

BLUE NILE INC
Form 10-Q
August 09, 2016
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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 July 3, 2016

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	91-1963165
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

411 First Avenue South, Suite 700, Seattle, Washington	98104
(Address of principal executive offices)	(Zip code)
(206) 336-6700	
(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), 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 Smaller reporting company

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 3, 2016, the registrant had 11,616,870 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)

	July 3, 2016	January 3, 2016	July 5, 2015
ASSETS			
Current assets:			
Cash and cash equivalents	\$36,617	\$86,542	\$39,661
Trade accounts receivable	2,725	3,339	3,875
Other accounts receivable, net	871	706	1,262
Note receivable	300	600	1,200
Inventories	43,382	46,376	36,794
Prepays and other current assets	1,719	1,585	1,947
Total current assets	85,614	139,148	84,739
Property and equipment, net	11,239	10,530	10,736
Deferred income taxes	4,649	5,089	4,525
Other investments	2,280	2,280	2,280
Other assets	282	367	317
Total assets	\$104,064	\$157,414	\$102,597
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$76,688	\$121,917	\$81,571
Accrued liabilities	7,945	12,336	9,366
Current portion of long-term financing obligation	34	33	33
Current portion of deferred rent	337	290	292
Total current liabilities	85,004	134,576	91,262
Long-term financing obligation, less current portion	438	455	472
Deferred rent, less current portion	1,688	1,697	1,844
Unearned income	1,683	1,988	—
Other long-term liabilities	263	242	169
Commitments and contingencies			
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; 21,769, 21,714 and 21,648 shares issued, respectively, 11,617, 11,575 and 11,517 shares outstanding, respectively	22	22	22
Additional paid-in capital	233,927	232,148	229,283
Accumulated other comprehensive loss	(232)	(239)	(197)
Retained earnings	109,087	114,023	107,007
Treasury stock, at cost; 10,152, 10,139 and 10,131 shares outstanding, respectively	(327,816)	(327,498)	(327,265)
Total stockholders' equity	14,988	18,456	8,850
Total liabilities and stockholders' equity	\$104,064	\$157,414	\$102,597

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	
	July 3, 2016	July 5, 2015	July 3, 2016	July 5, 2015
Net sales	\$113,771	\$113,693	\$216,827	\$220,140
Cost of sales	91,373	91,604	174,203	178,078
Gross profit	22,398	22,089	42,624	42,062
Selling, general and administrative expenses	19,129	18,650	38,107	36,713
Operating income	3,269	3,439	4,517	5,349
Other income, net:				
Interest income, net	16	28	25	64
Other income, net	19	116	481	33
Total other income, net	35	144	506	97
Income before income taxes	3,304	3,583	5,023	5,446
Income tax expense	1,177	1,252	1,816	1,928
Net income	\$2,127	\$2,331	\$3,207	\$3,518
Basic net income per share	\$0.18	\$0.20	\$0.28	\$0.30
Diluted net income per share	\$0.18	\$0.20	\$0.27	\$0.30

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	
	July 3, 2016	July 5, 2015	July 3, 2016	July 5, 2015
Net income	\$2,127	\$2,331	\$3,207	\$3,518
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(20)	177	7	39
Total comprehensive income	\$2,107	\$2,508	\$3,214	\$3,557

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			Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total Stockholders' Equity
	Shares	Amount	Additional Paid-in Capital			Shares	Amount	
Balance, January 4, 2016	21,714	\$ 22	\$232,148	\$114,023	\$ (239)	(10,139)	\$(327,498)	\$ 18,456
Net income				3,207				3,207
Other comprehensive income					7			7
Dividends and dividend equivalents				(8,143)				(8,143)
Tax deficiency from share-based awards			(148)					(148)
Exercise of common stock options	—	—	1					1
Issuance of common stock to directors	1	—	20					20
Vesting of restricted stock units and dividend equivalents	72	—	20					20
Shares withheld related to net share settlement of share-based awards	(18)	—	(460)					(460)
Stock-based compensation			2,346					2,346
Repurchase of common stock						(13)	(318)	(318)
Balance, July 3, 2016	21,769	\$ 22	\$233,927	\$109,087	\$ (232)	(10,152)	\$(327,816)	\$ 14,988

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	
	July 3, 2016	July 5, 2015
Operating activities:		
Net income	\$3,207	\$3,518
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	2,378	1,831
Stock-based compensation	2,317	2,538
Deferred income taxes	440	(338)
Tax deficiency from share-based awards	(148)	(183)
Changes in assets and liabilities:		
Receivables	449	(1,428)
Inventories	2,994	4,874
Prepaid expenses and other assets	(66)	(392)
Accounts payable	(45,379)	(47,394)
Accrued liabilities	(4,391)	(2,626)
Unearned income	(305)	—
Deferred rent and other	59	(138)
Net cash used in operating activities	(38,445)	(39,738)
Investing activities:		
Purchases of property and equipment	(2,871)	(1,952)
Payments received on note receivable	300	800
Net cash used in investing activities	(2,571)	(1,152)
Financing activities:		
Repurchase of common stock	(318)	(10,279)
Proceeds from stock option exercises	1	—
Taxes paid for net share settlement of share-based awards	(460)	(282)
Cash dividends paid	(8,123)	—
Principal payments under long-term financing obligation	(16)	(16)
Net cash used in financing activities	(8,916)	(10,577)
Effect of exchange rate changes on cash and cash equivalents	7	(58)
Net decrease in cash and cash equivalents	(49,925)	(51,525)
Cash and cash equivalents, beginning of period	86,542	91,186
Cash and cash equivalents, end of period	\$36,617	\$39,661
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$2,546	\$3,020
Non-cash investing and financing activities:		
Unsettled repurchases of common stock	\$—	\$268

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

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BLUE NILE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Description of Our Business and Summary of Significant Accounting Policies

The Company

Blue Nile, Inc. (“Blue Nile,” the “Company,” “we” or “our”) is a leading retailer of high-quality diamonds and fine jewelry. In addition to sales of diamonds and fine jewelry, the Company provides education, guidance and support to enable customers to more effectively learn about and purchase diamonds and fine jewelry. The Company, a Delaware corporation based in Seattle, Washington, was formed in March 1999. The Company serves consumers in over 40 countries and territories all over the world through its website at www.bluenile.com. Information found on the Company’s website is not incorporated by reference into this Quarterly Report on Form 10-Q or any of its other filings with the U.S. Securities and Exchange Commission (the “SEC”).

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Notes to Consolidated Financial Statements contained in the Company’s Annual Report on Form 10-K for the year ended January 3, 2016, filed with the SEC on March 1, 2016 (the “Annual Report”). The same accounting policies are followed for preparing quarterly and annual financial statements. In the opinion of management, all adjustments necessary for the fair presentation of the financial position, results of operations, and cash flows for the interim periods have been included and are of a normal, recurring nature.

The financial information as of January 3, 2016 is derived from the Company’s audited consolidated financial statements and notes thereto for the fiscal year ended January 3, 2016, included in Item 8 of the Annual Report. Due to a number of factors, including the seasonal nature of the retail industry and other factors described in this Quarterly Report on Form 10-Q, quarterly results are not necessarily indicative of the results for the full fiscal year or any other subsequent interim period.

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All transactions and balances between the Company and its wholly-owned subsidiaries are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Some of the more significant estimates include the allowance for sales returns, accounting for taxes, and inventory valuation. Actual results could differ materially from those estimates.

Foreign Currency

The functional currency of most of the Company’s subsidiaries is the applicable local currency. The assets and liabilities of our subsidiaries have been translated to U.S. dollars using the exchange rates effective on the balance sheet dates, while income and expense accounts are translated at the average rates in effect during the periods presented. The resulting translation adjustments are recorded as a component of other comprehensive income (loss) within stockholders’ equity.

The Company offers customers the ability to transact in 23 currencies. Some of the Company’s subsidiaries engage in transactions denominated in currencies other than the Company’s functional currency. Gains or losses arising from these transactions are recorded in other income (loss), net in the condensed consolidated statements of operations.

Note Receivable and Other Investments

The Company holds a minority ownership of a privately-held company in the form of convertible preferred shares, purchased for an aggregate amount of \$2.0 million, which we account for under the cost method of accounting.

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BLUE NILE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The Company holds a \$2.0 million note receivable (the “Note”) from the same privately-held company. As of July 3, 2016, the remaining balance of the Note was \$0.3 million, with the remainder of the principal due within a year. The interest rate changes over the term of the Note to LIBOR plus a predetermined rate per annum. The Note is recorded at its face amount on the Company’s condensed consolidated balance sheet.

The Company holds a minority ownership in another privately-held company in the form of common stock and warrants, purchased for \$280,000, which we account for under the cost method of accounting.

The Company reviews its investments for impairment when events and circumstances indicate that the decline in fair value of the assets below the carrying value is other-than-temporary. No other-than-temporary impairment charges were recorded for the year to date ended July 3, 2016.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2014-09 (“ASU 2014-09”), “Revenue from Contracts with Customers (Topic 606),” which will amend the existing revenue recognition guidance. The core principle of this guidance is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This new guidance is effective for the Company beginning the first quarter of 2018, and may be applied on a retrospective basis or by the cumulative effect transition method. To improve and clarify the guidance set forth in ASU 2014-09, the FASB issued the following supplemental guidance relevant to the Company which have the same effective date as that of ASU 2014-09:

• in March 2016, the FASB issued ASU 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)”;

• in April 2016, the FASB issued ASU No. 2016-10 “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing”;

• in May 2016, the FASB issued ASU 2016-12 “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients.”

The Company is currently evaluating the impact of ASU 2014-09 and the related supplemental guidance noted above will have on its consolidated financial statements and related disclosures.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory,” which changes the subsequent measurement of inventory from lower of cost or market to lower of cost and net realizable value. The guidance will require prospective application at the beginning of the Company’s first quarter of fiscal year 2017, but permits adoption in an earlier period. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements and related disclosures.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17 (“ASU 2015-17”), “Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes,” which simplifies the presentation of deferred income taxes by requiring deferred tax assets and liabilities to be classified as noncurrent on the balance sheet. ASU 2015-17 is effective for periods beginning on January 1, 2017 and may be applied prospectively or retrospectively. Early adoption is permitted. The Company retrospectively adopted this guidance effective January 3, 2016. The impact of adopting ASU 2015-17 resulted in a reclassification of our current deferred income tax asset to non-current deferred income tax asset in the amount of \$1.2 million, in our previously presented consolidated balance sheet as of July 5, 2015.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01 (“ASU 2016-01”), “Financial Instruments - Overall, Recognition and Measurement of Financial Assets and Financial Liabilities,” which amends various aspects of recognition, measurement, presentation and disclosure of financial instruments. This update will require prospective application at the beginning of the Company’s first quarter of fiscal year 2018. For certain provisions, early adoption is permitted. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements and related disclosures and the timing of adoption.

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BLUE NILE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, "Leases (Topic 842)," which increases transparency and comparability among companies accounting for lease transactions. The most significant change of this update will require the recognition of lease assets and liabilities on the balance sheet for operating lease arrangements with lease terms greater than 12 months for lessees. This update will require a modified retrospective application which includes a number of optional practical expedients related to the identification and classification of leases commenced before the effective date. This update will become effective beginning the first quarter of the Company's fiscal year 2019. Early adoption is permitted. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements and related disclosures and the timing of adoption.

In March 2016, the FASB issued Accounting Standards Update No. 2016-04, "Liabilities - Extinguishments of Liabilities (Subtopic 405-20), Recognition of Breakage for Certain Prepaid Stored-Value Products," which narrows the scope exception for liabilities related to the sale of prepaid stored-value products to account for breakage on those liabilities consistent with the breakage guidance in Topic 606, "Revenue from Contracts with Customers." This update will become effective beginning the first quarter of the Company's fiscal year 2018, and shall be applied using either a modified retrospective transition method, or a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year in which the guidance is effective, or retrospectively. Early adoption is permitted. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements and related disclosures and the timing of adoption.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, "Compensation - Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting," which simplifies the accounting for share-based payment transactions, including income taxes, classification of awards as equity or liabilities and classification of cash flows. This update will become effective beginning the first quarter of the Company's fiscal year 2017. Early adoption is permitted. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements and related disclosures and the timing of adoption.

Note 2. Stock-based Compensation

As of July 3, 2016, the Company had four equity plans. Additional information regarding these plans is disclosed in the Annual Report.

Stock-based compensation expense, net of estimated forfeitures, is recognized on a straight-line basis over the vesting period for each stock option or restricted stock unit ("RSU") grant that is expected to vest at some point in the future. Forfeitures are estimated at the date of grant based on the Company's historical experience and future expectations. The fair value of each stock option on the date of grant is estimated using the Black-Scholes-Merton option valuation model. The assumptions used to calculate the fair value of stock options granted are evaluated and revised, if necessary, to reflect market conditions and the Company's experience. The fair value of each RSU is based on the Fair Market Value (as defined in the Company's 2013 Equity Incentive Plan) of the Company's common stock on the date of the grant.

There were no stock options granted during the year to date ended July 3, 2016.

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BLUE NILE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

A summary of RSU activity for the year to date ended July 3, 2016 is as follows:

	RSUs (in thousands)	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Balance, January 4, 2016	301	\$ 29.25		
Granted	183	24.98		
Special dividend adjustment	11	31.10		
Vested	(72)	25.46		
Canceled	(34)	26.78		
Balance, July 3, 2016	389	\$ 27.52	1.59	\$ 10,781
Vested and expected to vest at July 3, 2016	331	\$ 32.38	1.48	\$ 9,164

The aggregate intrinsic value in the table above is before applicable income taxes and represent the amount recipients would have received if all RSUs had been released on the last business day of the period indicated, based on the closing stock price of the Company's common stock on such date. The total intrinsic value of RSUs vested was approximately \$2.0 million during the year to date ended July 3, 2016 and \$1.3 million during the year to date ended July 5, 2015. During the year to date ended July 3, 2016 and July 5, 2015, the total fair value of RSUs vested was approximately \$1.8 million and \$1.2 million, respectively.

As of July 3, 2016, the Company had total unrecognized compensation costs related to unvested RSUs of \$8.1 million, before income taxes. The Company expects to recognize this cost over a weighted average period of 2.9 years.

Note 3. Inventories

Inventories are stated at cost and consist of the following (in thousands):

	July 3, 2016	January 3, 2016	July 5, 2015
Loose diamonds	\$ 13,940	\$ 12,420	\$ 9,353
Fine jewelry and other	29,442	33,956	27,441
Total	\$ 43,382	\$ 46,376	\$ 36,794

Note 4. Net Income Per Share

Basic net income per share is based on the weighted average number of common shares outstanding. Diluted net income per share is based on the weighted average number of common shares and common share equivalents outstanding. Common share equivalents included in the computation represent shares issuable upon assumed exercise of outstanding stock options and conversion of unvested RSUs, except when the effect of their inclusion would be antidilutive.

The following tables set forth the computation of basic and diluted net income per share (in thousands, except per share data):

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BLUE NILE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

	Quarter ended		Year to date ended	
	July 3, 2016	July 5, 2015	July 3, 2016	July 5, 2015
Net income	\$2,127	\$2,331	\$3,207	\$3,518
Weighted average common shares outstanding	11,618	11,728	11,605	11,798
Basic net income per share	\$0.18	\$0.20	\$0.28	\$0.30
Dilutive effect of stock options and RSUs	32	33	66	51
Common stock and common stock equivalents	11,650	11,761	11,671	11,849
Diluted net income per share	\$0.18	\$0.20	\$0.27	\$0.30

For the quarter and year to date ended July 3, 2016, the Company excluded 865,614 and 861,775 stock option and award shares, respectively, from the computation of diluted net income per share due to their antidilutive effect. For the quarter and year to date ended July 5, 2015, the Company excluded 966,644 and 912,014 stock option and award shares, respectively, from the computation of diluted net income per share due to their antidilutive effect.

Note 5. Commitments and Contingencies

In the ordinary course of business, the Company may be subject from time to time to various proceedings, lawsuits, disputes or claims. In addition, the Company is regularly audited by various tax authorities. Although the Company cannot predict with assurance the outcome of any litigation or audit, it does not believe there are currently any such actions that, if resolved unfavorably, would have a material impact on the Company's financial condition, results of operations, or cash flows.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our consolidated financial statements and the related notes contained elsewhere in this Quarterly Report on Form 10-Q and our Annual Report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Quarterly Report on Form 10-Q, particularly in "Risk Factors."

Management Overview

Blue Nile is a leading retailer of high-quality diamonds and fine jewelry. We offer our products for sale through the Blue Nile website in over 40 countries and territories throughout the world. Our long-term objective is to maximize our revenue, profitability and cash flow by offering exceptional value, quality, and service to our customers. Our business model leverages our ability to source the world's largest supply of GIA certified diamonds for sale to our customers typically without purchasing inventory until a customer selects the product. This low inventory model, coupled with a lean and efficient operating framework enables us to operate at scale with a relatively small physical footprint and employee base. This lean expense structure avoids many of the costs that are typically incurred by traditional physical retail stores. As a result, we are able to realize lower gross profit margins while remaining profitable and providing value to our customers through lower retail prices.

The foundation of our strategic initiatives is to provide a compelling experience that illuminates the advantages of buying from us. The products we sell are typically high in value and involve significant research from the customers before they purchase. As such, it is important that the customers trust that the products they receive are fairly priced, of exceptional quality, and delivered on time. We are building higher levels of trust with our consumers by providing information, transparency, product selection and service via an exceptional user experience. We are continually enhancing this experience through features on our website, ongoing improvement of our customer service call center and in an offline extension of Blue Nile called Webrooms. We also invest in marketing to drive greater brand awareness.