

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

BOOKS A MILLION INC  
Form 10-Q/A  
October 25, 2005

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q/A

(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, 2005  
-----

- 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)

63-0798460  
-----

(IRS Employer Identification No.)

402 INDUSTRIAL LANE, BIRMINGHAM, ALABAMA  
-----

(Address of principal executive offices)

35211  
-----

(Zip Code)

(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 an accelerated filer (as

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

defined in Rule 12b-2 of the Exchange Act).

Yes No [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]

Indicate the number of shares outstanding of each of the issuer's common stock, as of the latest practicable date: Shares of common stock, par value \$.01 per share, outstanding as of October 17, 2005 were 16,517,430 shares.

EXPLANATORY NOTE:

This amendment No. 1 on Form 10-Q/A to Books-A-Million, Inc.'s (the "Company") quarterly report on Form 10-Q for the quarterly period ended July 30, 2005, initially filed with the Securities and Exchange Commission ("SEC") on October 20, 2005 ("Original Filing"), is being filed to insert the following language on the cover page, which was inadvertently omitted from the Company's Original Filing:

"Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes \_\_\_\_\_ No \_\_\_\_X\_\_\_\_"

Other than the inclusion on the cover page of the language set forth above, the information contained in this Form 10-Q/A is unchanged from the Company's Original Filing.

BOOKS-A-MILLION, INC. AND SUBSIDIARIES

INDEX

PAGE NO.

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (UNAUDITED)

Condensed Consolidated Balance Sheets .....	4
Condensed Consolidated Statements of Operations .....	5
Condensed Consolidated Statement of Changes in Stockholder's Equity	6
Condensed Consolidated Statements of Cash Flows .....	7
Notes to Condensed Consolidated Financial Statements .....	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations .....	15

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk .....	21
Item 4. Controls and Procedures .....	22
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings .....	25
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds ....	25
Item 3. Defaults Upon Senior Securities .....	25
Item 4. Submission of Matters to a Vote of Security-Holders .....	26
Item 5. Other Information .....	26
Item 6. Exhibits .....	26

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 JULY 30, 2005 (UNAUDITED)	AS OF JAN
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents .....	\$ 7,143	\$ 16,
Accounts receivable, net .....	6,955	6,
Related party accounts receivable, net .....	168	
Inventories .....	209,742	210,
Prepayments and other .....	6,599	6,
Deferred income taxes .....	5,561	1,
	-----	-----
TOTAL CURRENT ASSETS .....	236,168	242,
	-----	-----
PROPERTY AND EQUIPMENT:		
Gross property and equipment .....	198,308	195,
Less accumulated depreciation and amortization .....	(145,336)	(140,
	-----	-----
NET PROPERTY AND EQUIPMENT .....	52,972	55,
	-----	-----
OTHER ASSETS		
Other assets .....	3,127	2,
	-----	-----
TOTAL ASSETS .....	\$ 292,267	\$ 300,
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		

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

Accounts payable .....	\$ 95,678	\$ 99,
Related party accounts payable .....	5,238	7,
Accrued expenses .....	32,436	38,
Accrued income taxes .....	--	1,
	-----	-----
TOTAL CURRENT LIABILITIES .....	133,352	146,
	-----	-----
LONG-TERM DEBT .....	7,500	7,
DEFERRED INCOME TAXES .....	3,756	1,
OTHER LONG-TERM LIABILITIES .....	12,080	10,
	-----	-----
TOTAL NON-CURRENT LIABILITIES .....	23,336	19,
	-----	-----
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, 19,400,361 and 19,067,960 shares issued at July 30, 2005 and January 29, 2005, respectively.....	194	
Additional paid-in capital .....	77,235	74,
Less treasury stock, at cost (2,992,846 and 2,792,869 shares at July 30, 2005 and January 29, 2005, respectively).....	(14,301)	(11,
Deferred compensation .....	(1,073)	(
Accumulated other comprehensive loss, net of tax .....	(85)	(
Retained earnings .....	73,609	72,
	-----	-----
TOTAL STOCKHOLDERS' EQUITY .....	135,579	134,
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY .....	\$ 292,267	\$ 300,
	=====	=====

SEE ACCOMPANYING NOTES

4

BOOKS-A-MILLION, INC. & SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)  
(UNAUDITED)

	THIRTEEN WEEKS ENDED		
	JULY 30, 2005	JULY 31, 2004	JULY
	-----	-----	-----
NET SALES .....	\$ 122,418	\$ 113,494	\$
Cost of products sold (including warehouse distribution and store occupancy costs) .....	88,327	82,474	
	-----	-----	
GROSS PROFIT .....	34,091	31,020	
Operating, selling and administrative expenses ....	26,810	24,622	
Depreciation and amortization .....	4,088	4,313	
	-----	-----	
OPERATING INCOME .....	3,193	2,085	
Interest expense, net .....	415	487	

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

INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	2,778	1,598	
Income taxes provision .....	1,069	571	
INCOME FROM CONTINUING OPERATIONS .....	1,709	1,027	
DISCONTINUED OPERATIONS (NOTE 10)			
Loss from discontinued operations before income taxes	(13)	(60)	
Income tax benefit .....	5	22	
LOSS FROM DISCONTINUED OPERATIONS .....	(8)	(38)	
NET INCOME .....	\$ 1,701	\$ 989	\$
NET INCOME PER COMMON SHARE:			
BASIC:			
INCOME FROM CONTINUING OPERATIONS .....	\$ 0.10	\$ 0.06	\$
LOSS FROM DISCONTINUED OPERATIONS .....	--	--	
NET INCOME .....	\$ 0.10	\$ 0.06	\$
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING -			
BASIC.....	16,299	16,497	
DILUTED:			
INCOME FROM CONTINUING OPERATIONS .....	\$ 0.10	\$ 0.06	\$
LOSS FROM DISCONTINUED OPERATIONS .....	--	--	
NET INCOME .....	\$ 0.10	\$ 0.06	\$
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING -			
DILUTED.....	16,884	17,225	
DIVIDENDS PER SHARE - DECLARED .....	\$ 0.05	\$ --	\$

SEE ACCOMPANYING NOTES

5

BOOKS-A-MILLION, INC. & SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
(DOLLARS IN THOUSANDS)  
(UNAUDITED)

(in thousands)	Common Stock Shares	Stock Amount	Additional Paid-In Capital	Treasury Stock Shares	Stock Amount	Unvested Restricted Stock Shares	Stock Amount	Retained Earnings
BALANCE JANUARY 29, 2005.....	19,068	\$191	\$74,505	2,793	\$(11,630)	-	\$(481)	\$72
Net income.....								2
Unrealized gain on accounting for derivative								

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

instruments, net  
of tax provision  
of \$71.....

Subtotal  
comprehensive  
income.....

Purchase of  
treasury stock....

200 (2,671)

Dividends paid....

(1,

Issuance of  
restricted stock..

40

775

(775)

Amortization of  
deferred  
compensation  
related to  
restricted stock..

183

Issuance of stock  
for employee  
stock purchase  
plan.....

13

71

Exercise of stock  
options.....

279

3

1,627

Tax benefit from  
exercise of stock  
options.....

257

BALANCE JULY 30,  
2005

19,400

\$194

\$77,235

2,993

\$(14,301)

-

\$(1,073)

\$73,

6

BOOKS-A-MILLION, INC. & SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(DOLLARS IN THOUSANDS)  
(UNAUDITED)

TWENTY-SIX WEEKS

JULY 30, 2005

J

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income .....

\$ 2,761

\$

Adjustments to reconcile net income to net cash provided by (used in)  
operating activities:

Depreciation and amortization .....

8,036

Deferred (compensation) amortization .....

(592)

Loss on impairment of assets .....

--

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

(Gain)/Loss on disposal of property .....	1	
Change in deferred income taxes .....	(1,516)	
Increase in inventories .....	528	
Increase (Decrease) in accounts payable .....	(5,860)	
Changes in certain other assets and liabilities .....	(5,623)	
	-----	
Total adjustments .....	(5,026)	
	-----	
Net cash provided by (used in) operating activities .....	(2,265)	
	-----	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures .....	(5,341)	
Proceeds from sale of equipment .....	6	
	-----	
Net cash used in investing activities .....	(5,335)	
	-----	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under credit facilities .....	97,860	
Repayments under credit facilities .....	(97,860)	
Purchase of treasury stock .....	(2,671)	
Proceeds from sale of common stock, net .....	2,476	
Payment of dividends .....	(1,621)	
	-----	
Net cash used in financing activities .....	(1,816)	
	-----	
Net increase (decrease) in cash and cash equivalents .....	(9,416)	
Cash and cash equivalents at beginning of period .....	16,559	
	-----	
Cash and cash equivalents at end of period .....	\$ 7,143	\$
	=====	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the twenty-six week period for:		
Interest .....	\$ 832	\$
Income taxes, net of refunds .....	\$ 4,761	\$

SEE ACCOMPANYING NOTES

7

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

#### 1. BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements of Books-A-Million, Inc. and its subsidiaries (the "Company") for the thirteen and twenty-six week periods ended July 30, 2005 and July 31, 2004 have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and are presented in accordance with the requirements of Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the fiscal year ended January 29, 2005 included in our Fiscal 2005 Annual Report on Form 10-K. In the opinion of management, the financial statements included herein contain all adjustments considered necessary for a fair presentation of our financial position as of July 30, 2005, and the results of its operations and cash flows for the thirteen and twenty-six week periods ended

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

July 30, 2005 and July 31, 2004. Certain prior year amounts have been reclassified to conform to current year presentation.

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.

### Stock-Based Compensation

The Company has a stock option plan that provides for the issuance of options to employees and members of the board of directors. With the approval of the 2005 Incentive Award Plan by our stockholders at the Company's annual meeting, there will be no additional awards made under the Company's stock option plan. The Company accounts for the plan under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations. No stock-based employee compensation cost for this plan is reflected in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and net income per common share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 148 ("SFAS 148") "Accounting for Stock-Based Compensation--Transaction and Disclosure--an Amendment of FASB Statement No. 123," to stock-based employee compensation (in thousands except per share amounts):

In thousands	For the Thirteen Weeks Ended		For the Two
	July 30, 2005	July 31, 2004	July 30, 200
Net income, as reported.....	\$ 1,701	\$ 989	\$ 2,761
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax effects.....	138	341	276
Pro forma net income.....	\$ 1,563	\$ 648	\$ 2,485
Net income per common share:			
Basic--as reported.....	\$ 0.10	\$ 0.06	\$ 0.17
Basic--pro forma.....	\$ 0.10	\$ 0.04	\$ 0.15
Diluted--as reported.....	\$ 0.10	\$ 0.06	\$ 0.16
Diluted--pro forma.....	\$ 0.09	\$ 0.04	\$ 0.15

There were no new grants of stock options in fiscal 2006. Stock-based compensation expense in the above table for fiscal 2006 relates to options granted in prior years that would be expensed over their vesting period. The fair value of the options granted under the Company's stock option plan for fiscal 2005 was estimated on the date of grant using the Black-Scholes



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

option-pricing model with the following weighted average assumptions: \$0.03 per quarter dividend yield; expected stock price volatility rate of .44; risk-free interest rates of 3.45% to 4.31%; and expected lives of six or ten years.

8

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

On June 1, 2005, the stockholders of the Company approved the adoption of the Books-A-Million, Inc. 2005 Incentive Award Plan. The Company's board of directors had previously approved this plan subject to stockholder approval. An aggregate of 300,000 shares of common stock may be issued pursuant to awards granted under the Plan. On June 29, 2005 the Company granted 77,100 shares of restricted stock to the Company's officers and key employees pursuant to the terms of the Plan. The compensation expense related to these grants is being expensed over the vesting period for the individual grants. In fiscal 2006, the Company has recorded \$103,314 of stock-based compensation expense for the restricted stock grants. Additionally, the Company granted 3,333 shares to a Director that joined the Company's Board of Directors in August 2005. The expense related to the Director's grant will be expensed over the vesting period of the grant starting in the third quarter.

2. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share ("EPS") is computed by dividing income (loss) available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock are exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. Diluted EPS has been computed based on the weighted average number of shares outstanding including the effect of outstanding stock options and restricted stock, if dilutive, in each respective thirteen and twenty-six week period. A reconciliation of the weighted average shares for basic and diluted EPS is as follows:

	For the Thirteen W
	-----
	(in thousand
	-----
	July 30, 2005
	-----
Weighted average shares outstanding:	
Basic.....	16,299
Dilutive effect of stock options and restricted stock outstanding.....	585
	-----
Diluted.....	16,884
	=====

For the Twenty-Six  
 -----  
 (in thousand  
 -----

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

July 30, 2005  
-----

Weighted average shares outstanding:	
Basic.....	16,250
Dilutive effect of stock options and restricted stock outstanding.....	612
	-----
Diluted.....	16,862
	=====

Options outstanding to purchase 150,000 and 796,000 shares of common stock as of July 30, 2005 and July 31, 2004, respectively, were not included in the table above as they were anti-dilutive under the treasury stock method.

3. RELATED PARTY TRANSACTIONS

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

The Company purchases a substantial portion of its magazines as well as certain of their seasonal music and newspapers from Anderson Media Corporation ("Anderson Media"), an affiliate through common ownership. During the twenty-six weeks ended July 30, 2005 and July 31, 2004, purchases of these items from Anderson Media totaled \$12,939,000 and \$12,383,000, respectively. The Company purchases certain of its collectibles and books from Anderson Press, Inc. ("Anderson Press"), an affiliate through common ownership. During the twenty-

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

six weeks ended July 30, 2005 and July 31, 2004, such purchases from Anderson Press totaled \$657,000 and \$224,000, respectively. The Company purchases certain of its greeting cards and gift products from C.R. Gibson, Inc., an affiliate through common ownership. The purchases of these products during the twenty-six weeks ended July 30, 2005 and July 31, 2004 were \$134,000 and \$230,000, respectively. The Company purchases certain magazine subscriptions from Magazines.com, an affiliate through common ownership. During the twenty-six weeks ended July 30, 2005 and July 31, 2004, purchases of these items were \$27,000 and \$37,000, respectively. The Company purchases content for publication from Publication Marketing Corporation, an affiliate through common ownership. During the twenty-six weeks ended July 30, 2005 and July 31, 2004, purchases of these items were \$29,000 and \$24,000, respectively. The Company utilizes import sourcing and consolidation services from Anco Far East Importers, LTD ("Anco Far East"), an affiliate through common ownership. The total paid to Anco Far East was \$1,398,000 and \$322,000 during the twenty-six weeks ended July 30, 2005 and July 31, 2004, respectively. These amounts paid to Anco Far East primarily included the actual cost of the product as well as fees for sourcing and consolidation services. All costs other than the sourcing and consolidation service fees were passed through from other vendors. Anco Far East fees, net of the passed-through costs, were \$98,000 and \$23,000 during the twenty-six weeks ended July 30, 2005 and July 31, 2004, respectively.

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

The Company sold books to (received returns from) Anderson Media in the amounts of \$6,000 and (\$31,000) during the twenty-six weeks ended July 30, 2005 and July 31, 2004, respectively. During the twenty-six weeks ended July 30, 2005 and July 31, 2004, the Company provided \$8,000 and \$47,000, respectively, of internet services to Magazines.com. The Company provided internet services to American Promotional Events, an affiliate through common ownership, of \$64,000 and \$54,000 during the twenty-six weeks ended July 30, 2005 and July 31, 2004, respectively.

The Company leases its principal executive offices from a trust, beneficiaries of which are the grandchildren of Mr. Charles C. Anderson, a former member of the Board of Directors. The lease extends to January 31, 2006. During the twenty-six weeks ended July 30, 2005 and July 31, 2004, the Company paid rent of \$69,000 in each period to the trust under this lease. Anderson & Anderson LLC ("A&A"), an affiliate through common ownership, also leases three buildings to the Company. During the twenty-six weeks ended July 30, 2005 and July 31, 2004, the Company paid A&A a total of \$222,000 and \$220,000, respectively, in connection with such leases. Total minimum future rental payments under all of these leases are \$69,000 at July 30, 2005. The Company subleases certain property to Hibbett Sporting Goods, Inc. ("Hibbett"), a sporting goods retailer in the southeastern United States. The Company's Executive Chairman, Clyde B. Anderson, is a member of Hibbett's board of directors. During the twenty-six weeks ended July 30, 2005 and July 31, 2004, the Company received \$95,000 in rent payments from Hibbett.

The Company shares ownership of a plane, which the Company uses in the operation of its business, with an affiliated company. The Company rents the plane to affiliated companies at rates that cover all of the variable cost, and a portion of the fixed cost of the plane. The total amounts received from affiliated companies for use of the plane during the twenty-six weeks ended July 30, 2005 and July 31, 2004, were \$157,000 and \$130,000, respectively. The Company also occasionally rents a plane from A&A as well. The amounts paid to A&A for plane rental were \$31,000 and \$15,000 for the twenty-six weeks ended July 30, 2005 and July 31, 2004, respectively.

#### 4. DERIVATIVE AND HEDGING ACTIVITIES

The Company is subject to interest rate fluctuations involving its credit facilities and debt related to an industrial development revenue bond (the "Bond"). However, the Company uses fixed interest rate hedges to manage this exposure. The Company entered into two separate \$10 million interest rate swaps on July 24, 2002. Both expired in August 2005 and effectively fixed the interest rate on \$20 million of variable credit facility debt at 5.13% (the "Credit Facility Hedges"). The Company has not replaced the Credit Facility Hedges. In addition, the Company entered into a \$7.5 million interest rate swap in May 1996 that expires in June 2006 and effectively fixed the interest rate on the Bond at 8.73% (the "Bond Hedge"). The counter party to the Bond Hedge is a primary bank in the Company's credit facility. The Company believes the credit and liquidity risk of the counter party failing to meet its obligation under the Bond Hedge is remote.

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

2004 and the fourth quarter of fiscal 2005, respectively, the Credit Facility hedges were cash flow hedges. Cash flow hedges protect against the variability in future cash outflows of current or forecasted debt and related interest expense. The changes in the fair value of these hedges are reported on the balance sheet with a corresponding adjustment to accumulated other comprehensive income (loss) or in earnings, depending on the type of hedging relationship. Over time, amounts held in accumulated other comprehensive income (loss) will be reclassified to earnings if the hedge transaction becomes ineffective.

The Company's interest rate swaps described above are reported as a liability classified in other long-term liabilities in the accompanying condensed consolidated balance sheets at their fair value of \$213,000 and \$543,000 as of July 30, 2005 and January 29, 2005, respectively. For the thirteen weeks ended July 30, 2005 and July 31, 2004, respectively, adjustment gains of \$58,000 (net of tax provision of \$34,000) and \$131,000 (net of tax provision of \$77,000), respectively, and in the twenty-six weeks ended July 30, 2005 and July 31, 2004, adjustment gains of \$110,000 (net of tax provision of \$71,000) and \$226,000 (net of tax provision of \$133,000), respectively, were recorded as unrealized gains in accumulated other comprehensive income (loss) and are detailed in Note 5. During the fourth quarter of fiscal 2004, one of the Credit Facility Hedges no longer qualified for hedge accounting under SFAS No. 133; as a result, the Company de-designated the hedge. In addition, in the fourth quarter of fiscal 2005, the other Credit Facility Hedge no longer qualified for hedge accounting under SFAS No. 133, and the Company de-designated that hedge at that time. For the thirteen weeks ended July 30, 2005 and July 31, 2004, pre-tax gains of \$62,000 and \$105,000, respectively were recorded in earnings related to the de-designated hedges. For the twenty-six weeks ended July 30, 2005 and July 31, 2004, pre-tax gains of \$147,000 and \$179,000, respectively, were recorded in earnings related to the de-designated hedges.

### 5. COMPREHENSIVE INCOME

Comprehensive income is net income plus certain other items that are recorded directly to stockholders' equity. The only such items currently applicable to the Company are the unrealized gains (losses) on the hedges explained in Note 4, as follows:

COMPREHENSIVE INCOME (LOSS)	Thirteen Weeks Ended (in thousands)		Twenty (i
	July 31, 2005	July 31, 2004	July 31, 200
	-----	-----	-----
Net Income.....	\$1,701	\$989	\$2,761
Unrealized gains (losses) on hedges, net of deferred tax provision (benefit) for the thirteen-week periods of \$34 and \$77, respectively, and the twenty-six week periods of \$71 and \$133, respectively.....	58	131	110
	-----	-----	-----
Total comprehensive income.....	\$1,759	\$1,120	\$2,871
	=====	=====	=====

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

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

#### 6. COMMITMENTS AND CONTINGENCIES

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

From time to time, the Company enters into certain types of agreements that require the Company to indemnify parties against third party claims under certain circumstances. Generally these agreements relate to: (a) agreements with vendors and suppliers under which the Company may provide customary indemnification to its vendors and suppliers in respect of actions they take at the Company's request or otherwise on its behalf, (b) agreements to indemnify vendors against trademark and copyright infringement claims concerning books published or merchandise manufactured specifically for or on behalf of the Company, (c) real estate leases, under which the Company may agree to indemnify the lessors from 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.

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. Generally, the Company's maximum liability under such indemnities is not explicitly stated, and, therefore, the overall maximum amount of the Company's obligations cannot be reasonably estimated. Historically, the Company has not incurred significant costs related to performance under these types of indemnities. No liabilities have been recorded for these obligations on the Company's balance sheet at July 30, 2005 and January 29, 2005 as such liabilities are considered de minimis.

#### 7. INVENTORIES

Inventories were:

(In thousands)	July 30, 2005	January 29, 2005
	-----	-----
Inventories (at FIFO)	\$ 211,122	\$ 211,375
LIFO reserve	(1,380)	(1,105)
	-----	-----
Net inventories	\$ 209,742	\$ 210,270
	=====	=====

12

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

#### 8. BUSINESS SEGMENTS

The Company has two reportable segments, retail trade and electronic commerce trade. The retail trade segment is a strategic business segment that is

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

engaged in the retail trade of mostly book merchandise and includes the Company's distribution center operations, which predominantly supplies merchandise to the Company's retail stores. The electronic commerce trade segment is a strategic business segment that transacts business over the internet and is managed separately due to divergent technology and marketing requirements.

The accounting policies of the segments are substantially the same as those described in the Company's Fiscal 2005 Annual Report on Form 10-K. The Company evaluates performance of the segments based on net income from operations before interest and income taxes. Certain intersegment cost allocations have been made based upon consolidated and segment revenues.

Segment Information (in thousands)	Thirteen Weeks Ended		Twelve Weeks Ended
	July 30, 2005	July 31, 2004	July 30, 2004
<b>NET SALES</b>			
Retail Trade .....	\$ 120,410	\$ 111,505	\$ 232,222
Electronic Commerce Trade ....	6,661	6,377	13,180
Intersegment Sales Elimination	(4,653)	(4,388)	(9,980)
	\$ 122,418	\$ 113,494	\$ 235,422
	=====	=====	=====
<b>OPERATING INCOME</b>			
Retail Trade .....	\$ 3,177	\$ 1,742	\$ 5,251
Electronic Commerce Trade ....	180	167	172
Intersegment Elimination of Certain Costs.....	(164)	176	(102)
	\$ 3,193	\$ 2,085	\$ 5,321
	=====	=====	=====
			As of July 30, 2004
<b>ASSETS</b>			
Retail Trade.....			\$ 291,276
Electronic Commerce Trade.....			1,146
Intersegment Asset Elimination			(155)
			\$ 292,267
			=====

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

9. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board ("FASB") issued

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

SFAS No. 123R (revised 2004, "Share-Based Payment"). SFAS No. 123R is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation" and supersedes ABP Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 123R requires all share-based payments to employees and directors, including grants of employee stock options, to be recognized in the financial statements based on their fair values. SFAS No. 123R is effective at the beginning of the first annual period beginning after June 15, 2005 (as modified by the SEC on April 14, 2005). Under ABP Opinion No. 25, no stock-based compensation cost has been reflected in the net income of the Company for grants of stock options to employees. Beginning in fiscal 2007, the Company will recognize compensation expense in its financial statements based on the fair value of all share-based payments to employees. The impact of adopting this new accounting standard on the Company's financial position, results of operations or cash flows has not yet been determined.

In November 2004, the Emerging Issues Task Force ("EITF") issued EITF No. 03-13 "Applying the Conditions in Paragraph 42 of FASB No. 144 in Determining Whether to Report Discontinued Operations." EITF No. 03-13 addresses how an ongoing entity should evaluate whether the operations and cash flows of a disposed component have been or will be eliminated from the ongoing operations of the entity and the types of continuing involvement that constitute significant continuing involvement in the operations of the disposed component. EITF No. 03-13 is effective with the fiscal year beginning January 30, 2005. The adoption of this EITF did not have a material effect on the Company's financial position, results of operations or cash flows.

FASB Interpretation (FIN) No. 46 "Consolidation of Variable Interest Entities" ("FIN 46") was issued in January 2003. This interpretation requires consolidation of variable interest entities ("VIE"), formerly referred to as "special purpose entities," if certain conditions are met. The interpretation applied immediately to VIE's created after January 31, 2003, and to interests obtained in VIE's after January 31, 2003. Beginning after June 15, 2003, the interpretation applied also to VIE's created or interest obtained in VIE's before January 31, 2003. In December 2003, the FASB issued FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities - An Interpretation of ARB 51," (revised December 2003) ("FIN 46R"), which includes significant amendments to previously issued FIN No. 46. Among other provisions, FIN 46R includes revised transition dates for public entities. The Company adopted the provisions of FIN 46R in the first quarter of fiscal 2005. The adoption of this interpretation did not have a material effect on the Company's financial position, results of operations or cash flows.

### 10. DISCONTINUED OPERATIONS

Discontinued operations represent closure in fiscal 2005 of two retail stores in markets in Florida and Mississippi and the closure in fiscal 2006 of one retail store in a Tennessee market where the Company does not expect another of its existing stores to absorb the closed store's customers. For the thirteen week periods ended July 30, 2005 and July 31, 2004, these stores had net sales of \$0 and \$571,000, respectively, and pretax operating losses of \$13,000 and \$60,000, respectively. For the twenty-six week periods ended July 30, 2005 and July 31, 2004, these stores had net sales of \$109,000 and \$1,173,000, respectively, and pretax operating income losses of \$47,000 and \$56,000, respectively. Also included in the loss on discontinued operations are store closing costs of \$4,000 and \$20,000 for the thirteen and twenty-six weeks ended July 30, 2005, respectively. Expenses relating to store closings when the store is not classified as a discontinued operation are reported in operating, selling and administrative expenses. If the store is closed and another store is in the same market and the cash flows are expected to be materially recovered, the store is not considered a discontinued operation.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This document contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve a number of risks and uncertainties. A number of factors could cause our actual results, performance and achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors include, but are not limited to: a restatement of our quarterly or annual financial statements as a result of a material weakness in internal control over financial reporting; the competitive environment in the book retail industry in general and in our specific market areas; inflation; economic conditions in general and in our specific market areas; the number of store openings and closings; the profitability of certain product lines, capital expenditures and future liquidity; liability and other claims asserted against us; uncertainties related to the Internet and our internet initiatives; and other factors referenced herein. In addition, such forward-looking statements are necessarily dependent upon the assumptions, estimates and dates that may be incorrect or imprecise and involve known and unknown risks, uncertainties and other factors. Accordingly, any forward-looking statements included herein do not purport to be predictions of future events or circumstances and may not be realized. Given these uncertainties, stockholders and prospective investors are cautioned not to place undue reliance on such forward-looking statements. We disclaim any obligations to update any such factors or to publicly announce the results of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

GENERAL

We were founded in 1917 and as of July 30, 2005 we operate 207 retail bookstores, including 172 superstores, concentrated in the southeastern United States.

Our growth strategy is focused on opening superstores in new and existing market areas, particularly in the Southeast. In addition to opening new stores, management intends to continue its practice of reviewing the profitability trends and prospects of existing stores and closing or relocating under-performing stores or converting stores to different formats.

Comparable store sales are determined each fiscal quarter during the year based on all stores that have been open at least 12 full months as of the first day of the fiscal quarter. Any stores closed during a fiscal quarter are excluded from comparable store sales as of the first day of the quarter in which they close.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In September 2005, during the course of its effort to implement Section 404 of the Sarbanes Oxley Act, management identified certain control deficiencies. After meeting with the Audit Committee of the Board of Directors, management determined that certain of these control deficiencies constituted significant deficiencies which in the aggregate constituted a material weakness. The material weakness identified consists of a combination of the following significant deficiencies relating to accounts payable: (i) inadequate controls



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

over the data used to perform cost of goods sold calculations; (ii) inadequate segregation of duties for accounts payable management; and (iii) inadequate independent verification of expense invoice payment supporting documentation. Please see "Controls and Procedures" herein.

15

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### RESULTS OF OPERATIONS

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

	Thirteen Weeks Ended		Twenty-Six Weeks	
	July 30, 2005	July 31, 2004	July 30, 2005	Jul
Net sales .....	100.0%	100.0%	100.0%	
Gross profit .....	27.8%	27.3%	27.9%	
Operating, selling and administrative expenses.....	21.9%	21.7%	22.3%	
Depreciation and amortization .....	3.3%	3.8%	3.4%	
	-----	-----	-----	
Operating income .....	2.6%	1.8%	2.2%	
Interest expense, net .....	0.3%	0.4%	0.3%	
	-----	-----	-----	
Income from continuing operations before income taxes.....	2.3%	1.4%	1.9%	
Income taxes provision .....	0.9%	0.5%	0.7%	
	-----	-----	-----	
Income from continuing operations ...	1.4%	0.9%	1.2%	
	-----	-----	-----	
Net income .....	1.4%	0.9%	1.2%	
	=====	=====	=====	

Net sales increased \$8.9 million, or 7.9%, to \$122.4 million in the thirteen weeks ended July 30, 2005, from \$113.5 million in the thirteen weeks ended July 31, 2004. Net sales increased \$14.0 million, or 6.3%, to \$235.4 million in the twenty-six weeks ended July 30, 2005, from \$221.4 million in the twenty-six weeks ended July 31, 2004. Comparable store sales in the thirteen weeks ended July 30, 2005 increased 4.4% when compared with the same thirteen week period for the prior year. Comparable store sales increased 4.0% for the twenty-six weeks ended July 30. The increase in comparable store sales for the thirteen and twenty-six week periods was primarily due to higher sales in the book department. The book sales increase was primarily driven by the release of Harry Potter and the Half Blood Prince, as well as strong sales in categories such as Children's, History, Teen Fiction, Cooking, Humor and Inspirational.

The following table sets forth net sales data for the thirteen weeks and the twenty-six weeks ended July 30, 2005 and July 31, 2004:

Segment Information (in thousands)

Thirteen Weeks Ended

Twenty-

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

	July 30, 2005	July 31, 2004	\$ Change	% Change	July 30, 2005	Ju
NET SALES						
Retail Trade .....	\$ 120,410	\$ 111,505	\$ 8,905	8.0%	\$ 232,222	\$
Electronic Commerce						
Trade .....	6,661	6,377	284	4.5%	13,180	
Intersegment Sales						
Elimination....	(4,653)	(4,388)	(265)	(6.0%)	(9,980)	
	-----	-----	-----		-----	
Net Sales	\$ 122,418	\$ 113,494	\$ 8,924	7.9%	\$ 235,422	\$
	=====	=====	=====		=====	

The increase in net sales for the retail trade segment was primarily due to higher comparable store sales for the thirteen and twenty-six week periods. The increase in net sales for the electronic commerce segment was primarily due to higher bestseller title order volume, including Harry Potter and the Half Blood Prince.

Gross profit increased \$3.1 million, or 9.9%, to \$34.1 million in the thirteen weeks ended July 30, 2005 when compared with \$31.0 million in the same thirteen week period for the prior year. For the twenty-six weeks ended July 30, 2005, gross profit increased \$4.6 million, or 7.4%, to \$65.8 million from \$61.2 million in the same period last year. Gross profit as a percentage of net sales for the thirteen weeks ended July 30, 2005 was 27.8% versus 27.3% in the same period last year. Gross profit as a percentage of sales for the twenty-six weeks ended July 30, 2005 was 27.9% versus 27.6% in the same period last year. The increase in gross profit as a percent of net sales for the thirteen and twenty-six week periods was partially due to increased sales of proprietary and import product which have a higher gross profit margin.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS

Operating, selling and administrative expenses were \$26.8 million in the thirteen week period ended July 30, 2005 compared to \$24.6 million in the same period last year. Operating, selling and administrative expenses as a percentage of net sales for the thirteen weeks ended July 30, 2005 increased to 21.9% from 21.7% in the same period last year. The increase in operating, selling and administrative expenses stated as a percent to sales for the thirteen-week period was primarily due to costs incurred for increased staffing for internal audit and outside professional fees, both related to Sarbanes-Oxley Act compliance work. For the twenty-six weeks ended July 30, 2005, operating, selling and administrative expenses were \$52.4 million compared to \$47.7 million in the same period last year. Operating, selling and administrative expenses as a percentage of net sales for the twenty-six weeks ended July 30, 2005 increased to 22.3% from 21.5% in the same period last year. The increase in operating, selling and administrative expenses for the twenty-six week period was primarily due to higher store selling costs due to increased staffing to improve customer service, new store costs incurred for four stores opened in the first six months of fiscal 2006 compared to one new store opened in the first six months of fiscal 2005 and increased costs incurred for increased staffing for internal audit and outside professional fees, both related to Sarbanes-Oxley Act compliance work.

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

Depreciation and amortization was \$4.1 million in the thirteen week period ended July 30, 2005 compared to \$4.3 million in the same period last year. In the twenty-six week period ended July 30, 2005 depreciation and amortization decreased 10.2% to \$8.0 million from \$8.9 million in the same period last year. Decrease in depreciation and amortization expense was due to the impact of certain assets becoming fully depreciated during the prior year.

The following table sets forth operating income data for the thirteen weeks and the twenty-six weeks ended July 30, 2005 and July 31, 2004:

Segment Information (in thousands)	Thirteen Weeks Ended				Twenty-Six	
	July 30, 2005	July 31, 2004	\$ Change	% Change	July 30, 2005	Ju
OPERATING INCOME						
Retail Trade.....	\$ 3,177	\$ 1,742	\$ 1,435	82.4%	\$ 5,251	\$
Electronic Commerce						
Trade.....	180	167	13	7.8%	172	
Intersegment Elimination of Certain Costs....	(164)	176	(340)	(193.2%)	(102)	
Total Operating Income..	\$ 3,193	\$ 2,085	\$ 1,108	53.1%	\$ 5,321	\$
	=====	=====	=====		=====	

The increase in operating income for the retail trade segment for the thirteen and twenty-six week periods was due to strong profit growth driven by stronger comparable store sales. Operating income for the electronic commerce segment was relatively flat with last year for the thirteen and twenty-six week periods even though revenue increased due to strong price competition in the electronic commerce market, which put pressure on gross margins.

Interest expense was \$0.4 million in the thirteen weeks ended July 30, 2005 versus \$0.5 million in the same period last year and \$0.8 million in the twenty-six weeks ended July 30, 2005 versus \$1.0 million in the same period last year. The decrease was primarily due to lower average debt balances compared with the prior year.

Discontinued operations represent the closure in fiscal 2005 of two retail stores in markets in Florida and Mississippi and the closure in fiscal 2006 of one retail store in a Tennessee market where the Company does not expect another of its existing stores to absorb the closed store's customers. For the thirteen week periods ended July 30, 2005 and July 31, 2004, these stores had net sales of \$0 and \$571,000, respectively, and pretax operating losses of \$13,000 and \$60,000, respectively. For the twenty-six week periods ended July 30, 2005 and July 31, 2004, these stores had net sales of \$109,000 and \$1,173,000, respectively, and pretax operating income losses of \$47,000 and \$56,000, respectively. Also included in the loss on discontinued operations are store closing costs of \$4,000 and \$20,000 for the thirteen and twenty-six weeks ended July 30, 2005, respectively. Expenses relating to store closings when the store is not classified as a discontinued operation are reported in operating, selling and administrative expenses. If the store is closed and another store is in the same market and the cash flows are expected to be materially recovered, the store is not considered a discontinued operation.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of liquidity are cash flows from operations, including credit terms from vendors, and borrowings under its credit facility. The Company has an unsecured revolving credit facility that allows borrowings up to \$100 million, for which no principal repayments are due until the facility expires in July 2007. The credit facility has certain financial and non-financial covenants, the most restrictive of which is the maintenance of a minimum fixed charge coverage ratio. The Company is in compliance with all of the covenants, including the minimum fixed charge coverage ratio, as of July 30, 2005. As of July 30, 2005 and January 29, 2005, there were no outstanding borrowings under this credit facility. The maximum and average outstanding balances during the thirteen weeks ended July 30, 2005 were \$23.7 million and \$14.6 million, respectively, compared to \$34.4 million and \$24.8 million, respectively, for the same period in the prior year. The maximum and average outstanding balances during the twenty-six weeks ended July 30, 2005 were \$23.7 million and \$12.0 million, respectively, compared to \$34.4 million and \$25.3 million, respectively, for the same period in the prior year. The decrease in the maximum and average outstanding balances from the prior year was due to the pay down of debt during fiscal 2005 with cash provided by operating activities. The outstanding borrowings as of July 30, 2005 had interest rates ranging from 3.89% to 5.11%.

Additionally, as of July 30, 2005 and January 29, 2005, the Company has outstanding borrowings under the Bond, an industrial revenue bond totaling \$7.5 million which is secured by certain property. The Bond has a maturity date of December 1, 2019, with a purchase provision obligating the Company to repurchase the Bond on May 30, 2007, unless extended by the bondholder. Such an extension may be renewed annually by the bondholder, at the Company's request, to a date not more than five years from the renewal date.

Financial Position

Inventory balances at July 30, 2005 compared to January 29, 2005 decreased slightly due to improved inventory management. Accrued expenses at July 30, 2005 compared to January 29, 2005 decreased due to lower capital expenditure accruals and payment of fiscal 2005 management bonuses in the first quarter of fiscal 2006. Annual bonuses are normally paid in the first quarter of the year following the year the bonus was earned.

Future Commitments

The following table lists the aggregate maturities of various classes of obligations and expiration amounts of various classes of commitments related to Books-A-Million, Inc. at July 30, 2005 (in thousands):

PAYMENTS DUE UNDER CONTRACTUAL OBLIGATIONS

	Total	FY 2006	FY 2007	FY 2008	FY 2009
	-----	-----	-----	-----	-----
Long-term debt-revolving					

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

credit facility (1).....	\$	-	-	-	-	-
Long-term debt						
-industrial						
revenue bond (2).....		7,500	-	-	7,500	-
		-----	-----	-----	-----	-----
Subtotal of debt.....		7,500	-	-	7,500	-
Operating leases.....		115,002	14,389	24,053	20,482	15,868
		-----	-----	-----	-----	-----
Total of obligations.....	\$	122,502	\$ 14,389	\$ 24,053	\$ 27,982	\$ 15,868
		=====	=====	=====	=====	=====

(1) Revolving credit facility expires in July 2007. There were no outstanding borrowings under the facility on July 30, 2005 .

(2) The Bond has a maturity date of December 1, 2019, with a purchase provision obligating the Company to repurchase the Bond on May 30, 2007, unless extended by the bondholder. Such an extension may be renewed annually by the bondholder, at the Company's request, to a date not more than five years from the renewal date.

### Guarantees

From time to time, the Company enters into certain types of agreements that contingently require the Company to indemnify parties against third party claims. Generally these agreements relate to: (a) agreements with vendors and suppliers, under which the Company may provide customary indemnification to its vendors and suppliers in respect of actions they take at the Company's request or otherwise on its behalf, (b) agreements to

18

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

indemnify the vendors against trademark and copyright infringement claims concerning the books published or merchandise manufactured specifically for or on behalf of the Company, (c) real estate leases, under which the Company may agree to indemnify the lessors from 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.

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. Generally, the Company's maximum liability under such indemnities is not explicitly stated, and therefore the overall maximum amount of the Company's obligations cannot be reasonably estimated. Historically, the Company has not incurred significant costs related to performance under these types of indemnities. No liabilities have been recorded for these obligations on the Company's balance sheet at July 30, 2005 and January 29, 2005 as such liabilities are considered de minimis.

### Cash Flows

Operating activities provided (used) cash of (\$2.3) million and \$7.5

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

million in the twenty-six week periods ended July 30, 2005 and July 31, 2004, respectively, and included the following effects:

- o Cash provided by inventories in the twenty-six week periods ended July 30, 2005 and July 31, 2004 was \$0.5 million and \$0.7 million, respectively.
- o Cash used for accounts payable in the twenty-six week periods ended July 30, 2005 and July 31, 2004 was \$5.9 million and (\$0.7) million, respectively. This change was due to the timing of payments for purchases from vendors in the first six months of fiscal 2006.
- o Depreciation and amortization expenses were \$8.0 million and \$9.0 million, respectively in the twenty-six week periods ended July 30, 2005 and July 31, 2004. Decrease in depreciation and amortization expense was due to the impact of certain assets becoming fully depreciated during the prior year.

Cash flows used in investing activities reflected a \$5.3 million and \$5.4 million net use of cash for the twenty-six week periods ended July 30, 2005 and July 31, 2004, respectively. Cash was used primarily to fund capital expenditures for new stores, store relocations, renovation and improvements to existing stores, and investments in management information systems.

Financing activities used cash of \$1.8 million and \$2.1 million in the twenty-six week periods ended July 30, 2005 and July 31, 2004, respectively. The cash used in the twenty-six weeks ended July 30, 2005 was primarily used for the purchase of treasury stock and for the payment of dividends. This was partially offset by cash generated by the exercise of employee stock options. Cash used in the prior year's twenty-six week period was principally for net repayments for the revolving credit facility.

On June 23, 2005, the Company commenced a modified "Dutch Auction" tender offer (the "Tender Offer") to purchase up to 4,000,000 shares of its outstanding common stock at a price per share of not less than \$8.75 nor in excess of \$10.00 per share, for an aggregate purchase price of up to \$40.0 million. Pursuant to the Tender Offer, the Company purchased 56,406 shares of common stock at a purchase price of \$10.00 per share, for a total cost of \$564,060.

### OUTLOOK

During the twenty-six weeks ended July 30, 2005, the Company opened four stores, relocated one store, remodeled thirteen stores and closed three stores. For the remainder of fiscal 2006, the Company expects to open three to five stores, complete remodels on approximately five to ten stores, and close one to two stores. The Company's capital expenditures totaled \$5.3 million in the twenty-six week period ended July 30, 2005. Management estimates that capital expenditures for the remainder of fiscal 2006 will be approximately \$10.7 million and that such amounts will be used primarily for opening new stores, relocating and remodeling existing stores, upgrading and expanding warehouse distribution facilities, and investing in management information systems. Management believes that existing cash on hand and net cash from operating activities, together with borrowings under the Company's credit facilities, will be adequate to finance the Company's planned capital expenditures and to meet the Company's working capital requirements for the remainder of fiscal 2006 and for all of fiscal 2007.

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

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

The Company purchases a substantial portion of its magazines as well as certain of their seasonal music and newspapers from Anderson Media Corporation ("Anderson Media"), an affiliate through common ownership. During the twenty-six weeks ended July 30, 2005 and July 31, 2004, purchases of these items from Anderson Media totaled \$12,939,000 and \$12,383,000, respectively. The Company purchases certain of its collectibles and books from Anderson Press, Inc. ("Anderson Press"), an affiliate through common ownership. During the twenty-six weeks ended July 30, 2005 and July 31, 2004, such purchases from Anderson Press totaled \$657,000 and \$224,000, respectively. The Company purchases certain of its greeting cards and gift products from C.R. Gibson, Inc., an affiliate through common ownership. The purchases of these products during the twenty-six weeks ended July 30, 2005 and July 31, 2004 were \$134,000 and \$230,000, respectively. The Company purchases certain magazine subscriptions from Magazines.com, an affiliate through common ownership. During the twenty-six weeks ended July 30, 2005 and July 31, 2004, purchases of these items were \$27,000 and \$37,000, respectively. The Company purchases content for publication from Publication Marketing Corporation, an affiliate through common ownership. During the twenty-six weeks ended July 30, 2005 and July 31, 2004, purchases of these items were \$29,000 and \$24,000, respectively. The Company utilizes import sourcing and consolidation services from Anco Far East Importers, LTD ("Anco Far East"), an affiliate through common ownership. The total paid to Anco Far East was \$1,398,000 and \$322,000 during the twenty-six weeks ended July 30, 2005 and July 31, 2004, respectively. These amounts paid to Anco Far East primarily included the actual cost of the product as well as fees for sourcing and consolidation services. All costs other than the sourcing and consolidation service fees were passed through from other vendors. Anco Far East fees, net of the passed-through costs, were \$98,000 and \$23,000 during the twenty-six weeks ended July 30, 2005 and July 31, 2004, respectively.

The Company sold books to (received returns from) Anderson Media in the amounts of \$6,000 and (\$31,000) during the twenty-six weeks ended July 30, 2005 and July 31, 2004, respectively. During the twenty-six weeks ended July 30, 2005 and July 31, 2004, the Company provided \$8,000 and \$47,000, respectively, of internet services to Magazines.com. The Company provided internet services to American Promotional Events, an affiliate through common ownership, of \$64,000 and \$54,000 during the twenty-six weeks ended July 30, 2005 and July 31, 2004, respectively.

The Company leases its principal executive offices from a trust, beneficiaries of which are the grandchildren of Mr. Charles C. Anderson, a former member of the Board of Directors. The lease extends to January 31, 2006. During the twenty-six weeks ended July 30, 2005 and July 31, 2004, the Company paid rent of \$69,000 in each period to the trust under this lease. Anderson & Anderson LLC ("A&A"), an affiliate through common ownership, also leases three buildings to the Company. During the twenty-six weeks ended July 30, 2005 and July 31, 2004, the Company paid A&A a total of \$222,000 and \$220,000, respectively, in connection with such leases. Total minimum future rental payments under all of these leases are \$69,000 at July 30, 2005. The Company subleases certain property to Hibbett Sporting Goods, Inc. ("Hibbett"), a sporting goods retailer in the southeastern United States. The Company's Executive Chairman, Clyde B. Anderson, is a member of Hibbett's board of directors. During the twenty-six weeks ended July 30, 2005 and July 31, 2004, the Company received \$95,000 in rent payments from Hibbett.

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

The Company shares ownership of a plane, which the Company uses in the operation of its business, with an affiliated company. The Company rents the plane to affiliated companies at rates that cover all of the variable cost, and a portion of the fixed cost of the plane. The total amounts received from affiliated companies for use of the plane during the twenty-six weeks ended July 30, 2005 and July 31, 2004, was \$157,000 and \$130,000, respectively. The Company also occasionally rents a plane from A&A as well. The amounts paid to A&A for plane rental were \$31,000 and \$15,000 for the twenty-six weeks ended July 30, 2005 and July 31, 2004, respectively.

20

### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is subject to interest rate fluctuations involving its credit facilities and debt related to an industrial development revenue bond (the "Bond"). However, the Company uses fixed interest rate hedges to manage this exposure. The Company entered into the Credit Facility Hedges, both of which expired in August 2005. The Credit Facility Hedges effectively fixed the interest rate on \$20 million of variable credit facility debt at 5.13%. The Company has not replaced the Credit Facility Hedges. In addition, the Company entered into the Bond Hedge that expires in June 2006 and effectively fixes the interest rate on the Bond at 8.73%. The counter party to the Bond Hedge is a primary bank in the Company's credit facility. The Company believes the credit and liquidity risk of the counter party failing to meet its obligation under the Bond Hedge is remote.

To illustrate the sensitivity of the results of operations to changes in interest rates on its debt, the Company estimates that a 66% increase in LIBOR rates would have increased interest expense by approximately \$82,000 for the thirteen weeks ended July 30, 2005. Likewise, a 66% decrease in LIBOR rates would have decreased interest expense by \$82,000 for the thirteen weeks ended July 31, 2004. This hypothetical change in LIBOR rates was calculated based on the fluctuation in LIBOR in 2002, which was the maximum LIBOR fluctuation in the last ten years. The estimates do not consider the effect of the potential termination of the interest rate swaps associated with the debt will have on interest expense.

21

### CONTROLS AND PROCEDURES

We are committed to maintaining disclosure controls and procedures designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer, chief financial officer and the Board of Directors, as appropriate, to allow for timely decisions regarding required disclosure. As required by Rules 13a-15 and 15d-15 under the Exchange Act, management, with the participation of our chief executive officer and chief financial officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. In designing and evaluating disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well



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

designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures and implementing controls and procedures based on the application of management's judgment.

In September 2005, during the course of its effort to implement Section 404 of the Sarbanes Oxley Act, management identified certain control deficiencies. After meeting with the Audit Committee of the Board of Directors, management determined that certain of these control deficiencies constituted significant deficiencies which in the aggregate constituted a material weakness. The Public Company Accounting Oversight Board's Auditing Standard No. 2 defines a significant deficiency as a control deficiency, or combination of control deficiencies, that adversely affects the company's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the company's annual or interim financial statements that is more than inconsequential will not be prevented or detected and defines a material weakness as a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. As a result of this material weakness, our chief executive officer and chief financial officer concluded that, as of September 13, 2005, the date this report was originally due to be filed, and the date of the filing of this report, our disclosure controls and procedures were not effective at the reasonable assurance level.

The material weakness identified consists of a combination of the following significant deficiencies relating to accounts payable: (i) inadequate controls over the data used to perform cost of goods sold calculations; (ii) inadequate segregation of duties for accounts payable management; and (iii) inadequate independent verification of expense invoice payment supporting documentation.

Inadequate controls over the data used to perform cost of goods sold calculations. Because we do not accumulate product cost data at the item level, we calculate cost of goods sold and determine vendor payments and return credits using product line cost data for each vendor. We generally purchase inventory at a wholesale cost that is expressed as a discount from the suggested retail price for the product. When merchandise is received at the warehouse, the discount percentage established for each vendor is used to calculate the expected cost of the merchandise and a warehouse receipt is generated. The warehouse receipt is matched to the vendor's invoice at the total receipt/invoice level to ensure the accuracy of the receipt of product ordered and the amount of payment due to the vendor.

Many vendors have several different product lines which may have different discount percentages. For example, publishers, who collectively constitute a majority of our vendors, have several different imprints under which they publish and sell books which they sell to us under varying discount percentages. However, information used in the item master file, which is within the warehouse system, to calculate cost of receipts and returns is generated based on a standard discount percentage at the vendor level, which may not match the discount percentage on each product line that we purchase from or return to that vendor. Calculations done at the vendor discount level can cause discrepancies in the cost amounts determined for the merchandise receipts and returns versus the amounts charged by the vendor. Discrepancies in merchandise receipt amounts versus vendor invoice amounts above certain tolerances are reviewed to ensure the vendor is paid the proper amount. However, the cumulative effect of discrepancies under the tolerance levels could have an impact on inventory shrinkage. The cost charged for product on returns is based on the vendor discount reflected in the system and is not reconciled until after the vendor issues credit for the return. A delay in vendor processing of returns, which

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

could increase unresolved return disputes, could also impact inventory shrinkage results.

In addition, because of the lack of item level cost detail for products, a weighted average cost by product line must be determined, which is then applied to sales amounts to calculate cost of goods sold. The weighted average cost percentages are calculated using invoice level data to determine the cost of goods sold percentages by product line. The percentages are determined for each product line using a sampling of invoices for each period. We

22

have determined that the sample size used historically may have not been large enough to allow us to adequately calculate cost of goods sold on a quarterly basis.

Due to the risk that discrepancies can arise that could affect our vendor payment and return cost calculations which could impact our cost of goods sold, we are adding item level cost data to the item master file. This will provide accurate item level cost information for merchandise receipts and publisher returns. We expect to complete this change to add item level detail by April 29, 2006, the end of the first quarter of fiscal 2007, which will enable us to use item level data to calculate cost of goods sold.

To mitigate the risk of error in the cost of goods sold calculation until the enhancements to the item master file are in place, during the second quarter of fiscal 2006 we performed a reconciliation of inventory balances per the financial records to the physical inventory per the perpetual inventory system for the warehouse. This reconciliation process involved a detailed review of activity posted to the financial records since the last physical inventory at the warehouse in the fourth quarter of fiscal 2005 and compares the financial inventory balances to the physical totals per the perpetual inventory system. The shrinkage calculated during the reconciliation completed as of the second quarter of fiscal 2006 was insignificant. The reconciliation process to the physical inventory per the perpetual system will also be completed as of the end of the third quarter of fiscal 2006, and a full physical inventory at the warehouse will be taken and reconciled to the financial records at year end. Also, the sample size of invoices reviewed for verifying the cost of goods sold percentages by product line will be expanded until the new system for calculating the cost of goods sold at the item level discount is in place.

The additions to and maintenance of item level discount percentages on the item master file is also expected to improve the accuracy of discount percentages used to calculate the credits for merchandise returns. This is expected to reduce the risk of miscalculating the credits for returns significantly. We will continue to reconcile the major vendors' statement activity to payables activity on a quarterly basis to identify return differences and resolve those discrepancies with vendors.

Inadequate segregation of duties for accounts payable management and inadequate controls over access to the payables vendor master file. The director of accounts payable and the manager of accounts payable together manage all accounts payable, including the reconciliation of accounts payable detail activity to the general ledger. While our procedures for accounts payable state that neither the director nor the manager are allowed to be involved in vendor master file maintenance, as of the end of the second quarter the system did not prevent either of them from making entries to, or performing maintenance on, the vendor master file. As of October 14, 2005, access privileges to the vendor file for the director and the manager have been revoked. Also, starting with the October, 2005 monthly closing process, a senior accounting manager outside of

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

the accounts payable function will reconcile the accounts payable detail activity to the general ledger each month. Management believes that this significant deficiency will be remediated by the end of the third quarter of fiscal 2006.

Inadequate independent verification of expense invoice supporting documentation. In addition to having responsibility for the merchandise payment process, the accounts payable department also has the responsibility to manage and process payments for expense invoices. Our policies and procedures in place as of the second quarter of fiscal 2006 were not adequate to ensure that expense invoices processed for payment were approved by management at the appropriate level and that supporting documentation was adequate to support the amount being paid.

We have established company wide expense approval policies and procedures by department that specifically identify which employees have authority for approving invoices, the maximum dollar threshold they can approve and the dollar threshold at which additional approval is required. These new policies and procedures were implemented on October 14, 2005. By the end of the third quarter of fiscal 2006 the policies and procedures will also define supporting documentation required to be provided with expense invoices for approval by management.

To mitigate the risk of misstatement of expense activity during the second quarter of fiscal 2006, we completed a subsequent review of invoices processed for approximately sixty days after the end of the quarter. This process did not identify any significant changes to the amounts originally accrued for the second quarter closing. To provide additional controls for the review of expense activity for the third quarter we will reconcile the vendor statements for significant expense vendors to financial records prior to December 13, 2005.

23

Although we continue to implement remediation efforts, a material weakness indicates that there is more than a remote likelihood that a material misstatement of our financial statements will not be prevented or detected in a future period. In addition, we cannot assure you that we will not in the future identify additional material weaknesses or significant deficiencies in our internal control over financial reporting. The efforts we have taken and continue to take are subject to continued management review supported by confirmation and testing by management, our internal auditors and the outside consultants, as well as audit committee oversight. As a result, additional changes are expected to be made to our internal control over financial reporting. There have been no other material changes during the current quarter in our disclosure controls and procedures, or our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our disclosure controls and procedures or our internal control over financial reporting.

24

## II - OTHER INFORMATION

### ITEM 1: Legal Proceedings

The Company is a party to various legal proceedings incidental to its business. In the opinion of management, after consultation with legal counsel,

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

the ultimate liability, if any, with respect to those proceedings is not presently expected to materially affect the financial position, results of operations or cash flows of the Company.

ITEM 2: Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Securities

In March 2004, the Board of Directors authorized a new common stock repurchase program for up to 10% of the outstanding stock, or 1,646,624 shares. The following table shows common stock repurchases under the program during fiscal 2006:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased Part of Public Announced Program
-----	-----	-----	-----
1/30/2005 to 2/26/2005	74,001	\$9.4833	74,001
2/27/2005 to 3/2/2005	17,040	\$9.0282	17,040
3/3/2005 to 3/30/2005	52,530	\$9.4552	52,530
	-----	-----	-----
Total	143,571	\$9.4193	143,571
	=====	=====	=====

No purchases were made during the second quarter of fiscal 2006 under the repurchase program previously announced in March 2004. However, on June 23, 2005, the Company commenced a modified "Dutch Auction" tender offer (the "Tender Offer") to purchase up to 4,000,000 shares of its outstanding common stock at a price per share of not less than \$8.75 nor in excess of \$10.00 per share, for an aggregate purchase price of up to \$40.0 million. Pursuant to the Tender Offer, the Company purchased 56,406 shares of common stock at a purchase price of \$10.00 per share, for a total cost of \$564,060.

ITEM 3: Defaults Upon Senior Securities

None

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

- o Date of Meeting - June 1, 2005
- o Annual Meeting
- o Name of each director elected at meeting: Terry C. Anderson
- o Name of each director whose term in office as director continued after the meeting:
  - o Clyde B. Anderson
  - o Ronald G. Bruno
  - o J. Barry Mason

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

- o William H. Rogers, Jr.
- o Other matters voted on at Annual Meeting
- i) To approve the 2005 Incentive Award Plan, which provides for the grant of incentive stock options, restricted stock, stock appreciation rights, performance shares, performance stock units, dividend equivalents, stock payments and deferred stock for members of the Board, employees and consultants of the Company

Result of votes:

ELECTION OF	NUMBER OF VOTES CAST FOR -----	NUMBER OF VOTES CAST AGAINST -----
Terry C. Anderson	14,256,733	1,599,105
Item i) above	9,800,888	2,306,364

ITEM 5: Other Information

None

ITEM 6: Exhibits and Reports on Form 8-K

(A) Exhibits

Exhibit 3i Certificate of Incorporation of Books-A-Million, Inc. (incorporated herein by reference to Exhibit 3.1 in the Company's Registration Statement on Form S-1 (Capital Registration No. 33-52256)

Exhibit 3ii By-Laws of Books-A-Million, Inc. (incorporated herein by reference to Exhibit 3.2 in the Company's Registration Statement on Form S-1 (Capital Registration No. 33-52256))

Exhibit 31.1 Certification of Clyde B. Anderson, Executive Chairman of the Board of Books-A-Million, Inc., pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, filed under Exhibit 31 of Item 601 of Regulation S-K.

Exhibit 31.2 Certification of Sandra B. Cochran, President and Chief Executive Officer of Books-A-Million, Inc., pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, filed under Exhibit 31 of Item 601 of Regulation S-K.

Exhibit 31.3 Certification of Richard S. Wallington, Chief Financial Officer of Books-A-Million, Inc., pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, filed under Exhibit 31 of Item 601 of Regulation S-K.

Exhibit 32.1 Certification of Clyde B. Anderson, Executive Chairman of the Board of Books-A-Million, Inc., pursuant to 18 U.S.C. Section 1350, filed under Exhibit 32 of Item 601 of Regulation S-K.

26

Exhibit 32.2 Certification of Sandra B. Cochran, President and Chief Executive Officer of Books-A-Million, Inc., pursuant to 18 U.S.C. Section 1350, filed under Exhibit 32 of Item 601 of Regulation S-K.

Exhibit 32.3 Certification of Richard S. Wallington, Chief Financial Officer of Books-A-Million, Inc., pursuant to 18 U.S.C. Section 1350, filed under Exhibit 32 of Item 601 of Regulation S-K.

27

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned duly authorized.

BOOKS-A-MILLION, INC.

Date: October 25, 2005

by:/s/ Clyde B. Anderson  
-----

Clyde B. Anderson  
Executive Chairman of the Board

Date: October 25, 2005

by:/s/ Sandra B. Cochran  
-----

Sandra B. Cochran  
President and Chief Executive Officer

Date: October 25, 2005

by:/s/ Richard S. Wallington  
-----

Richard S. Wallington  
Chief Financial Officer

28

Exhibit 31.1

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

### CERTIFICATIONS

I, Clyde B. Anderson, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Books-A-Million, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

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

Date: October 25, 2005

\_/s/ Clyde B. Anderson

-----  
Clyde B. Anderson  
Executive Chairman of the Board

29

Exhibit 31.2

CERTIFICATIONS

I, Sandra B. Cochran, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Books-A-Million, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and



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

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 25, 2005

\_\_\_\_\_/s/ Sandra B. Cochran

-----  
Sandra B. Cochran  
President and Chief Executive Officer

30

Exhibit 31.3

CERTIFICATIONS

I, Richard S. Wallington, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Books-A-Million, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

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

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 25, 2005

\_\_\_\_\_/s/ Richard S. Wallington

Richard S. Wallington  
Chief Financial Officer

31

Exhibit 32.1

CERTIFICATION OF EXECUTIVE CHAIRMAN OF THE BOARD

Pursuant to 18 U.S.C. ss. 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Books-A-Million, Inc. (the "Company") hereby certifies, to the best of such officer's knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q/A of the Company for the quarterly period ended July 30, 2005 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 25, 2005

\_\_\_\_\_/s/ Clyde B. Anderson

Clyde B. Anderson

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

Executive Chairman of the Board

32

Exhibit 32.2

CERTIFICATION OF PRESIDENT AND CHIEF EXECUTIVE OFFICER

Pursuant to 18 U.S.C. ss. 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Books-A-Million, Inc. (the "Company") hereby certifies, to the best of such officer's knowledge, that:

- (i) the accompanying Quarterly Report on Form 10-Q/A of the Company for the quarterly period ended July 30, 2005 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 25, 2005

/s/ Sandra B. Cochran

-----  
Sandra B. Cochran  
President and Chief Executive Officer

33

Exhibit 32.3

CERTIFICATION OF CHIEF FINANCIAL OFFICER

Pursuant to 18 U.S.C. ss. 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Books-A-Million, Inc. (the "Company") hereby certifies, to the best of such officer's knowledge, that:

- (i) the accompanying Quarterly Report on Form 10-Q/A of the Company for the quarterly period ended July 30, 2005 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 25, 2005

/s/ Richard S. Wallington

-----  
Richard S. Wallington  
Chief Financial Officer

34