

BOOKS A MILLION INC
Form 10-Q
September 08, 2009
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: August 1, 2009

- OR -

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

For the transaction period from _____ to _____

Commission File Number 0-20664

BOOKS-A-MILLION, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or Other Jurisdiction of

Incorporation or Organization)

402 Industrial Lane, Birmingham, Alabama

(Address of principal executive offices)

63-0798460

(IRS Employer Identification No.)

35211

(Zip Code)

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(205) 942-3737

(Registrant's Telephone number, including area code)

NONE

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

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

Yes No

Indicate by check mark whether the registrant 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 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

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Shares of common stock, par value \$0.01 per share, outstanding as of September 4, 2009 were 15,725,307 shares.

BOOKS-A-MILLION, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BOOKS-A-MILLION, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands except per share and share amounts)

(Unaudited)

	As of August 1, 2009	As of January 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 5,532	\$ 5,529
Accounts receivable, net	5,517	5,431
Related party receivables	496	1,133
Inventories	204,662	204,305
Prepayments and other	2,727	3,239
Total Current Assets	218,934	219,637
Property and Equipment:		
Gross property and equipment	235,827	234,167
Less accumulated depreciation and amortization	(181,188)	(176,129)
Net Property and Equipment	54,639	58,038
Deferred Income Taxes	736	463
Other Assets	1,105	1,154
Total Assets	\$ 275,414	\$ 279,292
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Trade accounts payable	\$ 98,026	\$ 94,418
Related party accounts payable	1,188	2,321
Accrued expenses	35,830	35,554
Accrued income taxes	--	848
Deferred income taxes	9,018	8,591
Short-term borrowings (Note 10)	7,680	15,760
Total Current Liabilities	151,742	157,492
Long-Term Debt (Note 10)	6,720	6,720
Deferred Rent	8,798	8,554
Liability for Uncertain Tax Positions	2,145	2,032
Total Non-Current Liabilities	17,663	17,306
Commitments and Contingencies (Note 5)	--	--

Stockholders' Equity:

Preferred stock, \$0.01 par value, 1,000,000

shares authorized, no shares outstanding

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Common stock, \$0.01 par value, 30,000,000

shares authorized, 21,268,466 and 21,236,218

shares issued and 15,725,220 and 15,780,498

shares outstanding at August 1, 2009 and

January 31, 2009, respectively

213

212

Additional paid-in capital

91,484

91,432

Treasury stock at cost (5,543,246 and 5,455,720

shares at August 1, 2009 and January 31,

2009, respectively)

(46,783)

(46,258)

Retained earnings

61,095

59,108

Total Stockholders' Equity**106,009****104,494****Total Liabilities and Stockholders' Equity****\$ 275,414****\$ 279,292**

See accompanying notes

BOOKS-A-MILLION, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(Unaudited)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 1, 2009	August 2, 2008	August 1, 2009	August 2, 2008
Net Sales	\$ 122,443	\$ 123,253	\$ 240,612	\$ 239,170
Cost of products sold (including warehouse distribution and store occupancy costs)	86,321	87,714	169,213	169,272
Gross Profit	36,122	35,539	71,399	69,898
Operating, selling and administrative expenses	29,911	30,341	58,079	59,233
Depreciation and amortization	3,604	3,618	7,187	7,068
Operating Income	2,607	1,580	6,133	3,597
Interest expense, net	143	502	319	994
Income before income taxes	2,464	1,078	5,814	2,603
Income tax provision	956	433	2,247	1,052
Net Income	\$ 1,508	\$ 645	\$ 3,567	\$ 1,551
Net Income Per Common Share:				
Basic	\$ 0.10	\$ 0.04	\$ 0.23	\$ 0.10
Diluted	\$ 0.10	\$ 0.04	\$ 0.23	\$ 0.10
Weighted Average Common Shares Outstanding:				
Basic	15,759	15,633	15,776	15,683
Diluted	15,768	15,642	15,782	15,692
Dividends Declared Per Share	\$ 0.05	\$ 0.09	\$ 0.10	\$ 0.18

See accompanying notes

BOOKS-A-MILLION, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands)

(Unaudited)

	Common Stock		Additional	Treasury Stock		Retained	Total
	Shares	Amount	Paid-In Capital	Shares	Amount	Earnings	Stockholders' Equity
Balance January 31, 2009	21,236	\$212	\$91,432	5,456	(\$46,258)	\$59,108	\$104,494
Purchase of treasury stock				87	(525)		(525)
Net income						3,567	3,567
Dividends paid						(1,580)	(1,580)
Issuance of restricted stock	157	2	611				613
Forfeiture of restricted stock	(173)	(2)	(657)				(659)
Issuance of stock for employee stock purchase plan	48	1	112				113
Tax benefit from stock-based compensation			(14)				(14)
Balance August 1, 2009	21,268	\$213	\$91,484	5,543	\$(46,783)	\$61,095	\$106,009

See accompanying notes

BOOKS-A-MILLION, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Twenty-Six Weeks Ended	
	August 1, 2009	August 2, 2008
Cash Flows from Operating Activities:		
Net income	\$3,567	\$1,551
Adjustments to reconcile net income to net cash provided by/(used in) by		
operating activities:		
Depreciation and amortization	7,187	7,068
Increase in stock-based compensation	613	883
Forfeiture of stock-based compensation	(659)	--
Loss on impairment of assets	366	--
Loss on sale of property and equipment	158	62
Deferred income tax provision	154	1,379
Excess tax benefit of stock based compensation	14	(13)
Bad debt expense	81	(92)
(Increase) decrease in assets:		
Accounts receivable	(86)	2,500
Related party receivables	637	3,017
Inventories	(357)	(8,675)
Prepayments and other	512	176
Noncurrent assets (excluding amortization)	(5)	(421)
Increase (decrease) in liabilities:		
Accounts payable	3,608	(5,590)
Related party payables	(1,133)	2,014
Accrued income taxes	(862)	(2,278)
Accrued expenses	558	(5,024)
Total adjustments	10,786	(4,994)
Net cash provided by/(used in) operating activities	14,353	(3,443)
Cash Flows from Investing Activities:		
Capital expenditures	(4,348)	(10,794)
Proceeds from sale of property and equipment	84	--
Net cash used in investing activities	(4,264)	(10,794)
Cash Flows from Financing Activities:		
Borrowings under credit facilities	94,880	123,280
Repayments under credit facilities	(102,960)	(104,072)
Proceeds from exercise of stock options and issuance of common stock		
under employee stock purchase plan	113	132
Purchase of treasury stock	(525)	(1,732)
Payment of dividends	(1,580)	(2,828)
Excess tax benefit from stock based compensation	(14)	13
Net cash provided by/(used in) financing activities	(10,086)	14,793
Net Increase in Cash and Cash Equivalents	3	556
Cash and Cash Equivalents at Beginning of Year	5,529	5,595
Cash and Cash Equivalents at End of Quarter	\$5,532	\$6,151

Supplemental Disclosures of Cash Flow Information:

Cash paid during the twenty-six week period for:

Interest	\$322	\$988
Income taxes, net of refunds	\$3,212	\$2,898

Supplemental Disclosures of Non Cash Investing Activities:

Capital expenditures in accrued expenses	\$684	\$(1,071)
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See accompanying notes

BOOKS-A-MILLION, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

Books-A-Million, Inc. and its subsidiaries (collectively, the "Company") are principally engaged in the sale of books, magazines and related items through a chain of retail bookstores. The Company operates 223 bookstores in 21 states and the District of Columbia, which are predominantly located in the southeastern United States. The Company also operates a retail Internet website. The Company consists of Books-A-Million, Inc. and its three wholly owned subsidiaries, American Wholesale Book Company, Inc., Booksamillion.com, Inc. and BAM Card Services, 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 have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and include all adjustments that, in the opinion of management, are necessary for a fair presentation of the results of the periods presented. All such adjustments are considered of a normal recurring nature. Quarterly results of operations are not necessarily indicative of annual results.

Certain financial information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the fiscal year ended January 31, 2009 and the notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2009.

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

The results for the twenty-six weeks ended August 2, 2008 contain certain insignificant reclassifications necessary to conform to the presentation of the twenty-six weeks ended August 1, 2009.

Stock Based Compensation

The Company accounts for share-based compensation in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123(R), *Share-Based Payment* ("SFAS No. 123R"). Stock-based compensation expense for share-based awards recognized during the twenty-six weeks ended August 1, 2009 and August 2, 2008 includes: (a) the applicable portion of compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of, January 29, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, and (b) the applicable portion of compensation expense for all stock-based compensation awards granted subsequent to January 29, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R.

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The Company's pre-tax compensation cost (gain) for stock-based employee compensation was \$(46,000) ((\$28,000) net of taxes) and \$883,000 (\$555,000 net of taxes) for the twenty-six weeks ended August 1, 2009 and August 2, 2008, respectively. Stock-based employee compensation for the twenty-six weeks ended August 1, 2009 includes \$358,000 of restricted stock grants and (\$659,000) of forfeitures of unvested restricted stock grants for an employee who resigned during this time.

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BOOKS-A-MILLION, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Stock Option Plan

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

	Twenty-six Weeks Ended	
	August 1, 2009	
	Shares	Weighted Average Exercise Price
Options outstanding at beginning of period	43	\$5.31
Options granted	--	N/A
Options exercised	--	N/A
Options forfeited	(3)	(5.66)
Options outstanding at end of period	40	\$5.31
Options exercisable at end of period	40	\$5.31

The total intrinsic value of stock options exercised during the twenty-six weeks ended August 1, 2009 was \$0.

The following table summarizes information about stock options outstanding and exercisable under the Stock Option Plan as of August 1, 2009 (*shares in thousands*):

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Options Outstanding at August 1, 2009	Weighted Average Contractual Life Remaining (Years)	Weighted Average Exercise Price	Options Exercisable at August 1, 2009	Weighted Average Exercise Price
\$1.69 - \$2.37	10	3.30	\$2.30	10	\$2.30
\$2.68 - \$5.85	7	2.50	\$3.04	7	\$3.04
\$6.13 - \$9.62	23	4.72	\$7.27	23	\$7.27
Totals	40	4.00	\$5.31	40	\$5.31

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The aggregate intrinsic value of outstanding options and exercisable options under the Stock Option Plan at August 1, 2009 was \$160,000.

2005 Incentive Award Plan

On June 1, 2005, the stockholders of the Company approved the adoption of the Books-A-Million, Inc. 2005 Incentive Award Plan (the “2005 Plan”). An aggregate of 1,200,000 shares of common stock may be awarded under the 2005 Plan, as amended. From June 1, 2005 through August 1, 2009, awards under the 2005 Plan have consisted solely of awards of restricted stock.

The number of shares of common stock currently reserved under the 2005 Plan for outstanding stock-based awards as of August 1, 2009 is 514,049 shares.

BOOKS-A-MILLION, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

There are two types of restricted stock awards made to employees under the 2005 Plan. The first type of restricted stock award is “career based shares.” Career based shares granted prior to March 26, 2008, are completely unvested until the last day of the fifth fiscal year after the date of grant, whereupon such career based shares vest in full if the employee who received the grant is then employed by the Company. Career based shares granted on or after March 26, 2008 are completely unvested until the last day of the third fiscal year after the date of grant. The compensation expense for these shares is recognized ratably over the requisite service period. The second type of restricted stock award under the 2005 Plan is “performance based shares.” Performance based shares are earned based on the achievement of certain pre-established performance goals for the fiscal year in which they are granted. If the performance goals are met, the performance based shares vest in 50% increments at the end of the first and second fiscal years following the fiscal year in which they were earned if the employee who received the grant is then employed by the Company. Compensation expense for these shares is recognized ratably over the period beginning on the date the performance goals are met and ending on the last day of the vesting period.

Additionally, there are annual restricted stock grants to non-employee directors under the 2005 Plan. Each such director who has served at least eleven consecutive months as of the Company’s annual meeting of stockholders receives a restricted stock grant, which shares of restricted stock vest in one-third increments on each of the first, second and third anniversaries of the grant date. The expense related to the directors’ grants is recognized ratably over the three-year vesting period.

Executive Incentive Plan

The Company maintains an Executive Incentive Plan (the “Incentive Plan”). The Incentive Plan provides for awards to certain executive officers of either cash or shares of restricted stock. Since the inception of the Incentive Plan, the Company issued awards under the Incentive Plan only in the form of restricted stock. Issuance of restricted stock awards under the Incentive Plan is based on the Company achieving pre-established performance goals during a three consecutive fiscal year performance period. Awards issued under the Incentive Plan for a particular performance period vest on the third anniversary of the last day of such performance period if the recipient remains employed by the Company on such vesting date. Awards under the Incentive Plan are expensed ratably over the period from the date that the issuance of such awards becomes probable through the end of the restriction period. No awards have been made under the Incentive Plan since fiscal 2006, and there will be no future awards under the Incentive Plan.

Restricted Stock Table

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

	Twenty-six Weeks Ended
	August 1, 2009
	Shares

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		Weighted Average Grant Date Fair Value
Shares at beginning of period	531	\$8.49
Shares granted	157	\$3.05
Shares vested	(11)	\$12.94
Shares forfeited	(173)	\$8.64
Shares at end of period	504	\$6.64

There were 173,005 shares of unvested restricted stock forfeited during the twenty-six weeks ended August 1, 2009 for an executive employee who resigned during the first quarter of fiscal 2010. The net impact of these forfeitures was a reduction to operating, selling and administrative expense of \$659,000.

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

As of August 1, 2009, the Company had \$1,735,000 of total unrecognized compensation cost related to non-vested awards granted under its various share-based plans, which it expects to recognize over the following fiscal years:

Fiscal Year	Stock-based Compensation Expense
2010	\$594,000
2011	823,000
2012	316,000
2013	2,000
Total	\$1,735,000

The Company did not receive any cash from options exercised during the twenty-six week period ended August 1, 2009 or August 2, 2008 because no options were exercised.

The Company maintains an employee stock purchase plan (the "Amended and Restated Employee Stock Purchase Plan") under which 400,000 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. The Company received cash proceeds from issuances of stock under the Amended and Restated Employee Stock Purchase Plan during the twenty-six weeks ended August 1, 2009 and August 2, 2008 of \$113,000 and \$132,000, respectively. The impact of these cash receipts is included in financing activities in the accompanying Condensed Consolidated Statements of Cash Flows.

Stockholders' Equity

On March 26, 2009, the Board of Directors authorized a new common stock repurchase program that replaced the 2008 Repurchase Program, under which the Company was previously authorized to purchase up to \$5 million of our common stock. Pursuant to the 2009 Repurchase Program, the Company is authorized to purchase up to \$5 million of our common stock. The 2009 Repurchase Program will expire on April 30, 2010. As of August 1, 2009, the Company has repurchased \$0.5 million of shares of our common stock under the 2009 Repurchase Program.

Subsequent Events

On June 30, 2009, the Company adopted SFAS No. 165, *Subsequent Events* ("SFAS No. 165"). SFAS No. 165 establishes general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, SFAS No. 165 sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The adoption of SFAS No. 165 had no impact on the Company's unaudited consolidated financial statements as the Company already followed a similar approach prior to the adoption of this standard.

Management evaluated all activity of the Company through September 8, 2009 (the issuance date of the financial statements) and concluded that no subsequent events have occurred through September 8, 2009 that would require recognition in the unaudited consolidated financial statements or disclosure in the related notes to the financial statements, except for those listed in Note 14.

BOOKS-A-MILLION, INC. AND SUBSIDIARIES**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****2. Net Income Per Common Share**

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

	For the Thirteen Weeks Ended	
	(in thousands)	
	August 1, 2009	August 2, 2008
Weighted average shares outstanding:		
Basic	15,759	15,633
Dilutive effect of stock options and		
restricted stock outstanding	9	9
Diluted	15,768	15,642

	For the Twenty-Six Weeks Ended	
	(in thousands)	
	August 1, 2009	August 2, 2008
Weighted average shares outstanding:		
Basic	15,776	15,683
Dilutive effect of stock options and		
restricted stock outstanding	6	9
Diluted	15,782	