

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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Crocs, Inc.

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 | |
|---|--------------------|----------------|
| | 2014 | March 31, 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 March 31, | |
|--|---------------------------------|-----------|
| | 2014 | 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.

Table of Contents**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) | | |