

BLUE NILE INC
 Form 10-Q
 August 07, 2014
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UNITED STATES
 SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, DC 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 29, 2014

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 000-50763

BLUE NILE, INC.
 (Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	91-1963165 (I.R.S. Employer Identification No.)
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411 First Avenue South, Suite 700, Seattle, Washington (Address of principal executive offices) (206) 336-6700 (Registrant's telephone number, including area code)	98104 (Zip code)
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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 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 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting 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

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 1, 2014, the registrant had 11,837,200 shares of common stock outstanding.

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Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements that involve many risks and uncertainties. These statements, which relate to future events and our future performance, are based on current expectations, estimates, forecasts and projections about the industries in which we operate and the beliefs and assumptions of our management as of the date of this filing. In some cases, you can identify forward-looking statements by terms such as “would,” “could,” “may,” “will,” “should,” “expect,” “intend,” “plan,” “anticipate,” “believe,” “estimate,” “might”, “predict,” “seek,” or “continue,” the negative of these terms or other variations of such terms. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our business and other characterizations of future events or circumstances are forward-looking statements. These statements are only predictions based upon assumptions made that are believed to be reasonable at the time, and are subject to risk and uncertainties. Therefore, actual events or results may differ materially and adversely from those expressed in any forward-looking statement. In evaluating these statements, you should specifically consider the risks described under the caption “Item 1A — Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q. These factors, and other factors, may cause our actual results to differ materially from any forward-looking statement. Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BLUE NILE, INC.

Condensed Consolidated Balance Sheets

(unaudited)

(in thousands, except par value)

	June 29, 2014	December 29, 2013	June 30, 2013
ASSETS			
Current assets:			
Cash and cash equivalents	\$39,519	\$115,942	\$47,314
Trade accounts receivable	1,380	3,005	2,544
Other accounts receivable	481	521	830
Inventories	32,149	34,530	31,561
Deferred income taxes	588	1,038	722
Prepaid income taxes	—	247	—
Prepays and other current assets	1,673	1,318	1,294
Total current assets	75,790	156,601	84,265
Property and equipment, net	10,026	10,188	8,361
Intangible assets, net	119	140	166
Deferred income taxes	4,001	5,470	8,308
Note receivable	2,000	2,000	2,000
Other investments	2,280	2,280	2,000
Other assets	240	246	197
Total assets	\$94,456	\$176,925	\$105,297
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$77,125	\$122,322	\$77,664
Accrued liabilities	6,452	10,751	8,032
Current portion of long-term financing obligation	32	51	60
Current portion of deferred rent	273	279	282
Total current liabilities	83,882	133,403	86,038
Long-term financing obligation, less current portion	505	574	595
Deferred rent, less current portion	2,119	2,229	2,344
Other long-term liabilities	115	114	26
Stockholders' equity:			
Preferred stock, \$0.001 par value; 5,000 shares authorized, none issued and outstanding	—	—	—
Common stock, \$0.001 par value; 300,000 shares authorized; 21,593, 21,480 and 20,778 shares issued, respectively, 11,894, 12,932 and 12,407 shares outstanding, respectively	22	22	21
Additional paid-in capital	225,964	223,261	200,321
Accumulated other comprehensive loss	(45) (26) (111
Retained earnings	97,008	93,758	85,921
Treasury stock, at cost; 9,699, 8,548 and 8,371 shares outstanding, respectively	(315,114) (276,410) (269,858

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Total stockholders' equity	7,835	40,605	16,294
Total liabilities and stockholders' equity	\$94,456	\$176,925	\$105,297

The accompanying notes are an integral part of these condensed consolidated financial statements.

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BLUE NILE, INC.
Condensed Consolidated Statements of Operations
(unaudited)
(in thousands, except per share data)

	Quarter ended		Year to date ended	
	June 29, 2014	June 30, 2013	June 29, 2014	June 30, 2013
Net sales	\$106,571	\$108,014	\$210,297	\$205,125
Cost of sales	86,404	87,917	171,005	167,382
Gross profit	20,167	20,097	39,292	37,743
Selling, general and administrative expenses	16,980	16,685	34,497	33,173
Operating income	3,187	3,412	4,795	4,570
Other income, net:				
Interest income, net	24	22	72	64
Other income, net	36	38	34	140
Total other income, net	60	60	106	204
Income before income taxes	3,247	3,472	4,901	4,774
Income tax expense	1,076	1,266	1,651	1,736
Net income	\$2,171	\$2,206	\$3,250	\$3,038
Basic net income per share	\$0.18	\$0.18	\$0.26	\$0.24
Diluted net income per share	\$0.18	\$0.17	\$0.26	\$0.24

The accompanying notes are an integral part of these condensed consolidated financial statements.

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BLUE NILE, INC.
 Condensed Consolidated Statements of Comprehensive Income
 (unaudited)
 (in thousands)

	Quarter ended		Year to date ended	
	June 29, 2014	June 30, 2013	June 29, 2014	June 30, 2013
Net income	\$2,171	\$2,206	\$3,250	\$3,038
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(13) 33	(19) (11
Total comprehensive income	\$2,158	\$2,239	\$3,231	\$3,027

The accompanying notes are an integral part of these condensed consolidated financial statements.

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BLUE NILE, INC.

Condensed Consolidated Statement of Changes in Stockholders' Equity

(unaudited)

(in thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
December 30, 2013	21,480	\$22	\$223,261	\$93,758	\$ (26)	(8,548)	\$(276,410)	\$40,605
Net income				3,250				3,250
Other comprehensive loss					(19)			(19)
Tax deficiency from exercise of stock options			(1,609)					(1,609)
Exercise of common stock options	92	—	2,255					2,255
Issuance of common stock to directors	1	—	40					40
Vesting of restricted stock units	26	—						—
Shares withheld related to net share settlement of equity awards	(6)		(214)					(214)
Stock-based compensation			2,231					2,231
Repurchase of common stock						(1,151)	(38,704)	(38,704)
Balance, June 29, 2014	21,593	\$22	\$225,964	\$97,008	\$ (45)	(9,699)	\$(315,114)	\$7,835

The accompanying notes are an integral part of these condensed consolidated financial statements.

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BLUE NILE, INC.
 Condensed Consolidated Statements of Cash Flows
 (unaudited)
 (in thousands)

	Year to date ended	
	June 29, 2014	June 30, 2013
Operating activities:		
Net income	\$3,250	\$3,038
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	1,819	1,568
Stock-based compensation	2,223	2,491
Deferred income taxes	1,919	(318)
Tax deficiency from exercise of stock options	(1,609)) (12)
Excess tax benefit from exercise of stock options	(173)) (39)
Changes in assets and liabilities:		