

Overstock.com Reports Q2 2013 Results

July 18, 2013

Q2 2013 Revenue growth of 22% generates \$3.7 million of net income

SALT LAKE CITY, July 18, 2013 /PRNewswire/ -- [Overstock.com, Inc.](http://www.overstock.com) (NASDAQ: OSTK) today reported financial results for the quarter ended June 30, 2013.

(Logo: <http://photos.prnewswire.com/prnh/20120110/LA33954LOGO>)

Key Q2 2013 metrics (comparison to Q2 2012):

- Revenue: \$293.2M vs. \$239.5M (22% increase);
- Gross margin: 19.7% vs. 18.0% (170 basis point increase);
- Gross profit: \$57.8M vs. \$43.2M (34% increase);
- Sales and marketing expense: \$19.2M vs. \$13.5M (42% increase);
- Contribution (non-GAAP measure): \$38.6M vs. \$29.7M (30% increase);
- G&A/Technology expense: \$34.5M vs. \$29.6M (16% increase);
- Net income: \$3.7M vs. \$470,000 (\$3.2M / 687% increase); and
- Diluted EPS: \$0.15/share vs. \$0.02/share (\$0.13/share / 650% increase).

As previously announced, the Company will hold a conference call and webcast to discuss its Q2 2013 financial results today, Thursday, July 18, 2013, at 11:30 a.m. ET.

Webcast information

To access the live webcast and presentation slides, please go to <http://investors.overstock.com>. To listen to the conference call via telephone, dial (866) 551-1816 and enter conference ID 17544716 when prompted. Participants outside the United States or Canada who do not have Internet access should dial +1 (706) 758-1198 then enter the conference ID provided above.

A replay of the conference call will be available at <http://investors.overstock.com> starting two hours after the live call has ended. An audio replay of the webcast will be available via telephone starting at 2:30 p.m. ET on Thursday, July 18, 2013, through 11:59 p.m. ET on Sunday, August 18, 2013. To listen to the recorded webcast by phone, please dial (855) 859-2056 then enter the conference ID provided above. Outside the U.S. or Canada please dial +1 (404) 537-3406 and enter the conference ID provided above.

Please email questions to Mark Harden at mharden@overstock.com prior to the conference call.

Key financial and operating metrics:

Investors should review our financial statements and publicly-filed reports in their entirety and not rely on any single financial measure.

Net revenue — Total net revenue for Q2 2013 and 2012 was \$293.2 million and \$239.5 million, respectively, a 22% increase. The growth in net revenue was primarily due to a 21% increase in average order size, from \$138 in Q2 2012 to \$167 in Q2 2013.

Gross profit — Gross profit for Q2 2013 and 2012 was \$57.8 million and \$43.2 million, respectively, a 34% increase, representing 19.7% and 18.0% of total net revenue for those respective periods. The increase in gross profit was primarily due to higher revenue, a shift in product sales mix into higher margin home and garden products, and lower warehousing costs, partially offset by higher freight costs.

Contribution (a non-GAAP financial measure) and contribution margin (a non-GAAP financial measure) — Contribution for Q2 2013 and 2012 was \$38.6 million and \$29.7 million, respectively, a 30% increase. Contribution margin was 13.2% and 12.4% for those same periods.

Contribution (a non-GAAP financial measure) (which we reconcile to "gross profit" in our statement of income) consists of gross profit less sales and marketing expense and reflects an additional way of viewing our results. Contribution margin is contribution as a percentage of total net revenue. We believe contribution and contribution margin provides management and users of the financial statements information about our ability to cover our operating costs, such as technology and general and administrative expenses. Contribution and contribution margin are used in addition to and in conjunction with results presented in accordance with GAAP and should not be relied upon to the exclusion of GAAP financial measures. The material limitation associated with the

use of contribution is that it is an incomplete measure of profitability as it does not include all operating expenses or non-operating income and expenses. Management compensates for these limitations when using this measure by looking at other GAAP measures, such as operating income and net income.

For further details on contribution and contribution margin, see the calculation of these non-GAAP financial measures and the reconciliation of contribution to gross profit below (in thousands):

	Three months ended			
	June 30,			
	2013		2012	
Total net revenue	\$293,204	100%	\$239,536	100%
Cost of goods sold	235,365	80.3%	196,367	82.0%
Gross profit	57,839	19.7%	43,169	18.0%
Less: Sales and marketing expense	19,208	6.6%	13,512	5.6%
Contribution and contribution margin	\$38,631	13.2%	\$29,657	12.4%

Sales and marketing expenses — Sales and marketing expenses totaled \$19.2 million and \$13.5 million for Q2 2013 and 2012, respectively, a 42% increase, and representing 6.6% and 5.6% of total net revenue for those respective periods. The increase was primarily due to increased spending in the sponsored search marketing channel due to a higher proportion of our revenue coming through that channel.

Technology expenses — Technology expenses totaled \$17.9 million and \$15.1 million for Q2 2013 and 2012, respectively, a 19% increase, and representing 6.1% and 6.3% of total net revenue for those respective periods. The \$2.8 million increase is primarily due to an increase in staff-related costs.

General and administrative ("G&A") expenses — G&A expenses totaled \$16.6 million and \$14.5 million for Q2 2013 and 2012, respectively, a 14% increase, and representing 5.7% and 6.1% of total net revenue for those respective periods. The \$2.1 million increase is primarily due to increased legal fees and staff-related costs.

Restructuring — Restructuring was a credit of \$39,000 and zero for Q2 2013 and 2012, respectively. The credit in Q2 2013 is related to terminating our office space lease in Provo, Utah.

Operating income — Operating income was \$4.2 million and \$19,000 for Q2 2013 and 2012, respectively, a \$4.1 million increase.

Interest income — Interest income was \$32,000 and \$27,000 for Q2 2013 and 2012, respectively.

Interest expense — Interest expense totaled \$37,000 and \$253,000 for Q2 2013 and 2012, respectively. The decrease is primarily due to our repayment of the \$17.0 million in advances under the U.S. Bank Financing Agreement in November 2012.

Other income (expense), net — Other income (expense), net totaled (\$150,000) and \$719,000 for Q2 2013 and 2012, respectively. The \$869,000 decrease is primarily related to an unrealized loss on our investment in precious metals and a decrease in Club O rewards breakage.

Income taxes — Income tax expense totaled \$312,000 and \$42,000 for Q2 2013 and 2012, respectively. The \$270,000 increase is primarily related to higher net income.

Net income — Net income was \$3.7 million and \$470,000 for Q2 2013 and 2012, respectively, an increase of \$3.2 million. Q2 2013 diluted earnings per share were \$0.15, compared to \$0.02 for Q2 2012.

Free cash flow (a non-GAAP financial measure) — Free cash flow totaled \$46.3 million and \$8.0 million for the twelve months ended June 30, 2013 and 2012, respectively. The \$38.3 million increase was due to a \$42.3 million increase in operating cash flows, partially offset by a \$4.1 million increase in capital expenditures.

Free cash flow reflects an additional way of viewing our cash flows and liquidity that, when viewed with our GAAP results, provides a more complete understanding of factors and trends affecting our cash flows and liquidity. Free cash flow, which we reconcile to "net cash provided by (used in) operating activities," is cash flow from operations reduced by "expenditures for fixed assets, including internal-use software and website development." We believe that cash flows from operating activities is an important measure, since it includes both the cash impact of the continuing operations of the business and changes in the balance

sheet that impact cash. However, we believe free cash flow is a useful measure to evaluate our business since purchases of fixed assets are a necessary component of ongoing operations and free cash flow measures the amount of cash we have available for mandatory debt service and financing obligations, changes in our capital structure, and future investments, after we have paid our operating expenses. Therefore, we believe it is important to view free cash flow as a complement to our entire consolidated statements of cash flows.

Our calculation of free cash flow is set forth below (in thousands):

	Six months ended		Twelve months ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net cash provided by (used in) operating activities	\$3,521	\$(29,941)	\$61,607	\$19,258
Expenditures for fixed assets, including internal-use software and website development	(9,296)	(6,503)	(15,282)	(11,220)
Free cash flow	\$(5,775)	\$(36,444)	\$46,325	\$8,038

Cash and working capital — We had cash and cash equivalents of \$84.7 million and \$93.5 million and working capital of \$14.1 million and \$7.5 million at June 30, 2013 and December 31, 2012, respectively.

About Overstock.com

[Overstock.com](http://www.overstock.com) (NASDAQ: OSTK) is an online discount retailer based in Salt Lake City, Utah that sells a broad range of products including furniture, rugs, bedding, electronics, clothing, jewelry and cars. [Worldstock.com](http://www.worldstock.com), a fair trade department dedicated to selling artisan-crafted products from around the world offers additional unique items. [Main Street Revolution](http://www.mainstreetrevolution.com) supports small businesses across the United States by providing them a national customer base. The Nielsen State of the Media: Consumer Usage Report placed Overstock.com among the top five most visited mass merchandiser websites in 2011. The NRF Foundation/American Express 2011 Customer Choice Awards ranked Overstock.com #4 in customer service among all U.S. retailers. Overstock.com sells internationally under the name O.co. Overstock.com (<http://www.overstock.com> and <http://www.o.co>) regularly posts information about the company and other related matters under [Investor Relations](http://www.overstock.com/investor-relations) on its website.

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This press release contains certain 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. Such forward-looking statements include all statements other than statements of historical fact. Our Annual Report on Form 10-K for the year ended December 31, 2012, which was filed with the Securities and Exchange Commission on February 21, 2013, our Form 10-Q for the quarter ended March 31, 2013 which was filed with the Securities and Exchange Commission on April 25, 2013, and our other subsequent filings with the Securities and Exchange Commission identify important factors that could cause our actual results to differ materially from those contained in our projections, estimates or forward-looking statements.

Overstock.com, Inc.

Consolidated Balance Sheets (Unaudited) (in thousands)

	June 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$84,737	\$93,547
Restricted cash	1,780	1,905
Accounts receivable, net	14,582	19,273
Inventories, net	20,989	26,464
Prepaid inventories, net	1,652	1,912
Prepays and other assets	16,785	12,897
Total current assets	140,525	155,998
Fixed assets, net	25,541	21,037
Goodwill	2,784	2,784
Other long-term assets, net	2,476	2,166
Total assets	\$171,326	\$181,985

Liabilities and Stockholders' Equity

Current liabilities:

Accounts payable	\$49,498	\$ 62,416
Accrued liabilities	47,064	47,674
Deferred revenue	29,859	38,411
Total current liabilities	126,421	148,501
Other long-term liabilities	1,383	2,522
Total liabilities	127,804	151,023

Stockholders' equity:

Common stock	2	2
Additional paid-in capital	359,449	356,895
Accumulated deficit	(235,701)	(247,096)
Treasury stock	(80,228)	(78,839)
Total stockholders' equity	43,522	30,962
Total liabilities and stockholders' equity	\$171,326	\$ 181,985

Overstock.com, Inc.
**Consolidated Statements of Income and
Comprehensive Income (Unaudited)**
(in thousands, except per share data)

	Three months ended		Six months ended	
	June 30, 2013	2012	June 30, 2013	2012
Revenue, net				
Direct	\$36,250	\$33,936	\$78,192	\$74,833
Fulfillment partner	256,954	205,600	527,006	427,070
Total net revenue	293,204	239,536	605,198	501,903
Cost of goods sold				
Direct	31,842	31,108	68,991	68,738
Fulfillment partner	203,523	165,259	419,432	342,488
Total cost of goods sold	235,365	196,367	488,423	411,226
Gross profit	57,839	43,169	116,775	90,677
Operating expenses:				
Sales and marketing	19,208	13,512	37,913	27,987
Technology	17,920	15,122	36,080	30,760
General and administrative	16,585	14,516	31,673	29,338
Restructuring	(39)	-	(471)	98
Total operating expenses	53,674	43,150	105,195	88,183
Operating income	4,165	19	11,580	2,494
Interest income	32	27	66	56
Interest expense	(37)	(253)	(88)	(461)
Other income (expense), net	(150)	719	195	1,151
Income before income taxes	4,010	512	11,753	3,240
Provision for income taxes	312	42	358	51
Net income	\$3,698	\$470	\$11,395	\$3,189
Net income per common share—basic:				
Net income attributable to common shares—basic	\$0.16	\$0.02	\$0.48	\$0.14
Weighted average common shares outstanding—basic	23,714	23,437	23,654	23,382
Net income per common share—diluted:				
Net income attributable to common shares—diluted	\$0.15	\$0.02	\$0.47	\$0.14
Weighted average common shares outstanding—diluted	24,283	23,464	24,158	23,399
Comprehensive income	\$3,698	\$470	\$11,395	\$3,189

Other data:

Gross bookings	\$329,626	\$265,331	\$674,964	\$557,312
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Overstock.com, Inc.
Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

	Six months ended		Twelve months ended	
	June 30, 2013	2012	June 30, 2013	2012
Cash flows from operating activities:				
Net income (loss)	\$11,395	\$3,189	\$22,875	\$(8,007)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	7,526	8,096	15,439	16,183
Realized gain from sale of marketable securities	(12)	(7)	(14)	(7)
Loss on disposition of fixed assets	-	61	11	61
Stock-based compensation to employees and directors	1,568	1,643	3,452	2,986
Amortization of debt discount and deferred loan costs	9	37	45	104
Loss on investment in precious metals	382	-	382	-
Loss from early extinguishment of debt	-	-	-	1,226
Restructuring charges (reversals)	(471)	98	(493)	98
Changes in operating assets and liabilities:				
Restricted cash	125	(8)	264	351
Accounts receivable, net	4,691	3,417	(4,498)	(3,442)
Inventories, net	5,475	1,919	85	(4)
Prepaid inventories, net	260	(727)	102	(77)
Prepays and other assets	(4,801)	(2,890)	(617)	975
Other long-term assets, net	123	889	(1,033)	499
Accounts payable	(12,924)	(29,651)	8,825	1,806
Accrued liabilities	(693)	(12,352)	11,200	3,373
Deferred revenue	(8,552)	(3,715)	5,596	2,809
Other long-term liabilities	(580)	60	(14)	324
Net cash provided by (used in) operating activities	3,521	(29,941)	61,607	19,258
Cash flows from investing activities:				
Purchases of marketable securities	(95)	(55)	(122)	(136)
Purchases of intangible assets	-	(6)	-	(10)
Sales of marketable securities	152	154	152	154
Investment in precious metals	-	-	(1,397)	-
Expenditures for fixed assets, including internal-use software and website development	(9,296)	(6,503)	(15,282)	(11,220)
Proceeds from sale of fixed assets	-	55	1	55
Net cash used in investing activities	(9,239)	(6,355)	(16,648)	(11,157)
Cash flows from financing activities:				
Payments on capital lease obligations	(2,563)	(112)	(2,563)	(274)
Drawdowns on line of credit	-	-	-	17,000
Payments on line of credit	-	-	(17,000)	-
Capitalized financing costs	-	-	-	(140)
Proceeds from finance obligations	-	-	-	681
Payments on finance obligations	-	-	-	(22,852)
Paydown on direct financing arrangement	(126)	(115)	(247)	(225)
Payments to retire convertible senior notes	-	-	-	(24,505)
Proceeds from exercise of stock options	986	-	986	-
Purchase of treasury stock	(1,389)	(464)	(1,396)	(468)
Net cash used in financing activities	(3,092)	(691)	(20,220)	(30,783)
Net increase (decrease) in cash and cash equivalents	(8,810)	(36,987)	24,739	(22,682)
Cash and cash equivalents, beginning of period	93,547	96,985	59,998	82,680
Cash and cash equivalents, end of period	\$84,737	\$59,998	\$84,737	\$59,998
Supplemental disclosures of cash flow information:				
Cash paid during the period:				

Interest paid	\$39	\$294	\$327	\$1,472
Taxes paid	293	4	588	4
Non-cash investing and financing activities:				
Fixed assets, including internal-use software and website development, costs financed through accounts payable and accrued liabilities	\$127	\$279	\$350	\$(666)
Equipment acquired under capital lease obligations	2,563	-	2,563	1,391
Lapse of rescission rights of redeemable stock	-	-	-	109

SOURCE Overstock.com, Inc.

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