

BOOKS A MILLION INC
Form 10-Q
December 07, 2006
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(mark one)

 X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended: October 28, 2006

- 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 (IRS Employer Identification No.) incorporation or organization)

63-0798460

402 Industrial Lane, Birmingham, Alabama

(Address of principal executive offices)

35211

(Zip Code)

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(205) 942-3737

(Registrant's phone number including area code)

NONE

(Former name, former address and former fiscal year, if changed since last period)

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

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Shares of common stock, par value \$.01 per share, outstanding as of November 24, 2006 were 16,642,476 shares.

BOOKS-A-MILLION, INC. AND SUBSIDIARIES

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PART 1. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****BOOKS-A-MILLION, INC. & SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(dollars in thousands except per share and share amounts)

	As of October 28, 2006 (unaudited)	As of January 28, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 13,585	\$ 37,519
Accounts receivable, net	6,497	9,668
Related party accounts receivable, net	1,149	1,134
Inventories	228,987	204,789
Prepayments and other	6,707	4,340
Total Current Assets	256,925	257,450
Property and Equipment:		
Gross property and equipment	215,067	203,538
Less accumulated depreciation and amortization	(162,790)	(152,537)
Net Property and Equipment	52,277	51,001
Deferred Income Taxes	2,266	1,662
Other Assets	1,579	1,546
Total Assets	\$ 313,047	\$ 311,659
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	\$ 106,293	\$ 98,171
Related party accounts payable	5,695	2,691
Accrued expenses	40,385	45,459
Accrued income taxes	--	1,838
Deferred income taxes	1,666	2,654
Total Current Liabilities	154,039	150,813
Long-Term Debt	7,200	7,200
Other Long-Term Liabilities	9,053	8,637
Total Non-Current Liabilities	16,253	15,837
Commitments and Contingencies (Note 6)		
Stockholders Equity:		
Preferred stock, \$.01 par value, 1,000,000 shares authorized, no shares outstanding	--	--
Common stock, \$.01 par value, 30,000,000 shares authorized, 20,458,498 and 19,764,223 shares issued at October 28, 2006 and	205	198

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January 28, 2006, respectively		
Additional paid-in capital	84,914	79,509
Less treasury stock, at cost (3,818,356 and 3,287,317 shares at October 28, 2006 and January 28, 2006, respectively)	(24,424)	(16,954)
Accumulated other comprehensive loss, net of tax	--	(7)
Retained earnings	82,060	82,263
Total Stockholders' Equity	142,755	145,009
Total Liabilities and Stockholders' Equity	\$ 313,047	\$ 311,659

See accompanying notes

BOOKS-A-MILLION, INC. & SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	<u>Thirteen Weeks Ended</u>		<u>Thirty-Nine Weeks Ended</u>	
	<u>October 28, 2006</u>	<u>October 29, 2005</u>	<u>October 28, 2006</u>	<u>October 29, 2005</u>
Net Sales	\$ 110,692	\$ 107,638	\$ 345,648	\$ 341,958
Cost of products sold (including warehouse distribution and store occupancy costs)	81,604	79,566	249,014	248,313
Gross Profit	29,088	28,072	96,634	93,645
Operating, selling and administrative expenses	26,154	26,445	79,990	78,681
Gain on insurance recovery (Note 13)	163	1,248	163	1,248
Depreciation and amortization	3,399	3,881	10,388	11,888
Operating Income (Loss)	(302)	(1,006)	6,419	4,324
Interest expense, net	64	378	229	1,178
Income (loss) from continuing operations before income taxes	(366)	(1,384)	6,190	3,146
Income taxes provision (benefit)	(173)	(530)	2,367	1,204
Income (loss) from continuing operations	(193)	(854)	3,823	1,942
Discontinued Operations (Note 11)				
Loss from discontinued operations before income taxes	(12)	(31)	(89)	(86)
Income tax benefit	(4)	(12)	(34)	(32)
Loss from discontinued operations	(8)	(19)	(55)	(54)
Net Income (Loss)	\$ (201)	\$ (873)	\$ 3,768	\$ 1,888
Net Income Per Common Share:				
Basic:				
Income (loss) from continuing operations	\$ (0.01)	\$ (0.05)	\$ 0.23	\$ 0.12
Loss from discontinued operations	--	--	--	--
Net Income (Loss)	\$ (0.01)	\$ (0.05)	\$ 0.23	\$ 0.12
Weighted Average Number of Shares Outstanding	Basic 16,312	16,364	16,346	16,227
Diluted:				
Income (loss) from continuing operations	\$ (0.01)	\$ (0.05)	\$ 0.23	\$ 0.12
Loss from discontinued operations	--	--	(0.01)	(0.01)
Net Income (Loss)	\$ (0.01)	\$ (0.05)	\$ 0.22	\$ 0.11
Weighted Average Number of Shares Outstanding				
Diluted	16,312	16,364	16,826	16,829
Dividends per share - declared	\$ 0.08	\$ 0.05	\$ 0.24	\$ 0.15

See accompanying notes

BOOKS-A-MILLION, INC. & SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY****(dollars in thousands)****(unaudited)**

(in thousands)	Common Stock			Treasury Stock		Accumulated		Total Stockholders Equity
	Shares	Amount	Additional Paid-In Capital	Shares	Amount	Retained Earnings	Other Comprehensive Income (Loss)	
Balance January 28, 2006	19,764	\$198	\$79,509	3,287	\$(16,954)	\$82,263	\$(7)	\$145,009
Net income						3,768		3,768
Unrealized gain on accounting for derivative instruments, net of tax provision of \$4							7	7
Subtotal comprehensive income								3,775
Purchase of treasury stock				531	(7,470)			(7,470)
Dividends paid						(3,971)		(3,971)
Stock-based compensation	147	1	1,081					1,082
Issuance of stock for employee stock purchase plan	9	--	87					87
Exercise of stock options	538	6	1,667					1,673
Tax benefit from exercise of stock options			2,570					2,570
Balance October 28, 2006	20,458	\$205	\$84,914	3,818	\$(24,424)	\$82,060	\$--	\$142,755

See accompanying notes

BOOKS-A-MILLION, INC. & SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(dollars in thousands)

(unaudited)

Thirty-Nine Weeks Ended**October 28, 2006****October 29, 2005****Cash Flows from Operating Activities:**

Net income	\$	3,768	\$	1,888
Adjustments to reconcile net income to net cash used in operating activities:				
Depreciation and amortization		10,401		11,925
Stock-based compensation		1,082		287
Loss on impairment of assets		--		210
Excess tax benefit from exercise of stock options		(2,570)		(391)
(Gain)/loss on disposal of property		(12)		1
Change in deferred income taxes		(1,592)		(3,161)
(Increase)/decrease in inventories		(24,198)		(16,579)
Increase in accounts payable		11,126		2,835
Changes in certain other assets and liabilities		(3,215)		(4,184)
Total adjustments		(8,978)		(9,057)
Net cash used in operating activities		(5,210)		(7,169)

Cash Flows from Investing Activities:

Capital expenditures		(11,628)		(9,521)
Proceeds from sale of equipment		15		8
Net cash used in investing activities		(11,613)		(9,513)

Cash Flows from Financing Activities:

Borrowings under credit facilities		1,050		146,650
Payments under credit facilities		(1,050)		(139,410)
Purchase of treasury stock		(7,470)		(2,711)
Proceeds from exercise of stock options and employee stock purchase plan, net		1,760		2,719
Excess tax benefit from exercise of stock options		2,570		391
Payment of dividends		(3,971)		(2,446)
Net cash (used in) provided by financing activities		(7,111)		5,193
Net decrease in cash and cash equivalents		(23,934)		(11,489)
Cash and cash equivalents at beginning of period		37,519		16,559
Cash and cash equivalents at end of period	\$	13,585	\$	5,070

Supplemental Disclosures of Cash Flow Information:

Cash paid during the thirty-nine week period for:

Interest	\$	532	\$	1,206
Income taxes, net of refunds	\$	7,120	\$	6,387

See accompanying notes

BOOKS-A-MILLION, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and include all adjustments that, in the opinion of management, are necessary for a fair presentation of the results of the periods presented. All such adjustments are considered of a normal recurring nature. Quarterly results of operations are not necessarily indicative of annual results.

Certain financial information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended January 28, 2006 and the notes thereto contained in our Annual Report on Form 10-K for the year ended January 28, 2006.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates and assumptions.

We have also experienced, and expect to continue to experience, significant variability in sales and net income from quarter to quarter. Therefore, the results of the interim periods presented herein are not necessarily indicative of the results to be expected for any other interim period or the full year.

Certain prior year amounts have been reclassified to conform to the current year presentation.

Stock-Based Compensation

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

Prior to the adoption of SFAS No. 123(R), we accounted for stock-based compensation awards using the intrinsic value method of APB Opinion 25. Accordingly, we did not recognize compensation expense in our statement of income for options we granted that had an exercise price equal to the market value of the underlying common stock on the date of grant. However, we did record compensation expense related to restricted stock units based on the market value of our stock at the date of grant. As required by SFAS No. 123, we also provided certain pro forma disclosures for stock-based awards as if the fair-value-based approach of SFAS No. 123 had been applied.

We have elected to use the modified prospective transition method as permitted by SFAS No. 123(R) and, therefore, have not restated our financial results for prior periods. Under this transition method, we have applied the provisions of SFAS No. 123(R) to new awards and to

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awards modified, repurchased or cancelled after January 29, 2006. In addition, we will recognize compensation cost for the portion of awards for which the requisite service has not been rendered (unvested awards) that are outstanding as of January 29, 2006, as the remaining service is rendered. The compensation cost we record for these awards will be based on their grant-date fair value as calculated for the pro forma disclosures required by SFAS No. 123.

Our pre-tax compensation cost for stock-based employee compensation was \$1,082,000 (\$668,000 net of taxes) and \$287,000 (\$177,000 net of taxes) for the thirty-nine weeks ended October 28, 2006 and October 29, 2005, respectively. As a result of the adoption of SFAS No. 123(R), our financial results were lower than under our previous accounting method for share-based compensation by the following amounts:

Thirteen Weeks