BOOKS A MILLION INC
Form 10-Q/A
April 28, 2005

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

FORM 10-Q/A
AMENDMENT NO. 1

(MARK ONE)

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

For the quarterly period ended: July 31, 2004

- OR -

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transaction period from__________to__________

COMMISSION FILE NUMBER 0-20664

BOOKS-A-MILLION, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	63-0798460
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
402 INDUSTRIAL LANE, BIRMINGHAM, ALABAMA	35211
(Address of principal executive offices)	(Zip Code)

(205) 942-3737

(Registrant's 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 [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (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 September 8, 2004 were 16,743,084 shares.

EXPLANATORY NOTE:

As previously disclosed in a Form 8-K filed on March 22, 2005, following a review detailed of its lease-related accounting policies, Books-A-Million, Inc. (the "Company") determined to restate its prior financial statements (the "Restatement") to certain errors in those financial statements relating to the computation of depreciation, rent holiday, straight-line rent expense and the related deferred liability.

Historically, the Company depreciated leasehold improvements over a period of ten years, regardless of the term of the lease for the store. The Company has corrected its depreciable life for leasehold improvements to the lesser of the economic useful life of the asset or the term of the lease. When calculating the straight-line rent expense per store, the Company previously used the store opening date as the starting date for the rent expense calculation. The Company has corrected this calculation to start straight-line rent expense on the date when the Company takes possession and has the right to control use of the leased premises. Also, the Company has corrected its method of classification of landlord allowances. For certain new stores, the Company receives funding from landlords for the construction of leasehold improvements. Historically, landlord allowances were classified as a reduction of leasehold improvements on the Company's balance sheet and as a reduction in capital expenditures in the Company's statement of cash flows. However, the Company has restated the balance sheet by increasing other long-term liabilities and increasing leasehold improvements (asset). In addition, in the statement of cash flows, the Company has classified landlord allowances as an operating activity and not as a reduction in capital expenditures.

As a result, the accompanying consolidated financial statements have been restated from the amounts previously reported to incorporate the effects of these corrections. See Note 13 to the condensed consolidated financial statements.

This amendment No. 1 on Form 10-Q/A to the Company's quarterly report on Form 10-Q for the fiscal quarter ended July 31, 2004, initially filed with the Securities and Exchange Commission ("SEC") on September 14, 2004 ("Original Filing"), is being filed to reflect restatements of the Company's consolidated balance sheets at July 31, 2004 and the Company's consolidated statements of operations, and consolidated cash flows for the thirteen weeks ended July 31, 2004 and August 2, 2003 and the twenty six weeks ended July 31, 2004 and August 2, 2003 and the notes related thereto. For a more detailed description of these restatements, see Note 13, "Restatement of Financial Statements" to the accompanying condensed consolidated financial statements.

For the convenience of the reader, this Form 10-Q/A includes the Original Filing in its entirety. However, this Form 10-Q/A only amends and restates Items 1, 2, and 4 of Part I of the Original Filing and no other material information in the Original Filing is amended hereby. The foregoing items have not been updated to reflect other events occurring after the Original Filing or to modify or update those disclosures affected by subsequent events. In addition, pursuant to the rules of the SEC, Item 6 of Part II of the Original Filing has been amended to contain currently-dated certifications from our Chief Executive Officer and Chief Financial Officer , as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of our Executive Chairman of the Board, Chief Executive Officer and Chief Financial Officer are attached to this Form 10-Q/A as Exhibits 31.1, 31.2, 31.3, 32.1, 32.2 and 32.3, respectively.

Except for the foregoing amended information, this Form 10-Q/A continues to describe conditions as of the date of the Original Filing, and does not update disclosures contained herein to reflect events that occurred at a later date.

Concurrently with the filing of this Form 10-Q/A, we are filing an amendment on Form 10-K/A to our Annual Report on Form 10-K for the fiscal year ended January 31, 2004 ("2004 10-K") to provide restatements of the financial statements or financial data as of and for the periods included in the 2004 10-K and amended quarterly reports on Form 10-Q/A for the quarters ended May 1, 2004 and October 30, 2004. We have not amended and do not intend to amend our previously filed Annual Reports on Form 10-K other than the 2004 10-K or our Quarterly Reports on Form 10-Q for the periods affected by the Restatement that ended prior to January 30, 2004. For this reason, the consolidated financial statements, auditors' reports and related financial information for all affected periods contained in any prior reports should no longer be relied upon.

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BOOKS-A-MILLION, INC. AND SUBSIDIARIES

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PART 1. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
BOOKS-A-MILLION, INC. & SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	AS OF JULY 31, 2004 (as restated) (see Note 13)	AS OF JAN (as r (see
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 5,441	$
Accounts receivable, net	7,477	
Related party accounts receivable, net	193	
Inventories	210,860	
Prepayments and other	5,899	
Deferred income taxes	4,696	
TOTAL CURRENT ASSETS	234,566	
PROPERTY AND EQUIPMENT:		
Gross property and equipment	191,094	
Less accumulated depreciation and amortization	134,717	
NET PROPERTY AND EQUIPMENT	56,377	
OTHER ASSETS	1,633	
TOTAL ASSETS	$ 292,576	$
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 88,445	$
Related party accounts payable	7,656	
Accrued expenses	30,380	
Accrued income taxes	192	
TOTAL CURRENT LIABILITIES	126,673	
LONG-TERM DEBT	18,700	
DEFERRED INCOME TAXES	2,000	
OTHER LONG-TERM LIABILITIES	11,833	
TOTAL NON-CURRENT LIABILITIES	32,533	

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, 18,664,901 and 18,465,387 shares issued at July 31, 2004 and January 31, 2004, respectively	187	
Additional paid-in capital	72,452	
Less treasury stock, at cost (2,094,750 and 2,010,050 shares at July 31, 2004 and January 31, 2004, respectively)	(5,819)	
Deferred compensation	(461)	
Accumulated other comprehensive loss, net of tax	(485)	
Retained earnings	67,496	
TOTAL STOCKHOLDERS' EQUITY	133,370	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 292,576	$

SEE ACCOMPANYING NOTES

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

	THIRTEEN WEEKS ENDED	
	JULY 31, 2004 (AS RESTATED) (SEE NOTE 13)	AUGUST 2, 2003 (AS RESTATED) (SEE NOTE 13)
NET SALES	$ 114,065	$ 113,081
Cost of products sold (including warehouse, distribution and store occupancy costs) (1)	82,970	81,689
GROSS PROFIT	31,095	31,392
Operating, selling and administrative expenses	24,736	23,661
Depreciation and amortization	4,333	4,520
OPERATING INCOME	2,026	3,211
Interest expense, net	487	848
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	1,539	2,363
Income tax provision	550	896

INCOME FROM CONTINUING OPERATIONS	989	1,467
DISCONTINUED OPERATIONS (NOTE 10):		
Loss from discontinued operations before income taxes	-	(191)
Income tax benefit	-	70
LOSS FROM DISCONTINUED OPERATIONS	-	(121)
NET INCOME	$ 989	$ 1,346
NET INCOME PER COMMON SHARE:		
BASIC:		
INCOME FROM CONTINUING OPERATIONS	$ 0.06	$ 0.09
LOSS FROM DISCONTINUED OPERATIONS	(0.00)	(0.01)
NET INCOME	$ 0.06	$ 0.08
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC	16,497	16,248
DILUTED:		
INCOME FROM CONTINUING OPERATIONS	$ 0.06	$ 0.09
LOSS FROM DISCONTINUED OPERATIONS	(0.00)	(0.01)
NET INCOME	$ 0.06	$ 0.08
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - DILUTED	17,225	16,518

(1) Inventory purchases from related parties were $5,517, $6,563, $16,778 and $18,327, respectively, for each of the periods presented above.

SEE ACCOMPANYING NOTES

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

	TWENTY-SIX WEEKS ENDED	
	JULY 31, 2004	AUGUST 2, 20
	(as restated)	(as restated

	(see Note 13)	(see Note 13
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,217	$ 295
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,975	9,248
Deferred compensation amortization	63	-
Loss on impairment of assets	3	420
(Gain)/Loss on disposal of property	(12)	50
Change in deferred income taxes	(233)	117
(Increase)/Decrease in inventories	731	(3,471)
Decrease in accounts payable	(660)	(15,196)
Changes in certain other assets and liabilities	(3,544)	(234)
Total adjustments	5,323	(9,066)
Net cash provided by (used in) operating activities	7,540	(8,771)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(5,387)	(3,928)
Proceeds from sale of equipment	13	19
Net cash used in investing activities	(5,374)	(3,909)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under credit facilities	95,120	108,220
Repayments under credit facilities	(97,060)	(95,442)
Purchase of treasury stock	(548)	-
Proceeds from exercise of stock options and issuance of common stock under the employee stock option plan	415	95
Net cash provided by (used in) financing activities	(2,073)	12,873
Net increase in cash and cash equivalents	93	193
Cash and cash equivalents at beginning of period	5,348	4,977
Cash and cash equivalents at end of period	$ 5,441	$ 5,170
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the thirteen week period for:		
Interest	$ 1,013	$ 1,770
Income taxes, net of refunds	$ 4,241	$ 1,704

SEE ACCOMPANYING NOTES

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 31, 2004 and August 2, 2003, have been prepared in accordance with accounting principles generally accepted in the United States ("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 31, 2004, included in our Fiscal 2004 Annual Report on Form 10-K/A. 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 31, 2004, and the results of its operations and cash flows for the thirteen and twenty-six week periods ended July 31, 2004 and August 2, 2003. 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

At July 31, 2004 and January 31, 2004, we had one stock option plan. We account for the plan under the recognition and measurement principles of Accounting Pronouncements Bulletin (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 (loss) and net income (loss) 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 -- Transition and Disclosure -- an Amendment of FASB Statement No. 123," to stock-based employee compensation (in thousands except per share amounts):

	For the Thirteen Weeks Ended		For the Twenty-Six
In thousands	July 31, 2004	August 2, 2003	July 31, 2004
Net income (loss), as reported	$ 989	$ 1,346	$ 2,217

Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax effects	341	328	682
Pro forma net income (loss)	$ 648	$ 1,018	$ 1,535
Net income (loss) per common share:			
Basic -- as reported	$ 0.06	$ 0.08	$ 0.13
Basic -- pro forma	$ 0.04	$ 0.06	$ 0.09
Diluted -- as reported	$ 0.06	$ 0.08	$ 0.13
Diluted -- pro forma	$ 0.04	$ 0.06	$ 0.09

The fair value of the options granted under our stock option plan was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions for fiscal 2005 and 2004: no dividend yield; expected stock price volatility rate of 1.06 and 1.01, respectively; risk-free interest rates of 3.87% to 4.90% and 3.63% to 5.10%, respectively; and expected lives of six or ten years.

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

2. NET INCOME PER SHARE

Basic net income per share ("EPS") is computed by dividing net income available to common shareholders 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 Weeks Ended (in thousands)	
	July 31, 2004	August 2, 2003
Weighted average shares outstanding:		
Basic	16,497	16,248
Dilutive effect of stock options and restricted stock outstanding	728	270
Diluted	17,225	16,518

	For the Twenty-Six Weeks Ended (in thousands)	
	July 31, 2004	August 2, 2003
Weighted average shares outstanding:		
Basic	16,471	16,234
Dilutive effect of stock options and restricted stock outstanding	749	201
Diluted	17,220	16,435

Options outstanding to purchase 796,000 and 1,132,000 shares of common stock as of July 31, 2004 and August 2, 2003, respectively, were included in the table above as they were not anti-dilutive under the treasury stock method.

3. RELATED PARTY TRANSACTIONS

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

We purchase a substantial portion of our magazines as well as certain of our seasonal music and newspapers from Anderson Media Corporation ("Anderson Media"), an affiliate through common ownership. During the twenty-six weeks ended July 31, 2004 and August 2, 2003, purchases of these items from Anderson Media totaled $15,937,000 and $17,288,000, respectively. We purchase certain of our collectibles and books from Anderson Press, Inc. ("Anderson Press"), an affiliate through common ownership. During the twenty-six weeks ended July 31, 2004 and August 2, 2003, such purchases from Anderson Press totaled $224,000 and $425,000, respectively. We purchase certain of our 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 31, 2004 and August 2, 2003 were $230,000 and $87,000, respectively. We purchase certain magazine subscriptions from Magazines.com, an affiliate through common ownership. During the twenty-six weeks ended July 31, 2004 and August 2, 2003, purchases of these items were $37,000 and $42,000, respectively. We purchase content for publication from Publication Marketing Corporation, an affiliate through common ownership. During the twenty-six weeks ended July 31, 2004 and August 2, 2003, purchases of these items were $24,000 and $36,000, respectively. We utilize 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 $322,000 and $449,000 during the twenty-six weeks ended July 31, 2004 and August 2, 2003, respectively. These amounts paid to Anco Far East primarily included the actual cost of the product, as well as duty, freight and fees for sourcing and

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

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 $23,000 and $31,000, respectively.

We sold books to (received returns from) Anderson Media in the amounts of ($32,000) and $153,000 during the twenty-six weeks ended July 31, 2004 and August 2, 2003, respectively. During the twenty-six weeks ended July 31, 2004 and August 2, 2003, we provided $47,000 and $129,000, respectively, of internet services to Magazines.com. During the twenty-six weeks ended July 31, 2004 and August 2, 2003, we provided $54,000 and $35,000, respectively, of internet services to American Promotional Events.

We lease our principal executive offices from a trust, which was established for the benefit of the grandchildren of Mr. Charles C. Anderson, a member of the Board of Directors. The lease extends to January 31, 2006. During the twenty-six weeks ended July 31, 2004 and August 2, 2003, we paid rent of $69,000 in each period to the trust under this lease. Anderson & Anderson LLC ("A&A"), which is an affiliate through common ownership, also leases three buildings to us. During the twenty-six weeks ended July 31, 2004 and August 2, 2003, we paid A&A a total of $220,000 and $231,000, respectively, in connection with such leases. Total minimum future rental payments under all of these leases are $206,000 at July 31, 2004. We sublease certain property to Hibbett Sporting Goods, Inc. ("Hibbett"), a sporting goods retailer in the southeastern United States. Our Executive Chairman, Clyde B. Anderson, is a member of Hibbett's board of directors. During the twenty-six weeks ended July 31, 2004 and August 2, 2003, we received $95,000 in rent payments from Hibbett.

The Company shares ownership of a plane, which the Company uses in the operations of its business, with an affiliated company. The Company rents the plane to affiliated companies at rates that cover all the variable cost and a portion of the fixed cost. The total amounts received from affiliated companies for use of the plane during the twenty-six weeks ended July 31, 2004 and August 2, 2003, was $130,000 and $335,000, respectively.

4. DERIVATIVE AND HEDGING ACTIVITIES

We are subject to interest rate fluctuations involving our credit facilities and debt related to an Industrial Development Revenue Bond (the "Bond"). However, we use fixed interest rate hedges to manage this exposure. We entered into two separate $10 million swaps on July 24, 2002. Both expire in August 2005 and effectively fix the interest rate on an aggregate of $20 million of variable credit facility debt at 5.13% per year. In addition, we entered into a $7.5 million interest rate swap in May 1996 that expires in June 2006 and effectively fixes the interest rate on the Bond at 7.98% per year. The counter parties to the interest rate swaps are two primary banks in our credit facility. We believe the credit and liquidity risks of the counter parties failing to meet their obligation are remote as we settle our interest position with the banks on a quarterly basis.

Our hedges are generally designated as cash flow hedges because they are interest rate swaps that convert variable payments to fixed payments. 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 or in earnings, depending on the type of hedging relationship. Over time, amounts held in accumulated other comprehensive income will be reclassified to earnings if the hedge transaction becomes ineffective.

Our 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 $969,000 and $1.5 million as of July 31, 2004 and January 31, 2004, respectively. For the thirteen weeks ended July 31, 2004 and August 2, 2003, adjustment gains of $131,000 (net of tax provision of $77,000) and $225,000 (net of tax provision of $138,000), respectively, and in the twenty-six weeks ended July 31, 2004 and August 2, 2003, adjustment gains of $226,000 (net of tax provision of $133,000) and $288,000 (net of tax provision of $176,000), respectively, were recorded in accumulated other comprehensive income and are detailed in Note 5. During the fourth quarter of fiscal 2004, one interest rate swap no longer qualified for hedge accounting under SFAS No. 133; as a result, we de-designated the hedge. A pre-tax gain of $179,000 was recorded in earnings during the first twenty-six weeks of fiscal 2005 related to the de-designated hedge.

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

5. COMPREHENSIVE INCOME

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

	Thirteen Weeks Ended (in thousands)		
COMPREHENSIVE INCOME	July 31, 2004	August 2, 2003	Ju
Net income	$ 989	$ 1,346	
Unrealized gains on hedges, net of deferred tax provision for the thirteen-week periods of $77 and $138, respectively, and the twenty-six week periods of $133 and $176, respectively.	131	225	
Total comprehensive income	$1,120	$ 1,571	

6. COMMITMENTS AND CONTINGENCIES

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

From time to time, we enter into certain types of agreements that require us to indemnify parties against third party claims under certain circumstances. Generally these agreements relate to: (a) agreements with vendors and suppliers under which we may provide customary indemnification to our vendors and suppliers in respect of actions they take at our request or otherwise on our behalf, (b) agreements with vendors who publish books or manufacture merchandise specifically for us to indemnify the vendors against trademark and copyright infringement claims concerning the books published or merchandise manufactured on behalf of us, (c) real estate leases, under which we may agree to indemnify the lessors from claims arising from our use of the property, and (d) agreements with our directors, officers and employees, under which we may agree to indemnify such persons for liabilities arising out of their relationship with us. We have Directors and Officers Liability Insurance, which, subject to the policy's conditions, provides coverage for indemnification amounts payable by us with respect to our 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 us to perform under these indemnities are transaction and circumstance specific. Generally, our maximum liability under such indemnities is not explicitly stated, and therefore the overall maximum amount of our obligations cannot be reasonably estimated. Historically, we have not incurred significant costs related to performance under these types of indemnities. No liabilities have been recorded for these obligations on our balance sheet at July 31, 2004 and January 31, 2004 as such liabilities are considered de minimis.

7. INVENTORIES

Inventories were:

(In thousands)	July 31, 2004	January 31, 2004
Inventories (at FIFO)	$ 211,819	$ 212,251
LIFO reserve	(959)	(660)
Net inventories	$ 210,860	$ 211,591

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

8. BUSINESS SEGMENTS

We have two reportable segments: retail trade and electronic commerce trade. The retail trade segment is a strategic business segment that is engaged in the retail trade of mostly book merchandise and includes our distribution center operations, which predominately supplies merchandise to our 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 our Fiscal 2004 Annual Report on Form 10-K/A. We evaluate performance of the segments based on profit and loss from operations before interest and income taxes. Certain intersegment cost allocations have been made based upon consolidated and segment revenues.

	Thirteen Weeks Ended		Twenty-Six Weeks End	
	July 31, 2004	August 2, 2003	July 31, 2004	August 2
NET SALES				
Retail Trade	$ 112,076	$ 111,556	$ 218,677	$ 208
Electronic Commerce Trade	6,377	6,289	12,675	11
Intersegment Sales Elimination	(4,388)	(4,764)	(8,772)	(8
Net Sales	$ 114,065	$ 113,081	$ 222,580	$ 211
OPERATING INCOME				
Retail Trade	$ 1,684	$ 3,219	$ 3,965	$ 2
Electronic Commerce Trade	167	(31)	252	
Intersegment Elimination	175	23	308	
Total Operating Income	$ 2,026	$ 3,211	$ 4,525	$ 2

	As of July 31, 2004	As of January 31, 2004
ASSETS		
Retail Trade	$ 291,328	$ 295,437
Electronic Commerce Trade	1,648	1,527
Intersegment Elimination	(400)	(566)
Total Assets	$ 292,576	$ 296,398

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

9. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an Amendment of FASB No. 123" ("SFAS 148"). SFAS 148 amends SFAS 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The disclosure provisions of this statement are effective for financial statements for fiscal years ending after December 15, 2002, and are included herein. We have not adopted the fair value method of recording stock options under SFAS No. 123. The FASB has now determined that stock-based compensation should be recognized as a cost in the financial statements and that such cost be measured according to the fair value of the stock options. The FASB has not as yet determined the methodology for calculating fair value and plans to issue an accounting standard. We will continue to monitor communications on this subject from the FASB in order to determine the impact on our financial position, results of operations or cash flows.

FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), was issued in January 2003. This interpretation requires consolidation of variable interest entities ("VIE"), also formerly referred to as "special purpose entities," if certain conditions are met. The interpretation applies 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 also applies to VIE's created or interests 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. We adopted the provisions of FIN 46R effective in the first quarter of fiscal 2005. The adoption of this interpretation did not have an effect on our financial position, results of operations or cash flows.

10. DISCONTINUED OPERATIONS

Discontinued operations represent the closure in fiscal 2004 of four retail stores in markets located in Georgia (two stores), Louisiana and North Carolina where we do not expect another of our existing stores to absorb the closed store's customers. Expenses relating to store closings when the store is not classified as a discontinued operation are reported in Other 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. Information regarding discontinued operations is as follows (in thousands):

	Thirteen Weeks Ended		Twenty-Six Weeks E	
	July 31, 2004	August 2, 2003	July 31, 2004	Augus
Sales	$ -	$ 808	$ -	$ 1
Pretax operating losses	-	191	-	
Impairment losses (included above in pretax operating loss amounts)	-	106	-	
Store closing costs (included above in pretax operating loss amounts)	-	3	-	

11. DEBT AND LINES OF CREDIT

We have an unsecured revolving credit facility that allows borrowings up to $100 million. Our current credit facility was extended two years to July 2007 by our bank group during the second quarter of fiscal 2005. No principal repayments are due until the facility expires in July 2007.

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

12. STOCKHOLDERS' EQUITY

In March 2004, the Board of Directors authorized a common stock repurchase program for up to $1.6 million shares, or 10% of the outstanding stock. During the twenty-six weeks ended July 31, 2004, 84,700 shares have been repurchased under this program.

Subsequent to the end of the current fiscal quarter, the Board of Directors approved a one-time dividend of $0.12 per share and the initiation of a quarterly dividend of $0.03 per share. The quarterly dividend will be paid beginning with the quarter ended July 31, 2004. Both the one-time dividend of $0.12 per share and the quarterly dividend of $0.03 per share are payable on September 14, 2004, to stockholders of record at the close of business on August 31, 2004. The Company will pay quarterly cash dividends in the future subject to Board approval.

13. RESTATEMENT OF FINANCIAL STATEMENTS

Subsequent to the issuance of the Company's interim condensed consolidated financial statements for the period ended July 31, 2004, and following a review of its lease-related accounting policies, the Company's management determined that it was appropriate to adjust its prior financial statements to correct certain errors contained in those financial statements relating to the computation of depreciation, rent holidays, straight-line rent expense and the related deferred rent liability.

Historically, the Company depreciated leasehold improvements over a period of ten years, regardless of the term of the lease for the store. When calculating the straight-line rent expense per store, the Company previously used the store opening date as the starting date for the rent expense calculation. For certain new stores, the Company receives funding from landlords for the construction of leasehold improvements. Historically, these landlord allowances were classified as a reduction of property and equipment on the Company's balance sheet and as a reduction in capital expenditures in the Company's statements of cash flows.

The Company has corrected its depreciable life for leasehold improvements to the lesser of the economic useful life of the asset or the term of the lease. The Company has corrected the calculation to start straight-line rent expense on the date when the Company takes possession and has the right to control use of the leased premises. Also, the Company has corrected its method of classification of landlord allowances. The Company will now classify landlord allowances as a deferred rent credit on the balance sheet and as an operating activity in the statement of cash flows. Funds received from the landlord intended to reimburse the Company for the cost of leasehold improvements will be recorded as a deferred rent credit resulting from a lease incentive and amortized over the lease term as a reduction to rent expense. As a result, the accompanying condensed consolidated financial statements have been restated from the amounts previously reported to incorporate the effects of these policies.

The following is a summary of the impact of the Restatement on the consolidated balance sheets at January 31, 2004 and July 31, 2004, and the consolidated statements of operations and the consolidated statements of cash flows for the thirteen week periods ended July 31, 2004 and August 2, 2003 and the twenty six week periods ended July 31, 2004 and August 2, 2003.

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

	As of July 31, 2004			As of
	As Previously Reported	Adjustment	As Restated	As Previously Reported
CONSOLIDATED BALANCE SHEET				
Gross property and equipment	166,564	24,530	191,094	166,466
Accumulated depreciation	120,611	14,106	134,717	117,289
Deferred income taxes (asset)	4,696	-	4,696	4,446
Total assets	282,152	10,424	292,576	285,679
Accrued expenses	30,380	-	30,380	30,189
Accrued income taxes	525	(333)	192	3,527
Total current liabilities	127,006	(333)	126,673	130,477
Deferred income taxes (liability)	1,834	166	2,000	1,805
Other Long-Term Liabilities	969	10,864	11,833	1,507
Total Non-Current Liabilities	21,503	11,030	32,533	23,952
Retained earnings	67,769	(273)	67,496	65,528
Total shareholders equity	133,643	(273)	133,370	131,250
Total shareholders equity & liabilities	282,152	10,424	292,576	285,679

	Thirteen Weeks Ended July 31, 2004			Thirteen We
	As Previously Reported	Adjustment	As Restated	As Previously Reported
CONSOLIDATED STATEMENTS OF OPERATIONS				
Cost of products sold	83,618	(648)	82,970	82,269
Gross profit	30,447	648	31,095	30,812
Depreciation and amortization	3,658	675	4,333	3,916
Operating income	2,053	(27)	2,026	3,235
Income taxes	560	(10)	550	905
Net income	1,006	(17)	989	1,361
Basic earnings per share	$ 0.06	$ 0.00	$ 0.06	0.08
Diluted earnings per share	$ 0.06	$ 0.00	$ 0.06	0.08

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

(UNAUDITED)

	Twenty-Six Weeks Ended July 31, 2004			Twenty-Six W
	As Previously Reported	Adjustment	As Restated	As Previously Reported
CONSOLIDATED STATEMENTS OF OPERATIONS				
Cost of products sold	162,449	(1,288)	161,161	155,837
Gross profit	60,131	1,288	61,419	55,749
Depreciation and amortization	7,649	1,326	8,975	7,951
Operating income	4,563	(38)	4,525	2,561
Income taxes	1,317	(14)	1,303	318
Net income	2,241	(24)	2,217	319
Basic earnings per share	$ 0.14	($ 0.01)	$ 0.13	$ 0.02
Diluted earnings per share	$ 0.13	$ 0.00	$ 0.13	$ 0.02

	Twenty-Six Weeks Ended July 31, 2004			Twenty-Six
	As Previously Reported	Adjustment	As Restated	As Previously Reported
CONSOLIDATED STATEMENTS CASH FLOWS				
Net Income	2,241	(24)	2,217	319
Depreciation and amortization	7,649	1,326	8,975	8,055
Changes in certain other assets and liabilities	(3,289)	(255)	(3,544)	393
Net cash used in operating activities	6,505	1,035	7,540	(9,192)
Capital expenditures	(4,352)	(1,035)	(5,387)	(3,507)
Net cash used in investing activities	(4,339)	(1,035)	(5,374)	(3,488)

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

The following Management's Discussion & Analysis gives effect to the restatement discussed in Note 13 to the Condensed Consolidated Financial Statements.

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 or 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, 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 the 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, shareholders and prospective investors are cautioned not to place undue reliance on such forward-looking statements. We disclaim any obligation to update any such factors or to publicly announce the results of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

GENERAL

We were founded in 1917 and currently operate 202 retail bookstores, including 164 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.

RESTATEMENT OF FINANCIAL STATEMENTS

Following a review of its lease-related accounting policies, the Company's management has determined that it was appropriate to adjust its prior financial statements to correct certain errors contained in those financial statements relating to the computation of depreciation, rent holidays, straight-line rent expense and the related deferred rent liability.

Historically, the Company had depreciated leasehold improvements over a period of ten years, regardless of the term of the lease for the store. When calculating the straight-line rent expense per store, the Company had previously used the store opening date as the starting date for the rent expense calculation. For certain new stores, the Company receives funding from landlords for the construction of leasehold improvements. Historically, these landlord allowances have been classified as a reduction of property and equipment on the Company's balance sheet and as a reduction in capital expenditures in the Company's statements of cash flows.

The Company corrected its depreciable life for leasehold improvements to the lesser of the economic useful life of the asset or the term of the lease. The Company has corrected the calculation to start straight-line rent expense on the date when the Company takes possession and has the right to control use of the leased premises. Also, the Company corrected its method of classification of landlord allowances. The Company will now classify landlord allowances as a deferred rent credit on the balance sheet and as an operating activity in the statement of cash flows. Funds received from the landlord intended to reimburse the Company for the cost of leasehold improvements were recorded as a deferred rent credit resulting from a lease incentive and amortized over the lease term as a reduction to rent expense. As a result, the accompanying condensed consolidated financial statements have been restated from the amounts previously reported to incorporate the effects of these policies.

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

The effects of the restatement discussed in Note 13 in the notes to the condensed consolidated financial statements. The following Management's Discussion & Analysis has been updated to give effect to the restatement.

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
	July 31, 2004 (as restated)	August 2, 2003 (as restated)	July 31, 2004 (as restated)
Net sales	100.0%	100.0%	100.0%
Gross profit	27.3%	27.8%	27.6%
Operating, selling and administrative expenses	21.7%	20.9%	21.6%
Depreciation and amortization	3.8%	4.0%	4.0%
Operating income	1.8%	2.9%	2.0%
Interest expense, net	0.4%	0.8%	0.4%
Income from continuing operations before income taxes	1.4%	2.1%	1.6%
Income tax provision	0.5%	0.8%	0.6%
Income from continuing operations	0.9%	1.3%	1.0%
Loss from discontinued operations	-	(0.1)%	-
Net income	0.9%	1.2%	1.0%

Net sales increased $1.0 million, or 0.9%, to $114.1 million in the thirteen weeks ended July 31, 2004, from $113.1 million in the thirteen weeks ended August 2, 2003. Net sales increased $11.0 million, or 5.2%, to $222.6 million in the twenty-six weeks ended July 31, 2004, from $211.6 million in the twenty-six weeks ended August 2, 2003. Comparable store sales in the thirteen weeks ended July 31, 2004 were flat when compared with the same thirteen week period for the prior year. Comparable store sales increased 3.3% for the twenty-six weeks ended July 31, 2004 due to higher sales in the book and cafe departments. The book sales increase was primarily driven by the improving economy, as well as strong sales in categories such as Fiction, Inspirational, Biography and Social Science. The cafe department sales increase was led by our new cold beverage product line of frappes as well as increased store traffic. During the thirteen weeks ended July 31, 2004, we opened one superstore and closed one traditional store.

Net sales for the retail trade segment increased $0.5 million, or 0.5%, to $112.1 million in the thirteen weeks ended July 31, 2004 from $111.6 million in the same period last year. Net sales for the retail trade segment increased $9.9 million, or 4.7%, to $218.7 million in the twenty-six weeks ended July 31, 2004 due to higher comparable store sales. Net sales for the electronic commerce segment increased $88,000, or 1.4%, to $6.4 million in the thirteen weeks ended July 31, 2004. For the twenty-six weeks ended July 31, 2004, net sales for the electronic commerce segment increased $1.2 million, or 10.4%, to $12.7 million from $11.5 million in the same period last year, related primarily to higher business to business order volume and increased search engine marketing which increased traffic on our website.

Gross profit decreased $0.3 million, or 0.9%, to $31.1 million in the thirteen weeks ended July 31, 2004 when compared with $31.4 million in the same thirteen week period for the prior year. For the twenty-six weeks ended July 31, 2004, gross profit increased $4.5 million, or 7.9%, to $61.4 million from $56.9 million in the same period last year. Gross profit as a percentage of net sales for the thirteen weeks ended July 31, 2004 was 27.3% versus 27.8% in the same period last year. The decrease in gross profit as a percent of net sales for the thirteen week period was primarily due to additional promotional activity, including a one day sale and increased summer promotions. Gross profit as a percentage of sales for the twenty-six weeks ended July 31, 2004 was 27.6% versus 26.9% in the same period last year. The increase in gross profit stated as a percent of net sales for the twenty-six week period was due to improved sales mix to higher margin departments, including cafes, and lower occupancy and warehouse distribution costs as a percentage of sales due to higher sales.

Operating, selling and administrative expenses were $24.7 million in the thirteen week period ended July 31, 2004 compared to $23.7 million in the same period last year. For the twenty-six weeks ended July 31, 2004, operating, selling and administrative expenses were $47.9 million compared to $45.2 million in the same period last year. Operating, selling and administrative expenses as a percentage of net sales for the thirteen weeks ended July 31, 2004 increased to 21.7% from 20.9% in the same period last year. Operating, selling and administrative expenses as a percentage of net sales for the twenty-six weeks ended July 31, 2004 increased to 21.6% from 21.4% in the same period last year. The increase as a percentage of sales for the thirteen week period was primarily due to advertising costs incurred for the "one day sale" this year and higher store selling costs as a percentage of sales due to the flat comparable store sales.

Depreciation and amortization was $4.3 million in the thirteen week period ended July 31, 2004 compared to $4.5 million in the same period last year. In the twenty-six week period ended July 31, 2004 depreciation and amortization decreased 1.8% to $9.0 million from $9.1 million in the same period last year.

Consolidated operating income was $2.0 million for the thirteen weeks ended July 31, 2004, compared to $3.2 million in the same period last year. For the twenty-six weeks ended July 31, 2004, consolidated operating income was $4.5 million compared to $2.5 million in the same period last year. Operating income for the retail trade segment decreased $1.5 million for the thirteen weeks ended July 31, 2004, and operating income increased $1.6 million for the twenty-six weeks ended July 31, 2004. The decrease in operating income for the thirteen week period was due to reduced profits as a result of flat comparable store sales and increased promotional activity. The increase in operating income for the twenty-six week period was due to strong profit growth driven by stronger comparable store sales. The operating profit for the electronic commerce segment increased $0.2 million and $0.3 million for the thirteen and twenty-six week periods ended July 31, 2004, respectively, compared to the same period last year. The increase in profit was due to higher sales in the business to business category and improved sales due to increased search engine marketing which increased traffic on our website.

Interest expense was $487,000 in the thirteen weeks ended July 31, 2004 versus $848,000 in the same period last year and $1.0 million in the twenty-six weeks ended July 31, 2004 versus $1.7 million in the same period last year. The decrease was primarily due to lower average debt balances compared with the prior year due to higher earnings, improved inventory management and better accounts payable leveraging.

Discontinued operations represent the closure in fiscal 2004 of four retail stores in markets located in Georgia (two stores), Louisiana and North Carolina where we do not expect another of our existing stores to absorb the closed store's customers. Information regarding discontinued operations is as follows (in thousands):

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	7/31/04	8/2/03	7/31/04	8/2/03
Sales	$ -	$ 808	$ -	$ 1,73
Pretax operating losses	-	191	-	32
Impairment losses (included above in pretax operating loss amounts)	-	106	-	11
Store closing costs (included above in pretax operating loss amounts)	-	3	-	2

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

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity are cash flows from operations, including credit terms from vendors, and borrowings under our credit facility. We have an unsecured revolving credit facility that allows borrowings up to $100 million. Our current credit facility was extended two years to July 2007 by our bank group during the second quarter of fiscal 2005. 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. As of July 31, 2004 and January 31, 2004, $11.2 million and $13.1 million, respectively, were outstanding under this credit facility. The maximum and average outstanding balances during the thirteen weeks ended July 31, 2004 were $34.4 million and $24.8 million, respectively, compared to $77.6 million and $68.7 million, respectively for the same period in the prior year. The maximum and average outstanding balances during the twenty-six weeks ended July 31, 2004 were $34.4 million and $25.3 million, respectively, compared to $77.6 million and $66.5 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 higher earnings, improved inventory management and better accounts payable leveraging. The outstanding borrowings as of July 31, 2004 had interest rates ranging from 1.86% per year to 2.88% per year. Additionally, as of July 31, 2004 and January 31, 2004, we have outstanding borrowings under an industrial revenue bond totaling $7.5 million, which is secured by certain property.

Future Commitments

The following table lists the aggregate maturities of various classes of obligations and expiration amounts of our various classes of commitments at July 31, 2004 (in thousands):

PAYMENTS DUE UNDER CONTRACTUAL OBLIGATIONS

	Total	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	Thereafter
Long-term debt-revolving credit facility	$ 11,200	$ -	$ -	$ -	$ 11,200	$ -	$ -
Long-term debt - industrial revenue bond	7,500	-	-	7,500	-	-	-
Subtotal of debt	18,700	-	-	7,500	11,200	-	-
Operating leases	112,584	14,690	26,720	21,040	17,409	12,745	19,980
Total of obligations	$ 131,284	$ 14,690	$ 26,720	$ 28,540	$ 28,609	$ 12,745	$ 19,980

Indemnification

From time to time, we enter into certain types of agreements that require us to indemnify parties against third party claims under certain circumstances. Generally these agreements relate to: (a) agreements with vendors and suppliers under which we may provide customary indemnification to our vendors and suppliers in respect of actions they take at our request or otherwise on our behalf, (b) agreements with vendors who publish books or manufacture merchandise specifically for us to indemnify the vendors against trademark and copyright infringement claims concerning the books published or merchandise manufactured on behalf of us, (c) real estate leases, under which we may agree to indemnify the lessors from claims arising from our use of the property, and (d) agreements with our directors, officers and employees, under which we may agree to indemnify such persons for liabilities arising out of their relationship with us. We have Directors and Officers Liability Insurance, which, subject to the policy's conditions, provides coverage for indemnification amounts payable by us with respect to our 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 us to perform under these indemnities are transaction and circumstance specific. Generally, our maximum liability under such indemnities is not explicitly stated, and therefore the overall maximum amount of our obligations cannot be reasonably estimated. Historically, we have not incurred significant costs related to performance under these types of indemnities. No liabilities have been recorded for these obligations on our balance sheet at July 31, 2004 and January 31, 2004 as such liabilities are considered de minimis.

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

Cash Flows

Operating activities provided (used) cash of $7.5 million and ($8.8) million in the twenty-six week periods ended July 31, 2004 and August 2, 2003, respectively, and included the following effects:

- Cash provided (used) for inventories in the twenty-six week periods ended July 31, 2004 and August 2, 2003 was $0.7 million and ($3.5) million, respectively. The smaller usage in the current period was primarily due to higher sales and improved inventory management versus last year.

- Cash used for accounts payable in the twenty-six week periods ended July 31, 2004 and August 2, 2003 was $0.7 million and $15.2 million, respectively. This change was due to improved leveraging of accounts payable with vendors in the first twenty-six weeks of fiscal 2005.

- Depreciation and amortization expenses were $9.0 million and $9.2 million in the twenty-six week periods ended July 31, 2004 and August 2, 2003, respectively.

Cash flows used in investing activities reflected a $5.4 million and $3.9 million net use of cash for the twenty-six week periods ended July 31, 2004 and August 2, 2003, respectively. Cash was used primarily to fund capital expenditures for new store openings, store relocations, renovation and improvements to existing stores, and investments in management information systems.

Financing activities provided (used) cash of ($2.1) million and $12.9 million in the twenty-six week periods ended July 31, 2004 and August 2, 2003, respectively, principally from net borrowings (repayments) under the revolving credit facility. The reduced borrowings under the credit facility during fiscal 2005 were due to the improved cash flows from operating activities.

OUTLOOK

For the twenty-six weeks ended July 31, 2004, we have opened one store, closed one store, relocated two stores and remodeled sixteen stores. For the remainder of fiscal 2005, we expect to open five to seven stores, complete remodels on approximately ten to fifteen stores, and close one to three stores. Our capital expenditures totaled $5.4 million in the twenty-six week period ended July 31, 2004. Management estimates that capital expenditures for the remainder of fiscal 2005 will be approximately $10.4 million and that such amounts will be used primarily for new stores and relocations, renovation and improvements to existing stores, upgrades and expansion of warehouse distribution facilities, and investments in management information systems. Management believes that existing cash balances and net cash from operating activities, together with borrowings under our credit facilities, will be adequate to finance our planned capital expenditures and to meet our working capital requirements for the remainder of fiscal 2005.

RELATED PARTY ACTIVITIES

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

We purchase a substantial portion of our magazines as well as certain of our seasonal music and newspapers from Anderson Media Corporation ("Anderson Media"), an affiliate through common ownership. During the twenty-six weeks ended July 31, 2004 and August 2, 2003, purchases of these items from Anderson Media totaled $15,937,000 and $17,288,000, respectively. We purchase certain of our collectibles and books from Anderson Press, Inc. ("Anderson Press"), an affiliate through common ownership. During the twenty-six weeks ended July 31, 2004 and August 2, 2003, such purchases from Anderson Press totaled $224,000 and $425,000, respectively. We purchase certain of our 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 31, 2004 and August 2, 2003 were $230,000 and $87,000, respectively. We purchase certain magazine subscriptions from Magazines.com, an affiliate through common ownership. During the twenty-six weeks ended July 31, 2004 and August 2, 2003, purchases of these items were $37,000 and $42,000, respectively. We purchase content for publication from Publication Marketing Corporation, an affiliate through common ownership. During the twenty-six weeks ended July 31, 2004 and August 2, 2003, purchases of these items were $24,000 and $36,000,

respectively. We utilize 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 $322,000 and $449,000 during the twenty-six weeks ended July 31, 2004 and August 2, 2003, respectively. These amounts paid to Anco Far East primarily included the actual cost of the product, as well as duty, freight and 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 $23,000 and $31,000, respectively.

We sold books to (received returns from) Anderson Media in the amounts of ($32,000) and $153,000 during the twenty-six weeks ended July 31, 2004 and August 2, 2003, respectively. During the twenty-six weeks ended July 31, 2004 and August 2, 2003, we provided $47,000 and $129,000, respectively, of internet services to Magazines.com. During the twenty-six weeks ended July 31, 2004 and August 2, 2003, we provided $54,000 and $35,000, respectively, of internet services to American Promotional Events.

We lease our principal executive offices from a trust, which was established for the benefit of the grandchildren of Mr. Charles C. Anderson, a member of the Board of Directors. The lease extends to January 31, 2006. During the twenty-six weeks ended July 31, 2004 and August 2, 2003, we paid rent of $69,000 in each period to the trust under this lease. Anderson & Anderson LLC ("A&A"), which is an affiliate through common ownership, also leases three buildings to us. During the twenty-six weeks ended July 31, 2004 and August 2, 2003, we paid A&A a total of $220,000 and $231,000, respectively, in connection with such leases. Total minimum future rental payments under all of these leases are $206,000 at July 31, 2004. We sublease certain property to Hibbett Sporting Goods, Inc. ("Hibbett"), a sporting goods retailer in the southeastern United States. Our Executive Chairman, Clyde B. Anderson, is a member of Hibbett's board of directors. During the twenty-six weeks ended July 31, 2004 and August 2, 2003, we received $95,000 in rent payments from Hibbett.

The Company shares ownership of a plane, which the Company uses in the operations of its business, with an affiliated company. The Company rents the plane to affiliated companies at rates that cover all the variable cost and a portion of the fixed cost. The total amounts received from affiliated companies for use of the plane during the twenty-six weeks ended July 31, 2004 and August 2, 2003, was $130,000 and $335,000, respectively.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to interest rate fluctuations involving our credit facilities and debt related to the Bond. The average amount of debt outstanding under our credit facilities was $57.5 million during fiscal 2004. However, we utilize both fixed and variable debt to manage this exposure. We entered into two separate $10 million swaps on July 24, 2002. Both expire August 2005 and effectively fix the interest rate on an aggregate of $20 million of variable rate debt at 5.13% per year. Also, on May 14, 1996, we entered into an interest rate swap agreement, with a ten- year term, which carries a notional principal amount of $7.5 million. The swap effectively fixes the interest rate on the Bond at 7.98% per year. The swap agreement expires on June 7, 2006. The counter parties to the interest rate swaps are parties to our revolving credit facilities. We believe the credit and liquidity risk of the counter parties failing to meet their obligations is remote as we settle our interest position with the banks on a quarterly basis.

To illustrate the sensitivity of the results of operations to changes in interest rates on its debt, we estimate that a 66% increase in LIBOR rates would increase interest expense by approximately $11,000 for the thirteen weeks ended July 31, 2004. Likewise, a 66% decrease in LIBOR rates would decrease interest expense by $11,000 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.

CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the fiscal quarter covered by this amended report. In performing this evaluation, in light of the pronouncement of February 7, 2005 by the Office of the Chief Accountant of the SEC in a letter to the AICPA, management focused on our lease accounting policies. Specifically, as further discussed in Note 13 to the accompanying condensed consolidated financial statements, we determined that: (i) our practice of depreciating leasehold improvements over a period of ten years was incorrect, which we corrected by changing the depreciable life for leasehold improvements to the lesser of the economic useful life of the asset or the term of the lease; (ii) our practice of using the store opening date as the starting date for the rent expense calculation was incorrect, which we corrected by changing the calculation of leasehold expense so that straight-line rent expense begins on the date we take possession and have the right to control use of the leased premises; and (iii) our practice of classifying landlord allowances as a reduction of property and equipment on our balance sheet and as a reduction in capital expenditures in our statements of cash flows was incorrect, which we corrected by changing our method of classification so that landlord allowances are classified as a deferred rent credit on our balance sheet and as an operating activity in our statement of cash flows. Funds received from the landlord intended to reimburse the Company for the cost of leasehold improvements will be recorded as a deferred rent credit resulting from a lease incentive and amortized over the lease term as a reduction to rent expense.

Further, after consulting with the Audit Committee and our independent certified public accountants we determined to restate our financial statements for each of the three years in the period ended January 31, 2004 and for the first three quarters of fiscal 2005 and to file a Form 10-K/A amending our Annual Report on Form 10-K for our fiscal year ended January 31, 2004 with restated consolidated financial statements and Forms 10-Q/A amending our interim condensed consolidated financial statements for the first three quarters of fiscal 2005. The restatement is further discussed in "Explanatory Note" in the forepart of this Form 10-Q/A and in Note 13, "Restatement of Financial Statements," to the accompanying condensed consolidated financial statements. We do not consider the impact of correcting the previously issued financial statements to be material with respect to any individual reporting period.

Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Quarterly Report, the Company's disclosure controls and procedures were effective at the reasonable assurance level. In concluding that our disclosure controls and procedures were effective as of July 31, 2004, our management considered, among other things, the circumstances that resulted in the restatement of our previously issued financial statements. We also considered the materiality of the restatement adjustments on our consolidated balance sheet and statement of operations (as more fully set forth in Note 11, "Restatement of Financial Statements," to the accompanying condensed consolidated financial statements) and that these non-cash adjustments have no effect on historical or future cash flows or the timing of payments under our operating leases.

There was no change in the Company's internal controls over financial reporting during the Company's fiscal quarter covered by this amended report that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. However, as a result of the review of our lease accounting policies described above, during the first quarter of fiscal 2006 we made changes in internal controls over financial reporting to implement additional review processes over our leasing arrangements to ensure the collection and

communication of information necessary for the proper accounting for each lease in accordance with generally accepted accounting principles. The Company implemented the following accounting changes: (i) we changed depreciable life for leasehold improvements to the lesser of the economic useful life of the asset or the term of the lease, (ii) we changed the calculation to start straight-line rent expense on the date when the Company takes possession and has the right to control use of the leased premises, and (iii) we changed our method of classification of landlord allowances. As explained above, the Company will now classify landlord allowances as a deferred rent credit on the balance sheet and as an operating activity in the statement of cash flows. Funds received from the landlord intended to reimburse the Company for the cost of leasehold improvements will be recorded as a deferred rent credit resulting from a lease incentive and amortized over the lease term as a reduction to rent expense. Management believes that these control changes have fully remediated the issues described above.

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II - OTHER INFORMATION

ITEM 1: Legal Proceedings

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

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:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number Shares that May Be Purchased Un the Program at of Period
3/17/2004 to 4/3/2004	54,400	$6.3416	54,400	1,592,224
4/4/2004 to 5/1/2004	30,300	$6.5535	30,300	1,561,924
5/2/2004 to 7/31/2004	-	-	-	1,561,924
Total	84,700	$6.4174	84,700	

ITEM 3: Defaults Upon Senior Securities

None

ITEM 4: Submission of Matters of Vote of Security Holders

None

ITEM 5: Other Information

None

ITEM 6: Exhibits and Reports on Form 8-K

Exhibits

Exhibit 3(i) 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 (Registration No. 33-52256)

Exhibit 3(ii) 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 (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, as amended.

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, as amended.

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, as amended.

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, as amended.

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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, as amended.

Exhibit 32.3 Certification of Richard S. Wallington, Chief Financial Officer of Books-A-Million, Inc., pursuant to 18 U.S.C. Section 1350, as amended.

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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: April 28, 2005	by: /s/ Clyde B. Anderson
	Clyde B. Anderson Executive Chairman of the Board
Date: April 28, 2005	by: /s/ Richard S. Wallington
	Richard S. Wallington Chief Financial Officer
Date: April 28, 2005	by: /s/ Sandra B. Cochran
	Sandra B. Cochran President and Chief Executive Officer

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