

BOOKS A MILLION INC  
Form 10-Q  
December 12, 2007  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended: November 3, 2007

- 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

Incorporation or Organization)

402 Industrial Lane, Birmingham, Alabama

(Address of principal executive offices)

63-0798460

(IRS Employer Identification No.)

35211

(Zip Code)

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(205) 942-3737

(Registrant's Telephone 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 \$0.01 per share, outstanding as of December 4, 2007 were 15,916,425 shares.

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

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

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

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands except per share and share amounts)

	As of November 3, 2007 (Unaudited)	As of February 3, 2007 (Audited)
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 8,092	\$ 34,121
Accounts receivable, net	6,420	7,524
Related party receivables	2,286	2,647
Inventories	251,310	200,277
Prepayments and other	5,130	4,365
<b>Total Current Assets</b>	<b>273,238</b>	<b>248,934</b>
<b>Property and Equipment:</b>		
Gross property and equipment	221,517	210,974
Less accumulated depreciation and amortization	168,386	159,503
<b>Net Property and Equipment</b>	<b>53,131</b>	<b>51,471</b>
<b>Deferred Income Taxes</b>	<b>3,074</b>	<b>2,031</b>
<b>Other Assets</b>	<b>1,546</b>	<b>1,601</b>
<b>Total Assets</b>	<b>\$ 330,989</b>	<b>\$ 304,037</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current Liabilities:</b>		
Trade accounts payable	\$ 120,029	\$ 83,419
Related party accounts payable	5,779	2,988
Accrued expenses	38,887	38,584
Accrued income taxes	--	2,714
Deferred income taxes	3,714	3,492
Short-term borrowings (Note 11)	51,000	--
<b>Total Current Liabilities</b>	<b>219,409</b>	<b>131,197</b>
<b>Long-Term Debt</b>	<b>7,100</b>	<b>7,100</b>
<b>Other Long-Term Liabilities</b>	<b>10,555</b>	<b>8,706</b>
<b>Total Non-Current Liabilities</b>	<b>17,655</b>	<b>15,806</b>
<b>Commitments and Contingencies (Note 6)</b>		
<b>Stockholders Equity:</b>		
Preferred stock, \$0.01 par value, 1,000,000 shares authorized, no shares outstanding	--	--
Common stock, \$0.01 par value, 30,000,000 shares authorized, 20,850,444 and 20,461,333 shares issued at November 3, 2007 and February 3, 2007, respectively	209	205
Additional paid-in capital	89,379	85,396

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Treasury stock at cost (4,737,286 and 3,818,356 shares at November 3, 2007 and February 3, 2007, respectively)	(38,787)	(24,414)
Retained earnings	43,124	95,847
<b>Total Stockholders Equity</b>	<b>93,925</b>	<b>157,034</b>
<b>Total Liabilities and Stockholders Equity</b>	<b>\$ 330,989</b>	<b>\$ 304,037</b>

See accompanying notes

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

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	<u>Thirteen Weeks Ended</u>		<u>Thirty-Nine Weeks Ended</u>	
	November 3, 2007	October 28, 2006	November 3, 2007	October 28, 2006
<b>Net Sales</b>	\$ 117,696	\$ 110,692	\$ 366,816	\$ 345,787
Cost of products sold (including warehouse distribution and store occupancy costs)	85,601	81,605	263,270	249,171
<b>Gross Profit</b>	32,095	29,087	103,546	96,616
Operating, selling and administrative expenses	29,075	26,165	85,375	80,047
Gain on insurance recovery	--	163	--	163
Depreciation and amortization	3,544	3,399	10,376	10,402
<b>Operating Income (loss)</b>	(524)	(314)	7,795	6,330
Interest expense, net	793	64	740	229
<b>Income (loss) before income taxes</b>	(1,317)	(378)	7,055	6,101
Income tax provision (benefit)	(762)	(177)	\$ 2,399	\$ 2,333
<b>Net Income (loss)</b>	\$ (555)	\$ (201)	\$ 4,656	\$ 3,768
<b>Net Income (loss) Per Common Share:</b>				
<b>Basic</b>	\$ (0.03)	(0.01)	\$ 0.29	\$ 0.23
<b>Diluted</b>	\$ (0.03)	(0.01)	\$ 0.28	\$ 0.23
<b>Weighted Average Common Shares Outstanding:</b>				
<b>Basic</b>	15,993	16,312	16,291	16,346
<b>Diluted</b>	15,993	16,312	16,512	16,826
<b>Dividends Declared Per Share (Note 13)</b>	\$ 0.09	\$ 0.08	\$ 3.27	\$ 0.24

See accompanying notes

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

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands)

(Unaudited)

	Common Stock		Additional	Treasury Stock		Retained	Total
	Shares	Amount	Paid-In Capital	Shares	Amount	Earnings	Stockholders Equity
<b>Balance February 3, 2007</b>	20,461	\$205	\$85,396	3,818	\$(24,414)	95,847	\$157,034
Adoption of FIN 48 (Note 12)						(1,987)	(1,987)
Purchase of treasury stock				919	(14,373)		(14,373)
Net income						4,656	4,656
Dividends paid						(55,392)	(55,392)
Issuance of restricted stock	155	2	1,120				1,122
Issuance of stock for employee stock purchase plan	8	-	95				95
Exercise of stock options	226	2	1,136				1,138
Excess tax benefit from stock-based compensation	-	-	1,632				1,632
<b>Balance November 3, 2007</b>	20,850	\$209	\$89,379	4,737	\$(38,787)	\$43,124	\$93,925

See accompanying notes



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

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	<u>Thirty Nine Weeks Ended</u>	
	November 3, 2007	October 28, 2006
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 4,656	\$ 3,768
Adjustments to reconcile net income to net cash provided (used) in operating activities:		
Depreciation and amortization	10,376	10,402
Stock-based compensation	1,122	1,082
Excess tax benefit from stock based compensation	(1,632)	(2,570)
(Gain) Loss on disposal of property	112	(12)
Deferred income tax benefit	(821)	(1,592)
Increase in inventories	(51,033)	(24,198)
Increase in accounts payable	39,401	11,126
Changes in certain other assets and liabilities	(164)	(3,215)
Total adjustments	(2,639)	(8,978)
Net cash provided (used) in operating activities	2,017	(5,210)
<b>Cash Flows from Investing Activities:</b>		
Capital expenditures	(12,146)	(11,628)
Proceeds from sale of equipment	--	15
Net cash used in investing activities	(12,146)	(11,613)
<b>Cash Flows from Financing Activities:</b>		
Borrowings under credit facilities (Note 11)	114,370	1,050
Repayments under credit facilities	(63,370)	(1,050)
Purchase of treasury stock	(14,373)	(7,470)
Proceeds from exercise of stock options and issuance of common stock under employee stock purchase plan	1,233	1,760
Excess tax benefit from stock based compensation	1,632	2,570
Payment of dividends (Note 13)	(55,392)	(3,971)
Net cash used in financing activities	(15,900)	(7,111)
Net decrease in cash and cash equivalents	(26,029)	(23,934)
Cash and cash equivalents at beginning of period	34,121	37,519
Cash and cash equivalents at end of period	\$ 8,092	\$ 13,585
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash paid during the thirty-nine week period for:		
Interest	\$ 1,261	\$ 532
Income taxes, net of refunds	\$ 6,634	\$ 7,120
<b>Supplemental Disclosures of Non Cash Investing Activities:</b>		
Decrease in accrued expenses for capital expenditures	\$ 135	\$ 526

See accompanying notes



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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. Basis of Presentation**

Books-A-Million, Inc. and its subsidiaries (collectively, the Company) are principally engaged in the sale of books, magazines and related items through a chain of retail bookstores. The Company presently operates 210 bookstores in 20 states and the District of Columbia, which are predominantly located in the southeastern United States. The Company also operates a retail Internet website. The Company presently consists of Books-A-Million, Inc. and its three wholly owned subsidiaries, American Wholesale Book Company, Inc. (American Wholesale), American Internet Service, Inc (AIS) and Books-A-Million Card Services, Inc. (Card Services). All inter-company balances and transactions have been eliminated in consolidation. For a discussion of the Company's business segments, see Note 8.

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 fiscal year ended February 3, 2007 and the notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2007.

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

Certain prior year amounts have been reclassified to conform to the current year presentation. The reclassification of the prior year amounts in the current year presentation are for amounts reported in the prior year for discontinued operations in the consolidated statements of income that have been reclassified to be consistent with current year presentation.

**Stock-Based Compensation**

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

The Company used the modified prospective transition method as permitted by SFAS No. 123(R). Under this transition method, the Company applied the provisions of SFAS No. 123(R) to new awards and to awards modified, repurchased or canceled after January 29, 2006. In addition,

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the Company recognizes compensation cost for the portion of awards for which the requisite service had not been rendered (unvested awards) that were outstanding as of January 29, 2006, as the remaining service is rendered. The compensation cost recorded for these awards is based on their grant-date fair value as previously calculated for the pro forma disclosures required by SFAS No. 123.

The Company's pre-tax compensation cost for stock-based employee compensation was \$1,122,000 (\$694,000 net of taxes) and \$1,082,000 (\$668,000 net of taxes) for the thirty-nine weeks ended November 3, 2007 and October 28, 2006, respectively.

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

*Stock Option Plan*

In April 1999, the Company adopted the Amended and Restated Employee Stock Purchase Plan (the "Stock Option Plan") which provided for option grants to executive officers, directors, and key employees. Upon the approval of the Books-A-Million, Inc. 2005 Incentive Award Plan by the Company's stockholders at the Company's annual meeting held in June 2005, the board of directors 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 Company's 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 November 3, 2007	
	Shares	Weighted Average Exercise Price
Options outstanding at beginning of period	270	\$5.09
Options granted	--	N/A
Options exercised	226	\$5.04
Options forfeited	--	N/A
Options outstanding at end of period	44	\$5.33
Options exercisable at end of period	44	\$5.33

The total intrinsic value of stock options exercised during the thirty-nine weeks ended November 3, 2007 was \$3,011,000.

The following table summarizes information about stock options outstanding and exercisable under the Stock Option Plan as of November 3, 2007 (shares in thousands):

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Options Outstanding at November 3, 2007	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Options Exercisable at November 3, 2007	Weighted Average Exercise Price
\$1.69 - \$2.37	11	5.06	\$2.31	11	\$2.31
\$2.68 - \$5.85	7	4.25	\$3.04	7	\$3.04
\$6.13 - \$9.62	26	6.45	\$7.22	26	\$7.22
Totals	44	5.76	\$5.33	44	\$5.33

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The aggregate intrinsic value of outstanding options and exercisable options under the Stock Option Plan at November 3, 2007 was \$326,000 and \$326,000, respectively.

### *2005 Incentive Award Plan*

On June 1, 2005, the stockholders of the Company approved the adoption of the Books-A-Million, Inc. 2005 Incentive Award Plan (the 2005 Plan ) for a total of 300,000 shares. On June 8, 2006, the stockholders of the Company approved an additional 300,000 shares to be awarded under the 2005 Plan. An aggregate of 600,000 shares of comm