October 29, 2005 were \$303,000 and \$156,000, respectively. The Company purchases certain magazine subscriptions from Magazines.com, an affiliate through common ownership. During the thirty-nine weeks ended October 28, 2006 and October 29, 2005, purchases of these items were \$34,000 and \$44,000, respectively. The Company purchases content for publication from Publication Marketing Corporation, an affiliate through common ownership. During the thirty-nine weeks ended October 28, 2006 and October 29, 2005, purchases of these items were \$53,000 and \$53,000, respectively. The Company utilizes import sourcing and consolidation services from Anco Far East Importers, LTD ( Anco Far East ), an affiliate through common ownership. The total paid to Anco Far East was \$1,884,000 and \$1,768,000 during the thirty-nine weeks ended October 28, 2006 and October 29, 2005, respectively. These amounts paid to Anco Far East primarily included the actual cost of the product as well as fees for sourcing and consolidation services. All costs other than the sourcing and consolidation service fees were passed through from other vendors. Anco Far East fees, net of the passed-through costs, were \$132,000 and \$124,000 during the thirty-nine weeks ended October 28, 2006 and October 29, 2005, respectively.

The Company sold books to Anderson Media in the amounts of \$838,000 and \$239,000 during the thirty-nine weeks ended October 28, 2006 and October 29, 2005, respectively. During the thirty-nine weeks ended October 28, 2006 and October 29, 2005, the Company provided \$0 and \$7,000, respectively, of internet services to Magazines.com. The Company provided internet services to American Promotional Events, an affiliate through common ownership, of \$61,000 and \$69,000 during the thirty-nine weeks ended October 28, 2006 and October 29, 2005, respectively.

The Company leases its principal executive offices from a trust, which was established for the benefit of the grandchildren of Mr. Charles C. Anderson, a former member of the Board of Directors. The Company leases the building on a month-to-month basis. During the thirty-nine weeks ended October 28, 2006 and October 29, 2005, the Company paid rent of \$103,000 in each period to the trust under this lease. Anderson & Anderson LLC ("A&A"), an affiliate through common ownership, also leases three buildings to the Company on a month-to-month basis. During the thirty-nine weeks ended October 28, 2006 and October 29, 2005, the Company paid A&A a total of \$336,000 and \$333,000, respectively, in connection with such leases. Total minimum future rental payments under all of these leases are \$0 at October 28, 2006. The Company subleases certain property to Hibbett Sporting Goods, Inc. ("Hibbett"), a sporting goods retailer in the southeastern United States. The Company's Executive Chairman, Clyde B. Anderson, is a member of Hibbett's board of directors. During the thirty-nine weeks ended October 28, 2006 and October 29, 2005, the Company received \$143,000 and \$157,000 in rent payments from Hibbett.

The Company shares ownership of a plane, which the Company uses in the operation of its business, with an affiliated company. The Company rents the plane to affiliated companies at rates that cover all of the variable cost, and a portion of the fixed cost of the plane. The total amounts received from affiliated companies for use of the plane during the thirty-nine weeks ended October 28, 2006 and October 29, 2005, was \$284,000 and \$238,000, respectively. The Company also occasionally rents a plane from A&A as well. The amounts paid to A&A for plane rental were \$9,000 and \$35,000 for the thirty-nine weeks ended October 28, 2006 and October 29, 2005, respectively.



**BOOKS-A-MILLION, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(unaudited)****4. Derivative and Hedging Activities**

The Company is subject to interest rate fluctuations involving its credit facilities and debt related to an industrial development revenue bond (the Bond ). However, the Company has used fixed interest rate hedges in the past to manage a portion of this exposure. The Company entered into a \$7.5 million interest rate swap in May 1996 that expired on June 7, 2006 and effectively fixed the interest rate on the Bond during that period at 8.73% (the Bond Hedge ). The Company did not replace the Bond Hedge when it expired.

Prior to its expiration, the Bond Hedge was reported as a liability in the accompanying condensed consolidated balance sheets at a fair value of \$0 and \$61,000 as of October 28, 2006 and January 28, 2006, respectively. For the thirteen weeks ended October 28, 2006 and October 29, 2005, respectively, adjustment gains of \$0 (net of tax provision of \$0) and \$21,000 (net of tax provision of \$12,000), and in the thirty-nine weeks ended October 28, 2006 and October 29, 2005, respectively, adjustment gains of \$7,000 (net of tax provision of \$4,000) and \$130,000 (net of tax provision of \$85,000) were recorded as unrealized gains in accumulated other comprehensive income (loss) and are detailed in Note 5.

**5. Comprehensive Income (Loss)**

Comprehensive income (loss) is net income plus certain other items that are recorded directly to stockholders' equity. The only such items currently applicable to the Company are the unrealized gains on the hedges explained in Note 4, as follows:

<b>Comprehensive Income (Loss)</b>	<u>Thirteen Weeks Ended</u>		<u>Thirty-Nine Weeks Ended</u>	
	(in thousands)		(in thousands)	
	October 28, 2006	October 29, 2005	October 28, 2006	October 29, 2005
Net Income (Loss)	\$(201)	\$(873)	\$3,768	\$1,888
Unrealized gains on hedges, net of deferred tax provision for the thirteen-week periods of \$0 and \$12, respectively, and the thirty-nine week periods of \$4 and \$84, respectively.	-	21	7	131
Total comprehensive income (loss)	\$(201)	\$(852)	\$3,775	\$2,019

**6. Commitments and Contingencies**

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

From time to time, the Company enters into agreements that require the Company to indemnify parties against third party claims under certain circumstances. Generally these agreements relate to: (a) agreements with vendors and suppliers under which the Company may provide customary indemnification to its vendors and suppliers in respect of actions they take at the Company's request or otherwise on its behalf; (b) agreements with vendors who publish books or manufacture merchandise specifically for the Company to indemnify vendors against trademark

## Edgar Filing: BOOKS A MILLION INC - Form 10-Q

and copyright infringement claims concerning the books published or merchandise manufactured on behalf of the Company; (c) real estate leases, under which the Company may agree to indemnify the lessors from claims arising from the Company's use of the property; and (d) agreements with the Company's directors, officers and employees, under which the Company may agree to indemnify such persons for liabilities arising out of their relationship with the Company. The Company has Directors and Officers Liability Insurance, which, subject to the policy's conditions, provides coverage for indemnification amounts payable by the Company with respect to its directors and officers up to specified limits and subject to certain deductibles.

The nature and terms of these indemnities vary. The events or circumstances that would require the Company to perform under these indemnities are transaction and circumstance specific. Generally, the Company's maximum liability under such indemnities is not explicitly stated, and, therefore, the overall maximum amount of the Company's obligations cannot be reasonably estimated. Historically, the Company has not incurred significant costs related to performance under these types of indemnities. No liabilities have been recorded for these

**BOOKS-A-MILLION, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

obligations on the Company's balance sheet at October 28, 2006 and January 28, 2006 as such liabilities are considered *de minimis*.

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

**7. Inventories**

Inventory balances at October 28, 2006 and January 28, 2006 were *(in thousands)*:

	October 28, 2006	January 28, 2006
Inventories (at FIFO)	\$230,846	\$206,314
LIFO Reserve	(1,859)	(1,525)
Net inventories	\$228,987	\$204,789



**BOOKS-A-MILLION, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(unaudited)****8. Business Segments**

The Company has two reportable segments, retail trade and electronic commerce trade. The retail trade segment is a strategic business segment that is engaged in the retail trade of mostly book merchandise and includes the Company's distribution center operations, which predominantly supplies merchandise to the Company's retail stores. The electronic commerce trade segment is a strategic business segment that transacts business over the internet and is managed separately due to divergent technology and marketing requirements.

The accounting policies of the segments are substantially the same as those described in the Company's Fiscal 2006 Annual Report on Form 10-K. The Company evaluates performance of the segments based on net income from operations before interest and income taxes. Certain intersegment cost allocations have been made based upon consolidated and segment revenues.

Segment Information (in thousands)	<u>Thirteen Weeks Ended</u>		<u>Thirty-Nine Weeks Ended</u>	
	October 28, 2006	October 29, 2005	October 28, 2006	October 29, 2005
<b>Net Sales</b>				
Retail Trade	\$ 108,872	105,434	340,627	336,554
Electronic Commerce Trade	6,155	6,807	18,503	19,987
Intersegment Sales Elimination	(4,335)	(4,603)	(13,482)	(14,583)
Net Sales	\$ 110,692	107,638	345,648	341,958
<b>Operating Income (Loss)</b>				
Retail Trade	\$ (672)	(1,398)	5,757	3,862
Electronic Commerce Trade	454	478	1,077	650
Intersegment Elimination of				
	(84)	(86)	(415)	(188)
Certain Costs				
Total Operating				
Income (Loss)	\$ (302)	(1,006)	6,419	4,324
			As of	As of
			October 29, 2006	January 28, 2006
<b>Assets</b>				
Retail Trade			\$ 312,285	\$ 310,447
Electronic Commerce Trade			766	1,286
Intersegment Asset Elimination			(4)	(74)
Total Assets			\$ 313,047	\$ 311,659



**BOOKS-A-MILLION, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(unaudited)

**9. Recent Accounting Pronouncements**

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

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

In June 2006 FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* ( FIN 48 ). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The interpretation is effective for fiscal years beginning after December 15, 2006. The Company has not yet determined the impact of the adoption of FIN 48 on its financial statements.

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

In September 2006, the Securities and Exchange Commission ( SEC ) issued Staff Accounting Bulletin No. 108 *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ( SAB 108 ), in which the Staff provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of assessing materiality. The Company will adopt SAB 108 as of January 31, 2007, as required. The cumulative effect, if any, of applying the provisions of SAB 108 will be reported as an adjustment to retained earnings. The adoption of SAB 108 is not expected to have a material impact on the Company's financial position, results of operations or cash flows.



**BOOKS-A-MILLION, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(unaudited)

**10. Debt**

The Company's current credit facility allows for unsecured borrowing up to \$100 million. In July 2006, the Company amended and extended its credit facility to provide for better pricing terms and an extension of the maturity date to July 1, 2011.

In August 2006, the Company obtained two amendments to its credit agreement. These were the fourth and fifth amendments, respectively. The fourth amendment increased the limit on unsecured indebtedness, exclusive of the credit facility. The fifth amendment revised certain debt covenants and allowed the Company to purchase an increased amount of its own stock.

The Company also has \$7.2 million of outstanding borrowings under loans made pursuant to an industrial development revenue bond (the Bond), which is secured by certain property. The Bond has a maturity date of December 1, 2019 with a purchase provision obligating the Company to repurchase the Bond on May 30, 2007, unless extended by the bondholder. As of December 5, 2006 the Company has obtained a commitment letter from a bank to purchase the Bond from the existing bondholder, and it is expected that the new bondholder will extend the date of the Company's purchase obligation of the Bond until July 1, 2011.

**11. Discontinued Operations**

Discontinued operations represent the fiscal 2007 closure of one retail store in a Georgia market and the fiscal 2006 closure of two retail stores in markets located in Tennessee and West Virginia where the Company does not expect another of its existing stores to absorb the closed stores customers. For the thirteen week periods ended October 28, 2006 and October 29, 2005, these stores had net sales of \$0 and \$351,000, respectively, and pretax operating losses of \$12,000 and \$31,000, respectively. Store closing costs were \$0 for the thirteen weeks ended October 28, 2006 and October 29, 2005. For the thirty-nine week periods ended October 28, 2006 and October 29, 2005, these stores had net sales of \$139,000 and \$1.2 million, respectively, and pretax operating losses of \$89,000 and \$86,000, respectively. Also included in the loss on discontinued operations are store closing costs of \$9,000 and \$20,000 for the thirty-nine weeks ended October 28, 2006 and October 29, 2005, respectively. Expenses relating to store closings when the store is not classified as a discontinued operation are reported in operating, selling and administrative expenses. If the store is closed and another store is in the same market and the cash flows are expected to be materially recovered, the store is not considered a discontinued operation.

**12. Stock Repurchase Programs**

On June 8, 2006, the Board approved a new stock repurchase program. The program authorized the repurchase of up to \$10 million in shares of the Company's common stock, but no specific number of shares was approved. This stock repurchase program replaced the program that was in effect from March, 2004 through June, 2006.

## Edgar Filing: BOOKS A MILLION INC - Form 10-Q

On August 23, 2006, the Board approved an additional stock repurchase program. This program authorized the repurchase of up to \$25 million in shares of the Company's common stock. This program is in addition to the previous program to repurchase up to \$10 million in shares of common stock that began in June, 2006.

### **13. Insurance Gain**

For the thirteen weeks ended October 28, 2006 and October 29, 2005, the Company recognized insurance gains of \$86,000 and \$770,000, net of taxes, related to insurance recoveries for hurricane damage suffered at certain stores in the third quarter of fiscal 2005 and fiscal 2006. The insurance recovery amounts were finalized with the insurance company during the third quarter of fiscal 2006 (for stores damaged by hurricanes in fiscal 2005) and 2007 (for stores damaged by hurricanes in fiscal 2006), and therefore the gains were recorded in the respective periods.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS**

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

*This document contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve a number of risks and uncertainties. A number of factors could cause actual results, performance, achievements of the Company, or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors include, but are not limited to, the competitive environment in the book retail industry in general and in the Company's specific market 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 initiatives; and other factors referenced herein. In addition, such forward-looking statements are necessarily dependent upon the 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.*

**General**

We were founded in 1917 and currently operate 208 retail bookstores, including 178 superstores, concentrated in the southeastern United States.

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

Comparable store sales are determined each fiscal quarter during the year based on all stores that have been open at least 12 full months as of the first day of the fiscal quarter. Any stores closed during a fiscal quarter are excluded from comparable store sales as of the first day of the quarter in which they close.

**Results of Operations**

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

Edgar Filing: BOOKS A MILLION INC - Form 10-Q

	<u>Thirteen Weeks Ended</u>		<u>Thirty-Nine Weeks Ended</u>	
	October 28, 2006	October 29, 2005	October 28, 2006	October 29, 2005
Net sales	100.0%	100.0%	100.0%	100.0%
Gross profit	26.3%	26.2%	28.0%	27.4%
Operating, selling and administrative expenses	23.6%	24.6%	23.1%	23.0%
Gain on insurance recovery	0.1%	1.1%	0.0%	0.4%
Depreciation and amortization	3.1%	3.6%	3.0%	3.5%
Operating income (loss)	(0.3)%	(0.9)%	1.9%	1.3%
Interest expense, net	0.0%	0.4%	0.1%	0.4%
Income (loss) from continuing operations before income taxes				0.9%
	(0.3)%	(1.3)%	1.8%	
Income tax provision (benefit)	(0.1)%	(0.5)%	0.7%	0.3%
Income (loss) from continuing operations				
	(0.2)%	(0.8)%	1.1%	0.6%
Net income (loss)	(0.2)%	(0.8)%	1.1%	0.6%



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

## CONDITION AND RESULTS OF OPERATIONS

The following table sets forth net sales data for the thirteen weeks and the thirty-nine weeks ended October 28, 2006 and October 29, 2005:

## Segment Information (in thousands)

Net Sales	Thirteen Weeks Ended				Thirty-Nine Weeks Ended			
	October 28, 2006	October 29, 2005	\$ Change	% Change	October 28, 2006	October 29, 2005	\$ Change	% Change
Retail Trade	\$108,872	\$105,434	\$3,438	3.3%	\$340,627	\$336,554	\$4,073	1.2%
Electronic Commerce								
Trade	6,155	6,807	(652)	(9.6%)	18,503	19,987	(1,484)	(7.4%)
Intersegment Sales								
Elimination	(4,335)	(4,603)	268	5.8%	(13,482)	(14,583)	1,101	7.5%
Net Sales	\$110,692	\$107,638	3,054	2.8%	\$345,648	\$341,958	\$3,690	1.1%

For the thirteen weeks ended October 28, 2006, the 3.3% increase in net sales for the retail trade segment was primarily due to higher comparable store sales this year. Comparable store sales in the thirteen weeks ended October 28, 2006 increased 2.3% when compared with the same thirteen week period for the prior year. For the thirty-nine weeks ended October 28, 2006, the increase in net sales for the retail trade segment was primarily due to new stores opened during fiscal 2007. Comparable store sales increased 0.2% for the thirty-nine weeks ended October 28, 2006 when compared with the same thirty-nine week period for the prior year. The increase in comparable store sales for the thirteen and thirty-nine week periods was primarily due to higher sales in the book department. The book sales increase was driven by strong sales in categories such as Political, Adventure, Pets and Inspirational. The decrease in net sales for the electronic commerce segment for the thirteen-week period was primarily due to lower business-to-business sales volume. The decrease in net sales for the electronic commerce segment for the thirty-nine week period was primarily due to sales of *Harry Potter and the Half Blood Prince* during fiscal 2006, which were not replaced in fiscal 2007. .

Gross profit increased \$1.0 million, or 3.6%, to \$29.1 million in the thirteen weeks ended October 28, 2006 when compared with \$28.1 million in the same thirteen week period for the prior year. For the thirty-nine weeks ended October 28, 2006, gross profit increased \$3.0 million, or 3.2%, to \$96.6 million from \$93.6 million in the same period last year. Gross profit as a percentage of net sales for the thirteen weeks ended October 28, 2006 was 26.3% versus 26.2% in the same period last year. Gross profit as a percentage of sales for the thirty-nine weeks ended October 28, 2006 was 28.0% versus 27.4% in the same period last year. The increase in gross profit as a percentage of net sales for the thirty-nine week period was primarily due to fewer promotional markdowns, including promotional markdowns related to sales of *Harry Potter and the Half Blood Prince*, in the thirty-nine week period versus the corresponding periods for the previous year.

Operating, selling and administrative expenses were \$26.2 million in the thirteen-week period ended October 28, 2006 compared to \$26.4 million in the same period last year. Operating, selling and administrative expenses as a percentage of net sales for the thirteen weeks ended October 28, 2006 decreased to 23.6% from 24.6% in the same period last year. The decrease in operating, selling and administrative expenses stated as a percentage of net sales for the thirteen-week period was primarily due to sales leverage from increased comparable store sales, as well as lower costs incurred for professional fees associated with Sarbanes-Oxley compliance work in the current year. For the thirty-nine weeks

## Edgar Filing: BOOKS A MILLION INC - Form 10-Q

ended October 28, 2006, operating, selling and administrative expenses were \$80.0 million compared to \$78.7 million in the same period last year. Operating, selling and administrative expenses as a percentage of net sales for the thirty-nine weeks ended October 28, 2006 increased slightly to 23.1% from 23.0% in the same period last year. The increase in operating, selling and administrative expenses for the thirty-nine week period was primarily due to increased expense related to higher stock-based compensation expense partially offset by lower costs incurred for professional fees associated with Sarbanes-Oxley compliance work in the current year.

Depreciation and amortization decreased 12.8% to \$3.4 million in the thirteen week period ended October 28, 2006, compared to \$3.9 million in the same period last year. In the thirty-nine week period ended October 28, 2006, depreciation and amortization decreased 12.6% to \$10.4 million from \$11.9 million in the same period last year. The decrease in depreciation and amortization expense was due to the impact of certain assets becoming fully depreciated during the prior year. The higher capital expenditures in previous years was due to more new store openings and a more aggressive remodel program in the prior years.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

## CONDITION AND RESULTS OF OPERATIONS

The following table sets forth operating income data for the thirteen weeks and the thirty-nine weeks ended October 28, 2006 and October 29, 2005:

Operating Income (Loss)	<u>Thirteen Weeks Ended</u>				<u>Twenty-Nine Weeks Ended</u>			
	October 28, 2006	October 29, 2005	\$ Change	% Change	October 28, 2006	October 29, 2005	\$ Change	% Change
Retail Trade	\$(672)	\$(1,398)	\$726	51.9%	\$5,757	\$3,862	\$1,895	49.1%
Electronic Commerce Trade	454	478	(24)	(5.0%)	1,077	650	427	65.7%
Intersegment Elimination of Certain Costs	(84)	(86)	2	2.3%	(415)	(188)	(227)	(120.7%)
Total Operating Income	\$(302)	\$(1,006)	\$704	70.0%	\$6,419	\$4,324	\$2,095	48.5%

The improvement in operating results for the retail trade segment for the thirteen week period was due to higher net sales coupled with slightly better margins and lower operating expenses and depreciation. This improvement was partially offset by higher insurance gains in the prior year period. The slight decline in operating results for the electronic commerce segment for the thirteen week period was due to lower net sales which were partially offset by lower costs incurred for shipping and warehouse handling.

The improvement in operating results for the retail trade segment for the thirty-nine week period was partially due to improved gross profit as a percentage of sales due to lower discounts versus last year, which included the discounts related to sales of *Harry Potter and the Half Blood Prince*, as well as to lower depreciation expense due to capital expenditures made in prior years becoming fully depreciated in the current period. Even though net sales for the electronic commerce segment for the thirty-nine week period ended October 28, 2006 decreased slightly, operating income for the electronic commerce segment increased compared with the same period last year primarily due to lower costs incurred for shipping and warehouse handling.

Interest expense was \$64,000 in the thirteen weeks ended October 28, 2006 versus \$0.4 million in the same period last year and \$0.2 million in the thirty-nine weeks ended October 28, 2006 versus \$1.2 million in the same period last year. The decrease was primarily due to lower average debt balances compared with the prior year.

Discontinued operations represent the fiscal 2007 closure of one retail store in a Georgia market and the fiscal 2006 closure of two retail stores in markets located in Tennessee and West Virginia where the Company does not expect another of its existing stores to absorb the closed stores customers. For the thirteen-week periods ended October 28, 2006 and October 29, 2005, these stores had net sales of \$0 and \$351,000, respectively, and pretax operating losses of \$12,000 and \$31,000, respectively. Store closing costs were \$0 for the thirteen weeks ended October 28, 2006 and October 29, 2005. For the thirty-nine week periods ended October 28, 2006 and October 29, 2005, these stores had net sales of \$139,000 and \$1.2 million, respectively, and pretax operating losses of \$89,000 and \$86,000, respectively. Also included in the loss on discontinued operations are store closing costs of \$9,000 and \$20,000 for the thirty-nine weeks ended October 28, 2006 and October 29, 2005, respectively. Expenses relating to store closings when the store is not classified as a discontinued operation are reported in operating, selling and administrative expenses. If the store is closed and another store is in the same market and the cash flows are expected to be materially recovered, the store is not considered a discontinued operation.

### **Liquidity and Capital Resources**

The Company's primary sources of liquidity are cash flows from operations, including credit terms from vendors, and borrowings under its credit facility. The Company has an unsecured revolving credit facility that allows borrowings up to \$100 million, for which no principal repayments are due until the facility expires in July 2011. The credit facility has certain financial and non-financial covenants, the most restrictive of which is the maintenance of a minimum fixed charge coverage ratio. The Company is in compliance with all of the covenants, including attaining the minimum fixed charge coverage ratio, as of October 28, 2006. As of October 28, 2006 and January 28, 2006, there was no outstanding debt under this credit facility. The maximum and average outstanding balances during the thirteen weeks ended October 28, 2006 were \$1.1 million and \$53,000, respectively, compared to \$18.5

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

million and \$11.2 million, respectively for the same period in the prior year. The maximum and average outstanding balances during the thirty-nine weeks ended October 28, 2006 were \$1.7 million and \$25,000, respectively, compared to \$23.7 million and \$11.7 million, respectively for the same period in the prior year. The decrease in the maximum and average outstanding balances from the prior year was due to the pay down of debt during fiscal 2006 with cash provided by operating activities.

Additionally, as of October 28, 2006 and January 28, 2006, the Company has \$7.2 million in aggregate outstanding borrowings under the Bond which is a variable rate industrial revenue bond secured by certain property. The Bond has a maturity date of December 1, 2019, with a purchase provision obligating the Company to repurchase the Bond on May 30, 2007, unless extended by the bondholder. Such an extension may be renewed annually by the bondholder, at the Company's request, to a date not more than five years from the renewal date. As of December 5, 2006 the Company has obtained a commitment letter from a bank to purchase the Bond from the existing bondholder, and it is expected that the new bondholder will extend the date of the Company's purchase obligation of the Bond until July 1, 2011.

*Financial Position*

Inventory balances were \$229.0 million as of October 28, 2006 compared to \$204.8 million as of January 28, 2006. The inventory increase was due to seasonal fluctuations in inventory. Inventory levels generally are lowest at the end of the fiscal year due to large post holiday returns to vendors. Accrued expenses were \$40.4 million as of October 28, 2006 compared to \$45.5 million as of January 28, 2006. Accrued expenses decreased primarily due to payment of fiscal 2006 management bonuses in the first quarter of fiscal 2007, redemption of gift cards sold to customers during the fourth quarter and lower capital expenditure accruals.

*Future Commitments*

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

**Payments Due Under Contractual Obligations**

	Total	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	Thereafter
Long-term debt-revolving	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
credit facility							
Long-term debt -industrial	7,200	-	7,200	-	-	-	-
revenue bond							
Subtotal of debt	\$ 7,200	-	7,200	-	-	-	-
Operating leases	140,696	8,410	30,770	25,413	19,995	16,275	39,833

Edgar Filing: BOOKS A MILLION INC - Form 10-Q

Total of obligations	\$ 147,896	\$ 8,410	\$ 37,970	\$ 25,413	\$ 19,995	\$ 16,275	\$ 39,833
----------------------	------------	----------	-----------	-----------	-----------	-----------	-----------

*Guarantees*

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

The nature and terms of these indemnities vary. The events or circumstances that would require the Company to perform under these indemnities are transaction and circumstance specific. Generally, the Company's maximum liability under such indemnities is not explicitly stated, and, therefore, the overall maximum amount of the Company's obligations cannot be reasonably estimated. Historically, the Company has not incurred significant costs related to performance under these types of indemnities. No liabilities have been recorded for these

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL**

**CONDITION AND RESULTS OF OPERATIONS**

obligations on the Company's balance sheet at October 28, 2006 and January 28, 2006 as such liabilities are considered *de minimis*.

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

*Off Balance Sheet Arrangements*

The Company does not have off balance sheet transactions that have or are reasonably likely to have a current or future material effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

*Cash Flows*

Operating activities used cash of \$5.2 million and \$7.2 million in the thirty-nine week periods ended October 28, 2006 and October 29, 2005, respectively, and included the following effects:

Cash used for inventories in the thirty-nine week periods ended October 28, 2006 and October 29, 2005 was \$24.2 million and \$16.6 million, respectively. Cash used for inventories for the thirty-nine week periods were due to normal seasonal fluctuations in inventory levels. The increased use of cash for inventories from the prior year was due to the opening of seven new stores during fiscal 2007.

Cash provided by accounts payable in the thirty-nine week periods ended October 28, 2006 and October 29, 2005 was \$11.1 million and \$2.8 million, respectively. The change versus the prior year was due to the timing of payments for merchandise purchases from vendors.

Depreciation and amortization expenses were \$10.4 million and \$11.9 million, respectively in the thirty-nine week periods ended October 28, 2006 and October 29, 2005. The decrease in depreciation and amortization expense was due to the impact of certain assets becoming fully depreciated during the prior year.

Cash flows used in investing activities reflected a \$11.6 million and \$9.5 million net use of cash for the thirty-nine week periods ended October 28, 2006 and October 29, 2005, respectively. Cash was used primarily to fund capital expenditures for new stores, store relocations, renovation and improvements to existing stores, and investments in management information systems.

Cash flows provided by (used in) financing activities were \$(7.1) million and \$5.2 million in the thirty-nine week periods ended October 28, 2006 and October 29, 2005, respectively. Financing activities used cash in fiscal 2007 primarily to purchase the Company's common stock (\$7.5 million) and for dividend payments (\$4.0 million), partially offset by proceeds from option exercises (\$1.8 million) and related tax benefits (\$2.6 million). Financing activities provided cash in fiscal 2006 from net borrowings under credit facilities (\$7.2 million), proceeds from option exercises (\$2.7 million) and related tax benefits (\$0.4 million) partially offset by purchases of the Company's common stock (\$2.7 million) and for dividend payments (\$2.4 million).

## **Outlook**

During the thirty-nine weeks ended October 28, 2006, the Company opened seven stores, relocated two stores, remodeled five stores and closed four stores. During the remainder of fiscal 2007, the Company expects to open two stores, complete remodels on approximately one to two stores and close two to three stores. The Company's capital expenditures totaled \$11.6 million in the thirty-nine week period ended October 28, 2006. Management estimates that capital expenditures for the remainder of fiscal 2007 will be approximately \$8.3 million, and that such amounts will be used primarily for opening new stores, relocating existing stores, renovating and improving existing stores, upgrading and expanding warehouse distribution facilities, and investing in management information systems. Management believes that existing cash on hand 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 the remainder of fiscal 2007.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

### CONDITION AND RESULTS OF OPERATIONS

#### Related Party Activities

Charles C. Anderson, a former director of the Company, Terry C. Anderson, a director of the Company, and Clyde B. Anderson, a director and officer of the Company, have controlling ownership interests in other entities with which the Company conducts business. Significant transactions between the Company and these various other entities ( related parties ) are summarized in the following paragraphs.

The Company purchases a substantial portion of its magazines as well as certain of its seasonal music from Anderson Media Corporation ("Anderson Media"), an affiliate through common ownership. During the thirty-nine weeks ended October 28, 2006 and October 29, 2005, purchases of these items from Anderson Media totaled \$18,054,000 and \$25,425,000, respectively. The Company purchases certain of its collectibles and books from Anderson Press, Inc. ("Anderson Press"), an affiliate through common ownership. During the thirty-nine weeks ended October 28, 2006 and October 29, 2005, such purchases from Anderson Press totaled \$1,103,000 and \$1,162,000, respectively. The Company purchases certain of its gift products from C.R. Gibson, Inc., an affiliate through common ownership. The purchases of these products during the thirty-nine weeks ended October 28, 2006 and October 29, 2005 were \$303,000 and \$156,000, respectively. The Company purchases certain magazine subscriptions from Magazines.com, an affiliate through common ownership. During the thirty-nine weeks ended October 28, 2006 and October 29, 2005, purchases of these items were \$34,000 and \$44,000, respectively. The Company purchases content for publication from Publication Marketing Corporation, an affiliate through common ownership. During the thirty-nine weeks ended October 28, 2006 and October 29, 2005, purchases of these items were \$53,000 and \$53,000, respectively. The Company utilizes import sourcing and consolidation services from Anco Far East Importers, LTD ( Anco Far East ), an affiliate through common ownership. The total paid to Anco Far East was \$1,884,000 and \$1,768,000 during the thirty-nine weeks ended October 28, 2006 and October 29, 2005, respectively. These amounts paid to Anco Far East primarily included the actual cost of the product as well as fees for sourcing and consolidation services. All costs other than the sourcing and consolidation service fees were passed through from other vendors. Anco Far East fees, net of the passed-through costs, were \$132,000 and \$124,000 during the thirty-nine weeks ended October 28, 2006 and October 29, 2005, respectively.

The Company sold books to Anderson Media in the amounts of \$838,000 and \$239,000 during the thirty-nine weeks ended October 28, 2006 and October 29, 2005, respectively. During the thirty-nine weeks ended October 28, 2006 and October 29, 2005, the Company provided \$0 and \$7,000, respectively, of internet services to Magazines.com. The Company provided internet services to American Promotional Events, an affiliate through common ownership, of \$61,000 and \$69,000 during the thirty-nine weeks ended October 28, 2006 and October 29, 2005, respectively.

The Company leases its principal executive offices from a trust, which was established for the benefit of the grandchildren of Mr. Charles C. Anderson, a former member of the Board of Directors. The Company leases the building on a month-to-month basis. During the thirty-nine weeks ended October 28, 2006 and October 29, 2005, the Company paid rent of \$103,000 in each period to the trust under this lease. Anderson & Anderson LLC ("A&A"), an affiliate through common ownership, also leases three buildings to the Company on a month-to-month basis. During the thirty-nine weeks ended October 28, 2006 and October 29, 2005, the Company paid A&A a total of \$336,000 and \$333,000, respectively, in connection with such leases. Total minimum future rental payments under all of these leases are \$0 at October 28, 2006. The Company subleases certain property to Hibbett Sporting Goods, Inc. ("Hibbett"), a sporting goods retailer in the southeastern United States. The Company's Executive Chairman, Clyde B. Anderson, is a member of Hibbett's board of directors. During the thirty-nine weeks ended October 28, 2006 and October 29, 2005, the Company received \$143,000 and \$157,000 in rent payments from Hibbett.

The Company shares ownership of a plane, which the Company uses in the operation of its business, with an affiliated company. The Company rents the plane to affiliated companies at rates that cover all of the variable cost, and a portion of the fixed cost of the plane. The total amounts received from affiliated companies for use of the plane during the thirty-nine weeks ended October 28, 2006 and October 29, 2005, was \$284,000 and \$238,000, respectively. The Company also occasionally rents a plane from A&A as well. The amounts paid to A&A for plane

Edgar Filing: BOOKS A MILLION INC - Form 10-Q

rental were \$9,000 and \$35,000 for the thirty-nine weeks ended October 28, 2006 and October 29, 2005, respectively.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company is subject to interest rate fluctuations involving its credit facilities and debt related to the Bond. In prior periods, the Company used fixed interest rate hedges to manage this exposure. The Company entered into a \$7.5 million interest rate swap in May 1996 that expired on June 7, 2006 and effectively fixed the interest rate on the Bond during that period at 8.73% (the Bond Hedge ). The Company did not replace the Bond Hedge when it expired.

To illustrate the sensitivity of the results of operations to changes in interest rates on its debt, the Company estimates that a 66% increase in LIBOR rates would have increased interest expense by approximately \$64,000 for the thirteen weeks ended October 28, 2006 due to average debt of \$7,253,000. The average debt under the credit agreement was \$53,000. The average debt under the Bond was \$7.2 million. Likewise, a 66% decrease in LIBOR rates would have decreased interest expense by \$64,000 for the thirteen weeks ended October 28, 2006. 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.

#### **ITEM 4. 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 SEC 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 Rule 13a-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, the Company's disclosure controls and procedures were effective at the reasonable assurance level.

##### **(b) Changes in Internal Control over Financial Reporting**

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes.

There were no changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II - OTHER INFORMATION**

## ITEM 1: Legal Proceedings

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

## ITEM 1A: Risk Factors

There have been no material changes in the risk factors disclosed in our Form 10-K/A for the fiscal year ended January 28, 2006.

## ITEM 2: Unregistered Sales of Equity Securities and Use of Proceeds

## Issuer Purchases of Securities

On June 8, 2006, the Board approved a new stock repurchase program (the 2006 Repurchase Program) to replace the 2004 Repurchase Program. Pursuant to the 2006 Repurchase Program, the Company is authorized to purchase up to \$10 million of its common stock. On August 23, 2006, the Board amended the 2006 Repurchase Program to authorize the repurchase of up to an additional \$25 million of shares of the Company's common stock. The following table shows common stock repurchases under the 2006 Repurchase Program during the thirteen weeks ended October 28, 2006:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program at End of Period
July 30, 2006 through September 1, 2006	16,290	\$15.24	16,290	\$30,564,297
September 2, 2006 through October 6, 2006	--	--	--	\$30,564,297
October 7, 2006 through October 28, 2006	--	--	--	\$30,564,297
Total	16,290	\$15.24	16,290	\$30,564,297

## ITEM 3: Defaults Upon Senior Securities

None

ITEM 4: Submission of Matters to a Vote of Security-Holders

None

ITEM 5: Other Information

None

ITEM 6: Exhibits

(A) Exhibits

Exhibit 3i Certificate of Incorporation of Books-A-Million, Inc. (incorporated herein by reference to Exhibit 3.1 in the Company's Registration Statement on Form S-1 (Capital Registration No. 33-52256)).

Exhibit 3ii By-Laws of Books-A-Million, Inc. (incorporated herein by reference to Exhibit 3.2 in the Company's Registration Statement on Form S-1 (Capital Registration No. 33-52256)).

25

## Edgar Filing: BOOKS A MILLION INC - Form 10-Q

Exhibit 10.1 Fourth Amendment to Credit Agreement among Books-A-Million and Bank of America N.A., Sun Trust Bank N. A., Wells Fargo Bank,N.A., SouthTrust Bank N. A. and AmSouth Bank N.A. (Exhibit 10 to Form 8-K dated August 9, 2006).

Exhibit 10.2 Fifth Amendment to Credit Agreement among Books-A-Million and Bank of America N.A., Sun Trust Bank N. A., Wells Fargo Bank,N.A., SouthTrust Bank N. A. and AmSouth Bank N.A. (Exhibit 10 to Form 8-K dated September 6, 2006).

Exhibit 31.1 Certification of Clyde B. Anderson, Executive Chairman of the Board of Books-A-Million, Inc., pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.

Exhibit 31.2 Certification of Sandra B. Cochran, President and Chief Executive Officer of Books-A-Million, Inc., pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.

Exhibit 31.3 Certification of Douglas G. Markham, Chief Financial Officer of Books-A-Million, Inc., pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.

Exhibit 32.1 Certification of Clyde B. Anderson, Executive Chairman of the Board of Books-A-Million, Inc., pursuant to 18 U.S.C. Section 1350.

Exhibit 32.2 Certification of Sandra B. Cochran, President and Chief Executive Officer of Books-A-Million, Inc., pursuant to 18 U.S.C. Section 1350.

Exhibit 32.3 Certification of Douglas G. Markham, Chief Financial Officer of Books-A-Million, Inc., pursuant to 18 U.S.C. Section 1350.

### **SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned duly authorized.

**BOOKS-A-MILLION, INC.**

Edgar Filing: BOOKS A MILLION INC - Form 10-Q

Date: December 7, 2006  
Clyde B. Anderson

by:/s/ Clyde B. Anderson

Executive Chairman of the Board

Date: December 7, 2006  
Sandra B. Cochran

by:/s/ Sandra B. Cochran

President and Chief Executive Officer

Date: December 7, 2006  
Douglas G. Markham

by:/s/ Douglas G. Markham

Chief Financial Officer



Exhibit 31.1

**CERTIFICATIONS**

I, Clyde B. Anderson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Books-A-Million, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 7, 2006

/s/ Clyde B. Anderson

Clyde B. Anderson  
Executive Chairman of the Board



Exhibit 31.2

## CERTIFICATIONS

I, Sandra B. Cochran, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Books-A-Million, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 7, 2006

/s/ Sandra B. Cochran  
Cochran

Sandra B.

President and Chief Executive Officer



Exhibit 31.3

## CERTIFICATIONS

I, Douglas G. Markham, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Books-A-Million, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 7, 2006

/s/ Douglas G. Markham

Douglas G. Markham

Chief Financial Officer



Exhibit 32.1

**Certification of Executive Chairman of the Board**

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Books-A-Million, Inc. (the Company ) hereby certifies, to the best of such officer's knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended October 28, 2006 (the Report ) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: December 7, 2006

/s/ Clyde B. Anderson  
Clyde B. Anderson  
Executive Chairman of the Board

30

Exhibit 32.2

**Certification of President and Chief Executive Officer**

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Books-A-Million, Inc. (the Company ) hereby certifies, to the best of such officer's knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended October 28, 2006 (the Report ) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: December 7, 2006

/s/ Sandra B. Cochran  
Sandra B. Cochran  
President and Chief Executive Officer



Exhibit 32.3

**Certification of Chief Financial Officer**

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Books-A-Million, Inc. (the Company ) hereby certifies, to the best of such officer's knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the quarterly period ended October 28, 2006 (the Report ) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: December 7, 2006

/s/ Douglas G. Markham  
Douglas G. Markham  
Chief Financial Officer