

BOOKS A MILLION INC
Form 10-Q
September 08, 2011

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended: July 30, 2011
- OR -**

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transaction period from _____ to _____
Commission File Number **0-20664**
BOOKS-A-MILLION, INC.
(Exact name of registrant as specified in its charter)**

DELAWARE

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)

(205) 942-3737

(Registrant's Telephone number, including area code)

NONE

(Former name, Former Address and Former Fiscal Year, if changed since last report)

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

Yes No

Indicate by check mark whether the registrant 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 No

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 Smaller Reporting Company

(Do not check if a smaller reporting company)

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

Yes No

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Shares of common stock, par value \$0.01 per share, outstanding as of September 6, 2011 were 15,826,146 shares.

**BOOKS-A-MILLION, INC. AND SUBSIDIARIES
INDEX TO FORM 10-Q**

**Page
No.**

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Condensed Consolidated Balance Sheets as of July 30, 2011 and January 29, 2011 3

Condensed Consolidated Statements of Operations for the thirteen and twenty-six weeks ended July 30, 2011 and July 31, 2010 4

Condensed Consolidated Statements of Cash Flows for the twenty-six weeks ended July 30, 2011 and July 31, 2010 5

Notes to Condensed Consolidated Financial Statements 6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 15

Item 3. Quantitative and Qualitative Disclosures about Market Risk 20

Item 4. Controls and Procedures 20

PART II. OTHER INFORMATION

Item 1. Legal Proceedings 20

Item 1A. Risk Factors 21

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 21

Item 3. Defaults Upon Senior Securities 21

Item 4. Reserved 21

Item 5. Other Information 21

Item 6. Exhibits 21

Exhibit 31.1

Exhibit 31.2

Exhibit 31.3

Exhibit 32.1

Exhibit 32.2

Exhibit 32.3

EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

BOOKS-A-MILLION, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands except per share and share amounts)
(Unaudited)

| | July 30, 2011 | January 29, 2011 |
|--|----------------------|-------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 4,809 | \$ 7,813 |
| Accounts receivable, net of allowance for doubtful accounts of \$326 and \$294, respectively | 2,931 | 4,474 |
| Related party receivables | 202 | 339 |
| Inventories | 192,379 | 196,814 |
| Prepayments and other assets | 3,421 | 6,038 |
| Total current assets | 203,742 | 215,478 |
| Property and equipment | | |
| Gross property and equipment | 231,625 | 228,868 |
| Less accumulated depreciation and amortization | (179,006) | (174,158) |
| Property and equipment, net | 52,619 | 54,710 |
| Deferred income taxes | 1,702 | 353 |
| Equity method investment (Note 13) | 2,822 | 2,536 |
| Notes receivable | 1,000 | 750 |
| Other assets | 1,768 | 975 |
| Total assets | \$ 263,653 | \$ 274,802 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Trade accounts payable | \$ 77,202 | \$ 85,880 |
| Related party accounts payable | 3,528 | 5,737 |
| Accrued expenses | 31,519 | 37,375 |
| Deferred income taxes | 10,588 | 12,380 |
| Short-term borrowings (Note 9) | 13,940 | 5,880 |
| Total current liabilities | 136,777 | 147,252 |
| Long-term debt (Note 9) | 5,880 | |
| Deferred rent | 8,466 | 8,745 |

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

| | | |
|--|------------|------------|
| Liability for uncertain tax positions | 1,743 | 1,689 |
| Total non-current liabilities | 16,089 | 10,434 |
| Commitments and contingencies (Note 5) | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.01 par value, 1,000,000 shares authorized, no shares outstanding | | |
| Common stock, \$0.01 par value, 30,000,000 shares authorized, 21,838,824 and 21,574,698 shares issued and 15,734,403 and 15,470,277 shares outstanding at July 30, 2011 and January 29, 2011, respectively | 218 | 216 |
| Additional paid-in capital | 94,204 | 93,340 |
| Treasury stock, at cost, 6,104,421 shares repurchased at July 30, 2011 and January 29, 2011 | (50,448) | (50,448) |
| Retained earnings | 66,813 | 74,008 |
| Total stockholders' equity | 110,787 | 117,116 |
| Total liabilities and stockholders' equity | \$ 263,653 | \$ 274,802 |

See notes to condensed consolidated financial statements.

Table of Contents

BOOKS-A-MILLION, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|--|-----------------------------|----------------------|-------------------------------|----------------------|
| | July 30, 2011 | July 31, 2010 | July 30, 2011 | July 31, 2010 |
| Net sales | \$ 106,386 | \$ 120,048 | \$ 210,399 | \$ 237,016 |
| Cost of products sold (including warehouse distribution and store occupancy costs) | 76,364 | 83,551 | 151,810 | 165,345 |
| Gross profit | 30,022 | 36,497 | 58,589 | 71,671 |
| Operating, selling and administrative expenses | 29,275 | 29,548 | 58,789 | 57,765 |
| Depreciation and amortization | 3,917 | 3,768 | 7,901 | 7,331 |
| Operating (loss) income | (3,170) | 3,181 | (8,101) | 6,575 |
| Interest expense, net | 356 | 157 | 575 | 279 |
| (Loss) income before income taxes | (3,526) | 3,024 | (8,676) | 6,296 |
| Income taxes (benefit) | (388) | 1,137 | (1,981) | 2,367 |
| Net (loss) income before equity method investment | (3,138) | 1,887 | (6,695) | 3,929 |
| Net (loss) income on equity method investment | 240 | 9 | 286 | (29) |
| Net (loss) income | \$ (2,898) | \$ 1,896 | \$ (6,409) | \$ 3,900 |
| Basic (loss) earnings per common share | \$ (0.18) | \$ 0.12 | \$ (0.41) | \$ 0.25 |
| Diluted (loss) earnings per common share | \$ (0.18) | \$ 0.12 | \$ (0.41) | \$ 0.25 |
| Weighted average common shares outstanding: | | | | |
| Basic | 15,737 | 15,723 | 15,692 | 15,742 |
| Diluted | 15,737 | 15,729 | 15,692 | 15,749 |
| Dividends paid per share | \$ | \$ 0.05 | \$ 0.05 | \$ 0.10 |

See notes to condensed consolidated financial statements.

Table of Contents

BOOKS-A-MILLION, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

| | Twenty-Six Weeks Ended | |
|--|-------------------------------|----------------------|
| | July 30, | July 31, 2010 |
| | 2011 | |
| Cash Flows from Operating Activities: | | |
| Net (loss) income | \$ (6,409) | \$ 3,900 |
| Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 7,901 | 7,331 |
| Stock-based compensation | 759 | 716 |
| Loss on impairment of assets | 223 | 81 |
| Loss on disposal of property and equipment | 465 | 138 |
| Deferred income taxes | (3,141) | 617 |
| Excess tax benefit from stock-based compensation | (3) | (47) |
| Bad debt expense | 93 | 327 |
| Net (income) loss on equity method investment | (286) | 29 |
| (Increase) decrease in assets: | | |
| Accounts receivable and other receivables | 1,450 | (1,407) |
| Related party receivables | 137 | 481 |
| Inventories | 4,435 | (1,633) |
| Prepayments and other assets | 2,617 | (886) |
| Noncurrent assets | (854) | (10) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (8,678) | 2,684 |
| Related party payables | (2,209) | 2,054 |
| Accrued income taxes | 29 | (4,703) |
| Accrued expenses and deferred rent | (6,808) | (2,447) |
| Total adjustments | (3,870) | 3,325 |
| Net cash (used in) provided by operating activities | (10,279) | 7,225 |
| Cash Flows from Investing Activities: | | |
| Capital expenditures | (5,736) | (8,306) |
| Proceeds from sale of property and equipment | | 6 |
| Cash paid for acquisition of equity method investment (Note 13) | | (3,000) |
| Increase in notes receivable | (250) | |
| Net cash used in investing activities | (5,986) | (11,300) |
| Cash Flows from Financing Activities: | | |
| Borrowings under credit facilities | 107,385 | 108,630 |
| Repayments under credit facilities | (93,445) | (100,830) |

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

| | | |
|---|------------|----------|
| Proceeds from exercise of stock options and issuance of common stock under employee stock purchase plan | 104 | 97 |
| Purchase of treasury stock | | (2,135) |
| Payment of dividends | (786) | (3,171) |
| Excess tax benefit from stock based compensation | 3 | 47 |
| Net cash provided by financing activities | 13,261 | 2,638 |
| Net Decrease in Cash and Cash Equivalents | (3,004) | (1,437) |
| Cash and Cash Equivalents at Beginning of Period | 7,813 | 6,602 |
| Cash and Cash Equivalents at End of Period | \$ 4,809 | \$ 5,165 |
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash paid during the period for: | | |
| Interest | \$ 481 | \$ 273 |
| Net Income taxes/(Refunds) | \$ (1,506) | \$ 6,995 |
| Supplemental Disclosures of Non Cash Investing Activities: | | |
| Capital expenditures in accrued expenses | \$ 590 | \$ 364 |

See notes to condensed consolidated financial statements.

Table of Contents

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

1. Basis of Presentation

The unaudited condensed consolidated financial statements include the accounts of Books-A-Million, Inc. and its subsidiaries (collectively, the Company). The Company consists of Books-A-Million, Inc. and its four wholly owned subsidiaries, American Wholesale Book Company, Inc., Booksamillion.com, Inc., BAM Card Services, LLC and Alabama Florence Realty Holdings 2010 LLC. All inter-company balances and transactions have been eliminated in consolidation. For a discussion of the Company's business segments, see Note 7.

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and are presented pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, certain financial information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2011. In the opinion of management, the unaudited condensed consolidated financial statements included herein contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of our financial position as of July 30, 2011 and January 29, 2011 and the results of our operations and cash flows for the periods presented. Quarterly results of operations are not necessarily indicative of annual results.

The Company's business, like that of many retailers, is seasonal, with a large portion of sales and operating profit realized during the fourth fiscal quarter, which includes the holiday selling season.

Certain insignificant reclassifications to amounts included in this report for prior periods were necessary to conform to the presentation of the thirteen and twenty-six weeks ended July 30, 2011.

Stock-Based Compensation

The Company's pre-tax compensation cost for stock-based employee compensation was \$0.4 million, or \$0.3 million net of taxes, for each of the thirteen weeks ended July 30, 2011 and July 31, 2010. The Company's pre-tax compensation cost for stock-based employee compensation was \$0.8 million, or \$0.6 million net of taxes, and \$0.7 million, or \$0.5 million net of taxes, for the twenty-six weeks ended July 30, 2011 and July 31, 2010, respectively.

Stock Option Plan

A summary of the status of the Company's Amended and Restated Stock Option Plan (the Stock Option Plan) is as follows (*shares in thousands*):

| | Twenty-Six Weeks Ended July 30, 2011 | |
|--|---|--|
| | Shares | Weighted Average Exercise Price |
| Options outstanding at beginning of period | 35 | \$ 5.56 |
| Options granted | | N/A |
| Options exercised | | N/A |
| Options forfeited | | N/A |
| Options outstanding at end of period | 35 | \$ 5.56 |
| Options exercisable at end of period | 35 | \$ 5.56 |

Table of Contents

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

The following table summarizes information about stock options outstanding and exercisable under the Stock Option Plan as of July 30, 2011 (*shares in thousands*):

| Range of Exercise Price | Options Outstanding | | | Options Exercisable | |
|----------------------------|--|---|--|--|--|
| | Options Outstanding at July 30, 2011 | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Options Exercisable at July 30, 2011 | Weighted Average Exercise Price |
| \$2.16 - \$2.37 | 7 | 1.51 | \$ 2.36 | 7 | \$ 2.36 |
| \$3.04 - \$3.04 | 6 | 0.51 | \$ 3.04 | 6 | \$ 3.04 |
| \$6.13 - \$9.62 | 22 | 2.74 | \$ 7.34 | 22 | \$ 7.32 |
| Totals | 35 | 2.09 | \$ 5.56 | 35 | \$ 5.56 |

The aggregate intrinsic value for outstanding and exercisable options under the Stock Option Plan at July 30, 2011 was approximately \$(0.1) million.

2005 Incentive Award Plan

On May 20, 2010, the stockholders of the Company approved an additional 800,000 shares available for issuance under the Books-A-Million, Inc. 2005 Incentive Award Plan, as amended (the 2005 Plan). An aggregate of 2,000,000 shares of common stock may be awarded under the 2005 Plan, as amended. From June 1, 2005 through July 30, 2011, equity awards under the 2005 Plan have consisted solely of awards of restricted stock. As of July 30, 2011, the number of shares of common stock currently reserved under the 2005 Plan for outstanding stock-based awards was 785,624 shares.

Restricted Stock Table

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

| | Twenty-Six Weeks Ended July 30, 2011 | |
|-------------------------------|---|---|
| | Shares | Weighted Average Grant Date Fair Value |
| Shares at beginning of period | 396 | \$ 7.19 |
| Shares granted | 252 | 5.16 |
| Shares vested | (12) | 6.78 |
| Shares forfeited | (7) | 6.15 |
| Shares at end of period | 629 | \$ 6.40 |

The Company's unvested restricted stock receives all dividends and retains voting rights for the granted shares.

Table of Contents

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

Other Information

As of July 30, 2011, the Company had approximately \$2.0 million of total unrecognized compensation cost related to non-vested awards granted under its various share-based plans, which it expects to recognize over the following fiscal years:

| Fiscal Year | Stock-Based Compensation Expense |
|--------------------|---|
| 2012 | \$ 843,000 |
| 2013 | 815,000 |
| 2014 | 369,000 |
| 2015 | 4,000 |
| Total | \$ 2,031,000 |

There were no options exercised during the twenty-six week period ended July 30, 2011. The Company received cash from options exercised during the twenty-six week period ended July 31, 2010 of approximately \$4,700.

The Company maintains an employee stock purchase plan (the Amended and Restated Employee Stock Purchase Plan) under which shares of the Company's common stock are reserved for purchase by employees at 85% of the fair market value of the common stock at the lower of the market value for the Company's stock as of the beginning of the fiscal year or the end of the fiscal year. On May 20, 2010, the stockholders of the Company approved a second amendment to the Amended and Restated Employee Stock Purchase Plan to increase the number of shares available for issuance under the plan by 200,000 shares of common stock. An aggregate of 600,000 shares are available for issuance to participants of the Amended and Restated Employee Stock Purchase Plan. The Company received cash proceeds from issuances of stock under the Amended and Restated Employee Stock Purchase Plan during each of the twenty-six weeks ended July 30, 2011 and July 31, 2010 of \$0.1 million. The impact of these cash receipts is included in financing activities in the accompanying condensed consolidated statements of cash flows.

2. Recent Accounting Pronouncements

In August 2010, the Financial Accounting Standards Board (the FASB) issued an exposure draft, *Leases*, (the Exposure Draft), which would replace the existing guidance in Accounting Standards Codification (ASC) 840, *Leases*. Under the Exposure Draft, a lessee's rights and obligations under leases, including existing and new arrangements, would be recognized as assets and liabilities, respectively, on the balance sheet. The comment period for the Exposure Draft ended on December 15, 2010. In July 2011, the FASB announced that they would extend the comment period. If the proposed guidance becomes effective on the terms currently proposed by the FASB, it will likely have a significant impact on our consolidated financial statements. However, as the final standard has not yet been issued, we are unable to determine at this time the impact this proposed change in accounting may have on our consolidated financial statements.

In May 2011, the Financial Accounting Standards Board (the FASB) issued authoritative guidance relating to fair value measurement and disclosure requirements. The new guidance is intended to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. This authoritative guidance limits the highest-and-best-use measure to nonfinancial assets, permits certain financial assets and liabilities with offsetting positions in market or counterparty credit risks to be measured at a net basis, and provides guidance on the applicability of premiums and discounts. This authoritative guidance also expands the disclosures on Level 3 inputs by requiring quantitative disclosure of the unobservable inputs and assumptions, as well as description of the valuation processes and the sensitivity of the fair value to changes in unobservable inputs. The new guidance is effective for interim and annual periods beginning after

December 15, 2011. Early adoption is not permitted. We do not anticipate that the adoption of this guidance will have a significant impact on our existing fair value measurements or disclosures.

Table of Contents

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

3. Net Income (Loss) Per Common Share

Basic net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted net income (loss) per common share reflects the potential dilution, using the treasury stock method, which could occur if stock options are exercised. Diluted net income (loss) per common share has been computed based on the weighted average number of shares outstanding, including the effect of outstanding stock options, if dilutive, in each of the thirteen and twenty-six week periods set forth below. The difference between basic and diluted net income (loss) per share is solely attributable to stock options. A reconciliation of the weighted average shares for basic and diluted net income (loss) per common share is as follows:

| (in thousands) | Thirteen Weeks Ended | |
|--|-------------------------------|----------------------|
| | July 30, 2011 | July 31, 2010 |
| Weighted average shares outstanding: | | |
| Basic | 15,737 | 15,723 |
| Dilutive effect of stock options outstanding | | 6 |
| Diluted | 15,737 | 15,729 |
| | | |
| (in thousands) | Twenty-Six Weeks Ended | |
| | July 30, 2011 | July 31, 2010 |
| Weighted average shares outstanding: | | |
| Basic | 15,692 | 15,742 |
| Dilutive effect of stock options outstanding | | 7 |
| Diluted | 15,692 | 15,749 |

For the thirteen week periods ended July 30, 2011 and July 31, 2010, options for approximately 22,000 and 6,000, respectively, of our shares were outstanding but were excluded from the computation of diluted weighted-average common shares because the options' exercise price was greater than the average market price of the common shares and their effect would have been anti-dilutive. For the twenty-six week periods ended July 30, 2011 and July 31, 2010, options for approximately 22,000 and 6,000, respectively, of our shares were outstanding but were excluded from the computation of diluted weighted-average common shares because the options' exercise price was greater than the average market price of the common shares and their effect would have been anti-dilutive.

The Company's unvested restricted shares are entitled to receive nonforfeitable dividends, and thus, are participating securities requiring the two class method of computing net income (loss) per share. The weighted average shares outstanding and net income (loss) per share for the thirteen and twenty-six weeks ended July 30, 2011 and July 31, 2010 were computed using the two class method.

4. Related Party Transactions

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

Table of Contents

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

The Company purchases a substantial portion of its magazines, as well as certain of its seasonal music from a subsidiary of Anderson Media Corporation (Anderson Media), an affiliate of the Company through common ownership. During the twenty-six weeks ended July 30, 2011 and July 31, 2010, purchases of these items from Anderson Media totaled \$9.0 million and \$10.4 million, respectively. Amounts payable to Anderson Media at July 30, 2011 and July 31, 2010 were \$2.9 million and \$0.7 million, respectively. Amounts receivable from Anderson Media as of July 30, 2011 and July 31, 2010 were \$0.1 million and \$0.3 million, respectively. The Company purchases cert