

Lumber Liquidators, Inc.
Form 10-Q
August 06, 2008
[Table of Contents](#)

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 June 30, 2008

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, INC.

(Exact name of registrant as specified in its charter)

Edgar Filing: Lumber Liquidators, Inc. - Form 10-Q

Delaware
(State or other jurisdiction of
incorporation or organization)

043229199
(IRS Employer
Identification No.)

3000 John Deere Road

Toano, Virginia
(Address of Principal Executive Offices)

23168
(Zip Code)

Registrant's telephone number, including area code: (757) 259-4280

N/A

(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 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 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 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 August 4, 2008, there were 26,780,919 shares of the registrant's common stock, par value of \$0.001 per share, outstanding.

Table of Contents

LUMBER LIQUIDATORS, INC.

Quarterly Report on Form 10-Q

For the quarter ended June 30, 2008

TABLE OF CONTENTS

	Page
<u>PART I FINANCIAL INFORMATION</u>	
Item 1. <u>Condensed Consolidated Financial Statements</u>	3
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	18
Item 4. <u>Controls and Procedures</u>	19
<u>PART II OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	19
Item 1A. <u>Risk Factors</u>	19
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	20
Item 3. <u>Defaults Upon Senior Securities</u>	20
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	20
Item 5. <u>Other Information</u>	20
Item 6. <u>Exhibits</u>	20
<u>Signatures</u>	21

Table of Contents**PART I****FINANCIAL INFORMATION****Item 1. Financial Statements.****Lumber Liquidators, Inc.****Condensed Consolidated Balance Sheets**

(in thousands, except share data)

	June 30, 2008	December 31, 2007
Assets		
	<i>(unaudited)</i>	
Current Assets:		
Cash and Cash Equivalents	\$ 22,325	\$ 33,168
Merchandise Inventories	99,964	72,024
Prepaid Expenses	3,379	4,011
Other Current Assets	4,657	3,862
Total Current Assets	130,325	113,065
Property and Equipment, net	13,359	11,580
Deferred Income Taxes	1,889	1,220
Other Assets	2,552	2,559
Total Assets	\$ 148,125	\$ 128,424
Liabilities and Stockholders Equity		
Current Liabilities:		
Accounts Payable	\$ 19,558	\$ 15,654
Customer Deposits and Store Credits	12,433	9,609
Other Current Liabilities	12,250	10,973
Total Current Liabilities	44,241	36,236
Stockholders Equity:		
Common Stock (\$0.001 par value; 35,000,000 authorized; 26,780,919 and 26,752,118 issued and outstanding, respectively)	27	27
Additional Capital	89,061	87,553
Retained Earnings	14,796	4,608
Total Stockholders Equity	103,884	92,188
Total Liabilities and Stockholders Equity	\$ 148,125	\$ 128,424

See accompanying notes to condensed consolidated financial statements

Table of Contents**Lumber Liquidators, Inc.****Condensed Consolidated Statements of Income**

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

(unaudited)

	Three Months Ended		Six Months Ended	
	2008	2007	2008	2007
	June 30,		June 30,	
Net Sales	\$ 128,037	\$ 105,725	\$ 242,586	\$ 197,747
Cost of Sales	83,782	71,350	158,209	132,801
Gross Profit	44,255	34,375	84,377	64,946
Selling, General and Administrative Expenses	34,934	30,415	67,248	57,231
Operating Income	9,321	3,960	17,129	7,715
Interest Expense	1	182	26	356
Other (Income) Expense	(160)	(45)	(398)	(100)
Income Before Income Taxes	9,480	3,823	17,501	7,459
Provision for Income Taxes	3,604	1,478	7,313	2,883
Net Income	\$ 5,876	\$ 2,345	\$ 10,188	\$ 4,576
Net Income per Common Share Basic	\$ 0.22	\$ 0.16	\$ 0.38	\$ 0.31
Net Income per Common Share Diluted	\$ 0.22	\$ 0.10	\$ 0.38	\$ 0.20
Weighted Average Common Shares Outstanding:				
Basic	26,760,119	15,000,100	26,751,686	15,000,100
Diluted	27,261,011	23,103,493	27,031,200	23,027,806

See accompanying notes to condensed consolidated financial statements

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

	Six Months Ended June 30,	
	2008	2007
Cash Flows from Operating Activities:		
Net Income	\$ 10,188	\$ 4,576
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	2,190	1,671
Stock-Based Compensation Expense	1,416	3,910
Deferred Income Taxes	(644)	(1,588)
Accretion of Redeemable Preferred Stock		26
Changes in Operating Assets and Liabilities:		
Merchandise Inventories	(27,940)	(26,113)
Accounts Payable	3,904	10,587
Customer Deposits and Store Credits	2,824	2,388
Prepaid Expenses and Other Current Assets	(188)	(670)
Other Assets and Liabilities	1,324	3,852
Net Cash Used in Operating Activities	(6,926)	(1,361)
Cash Flows from Investing Activities:		
Purchases of Property and Equipment	(3,966)	(1,982)
Net Cash Used in Investing Activities	(3,966)	(1,982)
Cash Flows from Financing Activities:		
Proceeds from Exercise of Stock Options	143	
Excess Tax Benefits on Stock Option Exercises	33	
Payments of Long-Term Debt and Capital Lease Obligations	(76)	(1,179)
Common Stock Purchased Pursuant to 2006 Regional Manager Plan	(51)	
Proceeds from Revolving Line		6,110
Net Cash Provided by Financing Activities	49	4,931
Net (Decrease) Increase in Cash and Cash Equivalents	(10,843)	1,588
Cash and Cash Equivalents, Beginning of Period	33,168	3,965
Cash and Cash Equivalents, End of Period	\$ 22,325	\$ 5,553

See accompanying notes to condensed consolidated financial statements

Table of Contents

Lumber Liquidators, Inc.

Notes to Condensed Consolidated Financial Statements

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

(unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statement Presentation

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 (or "SEC"). 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 financial statements and notes included in the Lumber Liquidators, Inc. annual report filed on Form 10-K for the year ended December 31, 2007.

The condensed consolidated financial statements of Lumber Liquidators, Inc. (or the "Company") include the accounts of its wholly owned subsidiary, Lumber Liquidators Leasing, LLC. All significant intercompany transactions have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the current period presentation.

Results of operations for the three and six months ended June 30, 2008 are not necessarily indicative of the results to be expected for the full year.

Nature and Organization of Business

Lumber Liquidators, Inc. 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 and adhesives. 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 135 store locations in primary or secondary metropolitan areas in 43 states. In addition to the store locations, the Company's products may be ordered, and customer questions/concerns addressed, through both the Company's call center in Toano, Virginia, and website, www.lumberliquidators.com. The Company finishes the majority of the Bellawood products in Toano, Virginia, which along with the call center, corporate offices, and finishing and distribution facility represent the Corporate Headquarters.

The Company was organized in 1994 as a Massachusetts corporation and the original equity interest was held solely by the founder and current chairman of the Board (the "Founder"). In August 2007, the Company was reincorporated in Delaware. As a Massachusetts corporation, the Company's stock had no par value. As a result of the reincorporation in Delaware, the par value was increased to \$0.001 per share (the "Common Stock").

In 2004, a private investment group purchased 7,952,018 shares of Series A Convertible Preferred Stock with a par value of \$0.01 (the "Redeemable Preferred Stock") for \$35,000. All shares of Redeemable Preferred Stock were converted into shares of Common Stock on a one-to-one basis on November 8, 2007.

On November 9, 2007, the Company completed its offering of 3,800,000 shares of Common Stock in an initial public offering at a per share price of \$11.00, receiving net proceeds of approximately \$36,150 (the "IPO"). The Founder and the private investment group sold an additional 6,200,000 shares of common stock in the IPO.

Recent Accounting Pronouncements

Edgar Filing: Lumber Liquidators, Inc. - Form 10-Q

In September 2006, the Financial Accounting Standards Board (or FASB) issued Statement of Financial Accounting Standard (or SFAS) No. 157, Fair Value Measurements (or SFAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Adoption of SFAS 157 did not have a material impact on the Company s financial position or results of operations.

In February 2008, the FASB issued FASB Staff Position FAS 157-2, Effective Date of FASB Statement No. 157 (or FSP FAS 157-2). FSP FAS 157-2 delays the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the

Table of Contents

financial statements on a recurring basis, at least annually. The Company is currently evaluating the impact of this pronouncement on its financial statements.

NOTE 2. STOCK- BASED COMPENSATION

Stock-based compensation expenses included in Selling, General and Administrative Expenses (or SG&A) consisted of:

	Three Months Ended		Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Stock Options and Restricted Stock Awards	\$ 770	\$ 434	\$ 1,352	\$ 858
Regional Manager Plan	32		64	
Variable Plan		2,649		3,052
Total	\$ 802	\$ 3,083	\$ 1,416	\$ 3,910

Stock Options

The following table summarizes activity related to stock options:

	Shares	Weighted Average Exercise Price	Remaining Average Contractual Term (Years)	Aggregate Intrinsic Value
Balance at December 31, 2007	1,966,847	\$ 7.95		
Granted	276,010	\$ 10.45		
Exercised	(18,500)	\$ 7.72		
Forfeited				
Balance at June 30, 2008	2,224,357	\$ 8.27	8.4	\$ 10,541
Exercisable at June 30, 2008	702,872	\$ 7.69	8.1	\$ 3,730

The aggregate intrinsic value is the difference between the exercise price and the closing price of the Company's Common Stock on June 30, 2008.

As of June 30, 2008, total unrecognized compensation cost related to unvested options is approximately \$4,268, net of estimated forfeitures, and is estimated to be recognized over a weighted average period of approximately 2.2 years.

Stock options outstanding and exercisable as of June 30, 2008 are summarized below:

Range of Exercise Prices	Number of Option Shares	Outstanding		Exercisable	
		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number of Option Shares	Weighted Average Exercise Price

Edgar Filing: Lumber Liquidators, Inc. - Form 10-Q

\$ 6.50		20,000	\$ 6.50	9.6		\$
\$ 7.53	\$7.83	1,778,347	7.69	8.2	690,372	7.65
\$10.26	\$16.55	426,010	10.77	9.5	12,500	10.26
Balance, June 30, 2008		2,224,357	\$ 8.27	8.4	702,872	\$ 7.69

Table of Contents

Restricted Stock Awards

Shares	Weighted Average Grant Date Fair Value
--------	--