

BOOKS A MILLION INC
Form 10-Q
September 13, 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: August 4, 2007

- OR -

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

For the transition 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)

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

(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 September 4, 2007 were 16,383,853 shares.

BOOKS-A-MILLION, INC. AND SUBSIDIARIES

INDEX

| | Page No. |
|--|----------|
| PART I. FINANCIAL INFORMATION | |
| Item 1. Financial Statements (Unaudited) | |
| <u>Condensed Consolidated Balance Sheets</u> | 3 |
| <u>Condensed Consolidated Statements of Income</u> | 4 |
| <u>Condensed Consolidated Statement of Changes in Stockholders' Equity</u> | 5 |
| <u>Condensed Consolidated Statements of Cash Flows</u> | 6 |
| <u>Notes to Condensed Consolidated Financial Statements</u> | 7 |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 17 |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u> | 23 |
| Item 4. <u>Controls and Procedures</u> | 23 |
| PART II. <u>OTHER INFORMATION</u> | |
| Item 1. <u>Legal Proceedings</u> | 24 |
| Item 1A. <u>Risk Factors</u> | 24 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 24 |
| Item 3. <u>Defaults Upon Senior Securities</u> | 24 |
| Item 4. <u>Submission of Matters to a Vote of Security-Holders</u> | 24 |
| Item 5. <u>Other Information</u> | 25 |

Item 6. Exhibits

25

2

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 August 4, 2007 (Unaudited) | As of February 3, 2007 |
|--|-------------------------------------|------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 6,146 | \$ 34,121 |
| Accounts receivable, net | 5,174 | 7,524 |
| Related party receivables | 1,148 | 2,647 |
| Inventories | 218,242 | 200,277 |
| Prepayments and other | 4,835 | 4,365 |
| Total Current Assets | 235,545 | 248,934 |
| Property and Equipment: | | |
| Gross property and equipment | 217,553 | 210,974 |
| Less accumulated depreciation and amortization | 165,358 | 159,503 |
| Net Property and Equipment | 52,195 | 51,471 |
| Deferred Income Taxes | 2,279 | 2,031 |
| Other Assets | 1,564 | 1,601 |
| Total Assets | \$ 291,583 | \$ 304,037 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current Liabilities: | | |
| Trade accounts payable | \$ 97,127 | \$ 83,419 |
| Related party accounts payable | 6,311 | 2,988 |
| Accrued expenses | 35,969 | 38,584 |
| Accrued income taxes | -- | 2,714 |
| Deferred income taxes | 3,808 | 3,492 |
| Short-term borrowings (Note 11) | 31,300 | -- |
| Total Current Liabilities | 174,515 | 131,197 |
| Long-Term Debt | 7,100 | 7,100 |
| Other Long-Term Liabilities | 10,319 | 8,706 |
| Total Non-Current Liabilities | 17,419 | 15,806 |
| Commitments and Contingencies (Note 6) | | |
| Stockholders Equity: | | |
| 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, 20,849,694 and 20,461,333 shares issued at August 4, 2007 and February 3, 2007, respectively | 208 | 205 |
| Additional paid-in capital | 88,684 (34,396) | 85,396 (24,414) |

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

Treasury stock at cost (4,402,506 and 3,818,356 shares at August 4, 2007 and February 3, 2007, respectively)

| | | |
|--|-------------------|-------------------|
| Retained earnings | 45,153 | 95,847 |
| Total Stockholders Equity | 99,649 | 157,034 |
| Total Liabilities and Stockholders Equity | \$ 291,583 | \$ 304,037 |

See accompanying notes

BOOKS-A-MILLION, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(Unaudited)

| | <u>Thirteen Weeks Ended</u> | | <u>Twenty-Six Weeks Ended</u> | |
|--|-----------------------------|---------------|-------------------------------|---------------|
| | August 4, 2007 | July 29, 2006 | August 4, 2007 | July 29, 2006 |
| Net Sales | \$ 132,802 | \$ 121,209 | \$ 249,120 | \$ 235,095 |
| Cost of products sold (including warehouse distribution and store occupancy costs) | 95,110 | 86,291 | 177,669 | 167,567 |
| Gross Profit | 37,692 | 34,918 | 71,451 | 67,528 |
| Operating, selling and administrative expenses | 29,331 | 27,291 | 56,300 | 53,882 |
| Depreciation and amortization | 3,496 | 3,574 | 6,832 | 7,002 |
| Operating Income | 4,865 | 4,053 | 8,319 | 6,644 |
| Interest expense (income), net | 64 | 110 | (53) | 165 |
| Income before income taxes | 4,801 | 3,943 | 8,372 | 6,479 |
| Income tax provision | 1,701 | 1,486 | 3,161 | 2,510 |
| Net Income | \$ 3,100 | \$ 2,457 | \$ 5,211 | \$ 3,969 |
| Net Income Per Common Share: | | | | |
| Basic | \$ 0.19 | \$ 0.15 | \$ 0.32 | \$ 0.24 |
| Diluted | \$ 0.19 | \$ 0.15 | \$ 0.31 | \$ 0.23 |
| Weighted Average Common Shares Outstanding: | | | | |
| Basic | 16,437 | 16,434 | 16,440 | 16,363 |
| Diluted | 16,656 | 16,901 | 16,693 | 16,899 |
| Dividends Declared Per Share (Note 13) | \$ 3.09 | \$ 0.08 | \$ 3.18 | \$ 0.16 |

See accompanying notes

BOOKS-A-MILLION, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands)

(Unaudited)

| | Common Stock | | Additional Paid-In Capital | Treasury Stock | | Retained Earnings | Total Stockholders' Equity |
|--|--------------|--------|----------------------------------|----------------|------------|----------------------|----------------------------------|
| | Shares | Amount | | Shares | Amount | | |
| Balance February 3, 2007 | 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 | | | | 584 | (9,982) | | (9,982) |
| Net income | | | | | | 5,211 | 5,211 |
| Dividends paid | | | | | | (53,918) | (53,918) |
| Issuance of restricted stock | 154 | 1 | 704 | | | | 705 |
| 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 | | | 1,353 | | | | 1,353 |
| Balance August 4, 2007 | 20,849 | \$208 | \$88,684 | 4,402 | (\$34,396) | \$45,153 | \$99,649 |

See accompanying notes

BOOKS-A-MILLION, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

| | <u>Twenty Six Weeks Ended</u> August 4, 2007 | July 29, 2006 |
|---|---|---------------|
| Cash Flows from Operating Activities: | | |
| Net income | \$ 5,211 | \$ 3,969 |
| Adjustments to reconcile net income to net cash provided (used) in operating activities: | | |
| Depreciation and amortization | 6,832 | 7,002 |
| Stock-based compensation | 705 | 763 |
| Excess tax benefit from stock based compensation | (1,353) | (2,135) |
| Gain on disposal of property | (26) | (12) |
| Deferred income tax benefit | 68 | (1,555) |
| Increase in inventories | (17,965) | (4,293) |
| Increase (decrease) in accounts payable | 17,031 | (4,388) |
| Changes in certain other assets and liabilities | (1,686) | (2,506) |
| Total adjustments | 3,606 | (7,124) |
| Net cash provided (used) in operating activities | 8,817 | (3,155) |
| Cash Flows from Investing Activities: | | |
| Capital expenditures | (6,778) | (6,319) |
| Proceeds from sale of equipment | -- | 15 |
| Net cash used in investing activities | (6,778) | (6,304) |
| Cash Flows from Financing Activities: | | |
| Borrowings under credit facilities (Note 11) | 33,300 | 1,700 |
| Repayments under credit facilities | (2,000) | (1,700) |
| Purchase of treasury stock | (9,982) | (7,221) |
| Proceeds from exercise of stock options and issuance of common stock under employee stock purchase plan | 1,233 | 1,465 |
| Excess tax benefit from stock based compensation | 1,353 | 2,135 |
| Payment of dividends (Note 13) | (53,918) | (2,646) |
| Net cash used in financing activities | (30,014) | (6,267) |
| Net decrease in cash and cash equivalents | (27,975) | (15,726) |
| Cash and cash equivalents at beginning of period | 34,121 | 37,519 |
| Cash and cash equivalents at end of period | \$ 6,146 | \$ 21,793 |
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash paid during the twenty-six week period for: | | |
| Interest | \$ 230 | \$ 532 |
| Income taxes, net of refunds | \$ 5,537 | \$ 4,792 |
| Supplemental Disclosures of Non Cash Investing Activities: | | |
| (Increase) decrease in accrued expenses for capital expenditures | \$ (796) | \$ 806 |

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 (the Company) are principally engaged in the sale of books, magazines and related items through a chain of retail bookstores. The Company presently operates 206 bookstores in 20 states and the District of Columbia, which are predominantly located in the southeastern United States. The Company also operates a retail Internet website. The Company presently consists of Books-A-Million, Inc. and its three wholly owned subsidiaries, American Wholesale Book Company, Inc. (American Wholesale), American Internet Service, Inc (AIS) and Books-A-Million Card Services, Inc. (Card Services). All inter-company balances and transactions have been eliminated in consolidation. For a discussion of the Company's business segments, see Note 8.

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 February 3, 2007 and the notes thereto contained in the Company's Annual Report on Form 10-K for the 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 to 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 cancelled after January 29, 2006. In addition,

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

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 \$705,000 (\$439,000 net of taxes) and \$763,000 (\$467,000 net of taxes) for the twenty-six weeks ended August 4, 2007 and July 29, 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 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 common stock on the date of grant. A summary of the status of the Stock Option Plan is as follows (*shares in thousands*):

| | Twenty-Six Weeks Ended August 4, 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 twenty-six weeks ended August 4, 2007 was \$3,011,000.

The following table summarizes information about stock options outstanding and exercisable under the Stock Option Plan as of August 4, 2007 (*shares in thousands*):

| Range of Exercise Price | Options Outstanding | | | Options Exercisable | |
|-------------------------|---|---|------------------------------------|--|------------------------------------|
| | Options Outstanding at August 4, 2007 | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Options Exercisable at August 4, 2007 | Weighted Average Exercise Price |
| \$1.69 - \$2.37 | 11 | 5.31 | \$2.31 | 11 | \$2.31 |
| \$2.68 - \$5.85 | 7 | 4.50 | \$3.04 | 7 | \$3.04 |
| \$6.13 - \$9.62 | 26 | 6.70 | \$7.22 | 26 | \$7.22 |
| Totals | 44 | 6.01 | \$5.33 | 44 | \$5.33 |

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

The aggregate intrinsic value of outstanding options and exercisable options under the Stock Option Plan at August 4, 2007 was \$430,000 and \$430,000, 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 Plan. An aggregate of 600,000 shares of common stock may be awarded under the 2005 Plan. From June 1, 2005 through August 4, 2007, awards under the 2005 Plan consisted solely of awards of restricted stock.

BOOKS-A-MILLION, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

Executive Incentive Plan

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

Restricted Stock Table

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

| | Twenty-Six Weeks Ended | |
|-------------------------------|------------------------|--|
| | August 4, 2007 | |
| | Shares | Weighted Average Grant Date Fair Value |
| Shares at beginning of period | 281 | \$11.56 |

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

| | | |
|-------------------------|-----|---------|
| Shares granted | 160 | \$14.16 |
| Shares vested | (3) | \$16.00 |
| Shares forfeited | (6) | \$13.59 |
| Shares at end of period | 432 | \$16.64 |

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

As of August 4, 2007, the Company had \$3,720,000 of total unrecognized compensation cost related to non-vested awards granted under its various share-based plans, which it expects to recognize over the following fiscal years:

| Fiscal Year | Stock-based Compensation Expense |
|-------------|--|
| 2008 | \$815,000 |
| 2009 | 1,385,000 |
| 2010 | 908,000 |
| 2011 | 396,000 |
| 2012 | 216,000 |
| Total | \$3,720,000 |

The Company received cash from options exercised during the twenty-six weeks ended August 4, 2007 and July 29, 2006 of \$1,138,000 and \$1,378,000, 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 August 4, 2007 is 199,727 shares.

2. Net Income Per Common Share

Basic net income per common share is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted net income per common share reflects the potential dilution, using the treasury stock method, which could occur if stock options are exercised or restricted stock granted to employees vested and resulted in an increase of common stock that then shared in the earnings of the Company. Diluted net income per common share 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 of the thirteen week and twenty-six week periods set forth below. A reconciliation of the weighted average shares for basic and diluted net income per common share is as follows:

For the Thirteen Weeks Ended
(in thousands)

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

| | August 4, 2007 | July 29, 2006 |
|---|----------------|---------------|
| Weighted average shares outstanding: | | |
| Basic | 16,437 | 16,434 |
| Dilutive effect of stock options and restricted | | |
| stock outstanding | 219 | 467 |
| Diluted | 16,656 | 16,901 |

| | For the Twenty-Six Weeks Ended (in thousands) | |
|---|--|---------------|
| | August 4, 2007 | July 29, 2006 |
| Weighted average shares outstanding: | | |
| Basic | 16,440 | 16,363 |
| Dilutive effect of stock options and restricted | | |
| stock outstanding | 253 | 536 |
| Diluted | 16,693 | 16,899 |

There were no options outstanding to purchase shares of common stock nor shares of restricted stock outstanding as of August 4, 2007 or July 29, 2006 that were anti-dilutive under the treasury stock method. Therefore, no options nor shares of restricted stock were excluded from the table above.

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.

We purchase a substantial portion of our magazines, as well as certain of our seasonal music and newspapers from Anderson Media Corporation (Anderson Media), an affiliate through common ownership. During the twenty-six weeks ended August 4, 2007 and July 29, 2006, purchases of these items from Anderson Media totaled \$15,490,000 and \$11,709,000 respectively. The Company purchases certain of its collectibles and books from Anderson Press, Inc. (Anderson Press), an affiliate through common ownership. During the twenty-six weeks ended August 4, 2007 and July 29, 2006, such purchases from Anderson Press totaled \$1,260,000 and \$550,000, respectively. The Company purchases certain of its greeting cards and gift products from C.R. Gibson, Inc., an affiliate through common ownership. The purchases of these products during the twenty-six weeks ended August 4, 2007 and July 29, 2006 were \$141,000 and \$210,000, 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 \$1,292,000 and \$1,362,000 during the twenty-six weeks ended August 4, 2007 and July 29, 2006, 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 \$90,000 and \$95,000 during the twenty-six weeks ended August 4, 2007 and July 29, 2006, respectively.

The Company sold books to Anderson Media in the amounts of \$417,000 and \$399,000 during the twenty-six weeks ended August 4, 2007 and July 29, 2006, respectively.

The Company leases its principal executive offices from a trust, which was established for the benefit of the grandchildren of Charles C. Anderson. The Company leases the building on a month-to-month basis. During the twenty-six weeks ended August 4, 2007 and July 29, 2006, the Company paid rent of \$77,000 and \$69,000, respectively, in connection with this lease. Anderson & Anderson LLC (A&A), an affiliate through common ownership, also leases two buildings to the Company on a month-to-month basis. During the twenty-six weeks ended August 4, 2007 and July 29, 2006, the Company paid A&A a total of \$205,000 and \$224,000, respectively, in connection with such leases. Total minimum future rental payments under all of these leases are \$0 at August 4, 2007. The Company subleases certain property to Hibbett Sporting Goods, Inc. (Hibbett), a sporting goods retailer in the southeastern United States. The Company's Executive Chairman, Clyde B. Anderson, is a member of Hibbett's board of directors. During each of the twenty-six weeks ended August 4, 2007 and July 29, 2006, the Company received \$95,000 in rent payments from Hibbett.

We share ownership of a plane, which we use in the operation of our business, with an affiliated company. The Company rents the plane to affiliated companies at rates that cover all of the variable costs, and a portion of the fixed cost of the plane. The total amounts received from affiliated companies for use of the plane during the twenty-six weeks ended August 4, 2007 and July 29, 2006, was \$277,000 and \$159,000, respectively. The Company also occasionally rents a plane from A&A as well. The amounts paid to A&A for plane rental were \$31,000 and \$8,000 for the twenty-six weeks ended August 4, 2007 and July 29, 2006, respectively.

4. Derivative and Hedging Activities

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, amended by SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB*

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

Statement No. 133, and SFAS No. 138, *Accounting for Certain Derivatives and Certain Hedging Activities*, and SFAS No.149,

Amendment of SFAS No. 133 on Derivatives and Hedging Activities. SFAS No. 133 established accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

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

At August 4, 2007 and February 3, 2007, there were no liabilities related to derivatives classified as other long-term liabilities.

The Company was 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 at 8.73% (the Bond Hedge). The Company did not replace the Bond Hedge when it expired.

For the thirteen and twenty-six weeks ended July 29, 2006, an adjustment gain of \$7,000 (net of tax provision of \$4,000) was recorded as unrealized gains in accumulated other comprehensive income (loss), as detailed in Note 5.

5. Comprehensive Income

Comprehensive income 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:

| Comprehensive Income (in thousands) | Thirteen Weeks Ended July 29, 2006 | Twenty-six Weeks Ended July 29, 2006 |
|--|---------------------------------------|---|
| Net Income | \$2,457 | \$3,969 |
| Unrealized gains on hedges, net of deferred tax provision of \$4 | 7 | 7 |
| Total comprehensive income | \$2,464 | \$3,976 |

Comprehensive income equals net income for the thirteen and twenty-six weeks ended August 4, 2007.

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 certain types of agreements that require the Company to indemnify parties against third party claims. Generally, these agreements relate to: (a) agreements with vendors and suppliers, under which the Company may provide customary indemnification to its vendors and suppliers in respect of actions they take at the Company's request or otherwise on its behalf, (b) agreements with vendors who publish books or manufacture merchandise specifically for the Company to indemnify the vendors against trademark and copyright infringement claims concerning the books published or merchandise manufactured on behalf of the Company, (c) real estate leases, under which the Company may agree to indemnify the lessors for claims arising from the Company's use of the property, and (d) agreements with the Company's directors, officers and employees, under which the Company may agree to indemnify such persons for liabilities arising out of their relationship with the Company. Currently, no such agreements are in place. The Company has Directors and Officers Liability

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

Insurance, which, subject to the policy's conditions, provides coverage for indemnification amounts payable by the Company with respect to its directors and officers up to specified limits and subject to certain deductibles.

The nature and terms of these types of indemnities vary. The events or circumstances that would require the Company to perform under these indemnities are transaction and circumstance specific. Historically, the Company has not incurred significant costs related to performance under these types of indemnities. No liabilities have been recorded because there were no agreements in place to indemnify outside parties as of August 4, 2007 and February 3, 2007.

BOOKS-A-MILLION, INC. AND SUBSIDIARIES**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****7. Inventories**

Inventories are valued at the lower of cost or market, using the retail method. Market is determined based on the lower of replacement cost or estimated realizable value. Using the retail method, store and warehouse inventories are valued by applying a calculated cost to retail ratio to the retail value of inventories.

The Company currently utilizes the last-in, first-out (LIFO) method of accounting for inventories. The cumulative difference between replacement and current cost of inventory over stated LIFO value is \$2.3 million as of August 4, 2007 and \$2.1 million as of February 3, 2007. The estimated replacement cost of inventory is the current first-in, first-out (FIFO) value of \$220.5 million.

Physical inventory counts are taken throughout the course of the fiscal period and reconciled to the Company's records. Accruals for inventory shortages are estimated based upon historical shortage results.

Inventory balances at August 4, 2007 and February 3, 2007 were (in thousands):

| | August 4, 2007 | February 3, 2007 |
|-----------------------|----------------|------------------|
| Inventories (at FIFO) | \$220,521 | \$202,327 |
| LIFO reserve | (2,279) | (2,050) |
| Net inventories | \$218,242 | \$200,277 |

8. Business Segments

The Company has two reportable segments: retail trade and electronic commerce trade. The retail trade segment is a strategic business segment that is engaged in the retail trade of mostly book merchandise and includes the Company's distribution center operations, which supplies merchandise predominantly to the Company's retail stores. The electronic commerce trade segment is a strategic business segment that transacts business over the Internet and is managed separately due to divergent technology and marketing requirements. The Company evaluates performance of the segments based on profit and loss from operations before interest and income taxes. Certain intersegment cost allocations have been made based upon consolidated and segment revenues. Shipping income related to internet sales is included in net sales, and shipping expense is included in cost of sales.

| Segment Information (in thousands) | <u>Thirteen Weeks Ended</u> | <u>Twenty-Six Weeks Ended</u> |
|------------------------------------|-----------------------------|-------------------------------|
| | July 29, 2006 | July 29, 2006 |

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

| | August 4, 2007 | | August 4, 2007 | |
|---|---------------------------|------------|---------------------------|-----------------------------|
| Net Sales | | | | |
| Retail Trade | \$ 131,556 | \$ 119,660 | \$ 246,196 | \$ 231,894 |
| Electronic Commerce Trade | 6,502 | 5,880 | 12,641 | 12,348 |
| Intersegment Sales Elimination | (5,256) | (4,331) | (9,717) | (9,147) |
| Net Sales | \$ 132,802 | \$ 121,209 | \$ 249,120 | \$ 235,095 |
| Operating Income | | | | |
| Retail Trade | \$ 4,769 | \$ 3,894 | \$ 8,055 | \$ 6,345 |
| Electronic Commerce Trade | 311 | 397 | 602 | 630 |
| Intersegment Elimination of Certain Costs | (215) | (238) | (338) | (331) |
| Total Operating Income | \$ 4,865 | \$ 4,053 | \$ 8,319 | \$ 6,644 |
| | | | As of | As of |
| | | | August 4, 2007 | February 3, 2007 |
| Assets | | | | |
| Retail Trade | \$ | \$ | \$ 290,724 | \$ 303,110 |
| Electronic Commerce Trade | | | 859 | 927 |
| Intersegment Asset Elimination | | | -- | -- |
| Total Assets | \$ | \$ | \$ 291,583 | \$ 304,037 |

BOOKS-A-MILLION, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

9. Recent Accounting Pronouncements

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted the provisions of FIN 48, effective February 4, 2007. As a result of the adoption of FIN 48, the Company recorded an increase of \$1,987,000 in other long-term liabilities in its consolidated balance sheet for unrecognized tax benefits, which was accounted for as a cumulative effect adjustment to the February 4, 2007 balance of retained earnings. Please refer to Note 12 for details.

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

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

In May 2007, the FASB issued FASB Staff Position No. FIN 48-1, *Definition of Settlement in FASB Interpretation No. 48* (FSP FIN 48-1). FSP FIN 48-1 amends FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, to provide guidance on how an enterprise should determine whether a tax position is effectively settled for the purposes of recognizing previously unrecognized tax benefits. The Company is required to apply the guidance provided in FSP FIN 48-1 upon its adoption of FIN 48 which was as of February 4, 2007. The application of FSP FIN 48-1 has not had a material effect on the Company's financial position, results of operations, or cash flows.

In June 2007, the Emerging Issues Task Force (EITF) of the FASB ratified their consensus position 06-11 (EITF 06-11), *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards*. EITF 06-11 provides guidance on how a company should recognize the income tax benefit received on dividends that are paid to employees holding equity-classified nonvested shares, equity-classified nonvested share units, or equity-classified outstanding share options charged to retained earnings under FASB Statement 123(R), *Share-Based Payment*. The Company is required to apply the guidance provided in EITF 06-11 prospectively to income tax benefits of dividends on equity-classified employee share-based payment awards that are declared in fiscal years beginning after September 15, 2007. Early application of EITF 06-11 is permitted for the income tax benefit of dividends on equity-classified employee share-based payment awards that are declared in periods for which financial statements have not yet been issued. The Company has elected early application as of the fiscal quarter ending August 4, 2007. The early application of EITF 06-11 has not had a material effect on the Company's financial position, results of operation or cash flows.

10. Discontinued Operations

The Company closed one store during the twenty-six weeks ended July 29, 2006 in a market where the Company does not expect to retain the closed stores' customers at another store in the same market. The store's sales and operating results for the twenty-six weeks ended July 29, 2006 were not reported as discontinued operations because the impact on the financial statements was immaterial. The Company did not close any stores during the twenty-six weeks ended August 4, 2007 in markets where we do not expect to retain the closed stores' customers. Prior year amounts were reclassified to conform to the current year presentation.

BOOKS-A-MILLION, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

11. Debt and Lines of Credit

The Company's current credit facility allows for unsecured borrowings of up to \$100 million for which no principal payments are due until the facility expires in July 2011. Availability under the facility is reduced by outstanding letters of credit issued thereunder. Interest on borrowings under the credit facility is determined based upon applicable LIBOR rates and the Company's rate spread, which varies depending on the maintenance of certain covenants. The credit facility contains financial and non-financial covenants, the most restrictive of which is the maintenance of a minimum fixed charge coverage ratio. The Company was in compliance with all covenants for the twenty-six weeks ended August 4, 2007 and as of August 4, 2007. As of August 4, 2007 and February 3, 2007 there were outstanding borrowings under this credit facility of \$31.3 million and \$0, respectively and the face amount of letters of credit issued under the credit facility were \$2.7 million and \$2.9 million, respectively. The maximum and average outstanding borrowings under the credit facility (excluding letters of credit issued there-under) during the twenty-six weeks ended August 4, 2007 were \$34.5 million and \$4.9 million, respectively.

During fiscal 1996 and fiscal 1995, the Company acquired and constructed certain warehouse and distribution facilities with the proceeds of loans made pursuant to the Bond, which was secured by a mortgage interest in these facilities. As of August 4, 2007 and February 3, 2007, there was \$7.1 million of borrowings outstanding, under these arrangements, which bear interest at variable rates (6.32% as of August 4, 2007). The Bond has a maturity date of December 1, 2019, but also has a purchase provision obligating the Company to repurchase the Bond at an earlier date. In fiscal 2007, the current bondholder extended the date of the Company's purchase obligation of the Bond until July 1, 2011 and did not require a mortgage interest to secure the Bond. Such an extension may be renewed annually by the bondholder, at the Company's request, to a date no more than five years from the renewal date.

Net interest for the thirteen weeks ended August 4, 2007 and July 29, 2006 includes interest expense of \$326,000 and \$239,000, respectively. Net interest for the twenty-six weeks ended August 4, 2007 and July 29, 2006 includes interest expense of \$526,000 and \$472,000, respectively.

12. Income Taxes

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. The Company is no longer subject to U.S. federal income tax examinations by tax authorities for fiscal years prior to fiscal 2004. There are no ongoing income tax examinations of any of the open years.

With respect to state and local jurisdictions, with limited exceptions, the Company and its subsidiaries are no longer subject to income tax audits for fiscal years prior to fiscal 2003. Although the outcome of tax audits is always uncertain, the Company believes that adequate amounts of tax, interest and penalties have been provided for any adjustments that are expected to result from the open years for any federal, state or local jurisdictions.

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

The Company adopted the provisions of FIN 48 effective February 4, 2007. As a result of the implementation of FIN 48, the Company recorded an increase of \$1,987,000 in other long-term liabilities, including interest and penalties, which was accounted for as a cumulative effect reduction to the February 4, 2007 balance of retained earnings.

As of August 4, 2007, the gross amount of unrecognized tax benefits was \$1,509,000, all of which would affect the effective tax rate if recognized. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. The Company had approximately \$725,000 in interest and penalties related to unrecognized tax benefits accrued as of August 4, 2007. The Company's total liability for unrecognized tax benefits, including interest and penalties, as of August 4, 2007 was \$2,234,000.

It is reasonably possible that the amount of the unrecognized benefit with respect to certain of the Company's unrecognized tax positions will significantly increase or decrease within the next 12 months. These changes may be the result of new audits by federal, state or local jurisdictions, settlement of ongoing audits or the expiration of the statute of limitations related to certain tax periods currently still open with the taxing jurisdictions. The amount of unrecognized tax benefits, including interest and penalties, that would no longer need to be accrued

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

due to the passage of various statutes of limitations in the next 12 months is \$470,000. The balance of the unrecognized tax benefits is primarily related to uncertain tax positions for which there are no current ongoing federal or state audits and therefore, an estimate of the range of the reasonably possible outcomes cannot be made.

The Company's effective tax rate for the twenty-six weeks ended August 4, 2007 was 37.8% versus an effective tax rate of 38.7% for the twenty-six weeks ended July 29, 2006.

13. Special Dividend

On June 4, 2007, the Company's board of directors declared a special one-time cash dividend of \$3.00 per common share. The dividend was paid on July 5, 2007 to stockholders of record at the close of business on June 20, 2007. A total of \$50.9 million was paid on the Company's 16,958,000 outstanding shares of common stock as a result of the special dividend.

14. Revenue Recognition

The Company sells gift cards to its customers in its retail stores. The gift cards do not have an expiration date. Income is recognized from gift cards when: (1) the gift card is redeemed by the customer; or (2) the likelihood of the gift card being redeemed by the customer is remote (gift card breakage) and there is no legal obligation to remit the value of the unredeemed gift cards to the relevant jurisdictions. The gift card breakage rate is determined based upon historical redemption patterns. Based on this historical information, the likelihood of a gift card remaining unredeemed can be determined after 24 months of card inactivity. At that time, breakage income is recognized for those cards for which the likelihood of redemption is deemed to be remote and for which there is no legal obligation to remit the value of such unredeemed gift cards to the relevant jurisdictions. In fiscal 2007, the Company formed a gift card subsidiary, Books-A-Million Card Services, Inc. to administer the Company's gift card program and to provide a more advantageous legal structure. Breakage income for the thirteen weeks ended August 4, 2007 and July 29, 2006 was \$266,000 and \$155,000, respectively. Breakage income for the twenty-six weeks ended August 4, 2007 and July 29, 2006 was \$439,000 and \$273,000, respectively.

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 our actual results, performance, achievements 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 our specific market areas; inflation; economic conditions in general and in our specific market areas; the number of store openings and closings; the profitability of certain product lines and capital expenditures; future liquidity; liability and other claims asserted against us; uncertainties related to the Internet and our Internet initiatives; and other factors referenced herein. In addition, such forward-looking statements are necessarily dependent upon assumptions, estimates and dates that may be incorrect or imprecise and involve known and unknown risks, uncertainties and other factors. Accordingly, any forward-looking statements included herein do not purport to be predictions of future events or circumstances and may not be realized. Given these uncertainties, stockholders and prospective investors are cautioned not to place undue reliance on such forward-looking statements. We disclaim 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 206 retail bookstores, including 179 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 income data expressed as a percentage of net sales for the periods presented.

| | <u>Thirteen Weeks Ended</u> | | <u>Twenty-Six Weeks Ended</u> | |
|--|------------------------------------|----------------------|--------------------------------------|----------------------|
| | August 4, 2007 | July 29, 2006 | August 4, 2007 | July 29, 2006 |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Gross profit | 28.4% | 28.8% | 28.7% | 28.7% |
| Operating, selling and administrative expenses | 22.1% | 22.5% | 22.6% | 22.9% |
| Depreciation and amortization | 2.6% | 2.9% | 2.7% | 3.0% |

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

| | | | | |
|---|------|-------|------|-------|
| Operating income | 3.7% | 3.4% | 3.4% | 2.8% |
| Interest expense, net | 0.1% | 0.1% | 0.0% | 0.0% |
| Income from continuing operations before income taxes | 3.6% | 3.3% | 3.4% | 2.8% |
| Income tax provision | 1.3% | 1.3 % | 1.3% | 1.1 % |
| Income from continuing operations | 2.3% | 2.0% | 2.1% | 1.7% |
| Net income | 2.3% | 2.0% | 2.1% | 1.7% |

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

The following table sets forth net sales data by segment for the periods presented:

Segment Information (in thousands)

| Net Sales | Thirteen Weeks Ended | | | | Twenty-Six Weeks Ended | | | |
|---------------------|----------------------|---------------|-----------|----------|------------------------|---------------|-----------|----------|
| | August 4, 2007 | July 29, 2006 | \$ Change | % Change | August 4, 2007 | July 29, 2006 | \$ Change | % Change |
| Retail Trade | \$131,556 | \$119,660 | \$11,896 | 9.9% | \$246,196 | \$231,894 | \$14,302 | 6.2% |
| Electronic Commerce | | | | | | | | |
| Trade | 6,502 | 5,880 | 622 | 10.6% | 12,641 | 12,348 | 293 | 2.4% |
| Intersegment Sales | | | | | | | | |
| Elimination | (5,256) | (4,331) | (925) | (21.4%) | (9,717) | (9,147) | (570) | (6.2%) |
| Net Sales | \$132,802 | \$121,209 | \$11,593 | 9.6% | \$249,120 | \$235,095 | \$14,025 | 6.0% |

The increase in net sales for the retail trade segment for the thirteen weeks ended August 4, 2007 compared to the thirteen weeks ended July 29, 2006 was primarily due to an increase in comparable store sales, as well as additional sales from an increase in our total number of superstores. Comparable store sales for the thirteen weeks ended August 4, 2007 increased 6.6% when compared with the same thirteen week period for the prior year. The increase in comparable store sales for the thirteen week period was primarily due to sales of *Harry Potter and the Deathly Hallows* and related gift items, as well as a strong performance in our best sellers and Summer sale lineup. For the twenty-six weeks ended August 4, 2007 compared to the twenty-six weeks ended July 29, 2006, the increase in net sales for the retail trade segment was also due to an increase in comparable store sales as well as additional sales from an increase in our total number of superstores. During the twenty-six weeks ended August 4, 2007, we opened two superstores. The increase in net sales for the electronic commerce segment was primarily due to higher sales driven by *Harry Potter and the Deathly Hallows* as well as a strong performance in our business-to-business sales.

Gross profit increased \$2.8 million, or 7.9%, to \$37.7 million in the thirteen weeks ended August 4, 2007 when compared with \$34.9 million in the same thirteen week period for the prior year. For the twenty-six weeks ended August 4, 2007, gross profit increased \$4.0 million, or 5.8%, to \$71.5 million from \$67.5 million in the same period last year. Gross profit as a percentage of net sales for the thirteen weeks ended August 4, 2007 and July 29, 2006 was 28.4% and 28.8% respectively. Gross Profit as a percentage of net sales for the twenty-six weeks ended August 4, 2007 and July 29, 2006 was 28.7% and 28.7% respectively. The decrease in gross profit as a percentage of net sales for the thirteen week period ended August 4, 2007 was primarily due to the discounting of *Harry Potter and the Deathly Hallows*.

Operating, selling and administrative expenses were \$29.3 million in the thirteen weeks ended August 4, 2007, compared to \$27.3 million in the same period last year. Operating, selling and administrative expenses as a percentage of net sales for the thirteen weeks ended August 4, 2007 decreased to 22.1% from 22.5% in the same period last year. The decrease in operating, selling and administrative expenses stated as a percentage of sales for the thirteen-week period ended August 4, 2007 was primarily due to the strong comparable store sales for the period, as well as improvements in store selling and corporate expenses. For the twenty-six weeks ended August 4, 2007, operating, selling and administrative expenses were \$56.3 million compared to \$53.9 million in the same period last year. Operating, selling and administrative expenses as a percentage of net sales for the twenty six weeks ended August 4, 2007 decreased to 22.6% from 22.9% from the same period last year. The decrease in operating, selling and administrative expenses as a percentage of net sales for the twenty-six week period ended August 4, 2007 was also primarily due to the strong comparable store sales for the period, as well as improvements in store selling and corporate expenses.

Depreciation and amortization decreased 2.2% to \$3.5 million in the thirteen week period ended August 4, 2007 compared to \$3.6 million in the same period last year. In the twenty-six week period ended August 4, 2007 depreciation decreased 2.4% to \$6.8 million from \$7.0 million in the same period last year. Decrease in depreciation and amortization expense was due to capital expenditures made in prior years becoming fully depreciated in the current period. The higher capital expenditures in previous years were due to more new store openings and a more aggressive remodel program in the prior years.

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

The following table sets forth operating income data by segment for the periods presented:

Segment Information *(in thousands)*

| Operating Income | Thirteen Weeks Ended | | | | Twenty-Six Weeks Ended | | | |
|---|----------------------|---------------|-----------|----------|------------------------|---------------|-----------|----------|
| | August 4, 2007 | July 29, 2006 | \$ Change | % Change | August 4, 2007 | July 29, 2006 | \$ Change | % Change |
| Retail Trade | \$4,769 | \$3,894 | \$875 | 22.5% | \$8,055 | \$6,345 | \$1,710 | 27.0% |
| Electronic Commerce Trade | 311 | 397 | (86) | (21.7%) | 602 | 630 | (28) | (4.4%) |
| Intersegment Elimination of Certain Costs | (215) | (238) | 23 | 9.7% | (338) | (331) | (7) | (2.1%) |
| Total Operating Income | \$4,865 | \$4,053 | \$812 | 20.0% | \$8,319 | \$6,644 | \$1,675 | 25.2% |

The improvement in operating results for the retail trade segment for the thirteen week and twenty-six periods ended August 4, 2007 was due to higher retail sales, as well as lower store selling expenses as a percentage of sales versus the same thirteen and twenty-six week periods in the prior year. Operating results for the electronic commerce segment for the thirteen week and twenty-six week periods ended August 4, 2007 decreased compared with the same period last year primarily due to increased warehouse handling costs.

Net interest expense was \$0.1 million in the thirteen weeks ended August 4, 2007 versus \$0.1 million in the same period last year and \$0.0 million in the twenty-six weeks ended August 4, 2007 versus \$0.2 million in the same period last year. While interest expense has increased due to higher average debt balances in the current year, increases in interest income offset this increase due to higher average invested cash balances during the period, resulting in lower net interest expense.

We closed one store during the twenty-six weeks ended July 29, 2006 in a market where we do not expect to retain the closed stores' customers at another store in the same market. The store's sales and operating results for the twenty-six weeks ended July 29, 2006 were not reported as discontinued operations because the impact on the financial statements was immaterial. We did not close any stores during the twenty-six weeks ended August 4, 2007 in markets where we do not expect to retain the closed stores' customers.

Liquidity and Capital Resources

Our primary sources of liquidity are cash flows from operations, including credit terms from vendors, and borrowings under our credit facility. We have an unsecured revolving credit facility that allows borrowings of 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. We were in compliance with all of the covenants, including the minimum fixed charge coverage ratio, as of August 4, 2007. As of August 4, 2007 and February 3, 2007 there were outstanding borrowings under this credit facility of \$31.3 million and \$0, respectively and the face amount of letters of credit issued under the credit facility were \$2.7 million and \$2.9 million, respectively. The maximum and average outstanding balances during the thirteen weeks ended August 4, 2007 were \$34.5 million and \$14.8 million, respectively, compared to \$0 and \$0, respectively for the same period in the prior year. The maximum and average outstanding balances during the twenty-six weeks ended August 4, 2007 were \$34.5 million and \$4.9 million, respectively, compared to \$1.7 million and \$29,000, respectively for the same period in the prior year. The increase in the maximum and average outstanding balances from the prior year was due to borrowing associated with the special dividend and share repurchase program.

During fiscal 1996 and fiscal 1995, the Company acquired and constructed certain warehouse and distribution facilities with the proceeds of loans made pursuant to the Bond, which was secured by a mortgage interest in these facilities. As of August 4, 2007 and February 3, 2007, there was \$7.1 million of borrowings outstanding, under these arrangements, which bear interest at variable rates (6.32% as of August 4, 2007). The Bond has a maturity date of December 1, 2019, but also has a purchase provision obligating the Company to repurchase the Bond at an earlier date. In fiscal 2007, the current bondholder extended the date of the Company's purchase obligation of the Bond until July 1, 2011 and did not

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

require a mortgage interest to secure the Bond. Such an extension may be renewed annually by the bondholder, at the Company's request, to a date no more than five years from the renewal date.

On June 4, 2007, our board of directors declared a special one-time cash dividend of \$3.00 per common share. The dividend was paid on July 5, 2007, to stockholders of record at the close of business on June 20, 2007.

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

A total of \$50.9 million was paid on our 16,958,000 outstanding shares of common stock as a result of the special dividend. At this time, the Company does not believe that the dividend includes any return of capital to stockholders and will therefore be taxable to its stockholders at the dividend tax rate. The Company will continue to evaluate the treatment of the special dividend and will inform its stockholders should it determine that any part of the special dividend is, in fact, a return of capital.

Financial Position

Inventory balances were \$218.2 million as of August 4, 2007 compared to \$200.3 million as of February 3, 2007. The inventory increase was primarily due to seasonal fluctuations in inventory. Inventory levels are generally the lowest at the end of the fiscal year due to large post holiday returns to vendors. Trade accounts payable balances were \$97.1 million as of August 4, 2007 compared to \$83.4 million as of February 3, 2007. The increase in accounts payable was primarily due to an increase in inventory. Accrued expenses were \$36.0 million as of August 4, 2007 compared to \$38.6 million as of February 3, 2007. Accrued expenses decreased primarily due to payment of fiscal 2007 management bonuses in the first quarter of fiscal 2008 and redemption of gift cards sold to customers during the fourth quarter of fiscal 2007.

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 August 4, 2007 (*in thousands*):

| Payments Due Under Contractual Obligations | | | | | | | |
|---|-----------|----------|----------|----------|----------|----------|------------|
| | Total | FY 2008 | FY 2009 | FY 2010 | FY 2011 | FY 2012 | Thereafter |
| Short-term borrowings | \$31,300 | \$31,300 | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- |
| Long-term debt -industrial | 7,100 | -- | -- | -- | -- | 7,100 | -- |
| revenue bond | | | | | | | |
| Subtotal of debt | 38,400 | 31,300 | -- | -- | -- | 7,100 | -- |
| Operating leases | 132,049 | 16,844 | 28,566 | 22,966 | 18,162 | 12,784 | 32,727 |
| Total of obligations | \$170,449 | \$48,144 | \$28,566 | \$22,966 | \$18,162 | \$19,884 | \$32,727 |

Guarantees

From time to time, we enter into certain types of agreements that require us to indemnify parties against third-party claims. Generally, these agreements relate to: (a) agreements with vendors and suppliers, under which we may provide customary indemnification to our vendors and suppliers in respect of actions they take at our request or otherwise on our behalf, (b) agreements with vendors who publish books or manufacture merchandise specifically for us to indemnify the vendors against trademark and copyright infringement claims concerning the books published or merchandise manufactured on our behalf, (c) real estate leases, under which we may agree to indemnify the lessors for claims arising from our use of the property, and (d) agreements with our directors, officers and employees, under which we may agree to indemnify such persons for liabilities arising out of their relationship with us. Currently, no such agreements are in place. We maintain Directors and Officers Liability Insurance, which, subject to the policy's conditions, provides coverage for indemnification amounts payable by us with respect to our directors and officers up to specified limits and subject to certain deductibles.

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

The nature and terms of these types of indemnities vary. The events or circumstances that would require us to perform under these indemnities are transaction and circumstance specific. Historically, we have not incurred significant costs related to performance under these types of indemnities. No liabilities have been recorded because there were no agreements in place to indemnify outside parties as of August 4, 2007 and February 3, 2007.

Cash Flows

Operating activities provided cash of \$8.8 million and used cash of \$3.2 million in the twenty-six week periods ended August 4, 2007 and July 29, 2006, respectively, and included the following effects:

Cash used for inventories in the twenty-six week periods ended August 4, 2007 and July 29, 2006 was \$18.0 million and \$4.3 million, respectively. The higher usage was primarily due to lower inventory balances at the end of fiscal 2007 versus the prior fiscal year and higher inventory levels at our warehouses in preparation for new store openings in the second half of fiscal 2008.

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

Cash provided (used) for accounts payable in the twenty-six week periods ended August 4, 2007 and July 29, 2006 was \$17.0 million and \$(4.4) 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 \$6.8 million and \$7.0 million, respectively in the twenty-six week periods ended August 4, 2007 and July 29, 2006. 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 \$6.8 million and \$6.3 million net use of cash for the twenty-six week periods ended August 4, 2007 and July 29, 2006, 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.

Financing activities used cash of \$30.0 million and \$6.3 million in the twenty-six week periods ended August 4, 2007 and July 29, 2006, respectively. Financing activities used cash in the twenty-six week period ended August 4, 2007 primarily for dividend payments (\$53.9 million) and to purchase treasury stock (\$10.0 million), partially offset by net borrowings on the revolving credit facility (\$31.3 million). Financing activities used cash in the twenty-six week period ended July 29, 2006 primarily to purchase treasury stock (\$7.2 million) and for dividend payments (\$2.6 million).

Outlook

During the thirteen weeks ended August 4, 2007, we opened one store. During the remainder of fiscal 2008, we expect to open five to seven stores, complete remodels on approximately eight to ten stores, and close two to three stores. Our capital expenditures totaled \$7.6 million in the twenty-six week period ended August 4, 2007. Management estimates that capital expenditures for the remainder of fiscal 2008 will be approximately \$14.9 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 our credit facilities, will be adequate to finance our planned capital expenditures and meet our working capital requirements for the remainder of fiscal 2008.

Related Party Activities

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

We purchase a substantial portion of our magazines as well as certain of our seasonal music and newspapers from Anderson Media Corporation (Anderson Media), an affiliate through common ownership. During the twenty-six weeks ended August 4, 2007 and July 29, 2006, purchases of these items from Anderson Media totaled \$15,490,000 and \$11,709,000 respectively. We purchase certain of our collectibles and books from Anderson Press, Inc. (Anderson Press), an affiliate through common ownership. During the twenty-six weeks ended August 4, 2007 and July 29, 2006, such purchases from Anderson Press totaled \$1,260,000 and \$550,000, respectively. We purchase certain of our greeting cards and gift products from C.R. Gibson, Inc., an affiliate through common ownership. The purchases of these products during the twenty-six weeks ended August 4, 2007 and July 29, 2006 were \$141,000 and \$210,000, respectively. We utilize 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 \$1,292,000 and \$1,362,000 during the twenty-six weeks ended August 4, 2007 and July 29, 2006, 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 \$90,000 and \$95,000 during the

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

twenty-six weeks ended August 4, 2007 and July 29, 2006, respectively.

We sold books to Anderson Media in the amounts of \$417,000 and \$399,000 during the twenty-six weeks ended August 4, 2007 and July 29, 2006, respectively.

We lease our principal executive offices from a trust, which was established for the benefit of the grandchildren of Charles C. Anderson. We lease the building on a month-to-month basis. During the twenty-six weeks ended August 4, 2007 and July 29, 2006, we paid rent of \$77,000 and \$69,000, respectively, in connection with this lease. Anderson & Anderson LLC (A&A), an affiliate through common ownership, also leases two buildings to us on a month-to-month basis. During the twenty-six weeks ended August 4, 2007 and July 29, 2006,

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

we paid A&A a total of \$205,000 and \$224,000, respectively, in connection with such leases. Total minimum future rental payments under all of these leases are \$0 at August 4, 2007. We sublease certain property to Hibbett Sporting Goods, Inc. (Hibbett), a sporting goods retailer in the southeastern United States. Our Executive Chairman, Clyde B. Anderson, is a member of Hibbett's board of directors. During each of the twenty-six weeks ended August 4, 2007 and July 29, 2006, we received \$95,000 in rent payments from Hibbett.

We share ownership of a plane, which we use in the operation of our business, with an affiliated company. We rent the plane to affiliated companies at rates that cover all of the variable costs, and a portion of the fixed cost of the plane. The total amounts received from affiliated companies for use of the plane during the twenty-six weeks ended August 4, 2007 and July 29, 2006, was \$277,000 and \$159,000, respectively. We also occasionally rent a plane from A&A as well. The amounts paid to A&A for plane rental were \$31,000 and \$8,000 for the twenty-six weeks ended August 4, 2007 and July 29, 2006, respectively.

Critical Accounting Policies

A summary of our critical accounting policies is included in the Management Discussion and Analysis section of our Form 10-K for the year ended February 3, 2007 filed with the Securities and Exchange Commission. No changes to these policies have occurred during the twenty-six weeks ended August 4, 2007.

New Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 109 *Accounting for Income Taxes* . FIN 48 prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. We adopted the provisions of FIN 48 effective February 4, 2007. As a result of the adoption of FIN 48 we recorded an increase of \$1,987,000 in other long-term liabilities in our consolidated balance sheet for unrecognized tax benefits, which was accounted for as a cumulative effect adjustment to the February 4, 2007 balance of retained earnings. Please refer to Note 12 of the accompanying Notes to Condensed Consolidated Financial Statements for details.

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

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

In May 2007, the FASB issued FASB Staff Position No. FIN 48-1, *Definition of Settlement in FASB Interpretation No. 48* (FSP FIN 48-1). FSP FIN 48-1 amends FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, to provide guidance on how an enterprise should determine whether a tax position is effectively settled for the purposes of recognizing previously unrecognized tax benefits. The Company is required to apply the guidance provided in FSP FIN 48-1 upon its adoption of FIN 48 which was as of February 4, 2007. The application of FSP

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

FIN 48-1 has not had a material effect on the Company's financial position, results of operations, or cash flows.

In June 2007, the Emerging Issues Task Force (EITF) of the FASB ratified their consensus position 06-11 (EITF 06-11), *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards*. EITF 06-11 provides guidance on how a company should recognize the income tax benefit received on dividends that are paid to employees holding equity-classified nonvested shares, equity-classified nonvested share units, or equity-classified outstanding share options charged to retained earnings under FASB Statement 123(R), *Share-Based Payment*. The Company is required to apply the guidance provided in EITF 06-11 prospectively to income tax benefits of

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

dividends on equity-classified employee share-based payment awards that are declared in fiscal years beginning after September 15, 2007. Early application of EITF 06-11 is permitted for the income tax benefit of dividends on equity-classified employee share-based payment awards that are declared in periods for which financial statements have not yet been issued. The Company has elected early application as of the fiscal quarter ending August 4, 2007. The early application of EITF 06-11 has not had a material effect on the Company's financial position, results of operation or cash flows.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

We are subject to interest rate fluctuations involving our credit facilities and debt related to the Bond. To illustrate the sensitivity of the results of operations to changes in interest rates on our debt, we estimate that a 66% increase or decrease in LIBOR rates would have changed interest expense by \$204,000 for the thirteen weeks ended August 4, 2007 due to average debt of \$21,900,000. For the twenty-six week period, our average debt was \$12,000,000. Similar changes in interest rates would result in additional interest expense of \$223,000. 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

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 Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer, Chief Financial Officer and our 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, our disclosure controls and procedures were effective at the reasonable assurance level.

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**

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

Item 1A: Risk Factors

There have been no material changes from the risk factors disclosed under Part I, Item 1A, Risk Factors in our Form 10-K for the fiscal year ended February 3, 2007. Please refer to that section for disclosures regarding the risks and uncertainties related to our business.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds**Issuer Purchases of Securities**

On June 8, 2006, our board of directors approved a new stock repurchase program (the 2006 Repurchase Program) to replace the 2004 Repurchase Program. Pursuant to the 2006 Repurchase Program, we are authorized to purchase up to \$10 million of our common stock. On August 23, 2006, our board of directors amended the 2006 Repurchase Program to authorize the repurchase of up to an additional \$25 million of shares of our common stock. The following table shows common stock repurchases under the program during the thirteen weeks ended August 4, 2007:

| 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 |
|--|--|---------------------------------|---|---|
| May 6, 2007 through June 2, 2007 | -- | -- | -- | \$30,600,000 |
| June 3, 2007 through July 7, 2007 | 179,000 | \$18.63 | 179,000 | \$27,271,000 |
| July 8, 2007 through August 4, 2007 | 405,000 | \$16.41 | 405,000 | \$20,618,000 |
| Total | 584,000 | \$17.09 | 584,000 | \$20,618,000 |

As of August 4, 2007, we may purchase up to \$20.6 million of additional shares of our common stock under the 2006 Repurchase Program.

Item 3: Defaults Upon Senior Securities

None

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

At the Annual Meeting of Stockholders held on May 29, 2007, the following proposal was submitted to the stockholders with the following results:

Proposal 1. To elect the following two persons to a class of directors to serve a three-year term expiring in 2010:

| Election of | Number of Votes Cast For | Number of Votes Cast Against | Number of Votes Abstaining | Number of Broker Non-Votes |
|------------------------|-------------------------------------|---|---------------------------------------|---------------------------------------|
| J. Barry Mason | 15,190,702 | 391,113 | 0 | 0 |
| William H. Rogers, Jr. | 15,190,314 | 391,501 | 0 | 0 |

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

In addition to the directors elected above, the following directors terms of office continued after the meeting:

Albert C. Johnson (term expiring 2008)

Terry C. Anderson (term expiring 2008)

Clyde B. Anderson (term expiring 2009)

Sandra B. Cochran (term expiring 2009)

Ronald G. Bruno (term expiring 2009)

No other matters were voted on at the Annual Meeting

Item 5: Other Information

None

Item 6: Exhibits

(A) Exhibits

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

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

Exhibit 10.1 Sixth Amendment to Credit Agreement, dated as of June 11, 2007, between the Registrant and Bank of America N.A., Sun Trust Bank N.A., Wells Fargo Bank, N.A., Wachovia Bank N.A. and Regions Bank N.A. (incorporated herein by reference to Exhibit 10.01 to the Registrant's Form 8-K filed on June 13, 2007)

Exhibit 10.2 First Amendment to Bond Agreement, dated as of June 18, 2007, between the Registrant and Wells Fargo Bank, N.A. (incorporated herein by reference to Exhibit 10.01 to the Registrant's Form 8K filed on June 19, 2007)

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

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

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.

Date: September 13, 2007

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

Date: September 13, 2007

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

Date: September 13, 2007

by:/s/ Douglas G. Markham
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: September 13, 2007

/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: September 13, 2007

/s/ Sandra B. Cochran

Sandra B. Cochran

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: September 13, 2007

/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 August 4, 2007 (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: September 13, 2007

/s/ Clyde B. Anderson

Clyde B. Anderson

Executive Chairman of the Board

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 August 4, 2007 (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: September 13, 2007

/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 August 4, 2007 (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: September 13, 2007

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