BlueShore Capital responds to proposed Anderson family acquisition of Books-A-Million, Inc.

Letter to Board of Directors from BlueShore Capital Manager Harsha Gowda

For immediate release

May 4, 2012

BlueShore Global Equity Fund, L.P, an investment fund controlled by BlueShore Capital, LLC, majority-owned by Harsha Gowda and other accounts directed by Harsha Gowda (collectively "BlueShore"), collectively hold over **6.3% of the outstanding common stock** in Books-A-Million (the "Company"). We are writing to express our disappointment with the terms of the proposed acquisition by Mr. Clyde B. Anderson ("Mr. Anderson") and the Anderson family (the "Andersons"). We cannot support the proposed acquisition upon the terms described in the news release issued by the Company on April 30, 2012. If such proposal is presented to the stockholders in its current form, for the reasons stated below, we will vote against it.

While we respect Mr. Anderson and are grateful for his family's management of the Company through challenging times, we strongly believe the proposed acquisition by the Andersons substantially undervalues the Company. We believe that the proposed acquisition price not only ascribes little value to the business as a "going concern" but also is at a substantial discount to the fair value, as demonstrated below, of the company's net assets. It is our firm belief that BlueShore (as well as the other minority stockholders) would be better off if the Company did not complete a transaction based upon the proposed terms.

The Proposed Acquisition Represents a Substantial Discount to the Equity's Fair Value

It is our opinion that the proposed acquisition price of $3.05 per share or approximately $49 million for the total equity of the Company is less than the **fair value** of the Company's equity. Based upon the Company's public filings, it is our understanding that the Company's assets are primarily composed of readily-marketable current assets and long-term assets that have been accumulated **over nearly a century** of profitable operations. The Company has nearly no debt and no onerous off-balance sheet liabilities. Most importantly, the company has demonstrated strong cash flow generation in the current challenging times.

Using the fiscal year-end 2012 financial statements, our simple calculation of fair value is shown below:

(in $ millions, except per share value)

	Valuation
Cash	10.1
Total receivables, net	4.7
Replacement value of Inventory	205.3
Prepayments and other current assets	8.8
Land	2.8
Buildings	12.7
Other PP&E, net	11.2
Total Assets	**255.6**

Accounts payable	112.0
Accrued expenses	41.4
Deferred income taxes, current	12.3
Long-term debt	5.4
Deferred rent	8.4
Deferred income taxes, noncurrent	1.0
Liability for uncertain tax positions	1.0
Total Liabilities	**181.6**
Equity Fair Value	**74.1**
Fair Value per share	**$4.63**

- We believe at least this amount of value could be easily realizable in a **gradual liquidation** of the business over the short, remaining average lease term of the retail store portfolio.
- The primary sources of value for the company lies in cash or readily marketable assets, therefore, no discounted acquisition of these assets should occur. For instance, as detailed in the annual report, nearly all of the inventory "may be returned to the vendors for credit, which substantially reduces [the Company's] risk of inventory obsolescence."
- Also, it is our understanding that the property, plant and equipment valuation above is a conservative valuation of long-term assets accumulated over nearly one century of operations.
- Additionally, in the above calculation, there is **no value ascribed to the significant intangible assets** arising from the well-respected name brand, the expertise of management, and the marketing and sales capabilities of the company.
- The book equity value (all reported assets minus all reported liabilities) of the company is even higher than the above valuation, at **$115 million or $7.16 per share**. Considering that management has stated in the recent annual reports that **no significant asset impairments** were warranted, we view the proposed transaction price which is **less than half of this book equity value** as being inadequate compensation for our shares.
- All balance sheet liabilities are fully accounted for in the above valuation, further cementing our clear belief that the proposed offer substantially undervalues the company.

The Proposed Acquisition Represents a Substantial Discount to the Company's Earnings Power

Excluding the most recent fiscal year ending January 28, 2012, the Company has been profitable **every year going back to 1995**. Such an enviable record has come in the face of incredible structural challenges to physical book retail industry in this period. More importantly, based upon the Company's public filings, it is our understanding that the Company has generated about $30 million of annual *operating cash flow* during the past decade. We believe that this clearly demonstrates the strength of the business, its management, and the brand name.

In fact, even in the recently completed fiscal year, its slight unprofitability of ($2.8 million) was overshadowed by nearly $29 million in operating cash flow, which was in line with the prior year's number and the last ten years' annual performance. This is significant cash flow generating power for a company that is being valued at $49 million at the proposed acquisition price. Moreover since 2002, the Company has generated a total *unlevered free cash flow* (as calculated by Capital IQ) of about $150 million or roughly $15 million per year. This substantial free cash flow was being generated during an extremely challenging period for the Company with significant growth and competitive pressures from digital and online book retail. **The Company has clearly shown the ability to adapt to these challenges and continue generating high free cash flows for its stockholders**.

Importantly, we strongly believe the underperformance of the past year is **not** indicative of future performance due to several unique factors that occurred in the physical book retail business and by strategic actions taken by the Company. In 2011, the second-largest bookseller in the United States, Borders Group, Inc. was liquidated. This liquidation of Borders combined with the collapse of many other independent booksellers caused short-term disruption to the book retail business. However, we expect that these events should lead to improved performance for Books-A-Million going forward. Even in a declining market, less competition creates opportunities for higher profits.

In fact, the Company used this period of industry tumult to implement a large and successful restructuring program. It acquired several of the best performing retail locations of Borders and closed some of its least profitable stores. Overall, it opened 52 stores and closed 26 stores. Additionally, it renegotiated much more favorable lease terms with its landlords. Even Mr. Anderson has stated that these changes were some of the largest in the Company's history. The Company spent about $25 million in investing activities to make all of these structural improvements; capital expenditures that were significantly more than amounts invested in recent years.

As mentioned above, in fiscal year 2012, the Company was able to generate $29 million of operating cash flow even while facing the well-known economic problems of the US consumer, the Borders liquidation and digital/online competition. We believe that going forward, it will generate similar operational cash flow but its investment requirements will drop to its 2010 level of about $10 million. If our assumptions are correct, this will lead to roughly $15 million of free cash flows for the Company per year. **Using a conservative multiple of 5x this free cash flow measure, gives an equity valuation of $75 million, or $4.70 per share**.

<u>The Proposed Acquisition Represents an Unfairly Low Price for our Shares</u>

As can be seen, **all of the costs of the restructuring in the past few years have been borne by us and other current shareholders**. This restructuring has led to significant cost improvements in lease terms and a better quality store portfolio, the benefits of which will be felt in the near term. However, **we will not benefit from this restructuring if the Company is acquired at the very low proposed acquisition price**. After bearing the costs of restructuring the Company to better operate in today's bookselling environment, we should experience some of the ensuing benefits by receiving fair compensation for our shares.

******

Mr. Anderson and the Andersons have done a very fine job managing Books-A-Million through the decades. And we are confident they fully understand the nature of the Company's business. So we understand their desire to acquire the shares of public shareholders at the current depressed price level.

However, the proposed acquisition price is more reflective of a distressed asset purchase rather than the purchase of a long-term viable business. The Company is not facing any credit issues or distress. In fact, it has a net cash balance and has multiple sources of liquidity. Most importantly, the Company generates significant cash flow and its long-term prospects look exceedingly positive.

For all of these reasons, we believe the proposed acquisition price is woefully inadequate. For these reasons we cannot support the current proposal. That said, we do not categorically oppose a potential transaction by the Andersons or the pursuit of other strategic alternatives. However, for us to support any transaction, the compensation for our shares must be based upon an objective assessment of the Company's true economic value and not a temporary decline in the Company's share price.

Sincerely,

BlueShore Capital, LLC

/s/ Harsha Gowda
Harsha Gowda
Manager

****

Notes: BlueShore Capital, LLC is the general partner of the BlueShore Global Equity Fund, L.P., an investment fund founded in 2006 and managed by Harsha Gowda. BlueShore Global Equity Fund invests in the publicly-traded equities of primarily, small to medium-sized companies in the United States and internationally. Please visit www.blueshorecap.com for additional information.

For further information, please contact: Tamas Eisenberger at 917-551-8998 or info@blueshorecap.com.