

OVERSTOCK.COM, INC
Form 10-Q
August 03, 2017
Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

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: 000-49799

OVERSTOCK.COM, INC.

(Exact name of registrant as specified in its charter)

Delaware

87-0634302

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

799 West Coliseum Way, Midvale, Utah

84047

(Address of principal executive offices)

(Zip Code)

(801) 947-3100

(Registrant's telephone number, including area code)

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), (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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

There were 25,000,327 shares of the Registrant's common stock, par value \$0.0001, outstanding on July 31, 2017.

Table of Contents

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. <u>Financial Statements (Unaudited)</u>	<u>3</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>32</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>55</u>
Item 4. <u>Controls and Procedures</u>	<u>56</u>

PART II. OTHER INFORMATION

Item 1. <u>Legal Proceedings</u>	<u>57</u>
Item 1A. <u>Risk Factors</u>	<u>57</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>79</u>
Item 3. Defaults Upon Senior Securities	<u>79</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>79</u>
Item 5. <u>Other Information</u>	<u>79</u>
Item 6. <u>Exhibits</u>	<u>80</u>
<u>Signature</u>	<u>81</u>

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

Overstock.com, Inc.

Consolidated Balance Sheets (Unaudited)

(in thousands)

	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 103,952	\$ 183,098
Restricted cash	543	430
Accounts receivable, net	20,751	28,142
Inventories, net	15,152	18,937
Prepaid inventories, net	1,215	2,112
Prepays and other current assets	20,089	11,654
Total current assets	161,702	244,373
Fixed assets, net	134,563	134,552
Precious metals	9,946	9,946
Deferred tax assets, net	68,396	56,266
Intangible assets, net	9,171	10,913
Goodwill	14,698	14,698
Other long-term assets, net	14,399	14,328
Total assets	\$412,875	\$ 485,076
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$75,736	\$ 106,337
Accrued liabilities	72,296	96,216
Deferred revenue	39,137	41,780
Finance obligations, current	3,297	3,256
Other current liabilities, net	1,548	1,627
Total current liabilities	192,014	249,216
Long-term debt, net	43,663	44,179
Finance obligations, non-current	10,168	11,831
Other long-term liabilities	7,099	6,890
Total liabilities	252,944	312,116
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, \$0.0001 par value, authorized shares - 5,000		
Series A, issued and outstanding - 127	—	—
Series B, issued and outstanding - 569	—	—
Common stock, \$0.0001 par value		
Authorized shares - 100,000		
Issued shares - 28,131 and 27,895		
Outstanding shares - 25,000 and 25,432	3	3
Additional paid-in capital	385,987	383,348
Accumulated deficit	(157,926)	(153,898)
Accumulated other comprehensive loss	(1,472)	(1,540)

Treasury stock:

Shares at cost - 3,131 and 2,463	(63,672)	(52,587)
Equity attributable to stockholders of Overstock.com, Inc.	162,920	175,326
Equity attributable to noncontrolling interests	(2,989)	(2,366)
Total equity	159,931	172,960
Total liabilities and stockholders' equity	\$412,875	\$ 485,076

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

Overstock.com, Inc.
 Consolidated Statements of Operations (Unaudited)
 (in thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Revenue, net				
Direct	\$22,099	\$24,630	\$44,927	\$51,281
Partner and other	409,925	393,910	819,532	780,936
Total net revenue	432,024	418,540	864,459	832,217
Cost of goods sold				
Direct(1)	21,147	23,098	42,110	48,504
Partner and other	326,706	319,120	651,271	630,084
Total cost of goods sold	347,853	342,218	693,381	678,588
Gross profit	84,171	76,322	171,078	153,629
Operating expenses:				
Sales and marketing(1)	43,297	33,353	80,915	64,809
Technology(1)	28,244	25,800	57,236	51,510
General and administrative(1)	22,361	22,678	44,971	44,526
Litigation settlement	—	—	—	(19,520)
Total operating expenses	93,902	81,831	183,122	141,325
Operating income (loss)	(9,731)	(5,509)	(12,044)	12,304
Interest income	136	64	261	155
Interest expense	(716)	(5)	(1,426)	(7)
Other income (expense), net	593	3,992	(3,131)	8,148
Income (loss) before income taxes	(9,718)	(1,458)	(16,340)	20,600
Provision (benefit) for income taxes	(1,975)	(243)	(2,315)	8,721
Consolidated net income (loss)	\$(7,743)	\$(1,215)	\$(14,025)	\$11,879
Less: Net loss attributable to noncontrolling interests	(244)	(311)	(623)	(646)
Net income (loss) attributable to stockholders of Overstock.com, Inc.	\$(7,499)	\$(904)	\$(13,402)	\$12,525
Net income (loss) per common share—basic:				
Net income (loss) attributable to common shares—basic	\$(0.29)	\$(0.04)	\$(0.52)	\$0.49
Weighted average common shares outstanding—basic	24,996	25,341	25,035	25,311
Net income (loss) per common share—diluted:				
Net income (loss) attributable to common shares—diluted	\$(0.29)	\$(0.04)	\$(0.52)	\$0.49
Weighted average common shares outstanding—diluted	24,996	25,341	25,035	25,350

(1) Includes stock-based compensation as follows (Note 8):

Cost of goods sold — direct	\$39	\$80	\$88	\$131
Sales and marketing	113	83	209	132
Technology	150	238	310	405
General and administrative	743	1,346	1,378	2,047
Total	\$1,045	\$1,747	\$1,985	\$2,715

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

Overstock.com, Inc.

Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Consolidated net income (loss)	\$(7,743)	\$(1,215)	\$(14,025)	\$11,879
Other comprehensive income (loss):				
Unrealized gain (loss) on cash flow hedges, net of benefit (expense) for taxes of \$55, \$349, \$(40), and \$1,064	(81)	(540)	68	(1,560)
Other comprehensive income (loss)	(81)	(540)	68	(1,560)
Comprehensive income (loss)	\$(7,824)	\$(1,755)	\$(13,957)	\$10,319
Less: Comprehensive loss attributable to noncontrolling interests	(244)	(311)	(623)	(646)
Comprehensive income (loss) attributable to stockholders of Overstock.com, Inc.	\$(7,580)	\$(1,444)	\$(13,334)	\$10,965

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

Overstock.com, Inc.

Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

(in thousands)

Six
months
ended
June
30,
2017

Equity attributable to stockholders of Overstock.com, Inc.

Number of common shares issued

Balance at beginning of period 27,895

Common stock issued upon vesting of restricted stock 198

Exercise of stock options 38

Balance at end of period 28,131

Number of treasury stock shares

Balance at beginning of period 2,463

Purchases of treasury stock 668

Balance at end of period 3,131

Total number of outstanding shares 25,000

Common stock \$ 3

Number of Series A preferred shares issued and outstanding