

Crocs, Inc.
Form 10-Q
May 01, 2014
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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 March 31, 2014

or

**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the transition period from to

Commission File No. 000-51754

CROCS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

20-2164234

(I.R.S. Employer
Identification No.)

7477 East Dry Creek Parkway, Niwot, Colorado 80503

(Address, including zip code, of registrant's principal executive offices)

(303) 848-7000

(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 (§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 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 shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

As of April 25, 2014, Crocs, Inc. had 87,532,602 shares of its \$0.001 par value common stock outstanding.

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Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, we may make other written and oral communications from time to time that contain such statements. Forward-looking statements include statements as to industry trends, our future expectations and other matters that do not relate strictly to historical facts and are based on certain assumptions of our management. These statements, which express management's current views concerning future events or results, use words like anticipate, assume, believe, continue, estimate, expect, future, intend, plan, project, strive, and future, and verbs like could, may, might, should, will, would and similar expressions or variations. Forward-looking statements are subject to risks, uncertainties and other factors which may cause actual results to differ materially from future results expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially from the forward-looking statements include, without limitation, those described in the section entitled Risk Factors under Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2013 and subsequent filings with the Securities and Exchange Commission. Moreover, such forward-looking statements speak only as of the date of this report. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

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Form 10-Q

Quarter Ended March 31, 2014

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Table of Contents**PART I Financial Information****ITEM 1. Financial Statements****CROCS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

(\$ thousands, except per share data)	Three Months Ended			
	March 31,			
	2014		2013	
Revenues	\$	312,429	\$	311,656
Cost of sales		156,202		145,807
Gross profit		156,227		165,849
Selling, general and administrative expenses		139,405		128,199
Income from operations		16,822		37,650
Foreign currency transaction losses, net		2,768		2,600
Interest income		(477)		(306)
Interest expense		191		209
Other income, net		(141)		(28)
Income before income taxes		14,481		35,175
Income tax expense		5,357		6,214
Net income		9,124		28,961
Dividends on Series A convertible preferred shares		2,133		
Dividend equivalents on Series A convertible preferred shares related to redemption value accretion and beneficial conversion feature		618		
Net income attributable to common stockholders	\$	6,373	\$	28,961
Net income per common share (Note 11):				
Basic	\$	0.06	\$	0.33
Diluted	\$	0.06	\$	0.33

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

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CROCS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(\$ thousands)	Three Months Ended			
	2014		March 31,	
			2013	
Net income	\$	9,124	\$	28,961
Other comprehensive income (loss):				
Foreign currency translation		(980)		(4,317)
Reclassification of cumulative foreign exchange translation adjustments to net income, net of tax of \$0 and \$(3), respectively				299
Total comprehensive income	\$	8,144	\$	24,943

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

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CROCS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(\$ thousands, except number of shares)	March 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 411,806	\$ 317,144
Accounts receivable, net of allowances of \$14,513 and \$10,513, respectively	206,213	104,405
Inventories	192,376	162,341
Deferred tax assets, net	4,521	4,440
Income tax receivable	14,004	10,630
Other receivables	17,025	11,942
Prepaid expenses and other current assets	34,559	29,175
Total current assets	880,504	640,077
Property and equipment, net	86,413	86,971
Intangible assets, net	81,415	74,822
Deferred tax assets, net	19,688	19,628
Other assets	40,930	53,661
Total assets	\$ 1,108,950	\$ 875,159
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 89,130	\$ 57,450
Accrued expenses and other current liabilities	119,127	97,111
Deferred tax liabilities, net	11,193	11,199
Income taxes payable	16,924	15,992
Current portion of long-term borrowings and capital lease obligations	5,192	5,176
Total current liabilities	241,566	186,928
Long term income tax payable	36,508	36,616
Long-term borrowings and capital lease obligations	10,359	11,670
Other liabilities	15,934	15,201
Total liabilities	304,367	250,415
Commitments and contingencies (Note 13)		
Series A convertible preferred shares, par value \$0.001 per share, 200,000 shares issued and outstanding, redemption amount and liquidation preference of \$202,133 and \$0 at March 31, 2014 and December 31, 2013, respectively (Note 12)	182,838	
Stockholders' equity:		
Preferred shares, par value \$0.001 per share, 5,000,000 shares authorized, none outstanding		
Common shares, par value \$0.001 per share, 250,000,000 shares authorized, 91,987,136 and 87,888,964 shares issued and outstanding, respectively, at March 31, 2014 and 91,662,656 and 88,450,203 shares issued and outstanding, respectively, at December 31, 2013	92	92
Treasury stock, at cost, 4,098,172 and 3,212,453 shares, respectively	(68,265)	(55,964)
Additional paid-in capital	325,441	321,532
Retained earnings	350,805	344,432
Accumulated other comprehensive income	13,672	14,652
Total stockholders' equity	621,745	624,744
Total liabilities, commitments and contingencies and stockholders' equity	\$ 1,108,950	\$ 875,159

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

Table of Contents**CROCS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

(\$ thousands)		Three Months Ended March 31,	
		2014	2013
Cash flows from operating activities:			
Net income	\$	9,124	\$ 28,961
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		9,373	10,264
Unrealized (gain) loss on foreign exchange, net		(5,708)	2,982
Provision for doubtful accounts, net		768	697
Share-based compensation		4,621	3,540
Other non-cash items		49	419
Changes in operating assets and liabilities:			
Accounts receivable		(103,188)	(87,946)
Inventories		(30,484)	(16,055)
Prepaid expenses and other assets		2,514	(4,354)
Accounts payable		31,675	21,488
Accrued expenses and other liabilities		20,943	5,841
Income taxes		(2,425)	(443)
Cash used in operating activities		(62,738)	(34,606)
Cash flows from investing activities:			
Cash paid for purchases of property and equipment		(5,089)	(9,889)
Proceeds from disposal of property and equipment			515
Cash paid for intangible assets		(10,247)	(5,745)
Restricted cash		(583)	(1,279)
Cash used in investing activities		(15,919)	(16,398)
Cash flows from financing activities:			
Proceeds from preferred stock offering, net of issuance costs of \$15.8 million and \$0.0 million, respectively		182,220	
Proceeds from bank borrowings			12,173
Repayment of bank borrowings and capital lease obligations		(1,295)	(9,504)
Issuances of common stock		518	603
Purchase of treasury stock		(13,031)	(12,661)
Repurchase of common stock for tax withholding		(669)	
Cash provided by (used in) financing activities		167,743	(9,389)
Effect of exchange rate changes on cash		5,576	(1,282)
Net increase in cash and cash equivalents		94,662	(61,675)
Cash and cash equivalents beginning of period		317,144	294,348
Cash and cash equivalents end of period	\$	411,806	\$ 232,673
Supplemental disclosure of cash flow information cash paid during the period for:			
Interest	\$	152	\$ 499
Income taxes	\$	7,213	\$ 5,872
Supplemental disclosure of non-cash investing and financing activities:			
Assets acquired under capitalized leases	\$		\$ 61
Accrued purchases of property and equipment		1,612	2,380
Accrued purchases of intangibles		5,088	768
Accrued dividends		2,133	
Accretion of dividend equivalents	\$	618	\$

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

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CROCS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. GENERAL

Organization

Crocs, Inc. and its subsidiaries (collectively the Company, we, our or us) are engaged in the design, development, manufacturing, marketing and distribution of footwear, apparel and accessories for men, women and children.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the rules and regulations of the Securities and Exchange Commission (SEC) for reporting on Form 10-Q. The condensed consolidated balance sheet as of December 31, 2013 was derived from the Company's Annual Report on Form 10-K for the year ended December 31, 2013 (the 2013 Form 10-K). Accordingly, these statements do not include all of the information and disclosures required by GAAP or SEC rules and regulations for complete financial statements. In the opinion of management, these financial statements reflect all adjustments (consisting solely of normal recurring matters) considered necessary for a fair presentation of the results for the interim periods presented. The results of operations for any interim period are not necessarily indicative of results for the full year.

Summary of Significant Accounting Policies

These statements should be read in conjunction with the consolidated financial statements and footnotes included in the 2013 Form 10-K. The accounting policies used in preparing these unaudited condensed consolidated financial statements are the same as those described in *Note 1 Organization & Summary of Significant Accounting Policies* to the consolidated financial statements in the 2013 Form 10-K.

Earnings Per Share - Basic and diluted earnings per common share (EPS) is presented using the two-class method, which is an earnings allocation formula that determines earnings per share for common stock and any participating securities according to dividend rights and participation rights in undistributed earnings. Under the two-class method, EPS is computed by dividing the sum of distributed and undistributed earnings attributable to common stockholders by the weighted average number of shares of common stock outstanding during the period. A participating security is a security that may participate in undistributed earnings with common stock had those earnings been distributed in any form. Our recently issued Series A Convertible Preferred Stock (Series A preferred stock) represent participating securities as holders of the

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Series A preferred stock are entitled to receive any and all dividends declared or paid on common stock on an as-converted basis. In addition, shares of our non-vested restricted stock awards are considered participating securities as they represent unvested share-based payment awards containing non-forfeitable rights to dividends. As such, these participating securities must be included in the computation of EPS pursuant to the two-class method on a pro-rata, as-converted basis. Diluted EPS reflects the potential dilution from securities that could share in our earnings. In addition, the dilutive effect of each participating security is calculated using the more dilutive of the two-class method described above, which assumes that the securities remain in their current form, or the if-converted method, which assumes conversion to common stock as of the beginning of the reporting date. Anti-dilutive securities are excluded from diluted EPS. See *Note 11 Earnings Per Share* for further discussion.

Recently Adopted Accounting Standards

In July 2013, the Financial Accounting Standards Board (FASB) issued ASU No. 2013-11 *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit when a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* (ASU No. 2013-11). This pronouncement provides guidance on financial statement presentation of an unrecognized tax benefit (UTB) when a net operating loss (NOL) carryforward, a similar tax loss or a tax credit carryforward exists. Under the pronouncement, an entity must present a UTB, or a portion of the UTB, in the financial statements as a reduction to a deferred tax asset (DTA) for an NOL carryforward, a similar tax loss or a tax credit carryforward except when:

- 1) An NOL carryforward, a similar tax loss or a tax credit carryforward is not available as of the reporting date under the governing tax law to settle that would result from the disallowance of the tax position.
- 2) The entity does not intend to use the DTA for this purpose (provided that the tax law permits a choice).

If either of these conditions exists, an entity should present a UTB in the financial statements as a liability and should not net the UTB with a DTA. This amendment does not affect the amounts disclosed in the tabular reconciliation of the total amounts of UTBs because

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the tabular reconciliation presents gross amounts of UTBs. This pronouncement is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2013. The Company adopted this pronouncement on January 1, 2014. The adoption of this pronouncement did not have a material impact to the Company's consolidated financial position or results of operations.

2. INVENTORIES

The following table summarizes inventories by major classification as of March 31, 2014 and December 31, 2013:

(\$ thousands)	March 31, 2014		December 31, 2013	
Finished goods	\$	185,563	\$	154,272
Work-in-progress		491		685
Raw materials		6,322		7,384
Inventories	\$	192,376	\$	162,341

3. PROPERTY & EQUIPMENT

The following table summarizes property and equipment by major classification as of March 31, 2014 and December 31, 2013:

(\$ thousands)	March 31, 2014		December 31, 2013	
Machinery and equipment	\$	52,843	\$	52,003
Leasehold improvements		101,761		93,235
Furniture, fixtures and other		25,756		23,653
Construction-in-progress		8,915		16,231
Property and equipment, gross (1)		189,275		185,122
Less: Accumulated depreciation (2)		(102,862)		(98,151)
Property and equipment, net	\$	86,413	\$	86,971

(1) Includes \$0.1 million and \$0.1 million of certain equipment held under capital leases and classified as equipment as of March 31, 2014 and December 31, 2013, respectively.

(2) Includes \$0.1 million and \$0.1 million of accumulated depreciation related to certain equipment held under capital leases as of March 31, 2014 and December 31, 2013, respectively, which are depreciated using the straight-line method over the lease term.

During the three months ended March 31, 2014 and 2013, we recorded \$5.4 million and \$6.1 million, respectively, in depreciation expense of which \$0.5 million and \$0.8 million, respectively, was recorded in Cost of sales, with the remaining amounts recorded in Selling, general and administrative expenses in the condensed consolidated statements of income.

Asset Impairments

We periodically evaluate all of our long-lived assets for impairment when events or circumstances would indicate the carrying value of a long-lived asset may not be fully recoverable. During the three months ended March 31, 2014 and 2013, we recorded no charges related to asset impairments.

Retail Store Closings

During the three months ended March 31, 2014, we closed two retail locations in our Europe segment which were not scheduled to close until future periods and were selected for closure by management based on historical and projected profitability levels, relocation plans, and other factors. As of March 31, 2014, we recorded a liability of approximately \$0.7 million related to these locations in *Accrued expenses and other current liabilities* on the condensed consolidated balance sheets with a related expense in *Selling, general and administrative expenses* on the condensed consolidated statements of income. The calculation of accrued store closing reserves primarily includes future minimum lease payments from the date of closure to the end of the remaining lease term, net of contractual or estimated sublease income. We record the liability at fair value in the period in which the store is closed.

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The following table summarizes the goodwill and identifiable intangible assets as of March 31, 2014 and December 31, 2013:

(\$ thousands)	Gross Carrying Amount	March 31, 2014 Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	December 31, 2013 Accumulated Amortization	Net Carrying Amount
Capitalized software	\$ 129,013(1)	\$ (53,051)(2)	\$ 75,962	\$ 118,940(1)	\$ (49,665)(2)	\$ 69,275
Customer relationships	6,781	(6,437)	344	6,878	(6,439)	439
Patents, copyrights, and trademarks	6,626	(4,462)	2,164	6,501	(4,272)	2,229
Core technology	4,378	(4,378)		4,548	(4,548)	
Other	981	(636)	345	983	(709)	274
Total finite lived intangible assets	147,779	(68,964)	78,815	137,850	(65,633)	72,217
Indefinite lived intangible assets	101		101	97		97
Goodwill	2,499		2,499	2,508		2,508
Intangible assets	\$ 150,379	\$ (68,964)	\$ 81,415	\$ 140,455	\$ (65,633)	\$ 74,822

(1) Includes \$4.1 million of software held under a capital lease classified as capitalized software as of March 31, 2014 and December 31, 2013.

(2) Includes \$2.1 million and \$1.9 million of accumulated amortization of software held under a capital lease as of March 31, 2014 and December 31, 2013, respectively, which is amortized using the straight-line method over the useful life.

During the three months ended March 31, 2014 and 2013, amortization expense recorded for intangible assets with finite lives was \$4.0 million and \$4.2 million, respectively, of which \$1.3 million and \$1.6 million, respectively, was recorded in Cost of sales, with the remaining amounts recorded in Selling, general and administrative expenses in the condensed consolidated statements of income.

The following table summarizes estimated future annual amortization of intangible assets as of March 31, 2014:

Fiscal years ending December 31,	Amortization (\$ thousands)
Remainder of 2014	\$ 10,108
2015	14,717
2016	14,285
2017	11,663
2018	9,702
Thereafter	18,340
Total	\$ 78,815

Table of Contents**5. ACCRUED EXPENSES & OTHER CURRENT LIABILITIES**

The following table summarizes accrued expenses and other current liabilities as of March 31, 2014 and December 31, 2013:

(\$ thousands)	March 31, 2014	December 31, 2013
Accrued compensation and benefits	\$ 26,559	\$ 26,903
Professional services	19,824	14,128
Fulfillment, freight and duties	15,489	12,565
Sales/use and VAT tax payable	14,393	9,142
Accrued rent and occupancy	11,850	12,198
Accrued legal	10,296	8,722
Customer deposits	7,043	6,940
Dividend payable	2,133	
Other (1)	11,540	6,513
Total accrued expenses and other current liabilities	\$ 119,127	\$ 97,111

(1) The amounts in Other consist of various accrued expenses and no individual item accounted for more than 5% of the total balance at March 31, 2014 or December 31, 2013.

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6. FAIR VALUE MEASUREMENTS

Recurring Fair Value Measurements

The following tables summarize the financial instruments required to be measured at fair value on a recurring basis as of March 31, 2014 and December 31, 2013:

(\$ thousands)	Quoted prices in active markets for identical assets or liabilities (Level 1)	Fair Value as of March 31, 2014		Total	Balance Sheet Classification
		Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)		
Cash equivalents	\$ 118,871	\$	\$	\$ 118,871	Cash and cash equivalents and other current assets

(\$ thousands)	Quoted prices in active markets for identical assets or liabilities (Level 1)	Fair Value as of December 31, 2013		Total	Balance Sheet Classification
		Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)		
Cash equivalents	\$ 37,870	\$	\$	\$	