BOOKS A MILLION INC
Form 10-K
April 19, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended February 2, 2013

OR

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

For the transition period from __________ to __________

Commission File No. 0-20664

BOOKS-A-MILLION, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE	**63-0798460**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
402 Industrial Lane Birmingham, Alabama	**35211**
(Address of principal executive offices)	**(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act: Common Stock, par value $.01 per share

(Title of Class)

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K x.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	¨	Accelerated Filer	¨
Non-Accelerated Filer	¨ (Do not check if a smaller reporting company)	Smaller Reporting Company	x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The aggregate market value of the voting stock held by non-affiliates of the Registrant (assuming for these purposes, but without conceding, that all executive officers and directors are affiliates of the Registrant) as of July 28, 2012 (based on the closing sale price as reported on the

NASDAQ Stock Market on July 27, 2012, the last trading day preceding such date), was $16.2 million.

The number of shares outstanding of the Registrant s Common Stock as of April 17, 2013 was 15,485,019.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on May 28, 2013 are incorporated by reference into Part III of this report.

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BOOKS-A-MILLION, INC. AND SUBSIDIARIES

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

This document contains certain forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve a number of risks and uncertainties. A number of factors could cause the actual results, performance or achievements of Books-A-Million, Inc. (the Company) or the results of its industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors include, but are not limited to, the competitive environment in the book retail industry in general and in the Company s specific market areas; inflation or deflation; economic conditions in general and in the Company s specific market areas; the number of store openings and closings; the profitability of certain product lines, capital expenditure and future liquidity; liability and other claims asserted against the Company; the impact of electronic books and e-content; uncertainties related to the Internet and the Company s Internet operations; the factors described in ITEM 1A. RISK FACTORS herein; and other factors referenced herein. In addition, such forward-looking statements are necessarily dependent upon assumptions, estimates and dates that may be incorrect or imprecise and involve known and unknown risks, uncertainties and other factors. Accordingly, any forward-looking statements included herein do not purport to be predictions of future events or circumstances and may not be realized. Given these uncertainties, stockholders and prospective investors are cautioned not to place undue reliance on such forward-looking statements. The Company disclaims any obligation 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.

PART I

ITEM 1. BUSINESS

General

Books-A-Million, Inc. is a leading book retailer primarily located in the eastern United States and operates both superstores and traditional bookstores. Superstores, the first of which was opened in 1987, range in size from 8,000 to 39,000 square feet and operate under the names Books-A-Million, BAM!, Books and Co. and 2nd & Charles. Traditional bookstores are smaller stores operated under the names Bookland, Books-A-Million and BAM!. These stores range in size from 2,000 to 10,000 square feet and are located primarily in enclosed malls. All store formats generally offer an extensive selection of best sellers and other hardcover and paperback books, magazines, toys, games, electronics and gifts. In addition to the retail store formats, we offer our products over the Internet at Booksamillion.com.

We were founded in 1917, originally incorporated under the laws of the State of Alabama in 1964 and reincorporated in Delaware in September 1992. Our principal executive offices are located at 402 Industrial Lane, Birmingham, Alabama 35211, and our telephone number is (205) 942-3737. Unless the context otherwise requires, references to we, our, us or the Company include our wholly owned subsidiaries, American Wholesale Book Company, Inc. (American Wholesale), Booksamillion.com, Inc., BAM Card Services, LLC, AL Florence Realty Holdings 2010, LLC and Preferred Growth Properties, LLC.

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

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Business Segments

We have two reportable segments: retail trade and electronic commerce trade. In the retail trade segment, we are primarily engaged in the retail sale of books, magazines, and general merchandise, including gifts, cards, games, toys, collectibles, music, DVDs, electronic devices and accessories at our retail stores. The retail trade segment includes our distribution center operations, which predominantly supply merchandise to our retail stores. In the electronic commerce trade segment, we are engaged in the retail sale of books and general merchandise over the Internet. This segment is managed separately due to divergent technology and marketing requirements. For additional information on our reportable business segments, see Note 9, Business Segments, in the Notes to Consolidated Financial Statements, contained herein.

In both our retail trade and electronic commerce trade segments, we sell books, magazines, and general merchandise, including gifts, cards, games, toys, collectibles, music, DVDs, electronic devices and accessories.

Retail Stores

We developed superstores to capitalize on the growing consumer demand for the convenience, selection and value associated with the superstore retailing format. Each superstore is designed to be a receptive and open environment conducive to browsing, reading and shopping and includes ample space for promotional events open to the public, including book autograph sessions and children s storytelling. We operated 201 superstores as of February 2, 2013.

Our superstores emphasize selection, value and customer service. Each of our superstores offers an extensive selection of books, magazines and general merchandise, including gifts, cards, games, toys, collectibles, music, DVDs, electronic devices and accessories. Each superstore has a service center staffed with associates who are knowledgeable about the store s merchandise and who are trained to answer customers questions, assist customers in locating books within the store and placing special orders. The majority of our superstores also include either a Joe Muggs café, serving Joe Muggs coffee and assorted pastries and other edible items, or a Yogurt Mountain, serving frozen yogurt with self-serve toppings. Our superstores are conveniently located on major, high-traffic roads and in enclosed malls or strip shopping centers with adequate parking and generally operate for extended hours up to 11:00 p.m. local time.

Our traditional stores are tailored to the size, demographics and competitive conditions of the particular market area. Traditional stores are located primarily in enclosed malls and generally feature a wide selection of books, magazines, gifts and other products. We had 56 traditional stores as of February 2, 2013.

Merchandising

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

Marketing

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

Store Operations and Site Selection

In choosing specific store sites within a market area, we apply standardized site selection criteria that take into account numerous factors, including the local demographics, desirability of available leasing arrangements, proximity to our existing stores and stores of our competitors and overall level of retail activity. In general, stores are located on major high-traffic roads convenient to customers and have adequate parking. We generally negotiate short-term leases with renewal options. We also periodically review the profitability trends and prospects of each of our stores and evaluate whether any underperforming stores should be closed, converted to a different format or relocated to more desirable locations.

Internet Operations

On *Booksamillion.com,* we sell a wide selection of books, magazines, and general merchandise, including gifts, cards, games, toys, collectibles, music, DVDs, electronic devices and accessories and other products similar to those sold in our superstores.

Purchasing

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

We purchase merchandise from over 3,000 vendors. We purchase the majority of our collectors supplies from Anderson Press, Inc. and substantially all of our magazines from Anderson Media Corporation, each of which is a related party. See Note 7, Related Party Transactions, in the Notes to Consolidated Financial Statements, contained herein. No one vendor accounted for over 10.0% of our overall merchandise purchases in the fiscal year ended February 2, 2013. In general, 74.1% of our inventory may be returned to the vendors for credit, which substantially reduces our risk of inventory obsolescence.

Distribution Capabilities

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

Competition

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

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Seasonality

Similar to many retailers, our business is seasonal, with the highest retail sales, gross profit and net income historically occurring in our fourth fiscal quarter. This seasonal pattern reflects the increased demand for books and gifts during the year-end holiday selling season. Working capital requirements are generally at their highest during the third fiscal quarter and the early part of the fourth fiscal quarter due to the seasonality of our business. As a result, our results of operations depend significantly upon net sales generated during the fourth fiscal quarter, and any significant adverse trend in the net sales of such period would likely have a material adverse effect on our results of operations for the full year. In addition to seasonality, our results of operations may fluctuate from quarter to quarter as a result of the amount and timing of sales and profits contributed by new stores as well as other factors. Accordingly, the addition of a large number of new stores in a particular fiscal quarter could adversely affect our results of operations for that quarter.

Trademarks

The primary trademarks of the Company are: Books-A-Million, BAM!, BAM! Books-A-Million, Bookland, Books & Co., 2nd & Charles, Books are Just the Beginning, Millionaire s Club, Sweet Water Press, Thanks-A-Million, Up All Night Reader, Read & Save Rebate, Readable Accessories for Readers, Kids-A-Million, Toys-A-Million, Teachers First, The Write Price, Bambeanos, Hold That Thought, Book$m BAMM, BAMM.com, BOOKSAMILLION.com, BAM.com BOOKSAMILLION.COM, Chillatte, Joe Muggs Newsstand, Page Pets, JOEMUGGS.com, FAITHPOINT, Joe Muggs, Snow Joe, Summer Says, On the John University, OTJU, American Wholesale Book AWBC, and NetCentral.

Employees

As of February 2, 2013, we employed approximately 2,400 full-time associates and 3,100 part-time associates. The number of part-time associates employed fluctuates based upon seasonal needs. None of our associates is covered by a collective bargaining agreement. We believe that relations with our associates are good.

ITEM 1A. RISK FACTORS

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

There can be no assurance that we will be successful in implementing our business strategy.

Our future results will depend, among other things, on our success in implementing our business strategy. There can be no assurance that we will be successful in implementing our business strategy or that the strategy will be successful in sustaining acceptable levels of sales growth and profitability.

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

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

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

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

Our business is highly seasonal.

Our business is highly seasonal, with sales and earnings generally highest in the fourth fiscal quarter and lowest in the first fiscal quarter. Our results of operations depend significantly upon the holiday selling season in the fourth fiscal quarter. During the fiscal year ended February 2, 2013, approximately 32.9% of our sales were generated in the fourth fiscal quarter. If we do not stock popular products in sufficient amounts, or if we fail to have sources to timely restock popular products during the busy holiday period such that we fail to meet customer demand, our revenue, our earnings and our future growth could be significantly impacted. In addition, if we experience less than satisfactory net sales during a fourth fiscal quarter, we may not be able to sufficiently compensate for any losses that may have been incurred during the first three quarters of that fiscal year.

Our business has been and may continue to be adversely affected by economic conditions.

The Company believes that the United States and global economies continue to experience challenging times and that current economic conditions could persist. The Company believes that these conditions have had and may continue to have an adverse impact on spending by the Company s current retail customer base and potential new customers. Because of these significant challenges, we are continuously reviewing and adjusting our business activities to address the changing economic environment. We are carefully managing our inventory and liquidity and enforcing expense controls while working diligently and prudently to grow our business. However, our business and financial performance may be adversely affected by current and future economic conditions that cause a decline in business and consumer spending, including reduced availability of credit, increased unemployment levels, increased health care costs, higher energy and fuel costs, rising interest rates, financial market volatility and long-term economic downturn. These conditions could have a negative impact on the earnings, liquidity and capital resources of the Company.

Recent economic conditions have accentuated these risks and magnified their potential effect on us and our business. Economic uncertainty and difficult conditions in the capital and credit markets may affect our business in a number of ways. For example:

- Economic uncertainty could have a significant adverse impact on consumer confidence and discretionary consumer spending, which may result in decreased sales and earnings for us.

- Although we believe that we have sufficient liquidity under our credit agreement to run our business and to provide for our plans for growth, under depressed economic or extreme market conditions, there can be no assurance that such funds would be available or sufficient, and, in such a case, we may not be able to successfully obtain additional debt financing on favorable terms, or at all.

- Recent market volatility has exerted downward pressure on our stock price, which may make it more difficult for us to raise additional capital in the future.

Failure to continue to open new stores, successfully integrate new stores and manage the effects of the Company s expansion strategy could adversely affect our business.

The Company s growth depends in part on our ability to expand by opening new stores and operating them profitably. In general, the rate of expansion depends, among other things, on general economic and business conditions affecting consumer confidence and spending, the availability of desired locations and qualified management personnel, the negotiation of acceptable lease terms and the ability to manage the operational aspects of growth. It also depends upon the availability of adequate capital, which in turn depends in large part upon cash flow generated by the Company. If stores are opened more slowly than expected (or not at all) based on any of these factors, our growth may decline, and our operating results may be adversely affected.

The Company opened 6 new stores during the 2013 fiscal year. There can be no assurance that we will be able to integrate these new stores successfully, which could have a negative impact on the earnings, liquidity and capital resources of the Company.

Sales at new stores may reach targeted levels more slowly than expected (or fail to reach targeted levels), and related overhead costs may increase in excess of expected levels. The Company may open new stores in certain markets in which the Company is already operating stores, which could adversely affect sales at those existing stores. Furthermore, the Company s expansion strategy could place a significant strain on our management, operations, technical performance, financial resources and internal financial control and reporting functions, and there can be no assurance that the Company will be able to manage this effectively. The Company s current and planned personnel, systems, procedures and controls may not be adequate to support and effectively manage our future operations, especially as the Company employs personnel in multiple geographic locations. The Company may not be able to hire, train, retain, motivate and manage required personnel, which may limit our growth. If any of this were to occur, it could damage the Company s reputation, limit growth, negatively affect operating results and harm the Company s business.

Our business is dependent upon consumer spending patterns.

Sales of books generally depend upon discretionary consumer spending, which may be affected by general economic conditions, consumer confidence and other factors beyond our control. Weather, among other things, can affect comparable store sales, because inclement weather can require us to close certain stores temporarily and thus reduce store traffic. Even if stores are not closed, customers may decide to avoid going to stores in bad weather. In addition, sales are dependent in part on the strength of new release titles offered by vendors and special promotions, which factors are not within the Company s control. A decline in consumer spending on books based on any of these factors could have a material adverse effect on our financial condition and results of operations.

The Company faces risks relating to the shift in consumer spending patterns to e-content.

As technology evolves and consumers shift spending patterns to e-content, the Company may continue to enter new markets in which we have limited experience. The offering of e-content may present new and difficult challenges. The Company s gross margin of e-content products may be lower than our traditional product lines, and the Company may not recover our investments in this area. We may face greater competition from companies who have greater financial resources available to become more engaged in the distribution of e-content or who develop or control certain technologies related to the distribution of e-content. These challenges may negatively affect the Company s operating results.

The Company faces risks as an Internet retailer.

As an Internet retailer, we are subject to risks associated with the need to keep pace with rapid technological change, risks associated with the timing and adoption of new digital products or platforms, Internet security risks, risks of system failure or inadequacy, supply chain risks, governmental regulation and uncertainties with respect to the Internet and digital content, risks related to data privacy and collection of sales or other taxes. If any of these risks materializes, it could have an adverse effect on our operating results.

The Company s costs of doing business could increase as a result of changes in federal, state or local laws or regulations.

Changes in federal, state or local laws or regulations, including, but not limited to, laws related to employment, wages, data privacy and information security, taxes and consumer products, could increase the Company s costs of doing business or otherwise negatively impact our operating results.

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

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

Our vendor relationships subject us to a number of risks, and we rely on certain vendors that are related parties.

Although we purchase merchandise from over 3,000 vendors, and no one vendor accounted for more than 10% of our inventory purchases in the fiscal year ended February 2, 2013, we have significant vendors that are important to us. If our current vendors were to stop selling merchandise to us on acceptable terms, we may not be able to acquire merchandise from other suppliers in a timely and efficient manner and on acceptable terms. We have entered into and may, in the future, enter into various transactions and agreements with entities wholly or partially owned by certain stockholders or directors (including certain officers) of the Company, including one such entity that serves as our primary magazine vendor and another that serves as our primary provider of collectors supplies, as further described in Note 7, Related Party Transactions, in the Notes to Consolidated Financial Statements, contained herein. We believe that the transactions and agreements that we have entered into with related parties are on terms that are at least as favorable to us as could reasonably have been obtained at such time from unrelated third parties.

The concentration of the Company s capital stock ownership with certain executive officers, directors and their affiliates may limit other stockholders ability to influence corporate matters and may involve other risks.

The Executive Chairman of the Company s Board of Directors, Clyde B. Anderson, and his brother, Terry C. Anderson, who is a director of the Company, together with their family members and affiliates, were the beneficial owners of an aggregate of approximately 55.3% of the Company s outstanding common stock as of April 5, 2013. This concentrated ownership may limit the ability of the Company s other stockholders to influence corporate matters, and, as a result, the Company may take actions with which our other stockholders do not agree. In addition, there may be risks related to the relationships that members of the Anderson family have with the various entities with which the Company has related party transactions.

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

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

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

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

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

Failure to retain key personnel could adversely affect our business.

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

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

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

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

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

Our electronic commerce trade faces business risks.

We face a number of risks related to our involvement in electronic commerce, including:

- competition from other Internet-based companies and traditional retailers;
- risks associated with a failure to manage growth effectively;
- risks of the Internet as a medium for commerce, including Internet security risks;
- risks associated with the need to keep pace with rapid technological change;
- risks of system failure or inadequacy; and
- risks associated with the maintenance of domain names.

If any of these risks materialize, it could have an adverse effect on our electronic commerce trade and our business in general.

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

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

The Company faces security risks with respect to the receipt and storage of personal data about our customers and employees.

A fundamental requirement for e-commerce is the secure storage and transmission of personal information about our customers and employees. Our use of this information is regulated by various privacy and information security laws that are constantly changing. Compliance with these laws and regulations may result in cost increases due to necessary systems changes and the development of new processes. Although we have developed systems and processes that are designed to protect consumer information and prevent fraudulent credit card transactions and other security breaches on our website and otherwise, failure to prevent or mitigate such fraud or breaches, or to discover such fraud or breaches that may go undetected for an extended period of time, may adversely affect our business or results of operations, damage our reputation or subject us to legal risk.

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

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

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

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

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

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 condition, results of operations or cash flows. However, we can give no assurances that certain lawsuits either now or in the future will not materially affect our financial condition or results of operations.

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Changes in our effective income tax rate could affect our results of operations.

Our effective income tax rate is influenced by a number of factors. Changes in the tax laws, the interpretation of existing laws or our failure to sustain our reporting positions on examination could adversely affect our effective income tax rate and, as a result, our results of operations.

Changes in accounting standards could affect our results of operations.

A change in accounting standards or practices can have a significant effect on our reported results of operations. New accounting pronouncements and interpretations of existing accounting rules and practices have occurred and may occur in the future. Changes to existing rules may adversely affect our reported financial results.

If the Company is unable to renew or enter into new leases on favorable terms, our revenue growth may decline.

Substantially all of the Company s stores are located in leased premises. If the cost of leasing existing stores increases, the Company cannot assure that we will be able to maintain our existing store locations as leases expire. In addition, the Company may not be able to enter into new leases on favorable terms, or at all, or we may not be able to locate suitable alternative sites or additional sites for new store expansion in a timely manner. The Company s revenues and earnings may decline if the Company fails to maintain existing store locations, enter into new leases, locate alternative sites or find additional sites for new store expansion.

The Company may engage in acquisitions, which, among other things, could negatively impact our business if we fail to successfully complete and integrate them.

To enhance our efforts to grow and compete, the Company may engage in acquisitions. Any future acquisitions are subject to the Company s ability to negotiate favorable terms for them. Accordingly, the Company cannot assure that future acquisitions will be completed. In addition, to facilitate future acquisitions, the Company may take actions that could dilute the equity interests of our stockholders, increase our debt or cause us to assume contingent liabilities, all of which may have a detrimental effect on the price of our common stock. Finally, if any acquisitions are not successfully integrated with the Company s business, the Company s ongoing operations could be adversely affected.

The occurrence of severe weather events, catastrophic health events or natural disasters could significantly damage or destroy our retail locations, could prohibit consumers from traveling to our retail locations or could prevent us from resupplying our stores or distribution centers, especially during peak shopping seasons.

Unforeseen events, including public health issues and natural disasters, such as earthquakes, hurricanes, snow storms, floods and heavy rains, could disrupt our operations or the operations of our suppliers, as well as the behavior of our consumers. We believe that we take reasonable precautions to prepare particularly for weather-related events; however, our precautions may not be adequate to deal with such events in the future. As these events occur in the future, if they should impact areas in which we have our distribution centers or a concentration of retail stores, such events could have a material adverse effect on our business, financial condition and results of operations, particularly if they occur during peak shopping seasons.

Increases in transportation costs due to rising fuel costs, climate change regulation and other factors may negatively impact our operating results.

We rely upon various means of transportation, including by water and by land, to deliver products from vendors to our distribution centers and from our distribution centers to our stores. Consequently, our results can vary depending upon the price of fuel. The price of oil has fluctuated drastically over the last few years, and may rapidly increase at any time, which would sharply increase our fuel costs. In addition, efforts to combat climate change through reduction of greenhouse gases may result in higher fuel costs through taxation or other means. Any such future increases in fuel costs would increase our transportation costs for delivery of products to our distribution centers and distribution to our stores, as well as our vendors transportation costs, which could harm our operating results.

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In addition, labor shortages in the transportation industry could negatively affect transportation costs and our ability to supply our stores in a timely manner. In particular, our business is highly dependent on the trucking industry to deliver products to our distribution centers and our stores. Our operating results may be adversely affected if we or our vendors are unable to secure adequate trucking resources at competitive prices to fulfill our delivery schedules to our distribution centers or our stores.

Our stock price may be subject to volatility.

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

- general economic conditions;
- changes in interest rates;
- conditions or trends in the retail book and electronic commerce trade industries;
- fluctuations in the stock market in general;
- quarterly variations in operating results;
- new products, services, innovations and strategic developments by our competitors or us, or business combinations and investments by our competitors or us;
- changes in financial estimates by us (if any) or securities analysts and recommendations by securities analysts;
- changes in regulation;
- changes in our capital structure, including issuance of additional debt or equity to the public;
- corporate restructurings, including layoffs or closures of facilities;
- changes in the valuation methodology of, or performance by, others in the retail book and electronic trade industries; and
- transactions in our common stock by major investors, and analyst reports, news and speculation.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our bookstores are generally located either in enclosed malls or strip shopping centers. Substantially all of our stores are leased. Generally, these leases have terms ranging from three to ten years and require that we pay a fixed minimum rental fee and/or a rental fee based on a percentage of net sales together with certain customary costs (such as property taxes, common area maintenance and insurance). The Company has one location where it owns the land and related property.

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The number of stores located in each state and the District of Columbia as of February 2, 2013 are listed below:

State	Number of Super Stores	Number of Traditional Book Stores
Florida	34	2
Alabama	24	1
Tennessee	15	1
South Carolina	13	1
Virginia	13	3
Georgia	12	3
North Carolina	11	4
Louisiana	9	1
Texas	9	2
Ohio	8	4
Indiana	6	
Mississippi	6	4
West Virginia	5	2
Pennsylvania	4	11
Maryland	4	4
Arkansas	3	
Iowa	3	
Kentucky	3	3
Missouri	3	
Illinois	2	2
Maine	2	1
New Hampshire	2	1
Connecticut	1	
District of Columbia	1	
Kansas	1	1
Michigan	1	2
Nebraska	1	
New Jersey	1	2
Oklahoma	1	
South Dakota	1	
Wisconsin	1	
Delaware	1	
New York		1
Total	**201**	**56**

American Wholesale owns a wholesale distribution center located in an approximately 308,000 square foot facility in Florence, Alabama. During fiscal 1995 and 1996, we financed the acquisition and construction of the wholesale distribution facility through loans obtained from the proceeds of an industrial development revenue bond (the Bond). In addition, we own a portion of the tractor fleet operated by American Wholesale that pull the Company-owned trailers, which comprise our transportation fleet.

American Wholesale operates a distribution facility and a facility used to refurbish old store fixtures for use in our current stores in Tuscumbia, Alabama. The square footage of the distribution facility is 178,000 square feet. The square footage of the fixture facility is 50,000 square feet. The distribution facility is leased on a ten year term ending on February 28, 2017. The fixture facility is leased month-to-month. We believe that the failure to extend the lease for the fixture facility currently leased on a month-to-month basis would not have a material adverse effect on our business, financial condition or results of operations. Our principal executive offices are located in a 20,550 square-foot leased building located in Birmingham, Alabama that is leased month-to-month. Each of these three leases involves related parties. See Note 7, Related Party Transactions, in the Notes to Consolidated Financial Statements, contained herein.

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In addition, we lease approximately 4,034 square feet of office space in Franklin, Tennessee and an additional 8,320 square-foot building located in Birmingham, Alabama for additional corporate office space. The Franklin, Tennessee space is leased on a five year term ending on October 31, 2016. The additional Birmingham space is leased until April 30, 2020. We have entered into a binding agreement to purchase a 28,300 square-foot building located in Birmingham, Alabama for $1.1 million, which we are currently leasing, and expect to close on that transaction by the end of May 2013.

We consider our existing properties to be adequate for our present needs and believe that our existing leases are reasonable and appropriate based on location.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

The common stock of Books-A-Million, Inc. is traded on the NASDAQ Global Select Market under the symbol BAMM. The chart below sets forth the high and low sales prices for the Company s common stock for each quarter of the fiscal years ended February 2, 2013 and January 28, 2012. We did not declare any dividends during these periods.

Fiscal Quarter Ended	High	Low
February 2, 2013	**$ 2.90**	**$ 2.42**
October 27, 2012	**2.95**	**2.31**
July 28, 2012	**3.24**	**2.40**
April 28, 2012	**3.53**	**2.35**
January 28, 2012	$ 2.86	$ 2.18
October 29, 2011	3.10	2.10
July 30, 2011	4.61	2.96
April 30, 2011	5.97	4.04

The closing price for the Company s common stock on April 17, 2013 was $2.65. As of April 5, 2013, Books-A-Million, Inc. had approximately 1,162 stockholders of record.

Issuer Purchases of Equity Securities

The Company s Board of Directors approved a stock repurchase plan on August 21, 2012 (the 2012 Repurchase Program), under which the Company is authorized to purchase up to $5.0 million of our common stock. Stock may be purchased on the open market or through private transactions from time to time through March 31, 2014, dependent upon market conditions. The 2012 Repurchase Program does not obligate the Company to repurchase any specific number of shares and generally may be suspended at any time at the Board s discretion. The following table shows common stock repurchases under the 2012 Repurchase Program during the fourteen weeks ended February 2, 2013.

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Period	Total Number of Shares Purchased	Average Price Paid per Share *(1)*	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
October 28, 2012 through November 24, 2012	39,229	$ 2.59	39,229	$ 4,157,408
November 25, 2012 through December 29, 2012	69,230	$ 2.57	69,230	$ 3,977,405
December 30, 2012 through February 2, 2013 *(2)*	93,886	$ 2.55	93,886	$ 3,735,782
Total	202,345	$ 2.57	202,345	$ 3,735,782

(1) Average price paid per share excludes broker fees.

(2) 15,516 shares were originally granted to employees as restricted stock pursuant to the Company s 2005 Incentive Award Plan. The 2005 Incentive Award Plan provides for the withholding of shares to satisfy tax obligations due upon vesting of restricted stock, and, pursuant to the 2005 Incentive Award Plan, 15,516 of the shares reflected above were relinquished by employees in exchange for the Company s agreement to pay federal and state tax withholding obligations resulting from the vesting of the Company s restricted stock.

ITEM 6. SELECTED FINANCIAL DATA

No disclosure is required hereunder, as the Company is a smaller reporting company, as defined in Item 10(f) of Regulation S-K.

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

General

The Company was founded in 1917 and, as of February 2, 2013, operated 257 retail bookstores, concentrated primarily in the eastern United States. Of the 257 stores, 201 are superstores that operate under the names Books-A-Million (BAM!), Books & Co. and 2nd & Charles, and 56 are traditional stores that operate under the Bookland, Books-A-Million and BAM! names. In addition to the retail store formats, the Company offers its products over the Internet at www.booksamillion.com. As of February 2, 2013, the Company employed approximately 5,500 full and part-time employees.

One of the Company s growth strategies is focused on opening stores in new and existing market areas. 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. During fiscal 2013, the Company opened 6 stores, closed 6 stores and relocated one store.

The Company s performance is partially measured based on comparable store sales, which is similar to most retailers. 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 period. Any stores closed during a fiscal quarter are included in comparable store sales until they close. Remodeled and relocated stores are also included as comparable stores. The factors affecting the future trend of comparable store sales include, among others, overall demand for products that the Company sells, the Company s marketing programs, pricing strategies, store operations and competition (including competition from e-commerce).

Executive Summary

The following is a highlight of our financial results for the last two fiscal years:

	Fiscal 2013 53 weeks	Fiscal 2012 52 weeks
Net sales (in millions)	$ 503.8	$ 468.5
Operating income (loss), percentage to net sales	1.4%	(0.9%)
Comparable store sales decrease	(3.6%)	(9.5%)
Net income (loss) from continuing operations (in millions)	$ 2.5	$ (2.5)
Diluted earnings (loss) per share	$ 0.16	$ (0.18)

The Company opened 6 new stores and closed 6 underperforming stores in the year ended February 2, 2013, bringing the store base to 257 in 32 states and the District of Columbia. The overall inventory level remained essentially flat, but inventory turnover improved for fiscal 2013 compared to fiscal 2012. We ended the fiscal year with $5.0 million of available cash and cash equivalents on the consolidated balance sheet and $136.3 million availability under the Credit Facility, as defined in Note 4, Short-term Borrowing and Long-term Debt in the Notes to Consolidated Financial Statements, contained herein.

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Results of Operations

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

	Fiscal Year Ended	
	February 2, 2013 53 weeks	January 28, 2012 52 weeks
Net revenue	**100.0%**	100.0%
Gross profit	**28.9%**	28.3%
Operating, selling and administrative expenses	**24.0%**	25.7%
Impairment charges	**0.2%**	0.0%
Depreciation and amortization	**3.3%**	3.5%
Operating income (loss)	**1.4%**	(0.9%)
Interest expense, net	**0.3%**	0.3%
Income (loss) from continuing operations before income taxes	**1.0%**	(1.1%)
Income tax provision (benefit)	**0.4%**	(0.7%)
Net income (loss) before equity method investment	**0.7%**	(0.5%)
Net loss on equity method investment	**(0.2%)**	(0.1%)
Net income (loss) from continuing operations	**0.5%**	(0.5%)
Net loss from discontinued operations		(0.1%)
Net income (loss)	**0.5%**	(0.6%)

The financial results for the 52 weeks ended January 28, 2012 contain certain insignificant reclassifications necessary to conform to the presentation of the 53 weeks ended February 2, 2013.

Fiscal 2013 Compared to Fiscal 2012

Fiscal 2013 reflects an extra week as compared with fiscal 2012, creating a 53-week fiscal year that occurs approximately every six years in the accounting cycle for most retailing companies.

Consolidated net revenue from continuing operations increased $35.3 million, or 7.5%, to $503.8 million for the 53-week period ended February 2, 2013, as compared to $468.5 million for the 52-week period ended January 28, 2012. Net revenue for the additional week in fiscal 2013 was approximately $7.6 million. The remainder of the increase was related to the increase in revenue from the retail trade segment, partially offset by a decrease in the electronic trade segment, each of which is discussed in more detail below.

Comparable store sales for the year ended February 2, 2013, decreased 3.6% when compared to the prior fiscal year. The comparable store sales decrease was due to sharp declines in sales of e-reader devices and decreases in sales in certain book categories, offset by an increase in sales of general merchandise.

Our core book department business continues to be negatively impacted by the transition of certain categories to digital formats, but at a lesser rate than anticipated. Several categories outperformed the broader trend, including Fiction, Graphic Novels and the Kids area. Gifts, media, electronic accessories and Café sales increased year over year driven by product assortments.

Non-comparable store sales totaled $106.3 million during fiscal 2013 as compared with non-comparable store sales of $60.9 million during fiscal 2012. Non-comparable store sales were primarily attributable to the sales in 48 stores that we opened in the third and fourth quarters of fiscal 2012 and the additional week of sales in fiscal 2013. In addition, the Company opened 6 new stores and closed 6 stores during fiscal 2013.

Net sales for the retail trade segment increased $38.3 million, or 8.4%, to $491.6 million in the year ended February 2, 2013, from $453.3 million in the year ended January 28, 2012. The increase was due to the impact of sales from the net addition of new stores opened in fiscal 2012 and 2013 and the additional week of sales in fiscal 2013, partially offset by the 2.4% decrease in comparable store sales. The decrease in comparable store sales was due to lower sales in certain book categories, offset by an increase in general merchandise.

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Net sales for the electronic commerce trade segment decreased $2.6 million, or 8.6%, to $27.4 million in the year ended February 2, 2013, from $30.0 million in the year ended January 28, 2012. The decrease in net sales for the electronic commerce trade segment was primarily due to lower sales of E-Reading devices, partially offset by higher Internet sales of books and other products on the Company s website.

Gross profit from continuing operations, which includes cost of sales, distribution costs and occupancy costs, increased $13.1 million, or 9.8%, to $145.8 million in the year ended February 2, 2013, from $132.7 million in the year ended January 28, 2012. This increase was attributable to higher sales as described above and an improved gross profit rate as a percentage of sales. Gross profit as a percentage of net sales increased in fiscal year 2013 to 28.9%, from 28.3% in fiscal year 2012. The improved gross profit rate was a result of increased sales of higher margin items, such as gifts and general merchandise; lower distribution costs; improved shrink results; and a decrease in the LIFO provision, somewhat offset by higher occupancy costs.

Operating, selling and administrative expenses from continuing operations increased $0.9 million, or 0.8%, to $121.1 million in the year ended February 2, 2013, from $120.2 million in the year ended January 28, 2012. The increase was primarily attributable to the extra selling week in fiscal year 2013. As a percentage of net sales, operating, selling and administrative expenses decreased to 24.0% in fiscal year 2013 from 25.7% in fiscal year 2012. The decrease in percentage was attributable to lower store opening and closing costs, lower selling costs as percentage of net sales and lower restricted stock expenses.

Impairment charges increased $0.7 million to $0.9 million for the year ended February 2, 2013, from $0.2 million in the year ended January 28, 2012. The increase was primarily due to a fiscal 2013 goodwill impairment of $0.7 million. See Note 1, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements, contained herein, for further discussion of this impairment.

Depreciation and amortization expenses from continuing operations increased $0.5 million, or 3.3%, to $16.8 million in fiscal 2013, from $16.3 million in fiscal 2012. The increase was due to the increase in new stores in the last half of fiscal 2012. Depreciation and amortization expenses as a percentage of net sales decreased 0.2% to 3.3% from 3.5%.

Consolidated operating income from continuing operations was $6.9 million for the year ended February 2, 2013, compared to consolidated operating loss from continuing operations of ($4.0) million for the year ended January 28, 2012, an increase of $10.9 million. This increase was attributable to increased sales, improved gross profit as a percentage of sales and lower operating, selling, and administrative expenses as a percentage of sales as described above.

Interest expense increased $0.4 million, or 28.6%, in the year ended February 2, 2013 compared to the year ended January 28, 2012. The increase was due to higher average debt levels, partially offset by lower interest rates.

The effective rate for income tax purposes was 42.2% for fiscal 2013 and 54.3% for fiscal 2012. The net decrease in the effective tax rate is due to a number of factors, most of which are not directly associated with current period earnings. Significant decreases in the effective tax rate are due to changes in uncertain tax positions and federal tax credits recorded during fiscal 2013 that resulted in income tax benefits and had the result of reducing the overall effective rate in the current fiscal year. Similar items existed in the prior year but resulted in increases in the effective tax rate due to the existence of a prior period pre-tax loss. The decreases in the effective tax rate as described above are offset by the tax expense impact of a valuation allowance recorded against certain state income tax deferred tax assets in the current fiscal period. The decrease in the Federal statutory rate to 34% in fiscal 2013 from 35% in the prior year was the result of full utilization of net operating loss carryback opportunity in the prior year to years with higher tax rates.

The Company did not close any stores in fiscal 2013 in markets where the Company does not expect to retain the closed stores customer base. The Company closed five stores in fiscal 2012 in markets where the Company does not expect to retain the closed stores customers at another store in the same market. The operating results of these stores are presented as discontinued in all periods presented. For fiscal year 2012, the closed stores had sales of $4.9 million and an after-tax operating loss of $0.3 million.

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Critical Accounting Policies

General

Management s Discussion and Analysis of Financial Condition and Results of Operations discusses the Company s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related footnotes. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. The Company believes that the likelihood is remote that materially different amounts will be reported related to actual results for the estimates and judgments described below. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties, and, as a result, actual results could differ from these estimates.

Property and Equipment

Property and equipment are recorded at cost. Depreciation on equipment and furniture and fixtures is provided on the straight-line method over the estimated service lives, which range from two to ten years. Depreciation of buildings and amortization of leasehold improvements, including remodels, is provided on the straight-line basis over the lesser of the assets estimated useful lives (ranging from 2 to 40 years) or, if applicable, the periods of the leases. Determination of useful asset life is based on several factors requiring judgment by management and adherence to generally accepted accounting principles for depreciable periods. Judgment used by management in the determination of useful asset life could relate to any of the following factors: expected use of the asset; expected useful life of similar assets; any legal, regulatory or contractual provisions that may limit the useful life; and other factors that may impair the economic useful life of the asset. Maintenance and repairs are charged to expense as incurred. Improvement costs are capitalized to property accounts and depreciated using applicable annual rates. The cost and accumulated depreciation of assets sold, retired or otherwise disposed of are removed from the accounts, and the related gain or loss is credited or charged to income. At February 2, 2013, the Company had $65.3 million of property and equipment, net of accumulated depreciation, accounting for approximately 22.8% of the Company s total assets. The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with ASC 360-10, *Accounting for the Impairment or Disposal of Long-Lived Assets.* The Company evaluates long-lived assets for impairment at the individual store level, which is the lowest level at which individual cash flows can be identified. When evaluating long-lived assets for potential impairment, the Company will first compare the carrying amount of the assets to the individual store s estimated future undiscounted cash flows. If the estimated future cash flows are less than the carrying amount of the assets, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the assets to the individual store s fair value based on its estimated discounted future cash flows. If required, an impairment loss is recorded for that portion of the asset s carrying value in excess of fair value. Impairment losses, excluding goodwill impairment, totaled $0.2 million in fiscal 2013 and 2012. For both years presented, the impairment losses related to the retail trade business segment.

Goodwill

ASC 350, *Goodwill and Other Intangible Assets*, requires that goodwill and other unamortizable intangible assets be tested for impairment at least annually or earlier if there are impairment indicators. The Company first makes a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. If it is determined that impairment testing should be performed, the Company performs a two-step process for impairment testing of goodwill, as required by ASC 350. The first step of this test, used to identify potential impairment, compares the estimated fair value of a reporting unit with its carrying amount. The second step (if necessary) measures the amount of the impairment. The Company completed its annual impairment test on goodwill during the fourth quarter of fiscal 2013. Based on the expected future results of these specific locations, the Company determined that an impairment loss of $0.7 million was necessary, bringing the goodwill balance, which was all in the retail trade business segment, to zero at year-end. For further information on the goodwill impairment, see Note 1, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements, contained herein.

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Closed Store Expenses

Management considers several factors in determining when to close or relocate a store. Some of these factors are: decreases in store sales from the prior year, decreases in store sales from the current year budget, annual measurement of individual store pre-tax future net cash flows, indications that an asset no longer has an economically useful life, remaining term of an individual store lease or other factors that would indicate a store in the current location cannot be profitable.

When the Company closes or relocates a store, the Company charges unrecoverable costs to expense. Such costs include the net book value of abandoned fixtures and leasehold improvements, lease termination costs, costs to transfer inventory and usable fixtures, other costs in connection with vacating the leased location and a provision for future lease obligations, net of expected sublease recoveries. Costs associated with store closings were $0.5 million and $1.4 million, including costs related to store closings included in discontinued operations, during fiscal 2013 and 2012, respectively.

Inventories

Inventories are counted throughout the fiscal year. Store inventory counts are performed by an independent inventory service, while warehouse inventory counts are performed internally. All physical inventory counts are reconciled to the Company s records. The Company s accrual for inventory shortages is based upon historical inventory shortage results.

Cost is assigned to store and warehouse inventories using the retail inventory method. Using this method, store and warehouse inventories are valued by applying a calculated cost-to-retail ratio to the retail value of inventories. The retail method is an averaging method that is widely used within the retail industry. Inventory costing also requires certain significant management estimates and judgments involving markdowns, the allocation of vendor allowances and shrinkage. These practices affect ending inventories at cost as well as the resulting gross margins and inventory turnover ratios.

The Company estimates and accrues shrinkage for the period between the last physical count of inventory and the balance sheet date. The accrual is calculated based on historical results. Reserves for markdowns are estimated based upon the Company s history of liquidating non-returnable inventory.

The Company 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 was $4.3 million as of February 2, 2013 and $4.0 million as of January 28, 2012. The estimated replacement cost of inventory at February 2, 2013 was the current first-in, first out (FIFO) value of $205.9 million.

Vendor Allowances

The Company receives allowances from its vendors under a variety of programs and arrangements, including merchandise placement and cooperative advertising programs. The Company accounts for these allowances under the provisions of ASC 605-50, *Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor*, which addresses the accounting for vendor allowances. Vendor allowances for marketing support in excess of incremental direct costs are reflected as a reduction of inventory costs and recognized in cost of products sold upon the sale of the related inventory.

Accrued Expenses

On a monthly basis, certain material expenses are estimated and accrued to properly record those expenses in the period incurred. Such estimates include those made for payroll and employee benefits costs, occupancy costs and advertising expenses, among other items. Certain estimates are made based upon analysis of historical results. Differences in management s estimates and assumptions could result in accruals that are materially different from the actual results.

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Income Taxes

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that result in temporary differences between the amounts recorded in its financial statements and tax returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company evaluates the realizability of its deferred tax assets on a quarterly basis. The Company takes into account such factors as prior earnings history, expected future earnings, carryback and carryforward periods and tax strategies that could potentially enhance the likelihood of a realization of a deferred income tax asset. To the extent that recovery is not more likely than not, a valuation allowance is established against the deferred income tax asset, increasing our income tax expense in the year such determination is made. The Company accounts for the recognition, measurement, presentation and disclosure of uncertain tax positions in accordance with the provisions of ASC 740-10, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*. The Company evaluates these unrecognized tax benefits each reporting period.

Seasonality and Quarterly Results

Similar to many retailers, the Company s business is seasonal, with its highest retail sales, gross profit and net income historically occurring in the fourth fiscal quarter. This seasonal pattern reflects the increased demand for books and gifts experienced during the year-end holiday selling season. Working capital requirements are generally highest during the third fiscal quarter and the early part of the fourth fiscal quarter due to the seasonality of the Company s business. The Company s results of operations depend significantly upon net sales generated during the fourth fiscal quarter, and any significant adverse trend in the net sales of such period would likely have a material adverse impact on the Company s results of operations for the full year.

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

Liquidity and Capital Resources

Our primary sources of liquidity are cash flows from operations, including credit terms from vendors, and borrowings under the Credit Facility, as described in Note 4, Short Term Borrowing and Long-term Debt, in the Notes to Consolidated Financial Statements, contained herein. The maximum and average outstanding borrowings under the Credit Facility (including the face amount of letters of credit issued thereunder) during the fifty-three week period ended February 2, 2013 were $68.0 million and $43.3 million, respectively.

The Company s capital expenditures totaled $19.1 million and $24.3 million in fiscal 2013 and 2012, respectively. These expenditures were used for new store openings, renovation and improvements to existing stores, upgrades of the Company s warehouse distribution facilities, investment in management information systems and real property development.

Cash Flows

Operating activities provided cash of $15.1 million and $28.8 million in fiscal 2013 and 2012, respectively, and included the following effects:

Net income (loss) from continuing operations increased $5.0 million to income of $2.5 million in fiscal 2013 from a loss of ($2.5) million in fiscal 2012. The change was due to increased sales, improved gross profit percentage and improved expense control.

Cash used for inventories in fiscal year 2013 was $0.2 million, as compared to $4.5 million in fiscal year 2012. This change was due to improved inventory management in fiscal 2013 and the net addition of stores in fiscal year 2012. The Company opened 52 stores and closed 26 stores in fiscal year 2012.

Cash provided by prepayments in fiscal year 2013 was $3.1 million, compared to cash used by prepayments in fiscal year 2012 of $2.8 million. This change was primarily due to the timing of income tax payments.

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Cash used for accounts payable (including related party payables) in fiscal 2013 was $12.1 million, compared to cash provided by accounts payable (including related party payables) in fiscal 2012 of $20.4 million. The change was due to the timing of vendor payments and additional leverage achieved in fiscal 2012 due to the increase in inventory for the new stores opened late in the year with favorable payment terms.

Cash provided by accrued expenses was $1.9 million in fiscal 2013 and was due to timing of payments, including taxes other than income taxes, offset by a reduction in deferred rent. Cash used for accrued expenses was $2.5 million in fiscal 2012 and was due to a reduction of deferred rent and a reduction in accrued salaries, wages and benefits, partially offset by an increase in accrued advertising.

Cash used in investing activities in fiscal 2013 and 2012 reflected a net use of cash of $19.1 and $24.5 million, respectively. Cash was used to fund capital expenditures for new store openings, renovation and improvements to existing stores, upgrades of the Company s warehouse distribution processes, investments in management information systems and real property development. The $19.1 million spent in fiscal 2013 included the payment of $6.0 million accrued at the end of fiscal 2012 related to new store openings that occurred late in fiscal 2012.

Financing activities used cash of $1.2 million in fiscal 2013, primarily to purchase treasury stock pursuant to the 2012 Repurchase Program. Financing activities used cash of $1.6 million in fiscal 2012, primarily to repay debt ($0.4 million), for dividend payments ($0.8 million) and for excess tax decrement from stock based compensation ($0.4 million).

Future Commitments

The following table lists the aggregate maturities of various classes of obligations and expiration amounts of various classes of commitments of the Company at February 2, 2013 (in thousands):

	Payments Due Under Contractual Obligations(1)						
(in thousands)	**Total**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**Thereafter**
Short-term borrowings(2)	$ 740	740					
Long-term debt industrial revenue bond	4,920				4,920		
Interest	187	60	60	60	7		
Operating leases(3)	164,817	40,400	36,967	27,816	22,579	15,976	21,079
Real estate	1,060	1,060					
Capital leases	1,328	279	273	273	273	230	
Total of obligations	$ 173,052	$ 42,539	$ 37,300	$ 28,149	$ 27,779	$ 16,206	$ 21,079

(1) This table excludes any amounts related to the payment of the $0.9 million of income tax uncertainties, as the Company cannot make a reasonable estimate of the periods of cash settlements with the respective taxing authorities.
(2) Short-term borrowings represent borrowings under the Credit Facility that are due in 12 months or less.
(3) Excludes obligations under store leases for insurance, taxes and other maintenance costs.

Guarantees

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

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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. The overall maximum amount of obligations cannot be reasonably estimated. Historically, the Company has not incurred significant costs related to performance under these types of indemnities. No liabilities were recorded for these obligations on the Company s balance sheet at February 2, 2013 or January 28, 2012, as such liabilities are considered de minimis.

Dividends

The Company paid no dividends in fiscal 2013 and $0.8 million in dividends in fiscal 2012. See the table below for a summary of dividends paid each quarter in fiscal 2013 and 2012.

	Dividends Paid Per Share	
	Fiscal 2013	Fiscal 2012
First Quarter	**$ 0.00**	$ 0.05
Second Quarter	**0.00**	0.00
Third Quarter	**0.00**	0.00
Fourth Quarter	**0.00**	0.00
Annual Total	**$ 0.00**	$ 0.05

Impact of Recent Accounting Pronouncements

See Note 2, Recent Accounting Pronouncements, in the Notes to Consolidated Financial Statements, contained herein for information regarding recent accounting pronouncements.

Related Party Activities

See Note 7, Related Party Transactions, in the Notes to Consolidated Financial Statements, contained herein for information regarding related party activities.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

No disclosure is required hereunder, as the Company is a smaller reporting company, as defined in Item 10(f) of Regulation S-K.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following financial statements of Books-A-Million, Inc. and its subsidiaries are included in response to this item:

	Page
Reports of Independent Registered Public Accounting Firms on Consolidated Financial Statements	26
Consolidated Balance Sheets as of February 2, 2013 and January 28, 2012	28
Consolidated Statements of Operations for the Fiscal Years Ended February 2, 2013 and January 28, 2012	29
Consolidated Statements of Changes in Stockholders Equity for the Fiscal Years Ended February 2, 2013 and January 28, 2012	30
Consolidated Statements of Cash Flows for the Fiscal Years Ended February 2, 2013 and January 28, 2012	31
Notes to Consolidated Financial Statements	32

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

Books-A-Million, Inc.

We have audited the accompanying consolidated balance sheet of Books-A-Million, Inc. and subsidiaries as of February 2, 2013, and the related consolidated statements of operations, changes in stockholders equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Books-A-Million, Inc. and subsidiaries at February 2, 2013, and the consolidated results of their operations and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Birmingham, Alabama

April 19, 2013

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON CONSOLIDATED FINANCIAL STATEMENTS

Board of Directors and Stockholders

Books-A-Million, Inc.

We have audited the accompanying consolidated balance sheet of Books-A-Million, Inc. and subsidiaries (the Company), as of January 28, 2012, and the related consolidated statements of operations, stockholders equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of January 28, 2012, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

Atlanta, Georgia

April 12, 2012

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BOOKS-A-MILLION, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share and share amounts)

	February 2, 2013	January 28, 2012
Assets		
Current Assets:		
Cash and cash equivalents	**$ 4,988**	$ 10,113
Accounts receivable	**2,953**	3,284
Related party receivables	**398**	369
Inventories	**201,527**	201,283
Prepayments and other	**5,780**	8,848
Total Current Assets	**215,646**	223,897
Property and Equipment:		
Land	**3,677**	2,820
Buildings	**17,900**	12,678
Equipment	**94,451**	90,282
Furniture and fixtures	**58,739**	58,072
Leasehold improvements	**76,331**	75,139
Construction in process	**494**	985
Gross Property and Equipment	**251,592**	239,976
Less accumulated depreciation and amortization	**186,308**	173,443
Net Property and Equipment	**65,284**	66,533
Deferred Income Taxes	**1,655**	
Equity Method Investment	**1,455**	2,240
Other Assets:		
Goodwill		653
Notes receivable from related party	**1,000**	1,000
Other	**1,430**	1,829
Total Other Assets	**2,430**	3,482
Total Assets	**$ 286,470**	$ 296,152
Liabilities and Stockholders Equity		
Current Liabilities:		
Accounts payable:		
Trade	**$ 96,237**	$ 105,398
Related party payables	**3,618**	6,574
Accrued expenses	**40,392**	41,356
Deferred income taxes	**14,896**	12,324
Short-term borrowings	**740**	
Total Current Liabilities	**155,883**	165,652

Non-current Liabilities:		
Long-term debt	**4,920**	5,445
Deferred rent	**7,232**	8,406
Deferred income taxes	**2**	1,035
Liability for uncertain tax positions	**909**	1,026
Long term capital lease obligation	**1,007**	
Total Non-current Liabilities	**14,070**	15,912
Stockholders Equity:		
Preferred stock, $.01 par value; 1,000,000 shares authorized, no shares issued or outstanding		
Common stock, $.01 par value; 30,000,000 shares authorized, 22,071,507 and 21,887,869 shares issued and 15,445,981 and 15,733,668 shares outstanding at February 2, 2013 and January 28, 2012, respectively	**221**	219
Additional paid-in capital	**95,181**	94,542
Treasury stock at cost, 6,625,526 shares at February 2, 2013 and 6,154,201 shares at January 28, 2012	**(51,829)**	(50,572)
Retained earnings	**72,944**	70,399
Total Stockholders Equity	**116,517**	114,588
Total Liabilities and Stockholders Equity	**$ 286,470**	$ 296,152

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

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BOOKS-A-MILLION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share and share amounts)

	Fiscal Year Ended	
	February 2, 2013 53 weeks	January 28, 2012 52 weeks
Net revenue	**$ 503,787**	$ 468,521
Cost of products sold, including warehouse distribution and store occupancy costs (excluding depreciation and amortization)	**357,997**	335,791
Gross profit	**145,790**	132,730
Operating, selling and administrative expenses	**121,127**	120,197
Impairment charges	**905**	229
Depreciation and amortization	**16,847**	16,301
Operating income (loss)	**6,911**	(3,997)
Interest expense, net	**1,725**	1,341
Income (loss) from continuing operations before income taxes	**5,186**	(5,338)
Provision (benefit) for income taxes	**1,859**	(3,144)
Net income (loss) from continuing operations before equity method investment	**3,327**	(2,194)
Net loss on equity method investment	**(782)**	(300)
Net income (loss) from continuing operations	**2,545**	(2,494)
Loss from discontinued operations		(329)
Net income (loss)	**$ 2,545**	$ (2,823)
Net income (loss) per share:		
Basic		
Net income (loss) from continuing operations	**$ 0.16**	$ (0.16)
Loss from discontinued operations		(0.02)
Net income (loss) per common share	**$ 0.16**	$ (0.18)
Weighted average number of shares outstanding basic	**15,245,892**	15,729,406
Diluted		
Net income (loss) from continuing operations	**$ 0.16**	$ (0.16)
Loss from discontinued operations		(0.02)
Net income (loss) per common share	**$ 0.16**	$ (0.18)
Weighted average number of shares outstanding diluted	**15,245,905**	15,729,406

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

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BOOKS-A-MILLION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(In thousands, except share amounts)

	Common Stock		Additional Paid-In	Treasury Stock		Retained	Total Stockholders
	Shares	Amount	Capital	Shares	Amount	Earnings	Equity
Balance, January 29, 2011	21,574,698	$ 216	$ 93,340	6,104,421	$ (50,448)	$ 74,008	$ 117,116
Net loss						(2,823)	(2,823)
Purchase of treasury stock, at cost				49,780	(124)		(124)
Dividends paid						(786)	(786)
Issuance of restricted stock	351,953	3	1,623				1,626
Forfeiture of restricted stock	(57,337)		(151)				(151)
Issuance of stock for employee stock purchase plan	18,555		104				104
Tax decrement from stock-based compensation			(374)				(374)
Balance, January 28, 2012	21,887,869	$ 219	$ 94,542	6,154,201	$ (50,572)	$ 70,399	$ 114,588
Net income							