

BOOKS A MILLION INC  
Form 10-K  
April 18, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended February 1, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 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)  
**Registrant's telephone number, including area code: (205) 942-3737**

**35211**  
(Zip Code)

**Securities registered pursuant to Section 12(b) of the Act:**

**Common Stock, par value \$.01 per share**

(Title of Class)

**Securities registered pursuant to Section 12(g) of the Act:**

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K .

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

Large Accelerated Filer  Accelerated Filer   
Non-Accelerated Filer  (Do not check if a smaller reporting company) Smaller Reporting Company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of the voting stock held by non-affiliates of the Registrant (assuming for these purposes, but without conceding, that all executive officers and directors are affiliates of the Registrant) as of August 3, 2013 (based on the closing sale price as reported on the NASDAQ Stock Market on August 2, 2013, the last trading day preceding such date), was \$15.2 million.

The number of shares outstanding of the Registrant's Common Stock as of April 16, 2014 was 15,692,517.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on May 30, 2014 are incorporated by reference into Part III of this report.

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*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 the actual results, performance or achievements of Books-A-Million, Inc. (the Company) or the results of its industry 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 the Company's specific market areas; inflation or deflation; economic conditions in general and in the Company's specific market areas; the number of store openings and closings; the profitability of certain product lines, capital expenditure and future liquidity; liability and other claims asserted against the Company; the impact of electronic books and e-content; uncertainties related to the internet and the Company's internet operations; the successful development of the properties held by the Company in connection with the Company's real estate development and management segment; the Company's ability to lease the properties; the factors described in ITEM 1A. RISK FACTORS herein; and other factors referenced herein. In addition, such forward-looking statements are necessarily dependent upon 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. The Company disclaims 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.*

**PART I****ITEM 1. BUSINESS****General**

Books-A-Million, Inc. is a leading book retailer primarily located in the eastern United States and operates both superstores and traditional bookstores. Superstores, the first of which was opened in 1987, range in size from 8,000 to 39,000 square feet and operate under the names Books-A-Million, BAM!, Books and Card Services, and Card Services. Traditional bookstores are smaller stores operated under the names Bookland, Books-A-Million and BAM!. These stores range in size from 2,000 to 10,000 square feet and are located primarily in enclosed malls. All store formats generally offer an extensive selection of best sellers and other hardcover and paperback books, magazines, toys, games, electronics and gifts. In addition to these retail store formats, we offer our products over the internet at Booksamillion.com. Our retail operations also include the operation of Yogurt Mountain Holding, LLC, a retailer and franchisor of self-serve frozen yogurt stores. We also develop and manage commercial real estate investments through our subsidiary Preferred Growth Properties, LLC.

We were founded in 1917, originally incorporated under the laws of the State of Alabama in 1964 and reincorporated in Delaware in September 1992. Our principal executive offices are located at 402 Industrial Lane, Birmingham, Alabama 35211, and our telephone number is (205) 942-3737. Unless the context otherwise requires, references to we, our, us or the Company include our consolidated subsidiaries, American Wholesale Book Company, Inc. (American Wholesale), booksamillion.com, inc., BAM Card Services, LLC, Preferred Growth Properties, LLC (PGP), PGP Florence, LLC, PGP Gardendale, LLC, and Pickering Partners, LLC and Yogurt Mountain Holding, LLC.

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Our periodic and current reports filed with the Securities and Exchange Commission ( SEC ) are made available on our website at [www.booksamillioninc.com](http://www.booksamillioninc.com) as soon as reasonably practicable. Our code of conduct and key committee charters are also available on our website. These reports are available free of charge to stockholders upon written request. Such requests should be directed to R. Todd Noden, our Executive Vice President and Chief Financial Officer. You may read and copy any materials we file with the SEC at the SEC's Public

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Reference Room at 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC, including us, at <http://www.sec.gov>.

## **Business Segments**

We have three reportable operating segments: retail trade; electronic commerce trade; and real estate development and management. In the retail trade segment, we are primarily engaged in the retail sale of books, magazines and general merchandise, including gifts, cards, games, toys, collectibles, music, DVDs, electronic devices and accessories at our retail stores. The retail trade segment includes our distribution center operations, which predominantly supply merchandise to our retail stores. In the electronic commerce trade segment, we are engaged in the retail sale of books and general merchandise over the internet. This segment is managed separately due to divergent technology and marketing requirements. The real estate development and management segment is managed separately from the retail trade and electronic commerce trade segments, with a focus on deriving revenues through developing and leasing commercial retail real estate for purposes of earning rental income. For additional information on our reportable business segments, see Note 9, Business Segments, in the Notes to Consolidated Financial Statements, contained herein.

## **Retail Stores**

We developed superstores to capitalize on the growing consumer demand for the convenience, selection and value associated with the superstore retailing format. Each superstore is designed to be a receptive and open environment conducive to browsing, reading and shopping and includes ample space for promotional events open to the public, including book autograph sessions and children's storytelling. We operated 200 superstores as of February 1, 2014.

Our superstores emphasize selection, value and customer service. Each of our superstores offers an extensive selection of books, magazines and general merchandise, including gifts, cards, games, toys, collectibles, music, DVDs, electronic devices and accessories. Each superstore has a service center staffed with associates who are knowledgeable about the store's merchandise and who are trained to answer customers' questions, assist customers in locating books within the store and placing special orders. The majority of our superstores also include either a Joe Muggs café, serving Joe Muggs coffee and assorted pastries and other edible items, or a Yogurt Mountain, serving frozen yogurt with self-serve toppings. Our superstores are conveniently located on major, high-traffic roads and in enclosed malls or strip shopping centers with adequate parking and generally operate for extended hours up to 11:00 p.m. local time.

Our traditional stores are tailored to the size, demographics and competitive conditions of the particular market area. Traditional stores are located primarily in enclosed malls and generally feature a wide selection of books, magazines, gifts and other products. We had 61 traditional stores as of February 1, 2014.

## **Merchandising**

We employ several value-oriented merchandising strategies. Books on our best-seller list, which list is developed by us based on the sales and customer demand in our stores, are generally sold in the Company's superstores at or below publishers' suggested retail prices. In addition, customers can join the Millionaire's Club, which is a loyalty program for our customers, and save a minimum of 10% on almost all purchases in any of our retail stores, including already discounted best-sellers. Our point-of-sale computer system provides data designed to enable us to anticipate consumer

demand and customize store inventory selection to reflect local customer interest.

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**Marketing**

We promote our bookstores principally through the use of traditional direct mail, e-mail and online advertising, as well as point-of-sale materials posted and distributed in our stores. In certain markets, radio and newspaper advertising is also used on a selective basis. We also arrange for special appearances and book autograph sessions with recognized authors to attract customers and to build and reinforce customer awareness of our stores. A substantial portion of our advertising expenses are reimbursed from publishers through their cooperative advertising programs.

**Store Operations and Site Selection**

In choosing specific store sites within a market area, we apply standardized site selection criteria that take into account numerous factors, including the local demographics, desirability of available leasing arrangements, proximity to our existing stores and stores of our competitors and overall level of retail activity. In general, stores are located on major high-traffic roads convenient to customers and have adequate parking. We generally negotiate short-term leases with renewal options. We also periodically review the profitability trends and prospects of each of our stores and evaluate whether any underperforming stores should be closed, converted to a different format or relocated to more desirable locations.

**Internet Operations**

On *Booksamillion.com*, we sell a wide selection of books, magazines and general merchandise, including gifts, cards, games, toys, collectibles, music, DVDs, electronic devices and accessories and other products similar to those sold in our superstores. Our internet operations also include bulk sales to businesses. Our internet business operates in a highly competitive environment. We believe that the principal competitive factors for our internet business include selection, price and convenience, including fast and reliable fulfillment. We therefore continually evaluate these areas of the business to ensure we are remaining competitive within the marketplace.

**Real Estate Development and Management Operations**

The real estate development and management segment of our business is focused on developing and leasing commercial real estate properties in order to generate rental income. The success of this segment is dependent on our ability to identify undervalued properties for acquisition and successfully develop these properties in order to maximize their value. Additionally, we manage our own properties, which enables us to better control our operating expenses and establish and maintain long-term relationships with our tenants. As of February 1, 2014, we owned two commercial real estate properties. At that time, our property in Florence, Alabama was fully operational and our property in Gardendale was partially operational and under development.

**Purchasing**

Our merchandise purchasing decisions are made by our merchandising department on a centralized basis. Our buyers negotiate terms, discounts and cooperative advertising allowances for all of our bookstores and decide which products to purchase, in what quantity and for which stores. The buyers use current inventory and sales information provided by our in-store point-of-sale computer system to make reorder decisions.

We purchase merchandise from over 3,000 vendors. We purchase the majority of our collectors' supplies from Anderson Press, Inc. and substantially all of our magazines from Anderson Media Corporation, each of which is a related party. See Note 7, Related Party Transactions, in the Notes to Consolidated Financial Statements, contained herein. No one vendor accounted for over 10.0% of our overall merchandise purchases in the fiscal year ended February 1, 2014. In general, 74.0% of our inventory may be returned to the vendors for credit, which substantially reduces our risk of inventory obsolescence.

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**Distribution Capabilities**

Our subsidiary, American Wholesale, receives a substantial portion of our inventory shipments, including substantially all of our books, at its two facilities located in Florence, Alabama and Tusculumbia, Alabama. Orders from our bookstores are processed by computer and assembled for delivery to our stores on pre-determined weekly schedules. Substantially all deliveries of inventory from American Wholesale's facilities are made by a dedicated transportation fleet. At the time deliveries are made to each of our stores, returns of slow moving or obsolete products are picked up and returned to the American Wholesale returns processing center. American Wholesale then returns these products to vendors for credit, if credit is available.

**Competition**

The retail book business is highly competitive, and competition within the industry is fragmented. We face direct competition from other superstores, such as Barnes & Noble, and we also face competition from mass merchandisers, such as Wal-Mart and Costco, and online retailers, such as Amazon.com, Barnes & Noble and Wal-Mart. Our bookstores also compete with specialty retail stores that offer books in particular subject areas, independent single store operators, variety discounters, drug stores, warehouse clubs, mail order clubs and other retailers offering books. In addition, our bookstores face additional competition from the market for electronic books and may face competition from other categories of retailers entering the retail book market. We believe that the key competitive factors in the retail book industry are convenience of location, selection, customer service, price and ease of access to content.

Our internet operations also face competition from online retailers such as Amazon.com, Barnes & Noble and Wal-Mart, as well as online marketplaces. The competition within this segment is largely based on price and availability of products. Many of our current and potential competitors for our internet operations have greater resources, longer histories, more customers and greater brand recognition than we do. They may secure better terms from suppliers, adopt more aggressive pricing, and devote more resources to technology, infrastructure, fulfillment and marketing. Other companies also may enter into business combinations or alliances that strengthen their competitive positions.

**Seasonality**

Similar to many retailers, our business is seasonal, with the highest retail sales, gross profit and net income historically occurring in our fourth fiscal quarter. This seasonal pattern reflects the increased demand for books and gifts during the year-end holiday selling season. Working capital requirements are generally at their highest during the third fiscal quarter and the early part of the fourth fiscal quarter due to the seasonality of our business. As a result, our results of operations depend significantly upon net sales generated during the fourth fiscal quarter, and any significant adverse trend in the net sales of such period would likely have a material adverse effect on our results of operations for the full year. In addition to seasonality, our results of operations may fluctuate from quarter to quarter as a result of the amount and timing of sales and profits contributed by new stores as well as other factors. Accordingly, the addition of a large number of new stores in a particular fiscal quarter could adversely affect our results of operations for that quarter.

**Trademarks**

The primary trademarks of the Company are: Books-A-Million, BAM!, BAM! Books-A-Million, Bookland, Bookland Co., and Charles, Books are Just the Beginning, Millionaire's Club, Sweet Water Press, Thanks-A-Million, U

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Night Reader, Read & Save Rebate, Readables Accessories for Readers, Kids-A-Million, Toys-A-Million, Teach  
First, The Write Price, Bambeanos, Hold That Thought, Book\$mart, BAMB, BAMB.com, BOOKSAMILLION  
BAM.com BOOKSAMILLION.COM, Chillatte, Joe Muggs Newsstand, Page Pets, JOEMUGGS.com,  
FAITHPOINT, Joe Muggs, Snow Joe, Summer Says, On the John University, OTJU, American Wholesale  
Company, AWBC and NetCentral.

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**Employees**

As of February 1, 2014, we employed approximately 2,300 full-time associates and 3,100 part-time associates. The number of part-time associates employed fluctuates based upon seasonal needs. None of our associates is covered by a collective bargaining agreement. We believe that relations with our associates are good.

**ITEM 1A. RISK FACTORS**

The following risk factors and other information included in this Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks occur, our business, financial condition, operating results and cash flows could be materially adversely affected.

*There can be no assurance that we will be successful in implementing our business strategy.*

Our future results will depend, among other things, on our success in implementing our business strategy. There can be no assurance that we will be successful in implementing our business strategy or that the strategy will be successful in sustaining acceptable levels of sales growth and profitability.

*Intense competition from traditional retail sources and the internet may adversely affect our business.*

The retail book business is highly competitive, and competition within the industry is fragmented. We face direct competition from other superstores, such as Barnes & Noble, and we also face competition from mass merchandisers, such as Wal-Mart and Costco, and online retailers, such as Amazon.com, Barnes & Noble and Wal-Mart. Our bookstores also compete with specialty retail stores that offer books in particular subject areas, independent single store operators, variety discounters, drug stores, warehouse clubs, mail order clubs and other retailers offering books. In addition, our bookstores face additional and growing competition from the expanding market for electronic books and other e-content and may face competition from other categories of retailers entering the retail book market.

Many of our current and potential competitors have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, marketing and other resources than we have. They may be able to secure merchandise from vendors on more favorable terms and may be able to adopt more aggressive pricing policies. Competitors in both the retail and electronic commerce trade also may be able to devote more resources to technology development, fulfillment and marketing than we are.

Competition in electronic commerce trade may further intensify. The online market is rapidly evolving and intensely competitive, with few barriers to entry. Companies in the retail and electronic commerce trade may enter into business combinations or alliances that strengthen their competitive positions. This increased competition may reduce our sales or operating profits, or both.

*Our business is highly seasonal.*

Our business is highly seasonal, with sales and earnings generally highest in the fourth fiscal quarter and lowest in the first fiscal quarter. Our results of operations depend significantly upon the holiday selling season in the fourth fiscal quarter. During the fiscal year ended February 1, 2014, approximately 33.6% of our sales were generated in the fourth

fiscal quarter. If we do not stock popular products in sufficient amounts, or if we fail to have sources to timely restock popular products during the busy holiday period such that we fail to meet customer demand, our revenue, our earnings and our future growth could be significantly impacted. In addition, if we experience less than satisfactory net sales during a fourth fiscal quarter, we may not be able to sufficiently compensate for any losses that may have been incurred during the first three quarters of that fiscal year.

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*Our business has been and may continue to be adversely affected by economic conditions.*

The Company believes that the United States and global economies recovery is moderate and that the overall economic environment continues to be challenging. As this situation persists, the Company believes that these conditions have had and may continue to have an adverse impact on spending by the Company's current retail customer base and potential new customers. Because of these significant challenges, we are continuously reviewing and adjusting our business activities to address the changing economic environment. We are carefully managing our inventory and liquidity and enforcing expense controls while working diligently and prudently to grow our business. However, our business and financial performance may be adversely affected by current and future economic conditions that cause a decline in business and consumer spending, including reduced availability of credit, increased unemployment levels, increased health care costs, higher energy and fuel costs, rising interest rates, high household debt costs, financial market volatility and long-term economic downturn. These conditions could have a negative impact on the earnings, liquidity and capital resources of the Company.

Recent economic conditions have accentuated these risks and magnified their potential effect on us and our business. Economic uncertainty and difficult conditions in the capital and credit markets may affect our business in a number of ways. For example:

Economic uncertainty could have a significant adverse impact on consumer confidence and discretionary consumer spending, which may result in decreased sales and earnings for us.

Although we believe that we have sufficient liquidity under our credit agreement to run our business and to provide for our plans for growth, under depressed economic or extreme market conditions, there can be no assurance that such funds would be available or sufficient, and, in such a case, we may not be able to successfully obtain additional debt financing on favorable terms, or at all.

Secular market volatility due to the uncertainty of traditional retail of books has exerted downward pressure on our stock price, which may make it more difficult for us to raise additional capital in the future.

*Failure to continue to open new stores, successfully integrate new stores and manage the effects of the Company's expansion strategy could adversely affect our business.*

The Company's growth depends in part on our ability to expand by opening new stores and operating them profitably. In general, the rate of expansion depends, among other things, on general economic and business conditions affecting consumer confidence and spending, the availability of desired locations and qualified management personnel, the negotiation of acceptable lease terms and the ability to manage the operational aspects of growth. It also depends upon the availability of adequate capital, which in turn depends in large part upon cash flow generated by the Company. If stores are opened more slowly than expected (or not at all) based on any of these factors, our growth may decline, and our operating results may be adversely affected.

The Company opened 14 new stores during the 2014 fiscal year. There can be no assurance that we will be able to integrate these new stores successfully, which could have a negative impact on the earnings, liquidity and capital resources of the Company.

Sales at new stores may reach targeted levels more slowly than expected (or fail to reach targeted levels), and related overhead costs may increase in excess of expected levels. The Company may open new stores in certain markets in which the Company is already operating stores, which could adversely affect sales at those existing stores. Furthermore, the Company's expansion strategy could place a significant strain on our management, operations, technical performance, financial resources and internal financial control and reporting functions, and there can be no assurance that the Company will be able to manage this effectively. The Company's current and planned personnel, systems, procedures and controls may not be adequate to support and effectively manage our future operations, especially as the Company employs personnel in multiple geographic locations. The Company may not be able to hire, train, retain, motivate and manage required personnel, which may limit our growth. If

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any of this were to occur, it could damage the Company's reputation, limit growth, negatively affect operating results and harm the Company's business.

*Our business is dependent upon consumer spending patterns.*

Sales of books generally depend upon discretionary consumer spending, which may be affected by general economic conditions, consumer confidence and other factors beyond our control. Weather, among other things, can affect comparable store sales, because inclement weather can require us to close certain stores temporarily and thus reduce store traffic. Even if stores are not closed, customers may decide to avoid going to stores in bad weather. In addition, sales are dependent in part on the strength of new release titles offered by vendors and special promotions, which factors are not within the Company's control. A decline in consumer spending on books based on any of these factors could have a material adverse effect on our financial condition and results of operations.

*The Company faces risks relating to the shift in consumer spending patterns to e-content.*

As technology evolves and consumers shift spending patterns to e-content, the Company may continue to enter new markets in which we have limited experience. The offering of e-content may present new and difficult challenges. The Company's gross margin of e-content products may be lower than our traditional product lines, and the Company may not recover our investments in this area. We may face greater competition from companies who have greater financial resources available to become more engaged in the distribution of e-content or who develop or control certain technologies related to the distribution of e-content. These challenges may negatively affect the Company's operating results.

*The Company faces risks as an internet retailer.*

As an internet retailer, we are subject to risks associated with the need to keep pace with rapid technological change, risks associated with the timing and adoption of new digital products or platforms, internet security risks, risks of system failure or inadequacy, supply chain risks, governmental regulation and uncertainties with respect to the internet and digital content, risks related to data privacy and collection of sales or other taxes. If any of these risks materializes, it could have an adverse effect on our operating results.

*Within our real estate development and management segment, we may be unable to lease space at our new properties or renew leases or re-lease space at our existing properties, which could adversely affect our financial condition and results of operations.*

We derive the majority of our income in our real estate development and management segment from tenants who lease space from us at our properties. A number of factors may adversely affect our ability to attract tenants at favorable rental rates and generate sufficient income, including:

the attractiveness of our properties to shoppers and tenants;

decreases in market rental rates; and

our ability to collect rent from our tenants.

As leases expire at our existing properties, tenants may elect not to renew them. Even if our tenants do renew or if we can re-lease the space, the terms of renewal or re-leasing, including the cost of required renovations, may be less favorable than current lease terms. In addition, for new properties, we may be unable to attract enough tenants, or the occupancy rates and rents may not be sufficient to make the property profitable. Moreover, continued weakness in the economy or a future recession may impede the ability of our tenants to perform their contractual obligations, which could lead to an increase in defaults by tenants. If we are unable to renew the leases or re-lease the space at our existing properties promptly and/or lease the space at our new properties, or if

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the rental rates upon renewal or re-leasing at existing properties are significantly lower than expected rates, or if there is an increase in tenant defaults, our financial condition and results of operations could be adversely affected.

*We may be unable to develop new properties or redevelop existing properties successfully, which could adversely affect our results of operations due to unexpected costs, delays and other contingencies.*

As part of our operating strategy for the real estate development and management segment, we intend to continue to develop new properties and to expand and/or redevelop existing properties as market conditions warrant. In addition to the risks associated with real estate investments in general, there are significant risks associated with development activities, including the following:

we may be unable to obtain, or face delays in obtaining, necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations, which could result in increased development costs and/or lower than expected leases;

we may incur development costs for a property that exceed original estimates due to increased materials, labor or other costs, changes in development plans or unforeseen environmental conditions, which could make completion of the property more costly or uneconomical;

land, insurance and construction costs may be higher than expected in our markets; therefore, we may be unable to attract rents that compensate for these increases in costs;

we may abandon development opportunities that we have already begun to explore, and we may fail to recover expenses already incurred in connection with exploring any such opportunities;

rental rates and occupancy levels may be lower than anticipated;

changes in applicable zoning and land use laws may require us to abandon projects prior to their completion, resulting in the loss of development costs incurred up to the time of abandonment; and

possible delays in completion because of construction delays, delays in the receipt of zoning, occupancy and other approvals, or other factors outside of our control.

*The illiquidity of real estate investments may significantly impede our ability to respond to changes in economic or market conditions, which could adversely affect our results of operations or financial condition.*

Real estate investments are relatively illiquid generally, and may become even more illiquid during periods of economic downturn. As a result, we may not be able to sell a property or properties quickly or on favorable terms in response to changes in the economy or other conditions when it otherwise may be prudent to do so. This inability to

respond quickly to changes in the performance of our properties could adversely affect our results of operations if we cannot sell an unprofitable property.

*The Company's costs of doing business could increase as a result of changes in federal, state or local laws or regulations.*

Changes in federal, state or local laws or regulations, including, but not limited to, laws related to employment, wages, data privacy and information security, taxes and consumer products, could increase the Company's costs of doing business or otherwise negatively impact our operating results.

*Our business may be affected by our relationships with suppliers and delays in product shipments.*

We rely heavily upon our suppliers to provide us with new products as quickly as possible. The loss of any of our suppliers could reduce our product offerings, which could cause us to be at a competitive disadvantage. In addition, we depend upon the business terms that we can obtain from suppliers, including competitive prices,

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unsold product return policies, new release title quantity allocations, advertising and market development allowances, freight charges and payment terms. Our failure to maintain favorable business terms with our suppliers could adversely affect our ability to offer products to consumers at competitive prices. As suppliers merge and consolidate our ability to negotiate favorable prices and terms may decline. To the extent that our suppliers rely on overseas sources for a large portion of their products, any event causing a disruption of imports, including the imposition of import restrictions in the form of tariffs or quotas and currency fluctuations, could hurt our business.

*Our vendor relationships subject us to a number of risks, and we rely on certain vendors that are related parties.*

Although we purchase merchandise from over 3,000 vendors, and no one vendor accounted for more than 10% of our inventory purchases in the fiscal year ended February 1, 2014, we have significant vendors that are important to us. If our current vendors were to stop selling merchandise to us on acceptable terms, we may not be able to acquire merchandise from other suppliers in a timely and efficient manner and on acceptable terms. We have entered into and may, in the future, enter into various transactions and agreements with entities wholly or partially owned by certain stockholders or directors (including certain officers) of the Company, including one such entity that serves as our primary magazine vendor and another that serves as our primary provider of collectors' supplies, as further described in Note 7, Related Party Transactions, in the Notes to Consolidated Financial Statements, contained herein. We believe that the transactions and agreements that we have entered into with related parties are on terms that are at least as favorable to us as could reasonably have been obtained at such time from unrelated third parties.

*The concentration of the Company's capital stock ownership with certain executive officers, directors and their affiliates may limit other stockholders' ability to influence corporate matters and may involve other risks.*

The Executive Chairman of the Company's Board of Directors, Clyde B. Anderson, and his brother, Terry C. Anderson, who is a director of the Company, together with their family members and affiliates, were the beneficial owners of an aggregate of approximately 55.5% of the Company's outstanding common stock as of April 7, 2014. This concentrated ownership may limit the ability of the Company's other stockholders to influence corporate matters, and, as a result, the Company may take actions with which our other stockholders do not agree. In addition, there may be risks related to the relationships that members of the Anderson family have with the various entities with which the Company has related party transactions.

*If we do not successfully optimize inventory and manage our distribution, our business could be harmed.*

If we do not successfully optimize our inventory and operate our distribution centers, it could significantly limit our ability to meet customer demand. Because it is difficult to predict demand, we may not manage our facilities in an optimal way, which may result in excess or insufficient inventory or warehousing, fulfillment or distribution capacity. Additionally, if we open new stores in new geographic areas where we do not currently have a presence, we may not be able to provide those stores with efficient distribution and fulfillment services, which may impact our stores in those markets. We may be unable to adequately staff our fulfillment and customer service centers to meet customer demand. There can be no assurance that we will be able to operate our network effectively.

We rely heavily on the American Wholesale warehouse distribution facilities for merchandise distribution functions and to maintain inventory stock for our retail stores. Our ability to distribute merchandise to our stores and maintain adequate inventory levels may be materially impacted by any damage incurred at our warehouse facilities caused by inclement weather, fire, flood, power loss, earthquakes, acts of war or terrorism, acts of God and similar factors.

We also rely heavily on our dedicated transportation fleet for deliveries of inventory. As a result, our ability to receive or ship inventory efficiently may be negatively affected by inclement weather, fire, flood, power loss, earthquakes, labor disputes, acts of war or terrorism, acts of God and similar factors.

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Any of the inventory risk factors set forth above may adversely affect our financial condition, results of operations and cash flows.

*Failure to retain key personnel could adversely affect our business.*

Our continued success depends to a significant extent upon the efforts and abilities of our senior management. The failure to retain our senior management could have a material adverse effect on our business and results of operations. We do not maintain key man life insurance on any of our senior managers.

*Failure to attract and retain qualified associates and other labor issues could adversely affect our financial performance.*

Our ability to continue to expand our operations depends on our ability to attract and retain a large number of qualified associates. Our ability to meet our labor needs generally while controlling our associate wage and related labor costs is subject to numerous external factors, including the availability of a sufficient number of qualified persons in the work force, unemployment levels, prevailing wage rates, changing demographics, health and other insurance costs and changes in employment legislation. If we are unable to locate, attract and retain qualified personnel, or if our costs of labor or related costs increase significantly, our financial performance could be affected adversely.

*We rely extensively on communication and computer systems to process transactions, summarize results and manage our business. Disruptions in these systems could harm our ability to run our business.*

Given the number of individual transactions that we have each year, it is critical that we maintain uninterrupted operation of our computer and communications hardware and software systems. Our systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches, catastrophic events, such as acts of God, fires, tornadoes, hurricanes, floods, earthquakes, power losses, telecommunications failures, acts of war or terrorism, physical or electronic break-ins and similar events or disruptions, and usage errors by our employees. If our systems are damaged or cease to function properly, we may have to make a significant investment to fix or replace them, and we may suffer interruptions in our operations in the interim. Any material interruption in our computer operations may have a material adverse effect on our business or results of operations.

*Our electronic commerce trade faces business risks.*

We face a number of risks related to our involvement in electronic commerce, including:

competition from other internet-based companies and traditional retailers;

risks associated with a failure to manage growth effectively;

risks of the internet as a medium for commerce, including internet security risks;

risks associated with the need to keep pace with rapid technological change;

risks of system failure or inadequacy; and

risks associated with the maintenance of domain names.

If any of these risks materialize, it could have an adverse effect on our electronic commerce trade and our business in general.

*Government regulation of the internet and e-commerce is evolving, and unfavorable changes could harm our business.*

We are subject to general business regulations and laws, as well as regulations and laws specifically governing the internet and e-commerce. Such existing and future laws and regulations may impede the growth of the

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internet or other online services. These regulations and laws may cover taxation, privacy, data protection, pricing, content, copyrights, distribution, electronic contracts and other communications, consumer protection, the provision of online payment services, unencumbered internet access to our services and the characteristics and quality of products and services. It is not always clear how existing laws governing issues such as property ownership, sales and other taxes, libel and personal privacy apply to the internet and e-commerce. Unfavorable resolution of these issues or compliance with such laws may harm our business or affect our financial performance.

*The Company faces security risks with respect to the receipt and storage of personal data about our customers and employees.*

A fundamental requirement for e-commerce is the secure storage and transmission of personal information about our customers and employees. Our use of this information is regulated by various privacy and information security laws that are constantly changing. Compliance with these laws and regulations may result in cost increases due to necessary systems changes and the development of new processes. Although we have developed systems and processes that are designed to protect consumer information and prevent fraudulent credit card transactions and other security breaches on our website and otherwise, failure to prevent or mitigate such fraud or breaches, or to discover such fraud or breaches that may go undetected for an extended period of time, may adversely affect our business or results of operations, damage our reputation or subject us to legal risk.

*We are subject to a number of risks related to payments that we accept.*

We accept payments by a variety of methods, including credit card, debit card, gift card, direct debit from a customer's bank account, physical bank checks and cash. For certain payment transactions, including credit and debit cards, we pay interchange and other fees, which may increase over time, raising our operating costs and lowering our profit margins. We are also subject to payment card association operating rules, certification requirements and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. If we fail to comply with these rules or requirements, we may be subject to fines and higher transaction fees and lose our ability to accept credit and debit card payments from our customers, process electronic funds transfers or facilitate other types of online payments, and our business and operating results could be adversely affected. If one or more of these agreements are terminated, and we are unable to replace them on similar terms, or at all, it could adversely affect our operating results. In addition, as we offer new payment options to our customers, we may be subject to additional regulations and compliance requirements.

*We may be unable to protect our intellectual property, which could harm our brand and reputation.*

To protect our proprietary rights in our intellectual property, we rely generally on copyright, trademark and trade secret laws. Although we do not believe that our trademarks and other intellectual property are materially important to the continuation of our operations, our failure or inability to maintain or protect our proprietary rights, or discover the unauthorized use of our proprietary rights, could materially decrease their value, and our brand and reputation could be harmed as a result.

*We are subject to certain legal proceedings that may affect our financial condition and results of operations.*

We are 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 condition, results of operations or cash flows. However, we can give no assurances that

certain lawsuits either now or in the future will not materially affect our financial condition or results of operations.

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*Changes in our effective income tax rate could affect our results of operations.*

Our effective income tax rate is influenced by a number of factors. Changes in the tax laws, the interpretation of existing laws or our failure to sustain our reporting positions on examination could adversely affect our effective income tax rate and, as a result, our results of operations.

*Changes in accounting standards could affect our results of operations.*

A change in accounting standards or practices can have a significant effect on our reported results of operations. New accounting pronouncements and interpretations of existing accounting rules and practices have occurred and may occur in the future. Changes to existing rules may adversely affect our reported financial results.

*If the Company is unable to renew or enter into new leases for our retail operations on favorable terms, our revenue growth may decline.*

Substantially all of the Company's stores are located in leased premises. If the cost of leasing existing stores increases, the Company cannot assure that we will be able to maintain our existing store locations as leases expire. In addition, the Company may not be able to enter into new leases on favorable terms, or at all, or we may not be able to locate suitable alternative sites or additional sites for new store expansion in a timely manner. The Company's revenues and earnings may decline if the Company fails to maintain existing store locations, enter into new leases, locate alternative sites or find additional sites for new store expansion.

*The Company may engage in acquisitions, which, among other things, could negatively impact our business if we fail to successfully complete and integrate them.*

To enhance our efforts to grow and compete, the Company may engage in acquisitions. Any future acquisitions are subject to the Company's ability to negotiate favorable terms for them. Accordingly, the Company cannot assure that future acquisitions will be completed. In addition, to facilitate future acquisitions, the Company may take actions that could dilute the equity interests of our stockholders, increase our debt or cause us to assume contingent liabilities, all of which may have a detrimental effect on the price of our common stock. Finally, if any acquisitions are not successfully integrated with the Company's business, the Company's ongoing operations could be adversely affected.

*The occurrence of severe weather events, catastrophic health events or natural disasters could significantly damage or destroy our retail locations, could prohibit consumers from traveling to our retail locations or could prevent us from resupplying our stores or distribution centers, especially during peak shopping seasons.*

Unforeseen events, including public health issues and natural disasters, such as earthquakes, hurricanes, snow storms, floods and heavy rains, could disrupt our operations or the operations of our suppliers, as well as the behavior of our consumers. We believe that we take reasonable precautions to prepare particularly for weather-related events; however, our precautions may not be adequate to deal with such events in the future. As these events occur in the future, if they should impact areas in which we have our distribution centers or a concentration of retail stores, such events could have a material adverse effect on our business, financial condition and results of operations, particularly if they occur during peak shopping seasons.

*Increases in transportation costs due to rising fuel costs, climate change regulation and other factors may negatively impact our operating results.*

We rely upon various means of transportation, including by water and by land, to deliver products from vendors to our distribution centers and from our distribution centers to our stores. Consequently, our results can vary depending upon the price of fuel. The price of oil has fluctuated drastically over the last few years, and may rapidly increase at any time, which would sharply increase our fuel costs. In addition, efforts to combat climate

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change through reduction of greenhouse gases may result in higher fuel costs through taxation or other means. Any such future increases in fuel costs would increase our transportation costs for delivery of products to our distribution centers and distribution to our stores, as well as our vendors' transportation costs, which could harm our operating results.

In addition, labor shortages in the transportation industry could negatively affect transportation costs and our ability to supply our stores in a timely manner. In particular, our business is highly dependent on the trucking industry to deliver products to our distribution centers and our stores. Our operating results may be adversely affected if we or our vendors are unable to secure adequate trucking resources at competitive prices to fulfill our delivery schedules to our distribution centers or our stores.

*Our stock price may be subject to volatility.*

The trading price of our common stock may fluctuate in response to a number of events and factors, many of which are beyond our control, such as:

general economic conditions;

changes in interest rates;

conditions or trends in the retail book, electronic commerce trade and real estate industries;

fluctuations in the stock market in general;

quarterly variations in operating results;

new products, services, innovations and strategic developments by our competitors or us, or business combinations and investments by our competitors or us;

changes in financial estimates by us (if any) or securities analysts and recommendations by securities analysts;

changes in regulation;

changes in our capital structure, including issuance of additional debt or equity to the public;

corporate restructurings, including layoffs or closures of facilities;

changes in the valuation methodology of, or performance by, others in our industries; and

transactions in our common stock by major investors, and analyst reports, news and speculation.

Any of these events may cause our stock price to rise or fall and may adversely affect our financial condition or results of operations.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

Our bookstores are generally located either in enclosed malls or strip shopping centers. Substantially all of our stores are leased. Generally, these leases have terms ranging from three to ten years and require that we pay a fixed minimum rental fee and/or a rental fee based on a percentage of net sales together with certain customary costs (such as property taxes, common area maintenance and insurance). The Company has one location where it owns the land and related property.

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The number of stores located in each state and the District of Columbia as of February 1, 2014 are listed below:

State	Number of Super Stores	Number of Traditional Book Stores
Florida	31	2
Alabama	22	
Tennessee	15	1
Georgia	13	3
Virginia	12	3
South Carolina	12	1
North Carolina	10	4
Louisiana	9	1
Ohio	8	4
Texas	8	2
Mississippi	6	4
Indiana	6	
Pennsylvania	5	13
Maryland	5	4
West Virginia	5	2
Kentucky	3	3
Michigan	3	2
Illinois	3	2
Arkansas	3	
Iowa	3	
Missouri	3	
Maine	2	1
New Hampshire	2	1
Colorado	2	
New Jersey	1	3
Connecticut	1	1
Kansas	1	1
Washington, DC	1	
Nebraska	1	
Oklahoma	1	
South Dakota	1	
Wisconsin	1	2
Delaware	1	
New York		1