

Lumber Liquidators Holdings, Inc.
Form 10-Q
July 24, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 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

Lumber Liquidators Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of	27-1310817 (I.R.S. Employer
incorporation or organization)	Identification No.)
3000 John Deere Road Toano, Virginia (Address of Principal Executive Offices)	23168 (Zip Code)

(757) 259-4280

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 of 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

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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, 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 July 22, 2013, there were 27,507,702 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 June 30, 2013

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

	June 30, 2013	December 31, 2012
	<i>(unaudited)</i>	
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 84,664	\$ 64,167
Merchandise Inventories	230,499	206,704
Prepaid Expenses	5,895	5,168
Other Current Assets	15,292	12,106
Total Current Assets	336,350	288,145
Property and Equipment, net	48,748	47,764
Goodwill	9,693	9,693
Other Assets	1,747	1,785
Total Assets	\$ 396,538	\$ 347,387
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts Payable	\$ 52,950	\$ 55,110
Customer Deposits and Store Credits	30,299	25,747
Accrued Compensation	8,765	7,969
Sales and Income Tax Liabilities	4,748	4,314
Other Current Liabilities	11,150	7,887
Total Current Liabilities	107,912	101,027
Deferred Rent	3,775	3,653
Deferred Tax Liability	8,348	8,166
Stockholders' Equity:		
Common Stock (\$0.001 par value; 35,000,000 authorized; 27,564,902 and 27,214,144 outstanding, respectively)	29	29
Treasury Stock, at cost (1,923,682 and 1,719,706 shares, respectively)	(65,189)	(50,552)

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Additional Capital	152,813	131,724
Retained Earnings	189,470	153,267
Accumulated Other Comprehensive (Loss) Income	(620)	73
Total Stockholders' Equity	276,503	234,541
Total Liabilities and Stockholders' Equity	\$ 396,538	\$ 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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net Sales	\$257,111	\$210,347	\$487,530	\$398,381
Cost of Sales	151,032	131,867	288,453	249,764
Gross Profit	106,079	78,480	199,077	148,617
Selling, General and Administrative Expenses	72,992	58,685	140,582	115,503
Operating Income	33,087	19,795	58,495	33,114
Other (Income) Expense	(150) (32) (360) (73
Income Before Income Taxes	33,237	19,827	58,855	33,187
Provision for Income Taxes	12,815	7,650	22,652	12,813
Net Income	\$20,422	\$12,177	\$36,203	\$20,374
Net Income per Common Share—Basic	\$0.74	\$0.44	\$1.32	\$0.74
Net Income per Common Share—Diluted	\$0.73	\$0.43	\$1.30	\$0.72
Weighted Average Common Shares Outstanding:				
Basic	27,535,034	27,506,529	27,374,164	27,716,537
Diluted	27,973,457	28,032,391	27,879,428	28,270,934

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		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net Income	\$ 20,422	\$ 12,177	\$ 36,203	\$ 20,374
Foreign Currency Translation Adjustments	(372)	(47)	(693)	57
Comprehensive Income	\$ 20,050	\$ 12,130	\$ 35,510	\$ 20,431

See accompanying notes to condensed consolidated financial statements

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

	Six Months Ended June 30,	
	2013	2012
Cash Flows from Operating Activities:		
Net Income	\$36,203	\$20,374
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	5,595	4,822
Stock-Based Compensation Expense	2,633	2,150
Changes in Operating Assets and Liabilities:		
Merchandise Inventories	(23,921)	(47,605)
Accounts Payable	(1,957)	12,894
Customer Deposits and Store Credits	4,568	4,889
Prepaid Expenses and Other Current Assets	(4,202)	1,441
Other Assets and Liabilities	4,819	3,487
Net Cash Provided by Operating Activities	23,738	2,452
Cash Flows from Investing Activities:		
Purchases of Property and Equipment	(6,767)	(6,675)
Net Cash Used in Investing Activities	(6,767)	(6,675)
Cash Flows from Financing Activities:		
Payments for Share Repurchases	(14,637)	(34,483)
Proceeds from the Exercise of Stock Options	6,744	6,469
Excess Tax Benefit from Stock-Based Compensation	11,794	1,934
Net Cash Provided by (Used in) Financing Activities	3,901	(26,080)
Effect of Exchange Rates on Cash and Cash Equivalents	(375)	149
Net Increase (Decrease) in Cash and Cash Equivalents	20,497	(30,154)
Cash and Cash Equivalents, Beginning of Period	64,167	61,675
Cash and Cash Equivalents, End of Period	\$84,664	\$31,521

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 291 store locations in primary or secondary metropolitan areas in 46 states and nine store locations in Canada at June 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 six months ended June 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 June 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		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net Income	\$20,422	\$12,177	\$36,203	\$20,374
Weighted Average Common Shares Outstanding—Basic	27,535,034	27,506,529	27,374,164	27,716,537
Effect of Dilutive Securities:				
Common Stock Equivalents	438,423	525,862	505,264	554,397
Weighted Average Common Shares Outstanding—Diluted	27,973,457	28,032,391	27,879,428	28,270,934
Net Income per Common Share—Basic	\$0.74	\$0.44	\$1.32	\$0.74
Net Income per Common Share—Diluted	\$0.73	\$0.43	\$1.30	\$0.72

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

	Three and Six Months Ended June 30,	
	2013	2012
Stock Options	207,216	637,343
Restricted Stock Awards	546	—

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 June 30, 2013, the Company had \$36,794 remaining under this authorization. Purchases under this program were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Shares Repurchased	125,930	915,208	196,530	1,302,177
Average Price per Share	\$81.81	\$27.74	\$71.94	\$26.34
Total Aggregate Costs	\$10,302	\$25,405	\$14,138	\$34,325

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	207,216	76,259
Options Exercised/RSAs Released	(523,324)	(31,410)
Forfeited	(54,613)	(9,261)

Options Outstanding/Nonvested RSAs, June 30, 2013	940,656	187,993
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Note 5. Related Party Transactions

As of June 30, 2013, the Company leased 28 of its locations and the Corporate Headquarters, which includes a store location, representing 9.7% 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 June 30, 2012, the Company leased 26 of its locations and the Corporate Headquarters, representing 9.7% of store leases in operation, from Controlled Companies. Rental expense related to Controlled Companies was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Rental expense related to Controlled Companies	\$ 804	\$ 687	\$ 1,511	\$ 1,328

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") amendment to the Fair Credit Reporting Act in connection with printed credit card receipts provided to 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. The parties are currently engaged in discovery and the Company intends to defend this matter vigorously. Although the Company believes it has defenses to the claims asserted, no assurances can be given that the Company will be successful contesting this case, on the merits or otherwise. Given the uncertainty of litigation, the preliminary 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.