Lumber Liquidators, Inc.
Form 10-Q
August 05, 2009
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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, 2009

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)

Delaware	**043229199**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
3000 John Deere Road	
Toano, Virginia	**23168**
(Address of Principal Executive Offices)	**(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 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. x 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, 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	x Accelerated filer	¨ Non-accelerated filer (Do not check if a smaller reporting company)	¨ 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 x No

As of August 3, 2009, there were 26,968,021 shares of the registrant s common stock, par value of $0.001 per share, outstanding.

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LUMBER LIQUIDATORS, INC.

Quarterly Report on Form 10-Q

For the quarter ended June 30, 2009

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

Lumber Liquidators, Inc.

Condensed Consolidated Balance Sheets

(in thousands, except share data)

	June 30, 2009 *(unaudited)*	December 31, 2008
Assets		
Current Assets:		
Cash and Cash Equivalents	$ 43,305	$ 35,139
Merchandise Inventories	106,775	88,731
Prepaid Expenses	3,896	5,033
Other Current Assets	3,716	3,731
Total Current Assets	**157,692**	**132,634**
Property and Equipment, net	17,116	13,780
Deferred Income Taxes	2,317	2,317
Other Assets	3,647	3,674
Total Assets	**$ 180,772**	**$ 152,405**
Liabilities and Stockholders Equity		
Current Liabilities:		
Accounts Payable	$ 24,721	$ 15,373
Customer Deposits and Store Credits	13,788	10,418
Other Current Liabilities	11,690	10,598
Total Current Liabilities	**50,199**	**36,389**
Deferred Rent	1,862	1,619
Stockholders Equity:		
Common Stock ($0.001 par value; 35,000,000 authorized; 26,913,269 and 26,796,891 outstanding, respectively)	27	27
Additional Capital	89,895	87,613
Retained Earnings	38,789	26,757
Total Stockholders Equity	**128,711**	**114,397**
Total Liabilities and Stockholders Equity	**$ 180,772**	**$ 152,405**

See accompanying notes to condensed consolidated financial statements

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Lumber Liquidators, Inc.

Condensed Consolidated Statements of Income

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

(unaudited)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Net Sales	**$ 143,116**	**$ 128,037**	**$ 266,968**	**$ 242,586**
Cost of Sales	92,538	83,782	171,828	158,209
Gross Profit	**50,578**	**44,255**	**95,140**	**84,377**
Selling, General and Administrative Expenses	39,247	34,934	75,542	67,248
Operating Income	11,331	9,321	19,598	17,129
Interest and Other Income, net	(150)	(159)	(272)	(372)
Income Before Income Taxes	11,481	9,480	19,870	17,501
Provision for Income Taxes	4,542	3,604	7,838	7,313
Net Income	**$ 6,939**	**$ 5,876**	**$ 12,032**	**$ 10,188**
Net Income per Common Share Basic	**$ 0.26**	**$ 0.22**	**$ 0.45**	**$ 0.38**
Net Income per Common Share Diluted	**$ 0.25**	**$ 0.22**	**$ 0.44**	**$ 0.38**
Weighted Average Common Shares Outstanding:				
Basic	26,863,599	26,760,119	26,830,575	26,751,686
Diluted	27,534,297	27,261,011	27,355,657	27,031,200

See accompanying notes to condensed consolidated financial statements

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Lumber Liquidators, Inc.

Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Six Months Ended June 30, 2009	2008
Cash Flows from Operating Activities:		
Net Income	$ 12,032	$ 10,188
Adjustments to Reconcile Net Income to Net Cash Provided by (Used in) Operating Activities:		
Depreciation and Amortization	2,341	2,190
Stock-Based Compensation Expense	1,651	1,416
Changes in Operating Assets and Liabilities:		
Merchandise Inventories	(18,044)	(27,940)
Accounts Payable	6,623	3,904
Customer Deposits and Store Credits	3,370	2,824
Prepaid Expenses and Other Current Assets	1,152	(188)
Other Assets and Liabilities	1,510	680
Net Cash Provided by (Used in) Operating Activities	**10,635**	**(6,926)**
Cash Flows from Investing Activities:		
Purchases of Property and Equipment	(3,099)	(3,966)
Net Cash Used in Investing Activities	**(3,099)**	**(3,966)**
Cash Flows from Financing Activities:		
Payments of Long-Term Debt and Capital Lease Obligations	(1)	(76)
Proceeds from the Exercise of Stock Options	663	143
Excess Tax Benefits on Stock Option Exercises		33
Common Stock Purchased Pursuant to Equity Compensation Plans	(32)	(51)
Net Cash Provided by Financing Activities	**630**	**49**
Net Increase (Decrease) in Cash and Cash Equivalents	**8,166**	**(10,843)**
Cash and Cash Equivalents, Beginning of Period	**35,139**	**33,168**
Cash and Cash Equivalents, End of Period	**$ 43,305**	**$ 22,325**

See accompanying notes to condensed consolidated financial statements

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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

Nature and Organization of Business

Lumber Liquidators, Inc. (the Company), a Delaware corporation, 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 168 store locations in primary or secondary metropolitan areas in 45 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.

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 (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 (U.S. GAAP) 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 Lumber Liquidators, Inc. annual report filed on Form 10-K for the year ended December 31, 2008.

The consolidated financial statements of 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 year amounts have been reclassified to conform to the current year presentation. The Company has evaluated all subsequent events through August 5, 2009, the date the consolidated financial statements were issued.

Results of operations for the three and six months ended June 30, 2009 are not necessarily indicative of the results to be expected for the full year.

Fair Value of Financial Instruments

The carrying amounts of financial instruments such as cash and cash equivalents, notes receivable, accounts payable and other liabilities approximate fair value because of the short-term nature of these items.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. In February 2008, the FASB issued Staff Position No. 157-2 (FSP 157-2) which delayed the effective date of SFAS No. 157 one year for all nonfinancial assets and nonfinancial liabilities. The adoption of SFAS No. 157, as amended by FSP 157-2, did not have a material impact on the Company s consolidated financial statements.

In April 2009, the FASB issued Staff Position No. 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP No. 107-1). FSP No. 107-1 amends Statement of Financial Accounting Standards No. 107, Disclosures about Fair Value of Financial Instruments to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. FSP No. 107-1 also amends APB Opinion No. 28, Interim Financial Reporting , to require those disclosures in summarized financial information at interim reporting periods. FSP No. 107-1 is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of FSP No. 107-1 did not have a material impact on the Company s consolidated financial statements.

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In June 2009, the FASB issued Statement of Financial Accounting Standards No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (SFAS No. 168), and in doing so, authorized the Codification as the sole source for authoritative U.S. GAAP. SFAS No. 168 is effective for financial statements issued for reporting periods ending after September 15, 2009. Other than resolving certain minor inconsistencies in current U.S. GAAP, the Codification does not change U.S. GAAP, but is intended to make it easier to find and research U.S. GAAP applicable to particular transactions or specific accounting issues. The Codification is a new structure which takes accounting pronouncements and organizes them by approximately 90 accounting topics. The Codification will be the single source of authoritative U.S. GAAP.

NOTE 2. NET INCOME PER COMMON SHARE

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

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Net Income	$ 6,939	$ 5,876	$ 12,032	$ 10,188
Weighted Average Common Shares Outstanding Basic	26,863,599	26,760,119	26,830,575	26,751,686
Effect of Dilutive Securities:				
Common Stock Equivalents	670,698	500,892	525,082	279,514
Weighted Average Common Shares Outstanding Diluted	27,534,297	27,261,011	27,355,657	27,031,200
Net Income per Common Share Basic	$ 0.26	$ 0.22	$ 0.45	$ 0.38
Net Income per Common Share Diluted	$ 0.25	$ 0.22	$ 0.44	$ 0.38

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

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Stock Options	306,433	421,010	306,433	421,010
Restricted Stock Awards		32,063		32,063

NOTE 3. RELATED PARTY TRANSACTIONS

As of June 30, 2009, the Company leased the Corporate Headquarters and 23 of its store locations from ANO LLC, a company that is wholly owned by the Company s founder and current chairman of the Board (the Founder). The Company also leased one store location from Wood on Wood Road, Inc. and one store location from BMT Holdings, LLC. Wood on Wood Road, Inc. is wholly owned by the Founder, and 50% of the membership interest of BMT Holdings, LLC is owned by the Founder. Rental expense related to these companies for the three and six months ended June 30, 2009 was $639 and $1,272, respectively. Rental expense related to these companies for the three and six months ended June 30, 2008 was $626 and $1,252, respectively.

NOTE 4. COMMITMENTS AND CONTINGENCIES

In July 2006, the Company entered into a purchase agreement with Vazilia Corporation (Vazilia) pursuant to which the Company agreed to purchase a total of approximately 27 million square feet of Vazilia s assorted products over a four-year period, with the unit prices set at the time a purchase order was created/accepted (the Purchase Agreement). After entering into the Purchase Agreement, certain products ordered from Vazilia were not delivered and certain products that were delivered did not meet the applicable specifications, and the Company purchased these or similar products from other suppliers.

In October 2008, Vazilia filed a demand for arbitration in which it alleged that the Company had breached the Purchase Agreement. Vazilia sought damages of approximately $1,600, plus costs of the arbitration proceeding, as well as a declaration terminating the Purchase Agreement and awarding liquidated damages provided thereunder. In response to the demand for arbitration, the Company asserted a counterclaim against Vazilia in which it asserted that Vazilia had breached the Purchase Agreement. In its counterclaim, the Company sought damages of approximately $1,530, plus interest, attorney s fees and costs, as well as a declaration that the Purchase Agreement was terminated.

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In June 2009, the parties reached a settlement pursuant to which, among other things, the parties agreed to terminate the Purchase Agreement. As a result, the Company has no further obligation to purchase goods from Vazilia. Further, each party released any claims against the other relating to the Purchase Agreement or arbitration. No payments were made or received by either party in connection with the settlement.

The Company 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.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.
Cautionary Note Regarding Forward-Looking Statements

This report includes statements of our expectations, intentions, plans and beliefs that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and are intended to come within the safe harbor protection provided by those sections. These statements, which involve risks and uncertainties, relate to matters such as sales growth, comparable store net sales, impact of cannibalization, price changes, earnings performance, stock-based compensation expense, margins, return on invested capital, strategic direction, the demand for our products, and store openings. We have used words such as may, will, should, expects, intends, plans, anticipates, believes, thinks, estimates, seeks, predicts, could, projects, potential and other similar terms and references to assumptions, in this report to identify forward-looking statements. These forward-looking statements are made based on expectations and beliefs concerning future events affecting us and are subject to uncertainties, risks and factors relating to our operations and business environments, all of which are difficult to predict and many of which are beyond our control, that could cause our actual results to differ materially from those matters expressed or implied by these forward-looking statements. These risks and other factors include those listed in this report and in our other reports filed with the SEC, including the Item 1A, Risk Factors, section of our 2008 Annual Report on Form 10-K.

When considering these forward-looking statements, you should keep in mind the cautionary statements in this report and the documents incorporated by reference. New risks and uncertainties arise from time to time, and we cannot predict those events or how they may affect us. There may also be other factors that we cannot anticipate or that are not described in this report that could cause results to differ materially from our expectations. Forward-looking statements speak only as of the date they are made and we assume no obligation to update them after the date of this report as a result of new information, future events or subsequent developments, except as required by the federal securities laws.

This management discussion should be read in conjunction with the financial statements and notes included in Part I, Item 1. Financial Statements of this quarterly report and the audited financial statements and notes and management discussion included in our annual report filed on Form 10-K for the year ended December 31, 2008.

Overview

Lumber Liquidators is the largest specialty retailer of hardwood flooring in the United States, based on industry sources and our experience. We believe we have achieved a reputation for offering great value, superior service and a broad selection of high-quality hardwood flooring products. We offer an extensive selection of premium hardwood flooring products under multiple proprietary brands at everyday low prices designed to appeal to a diverse customer base. We believe that our vertically integrated business model enables us to offer a broad assortment of high-quality products to our customers at a lower cost than our competitors. As of June 30, 2009, we sold our products through 168 Lumber Liquidators stores in 45 states, a call center, websites and catalogs.

2009 Highlights

Net Sales. Net sales for the second quarter of 2009 increased 11.8% over the second quarter of 2008, as non-comparable store net sales from 33 new store locations opened after June 30, 2008, more than offset a 1.8% decrease in net sales at comparable stores[1]. Net sales for the six months ended June 30, 2009 increased 10.1% over the six months ended June 30, 2008, as non-comparable store net sales more than offset a 3.7% decrease in net sales at comparable stores.

[1] We generally consider a store comparable on the first day of the thirteenth full calendar month after opening.

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Generally strong consumer demand for our value proposition continued to drive increases in our total sales volume, primarily measured in square footage, in both comparable and non-comparable stores. However, consumer demand continued to shift our mix of products sold, or sales mix, to certain key product lines which generally have a lower than average retail price, though consumers continued to prefer the premium products within those product lines. As a net result, our average sale[2] measured across all stores decreased approximately 13.5% and 11.2% in comparing