

Lumber Liquidators Holdings, Inc.
Form 10-Q
October 23, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

or

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

For the transition period from to

Commission File Number: 001-33767

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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 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 Smaller reporting company
(Do not check if a 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

As of October 21, 2013, there were 27,594,809 shares of the registrant’s common stock, par value of \$0.001 per share, outstanding.

LUMBER LIQUIDATORS HOLDINGS, INC.

Quarterly Report on Form 10-Q

For the quarter ended September 30, 2013

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PART I**FINANCIAL INFORMATION****Item 1. Financial Statements.****Lumber Liquidators Holdings, Inc.****Condensed Consolidated Balance Sheets****(in thousands, except share data)**

	September 30, 2013 (unaudited)	December 31, 2012
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 84,194	\$ 64,167
Merchandise Inventories	237,290	206,704
Prepaid Expenses	5,715	5,168
Other Current Assets	15,110	12,106
Total Current Assets	342,309	288,145
Property and Equipment, net	56,712	47,764
Goodwill	9,693	9,693
Other Assets	1,732	1,785
Total Assets	\$ 410,446	\$ 347,387
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts Payable	\$ 37,690	\$ 55,110
Customer Deposits and Store Credits	32,488	25,747
Accrued Compensation	10,722	7,969
Sales and Income Tax Liabilities	5,041	4,314
Other Current Liabilities	16,817	7,887
Total Current Liabilities	102,758	101,027
Deferred Rent	3,823	3,653
Deferred Tax Liability	8,523	8,166
Stockholders' Equity:		
Common Stock (\$0.001 par value; 35,000,000 authorized; 27,609,809 and 27,214,144 outstanding, respectively)	30	29
Treasury Stock, at cost (2,034,911 and 1,719,706 shares, respectively)	(75,161)	(50,552)

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Additional Capital	160,958	131,724
Retained Earnings	209,867	153,267
Accumulated Other Comprehensive (Loss) Income	(352)	73
Total Stockholders' Equity	295,342	234,541
Total Liabilities and Stockholders' Equity	\$ 410,446	\$ 347,387

See accompanying notes to condensed consolidated financial statements

Lumber Liquidators Holdings, Inc.**Condensed Consolidated Statements of Income****(in thousands, except share data and per share amounts)****(unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net Sales	\$254,278	\$204,291	\$741,807	\$602,672
Cost of Sales	147,903	126,405	436,356	376,169
Gross Profit	106,375	77,886	305,451	226,503
Selling, General and Administrative Expenses	73,108	57,135	213,690	172,638
Operating Income	33,267	20,751	91,761	53,865
Other (Income) Expense	(64)	(26)	(425)	(99)
Income Before Income Taxes	33,331	20,777	92,186	53,964
Provision for Income Taxes	12,932	7,895	35,586	20,708
Net Income	\$20,399	\$12,882	\$56,600	\$33,256
Net Income per Common Share—Basic	\$0.74	\$0.47	\$2.06	\$1.21
Net Income per Common Share—Diluted	\$0.73	\$0.46	\$2.03	\$1.18
Weighted Average Common Shares Outstanding:				
Basic	27,594,573	27,125,855	27,448,441	27,518,206
Diluted	27,954,115	27,744,564	27,905,131	28,094,040

See accompanying notes to condensed consolidated financial statements

Lumber Liquidators Holdings, Inc.

Condensed Consolidated Statements of Other Comprehensive Income

(in thousands)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net Income	\$20,399	\$12,882	\$56,600	\$33,256
Foreign Currency Translation Adjustments	268	358	(425)	415
Comprehensive Income	\$20,667	\$13,240	\$56,175	\$33,671

See accompanying notes to condensed consolidated financial statements

Lumber Liquidators Holdings, Inc.**Condensed Consolidated Statements of Cash Flows****(in thousands)****(unaudited)**

	Nine Months Ended September 30,	
	2013	2012
Cash Flows from Operating Activities:		
Net Income	\$56,600	\$33,256
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	8,503	7,323
Stock-Based Compensation Expense	4,168	3,019
Changes in Operating Assets and Liabilities:		
Merchandise Inventories	(30,704)	(30,962)
Accounts Payable	(17,622)	(8,212)
Customer Deposits and Store Credits	6,754	5,966
Prepaid Expenses and Other Current Assets	(3,991)	(2,427)
Other Assets and Liabilities	12,994	8,973
Net Cash Provided by Operating Activities	36,702	16,936
Cash Flows from Investing Activities:		
Purchases of Property and Equipment	(17,261)	(9,570)
Net Cash Used in Investing Activities	(17,261)	(9,570)
Cash Flows from Financing Activities:		
Payments for Share Repurchases	(24,609)	(40,349)
Proceeds from the Exercise of Stock Options	9,796	8,031
Excess Tax Benefit from Stock-Based Compensation...	15,711	3,141
Net Cash Provided by (Used in) Financing Activities	898	(29,177)
Effect of Exchange Rates on Cash and Cash Equivalents	(312)	201
Net Increase (Decrease) in Cash and Cash Equivalents	20,027	(21,610)
Cash and Cash Equivalents, Beginning of Period	64,167	61,675
Cash and Cash Equivalents, End of Period	\$84,194	\$40,065

See accompanying notes to condensed consolidated financial statements

Lumber Liquidators Holdings, Inc.

Notes to Condensed Consolidated Financial Statements

(amounts in thousands, except share data and per share amounts)

(unaudited)

Note 1. Basis of Presentation

Lumber Liquidators Holdings, Inc. (the “Company”) is a multi-channel specialty retailer of hardwood flooring, and hardwood flooring enhancements and accessories, operating as a single business segment. The Company offers an extensive assortment of exotic and domestic hardwood species, engineered hardwoods and laminates direct to the consumer. The Company also features the renewable flooring products, bamboo and cork, and provides a wide selection of flooring enhancements and accessories, including moldings, noise-reducing underlay, adhesives and flooring tools. These products are primarily sold under the Company’s private label brands, including the premium Bellawood brand floors. The Company sells primarily to homeowners or to contractors on behalf of homeowners through a network of 298 store locations in primary or secondary metropolitan areas in 46 states and nine store locations in Canada at September 30, 2013. In addition to the store locations, the Company’s products may be ordered, and customer questions/concerns addressed, through both its call center in Toano, Virginia, and its website, www.lumberliquidators.com. The Company finishes the majority of the Bellawood products on its finishing line in Toano, Virginia, which along with the call center, corporate offices, and a distribution center, represent the “Corporate Headquarters.”

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q for interim financial reporting pursuant to the rules and regulations of the Securities and Exchange Commission. While these statements reflect all normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the results of the interim period, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. Therefore, the interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company’s annual report filed on Form 10-K for the year ended December 31, 2012.

The consolidated financial statements of the Company include the accounts of its wholly owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

Results of operations for the three and nine months ended September 30, 2013 are not necessarily indicative of the results to be expected for the full year.

Note 2. Fair Value of Financial Instruments

The carrying amounts of financial instruments such as cash and cash equivalents, accounts payable and other liabilities approximate fair value because of the short-term nature of these items. Of these financial instruments, the cash equivalents are classified as Level 1 as defined in the Financial Accounting Standards Board ASC 820 fair value hierarchy. The Company had cash equivalents of \$170 at both September 30, 2013 and December 31, 2012.

Note 3. Stockholders' Equity

Net Income per Common Share

The following table sets forth the computation of basic and diluted net income per common share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net Income	\$ 20,399	\$ 12,882	\$ 56,600	\$ 33,256
Weighted Average Common Shares Outstanding—Basic	27,594,573	27,125,855	27,448,441	27,518,206
Effect of Dilutive Securities:				
Common Stock Equivalents	359,542	618,709	456,690	575,834
Weighted Average Common Shares Outstanding—Diluted	27,954,115	27,744,564	27,905,131	28,094,040
Net Income per Common Share—Basic	\$ 0.74	\$ 0.47	\$ 2.06	\$ 1.21
Net Income per Common Share—Diluted	\$ 0.73	\$ 0.46	\$ 2.03	\$ 1.18

The following have been excluded from the computation of Weighted Average Common Shares Outstanding—Diluted because the effect would be anti-dilutive:

	Three and Nine Months Ended September 30,	
	2013	2012
Stock Options	12,399	4,054
Restricted Stock Awards	—	—

Stock Repurchase Program

In 2012, the Company's Board of Directors authorized the repurchase of up to \$100,000 of the Company's common stock, and at September 30, 2013, the Company had \$26,947 remaining under this authorization. Purchases under this program were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Shares Repurchased	109,900	175,400	306,430	1,477,577
Average Price per Share	\$ 89.60	\$ 33.12	\$ 78.27	\$ 27.14
Total Aggregate Costs	\$ 9,847	\$ 5,809	\$ 23,986	\$ 40,134

Note 4. Stock-Based Compensation

The following table summarizes share activity related to stock options and restricted stock awards ("RSAs"):

	Stock Options	Restricted Stock Awards
Options Outstanding/Nonvested RSAs, December 31, 2012	1,311,377	152,405
Granted	214,092	79,938
Options Exercised/RSAs Released	(675,805)	(35,065)
Forfeited	(57,590)	(11,889)
Options Outstanding/Nonvested RSAs, September 30, 2013	792,074	185,389

Note 5. Related Party Transactions

As of September 30, 2013, the Company leased 29 of its locations and the Corporate Headquarters, which includes a store location, representing 9.8% of the total number of store leases in operation, from entities controlled by the Company's founder and current chairman of the Board ("Controlled Companies"). As of September 30, 2012, the Company leased 27 of its locations and the Corporate Headquarters, representing 9.9% of store leases in operation at that time, from Controlled Companies. Rental expense related to Controlled Companies was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Rental expense related to Controlled Companies	\$ 726	\$ 707	\$ 2,237	\$ 2,035

Note 6. Commitments and Contingencies

On August 30, 2012, Jaroslaw Prusak, a purported customer ("Prusak"), filed a putative class action lawsuit, which was subsequently amended, against the Company in the United States District Court for the Northern District of Illinois. Prusak alleges that the Company willfully violated the Fair and Accurate Credit Transactions Act ("FACTA") amendments to the Fair Credit Reporting Act in connection with electronically printed credit card receipts provided to certain of its customers. Prusak, for himself and the putative class, seeks statutory damages of no less than \$100 and no more than \$1,000 per violation, punitive damages, attorney's fees and costs, and other relief. Prusak has filed a motion seeking certification of the putative class and the parties have each filed motions seeking summary judgment with regard to matters at issue in the case. Those motions are currently pending before the Court. Although the Company believes it has defenses to the claims asserted and has opposed the motion to certify the class, no assurances can be given of any particular result. Given the uncertainty inherent in any litigation, the current stage of the case and the legal standards that must be met for, among other things, class certification and success on the merits, the Company cannot reasonably estimate the possible loss or range of loss that may result from this action.

The Company also is, from time to time, subject to claims and disputes arising in the normal course of business. In the opinion of management, while the outcome of any such claims and disputes cannot be predicted with certainty, the ultimate liability of the Company in connection with these matters is not expected to have a material adverse effect on the Company's results of operations, financial position or cash flows.

