Crocs, Inc.
Form 10-Q
July 30, 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 June 30, 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	**20-2164234**
(State or other jurisdiction of incorporation or organization)	(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 x No o

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 x No o

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 x	Accelerated filer o
Non-accelerated filer o (do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is shell company (as defined in Rule 12b-2 of the Act). Yes o No x

As of July 24, 2014, Crocs, Inc. had 85,264,822 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 futu 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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PART I Financial Information

ITEM 1. Financial Statements

CROCS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
($ thousands, except per share data)	**2014**	**2013**	**2014**	**2013**
Revenues	$ 376,920	$ 363,827	$ 689,349	$ 675,483
Cost of sales	174,349	162,960	330,551	308,767
Gross profit	202,571	200,867	358,798	366,716
Selling, general and administrative expenses	153,370	150,246	290,525	278,445
Restructuring charges (Note 6)	4,060		6,310	
Asset impairment charges (Note 3)	3,230	202	3,230	202
Income from operations	41,911	50,419	58,733	88,069
Foreign currency transaction losses, net	220	814	2,988	3,414
Interest income	(403)	(517)	(880)	(823)
Interest expense	128	266	319	475
Other (income) expense, net	(30)	195	(171)	167
Income before income taxes	41,996	49,661	56,477	84,836
Income tax expense	18,719	14,305	24,076	20,519
Net income	$ 23,277	$ 35,356	$ 32,401	$ 64,317
Dividends on Series A convertible preferred shares (Note 13)	3,033		5,166	
Dividend equivalents on Series A convertible preferred shares related to redemption value accretion and beneficial conversion feature (Note 13)	721		1,339	
Net income attributable to common stockholders	$ 19,523	$ 35,356	$ 25,896	$ 64,317
Net income per common share (Note 12):				
Basic	$ 0.19	$ 0.40	$ 0.26	$ 0.73
Diluted	$ 0.19	$ 0.40	$ 0.25	$ 0.72

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 June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Net income	$ 23,277	$ 35,356	$ 32,401	$ 64,317
Other comprehensive income (loss):				
Foreign currency translation	221	(6,250)	(759)	(10,567)
Reclassification of cumulative foreign exchange translation adjustments to net income, net of tax of $0, $0, $0 and $(3), respectively				299
Total comprehensive income	$ 23,498	$ 29,106	$ 31,642	$ 54,049

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)	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 408,953	$ 317,144
Accounts receivable, net of allowances of $20,837 and $10,513, respectively	195,902	104,405
Inventories	191,648	162,341
Deferred tax assets, net	4,587	4,440
Income tax receivable	14,426	10,630
Other receivables	17,295	11,942
Prepaid expenses and other current assets	37,923	29,175
Total current assets	870,734	640,077
Property and equipment, net	83,316	86,971
Intangible assets, net	85,747	72,132
Goodwill	2,479	2,690
Deferred tax assets, net	18,614	19,628
Other assets	40,983	53,661
Total assets	$ 1,101,873	$ 875,159
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 92,014	$ 57,450
Accrued expenses and other current liabilities	110,100	97,111
Deferred tax liabilities, net	11,197	11,199
Accrued restructuring	3,839	
Income taxes payable	32,576	15,992
Current portion of long-term borrowings and capital lease obligations	5,434	5,176
Total current liabilities	255,160	186,928
Long term income tax payable	25,744	36,616
Long-term borrowings and capital lease obligations	9,040	11,670
Other liabilities	16,745	15,201
Total liabilities	306,689	250,415
Commitments and contingencies (Note 14)		
Series A convertible preferred shares, par value $0.001 per share, 200,000 shares issued and outstanding, redemption amount and liquidation preference of $203,033 and $0 at June 30, 2014 and December 31, 2013, respectively (Note 13)	171,282	
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, 92,213,732 and 85,804,571 shares issued and outstanding, respectively, at June 30, 2014 and 91,662,656 and 88,450,203 shares issued and outstanding, respectively, at December 31, 2013	93	92
Treasury stock, at cost, 6,409,161 and 3,212,453 shares, respectively	(102,270)	(55,964)
Additional paid-in capital	341,858	321,532
Retained earnings	370,328	344,432
Accumulated other comprehensive income	13,893	14,652
Total stockholders equity	623,902	624,744

Total liabilities, commitments and contingencies and stockholders equity	$	1,101,873	$	875,159

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 CASH FLOWS

(Unaudited)

	Six Months Ended June 30,	
($ thousands)	**2014**	**2013**
Cash flows from operating activities:		
Net income	$ 32,401	$ 64,317
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	20,751	20,522
Unrealized (gain) loss on foreign exchange, net	(10,892)	1,392
Asset impairment charges	3,230	202
Provision for doubtful accounts, net	3,867	1,340
Share-based compensation	8,331	7,540
Inventory write-down charges	2,029	
Other non-cash items	732	733
Changes in operating assets and liabilities:		
Accounts receivable	(94,840)	(75,124)
Inventories	(30,769)	(923)
Prepaid expenses and other assets	(563)	(13,460)
Accounts payable	34,015	12,385
Accrued expenses and other liabilities	7,760	12,551
Accrued restructuring	3,839	
Income taxes	3,130	6,266
Cash provided by (used in) operating activities	(16,979)	37,741
Cash flows from investing activities:		
Cash paid for purchases of property and equipment	(11,376)	(19,676)
Proceeds from disposal of property and equipment	43	545
Cash paid for intangible assets	(18,944)	(11,833)
Restricted cash	(788)	(1,295)
Cash used in investing activities	(31,065)	(32,259)
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	
Dividends paid	(2,134)	
Proceeds from bank borrowings		14,572
Repayment of bank borrowings and capital lease obligations	(2,372)	(11,334)
Issuances of common stock	1,209	1,439
Purchase of treasury stock	(47,005)	(12,533)
Repurchase of common stock for tax withholding	(787)	(256)
Cash provided by (used in) financing activities	131,131	(8,112)
Effect of exchange rate changes on cash	8,722	(2,364)
Net increase (decrease) in cash and cash equivalents	91,809	(4,994)
Cash and cash equivalents beginning of period	317,144	294,348
Cash and cash equivalents end of period	$ 408,953	$ 289,354
Supplemental disclosure of cash flow information cash paid during the period for:		
Interest	$ 204	$ 525
Income taxes	$ 23,174	$ 10,658
Supplemental disclosure of non-cash investing and financing activities:		
Assets acquired under capitalized leases	$	$ 61
Accrued purchases of property and equipment	3,577	2,715
Accrued purchases of intangibles	8,667	1,803

Accrued dividends		3,033	
Accretion of dividend equivalents	$	1,339	$

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

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 an 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.

In the accompanying condensed consolidated balance sheets as of June 30, 2014, we recorded an out-of-period adjustment related to the calculation of a beneficial conversion feature associated with the issuance of the Series A convertible preferred stock (Series A preferred stock) on January 27, 2014. This adjustment was a non-cash adjustment and had no effect on operating income. The adjustment decreased the previously reported balance of the Series A preferred stock and increased the previously reported balance of additional paid-in capital by approximately $12.3 million. The adjustment did not have a material impact on our condensed consolidated statements of income for the three months ended March 31, 2014, and there was no impact on our condensed consolidated statements of comprehensive income or cash flows for the three months ended March 31, 2014.

Reclassifications

Certain prior period amounts on the condensed consolidated financial statements have been reclassified to conform to current period presentation. We segregated certain restructuring charges recorded to selling, general and administrative expenses on the condensed consolidated statements of income during the three months ended March 31, 2014 to the restructuring charges line item on the condensed consolidated statements of income during the six months ended June 30, 2014. In addition, we segregated certain accrued restructuring charges recorded to accrued expenses and other liabilities on the condensed consolidated balance sheets at March 31, 2014 and changes in accrued expenses and other liabilities on the condensed consolidated statements of cash flows for the three months ended March 31, 2014 to the accrued restructuring line item on the condensed consolidated balance sheets at June 30, 2014 and changes in accrued restructuring on the condensed consolidated statements of cash flows for the six months ended June 30, 2014. These reclassifications had no effect on income from operations, current liabilities or cash provided by (used in) operating activities.

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 preferred stock represent participating securities as holders of the 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

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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 12 Earnings Per Share* for further discussion.

Beneficial conversion feature The issuance of our Series A preferred stock generated a beneficial conversion feature, which arises when a debt or equity security is issued with an embedded conversion option that is beneficial to the investor or in the money at inception because the conversion option has an effective strike price that is less than the market price of the underlying stock at the commitment date. We recognized the beneficial conversion feature by allocating the intrinsic value of the conversion option, which is the number of common shares available upon conversion multiplied by the difference between the effective conversion price per share and the fair value of common stock per share on the commitment date, to additional paid-in capital, resulting in a discount on the Series A preferred stock. We will accrete the discount from the date of issuance through the redemption date of eight years following issuance. Accretion expense will be recognized as dividend equivalents over the eight year period utilizing the effective interest method.

Recently Issued Accounting Standards

Discontinued Operations

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-08: *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, which amends the definition of a discontinued operation in ASC 205-20 and requires entities to provide additional disclosures about discontinued operations as well as disposal transactions that do not meet the discontinued-operations criteria. The FASB issued the ASU to provide more decision-useful information and to make it more difficult for a disposal transaction to qualify as a discontinued operation. Under the previous guidance, the results of operations of a component of an entity were classified as a discontinued operation if all of the following conditions were met:

- The component has been disposed of or is classified as held for sale.
- The operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction.
- The entity will not have any significant continuing involvement in the operations of the component after the disposal transaction.

The new guidance eliminates the second and third criteria above and instead requires discontinued operations treatment for disposals of a component or group of components that represents a strategic shift that has or will have a major impact on an entity s operations or financial results. The ASU also expands the scope of ASC 205-20 to disposals of equity method investments and businesses that, upon initial acquisition, qualify as held for sale. In addition, the ASU requires entities to reclassify assets and liabilities of a discontinued operation for all comparative periods presented in the statement of financial position. Before these amendments, ASC 205-20 neither required nor prohibited such presentation. Regarding the statement of cash flows, an entity must disclose, in all periods presented, either (1) operating and investing cash flows or (2) depreciation and amortization, capital expenditures, and significant operating and investing noncash items related to the discontinued operation. This presentation requirement represents a significant change from previous guidance. This ASU is effective prospectively for all disposals or components initially classified as held for sale in periods beginning on or after December 15, 2014. Early adoption is permitted. The Company does not anticipate this pronouncement to have a material impact to the Company s consolidated financial statements.

Revenue Recognition

In May 2014, the FASB issued their final standard on revenue from contracts with customers. The standard, issued as ASU No. 2014-09: *Revenue from Contracts with Customers (Topic 606)* by the FASB, outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue 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. In applying the revenue model to contracts within its scope, an entity:

- Identifies the contract(s) with a customer (Step 1)
- Identifies the performance obligations in the contract (Step 2)
- Determines the transaction price (Step 3)
- Allocates the transaction price to the performance obligations in the contract (Step 4)
- Recognizes revenue when (or as) the entity satisfies a performance obligation (Step 5)

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The ASU applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification. Certain of the ASU s provisions also apply to transfers of nonfinancial assets, including in-substance nonfinancial assets that are not an output of an entity s ordinary activities (e.g., sales of property, plant, and equipment, real estate or intangible assets). Existing accounting guidance applicable to these transfers has been amended or superseded. Compared with current U.S. GAAP, the ASU also requires significantly expanded disclosures about revenue recognition.

The ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. Early application is not permitted. The Company is currently evaluating the impact that this pronouncement will have on the Company s consolidated financial statements.

2. INVENTORIES

The following table summarizes inventories by major classification as of June 30, 2014 and December 31, 2013:

($ thousands)		June 30, 2014		December 31, 2013
Finished goods	$	184,748	$	154,272
Work-in-progress		505		685
Raw materials		6,395		7,384
Inventories	$	191,648	$	162,341

Inventory Write-down

During the three months ended June 30, 2014, we recorded approximately $2.0 million of inventory write-down charges related to obsolete inventory with a market value lower than cost. These charges were related to certain obsolete footwear in the Other businesses segment and are reported in cost of sales in the condensed consolidated statements of income.

3. PROPERTY & EQUIPMENT

The following table summarizes property and equipment by major classification as of June 30, 2014 and December 31, 2013:

($ thousands)		June 30, 2014		December 31, 2013
Machinery and equipment	$	53,582	$	52,003
Leasehold improvements		102,615		93,235
Furniture, fixtures and other		26,164		23,653
Construction-in-progress		7,879		16,231

Property and equipment, gross (1)		190,240		185,122
Less: Accumulated depreciation (2)		(106,924)		(98,151)
Property and equipment, net	$	83,316	$	86,971

(1) Includes $0.1 million and $0.1 million of certain equipment held under capital leases and classified as equipment as of June 30, 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 June 30, 2014 and December 31, 2013, respectively, which are depreciated using the straight-line method over the lease term.

During the three months ended June 30, 2014 and 2013, we recorded $6.3 million and $5.9 million, respectively, in depreciation expense of which $0.4 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.

During the six months ended June 30, 2014 and 2013, we recorded $11.7 million and $12.0 million, respectively, in depreciation expense of which $0.9 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.

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. The following table summarizes retail asset impairment charges by reportable

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operating segment for the three and six months ended June 30, 2014 and 2013 related to certain underperforming stores that were unlikely to generate sufficient cash flows to fully recover the carrying value of the stores assets over the remaining economic life of those assets:

	Three Months Ended				Six Months Ended			
	June 30, 2014		June 30, 2013		June 30, 2014		June 30, 2013	
($ thousands, except store count data)	Impairment charge	Number of stores	Impairment charge	Number of stores	Impairment charge	Number of stores	Impairment charge	Number of stores
Americas	$ 1,247	16	$ 202	1	$ 1,247	16	$ 202	1
Asia Pacific	444	12			444	12		
Japan								
Europe	1,539	9			1,539	9		
Asset impairment charges	$ 3,230	37	$ 202	1	$ 3,230	37	$ 202	1

4. GOODWILL & INTANGIBLE ASSETS

The following table summarizes the goodwill and identifiable intangible assets as of June 30, 2014 and December 31, 2013:

	June 30, 2014			December 31, 2013		
($ thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Capitalized software	$ 141,497(1)	$ (58,258)(2)	$ 83,239	$ 118,940(1)	$ (49,665)(2)	$ 69,275
Customer relationships	6,828	(6,563)	265	6,878	(6,439)	439
Patents, copyrights, and trademarks	6,466	(4,668)	1,798	6,501	(4,272)	2,229
Core technology	4,539	(4,539)		4,548	(4,548)	
Other	706	(636)	70	983	(709)	274
Total finite lived intangible assets	160,036	(74,664)	85,372	137,850	(65,633)	72,217
Indefinite lived intangible assets	375		375	97		97
Goodwill	2,479		2,479	2,508		2,508
Goodwill and intangible assets	$ 162,890	$ (74,664)	$ 88,226	$ 140,455	$ (65,633)	$ 74,822

(1) Includes $4.1 million of software held under a capital lease classified as capitalized software as of June 30, 2014 and December 31, 2013.

(2) Includes $2.2 million and $1.9 million of accumulated amortization of software held under a capital lease as of June 30, 2014 and December 31, 2013, respectively, which is amortized using the straight-line method over the useful life.

During the three months ended June 30, 2014 and 2013, amortization expense recorded for intangible assets with finite lives was $5.1 million and $4.4 million, respectively, of which $1.8 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.

During the six months ended June 30, 2014 and 2013, amortization expense recorded for intangible assets with finite lives was $9.1 million and $8.5 million, respectively, of which $3.1 million and $3.2 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.

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The following table summarizes estimated future annual amortization of intangible assets as of June 30, 2014:

Fiscal years ending December 31,		Amortization ($ thousands)
Remainder of 2014	$	11,170
2015		18,281
2016		11,742
2017		10,515
2018		8,679
Thereafter		24,985
Total	$	85,372

5. ACCRUED EXPENSES & OTHER CURRENT LIABILITIES

The following table summarizes accrued expenses and other current liabilities as of June 30, 2014 and December 31, 2013:

($ thousands)		June 30, 2014		December 31, 2013
Accrued compensation and benefits	$	25,652	$	26,903
Professional services		23,398		14,128
Fulfillment, freight and duties		17,482		12,565
Sales/use and VAT tax payable		16,771		9,142
Accrued rent and occupancy		12,473		12,198
Customer deposits		3,985		6,940
Dividend payable		3,033		
Accrued legal liabilities		831		8,722
Other (1)		6,475		6,513
Total accrued expenses and other current liabilities	$	110,100	$	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 June 30, 2014 or December 31, 2013.

6. RESTRUCTURING ACTIVITIES

Restructuring

On July 21, 2014, we announced strategic plans for long-term improvement and growth of the business. These plans comprise four key initiatives including: (1) streamlining the global product and marketing portfolio, (2) reducing direct investment in smaller geographic markets, (3) creating a more efficient organizational structure including reducing duplicative and excess overhead which will also enhance the decision making process, and (4) closing or converting approximately 75 to 100 retail locations around the world. The initial effects of these plans were incurred in the first and second quarter of 2014 and are expected to continue for the next 18 months. As a result, the Company recorded restructuring charges of $4.1 million and $6.3 million during the three and six months ended June 30, 2014, respectively. We are unable in good faith to determine the type of costs we will incur in connection with this strategic restructuring plan or to estimate the total amount or range of amounts expected to be incurred in connection with this plan for each major type of cost associated with this strategic restructuring plan.

The following table summarized our restructuring activity during the three and six months ended June 30, 2014:

($ thousands)	**Three Months Ended June 30, 2014**	**Six Months Ended June 30, 2014**
Severance costs	$ 2,869	$ 4,453
Lease / contract exit and related costs	572	1,178
Other (1)	619	679
Total restructuring charges	$ 4,060	$ 6,310

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(1) The amounts in Other consist of various asset impairment charges prompted by the aforementioned restructuring plan, legal fees and facility maintenance fees.

The following table summarizes our total restructuring charges incurred during the three and six months ended June 30, 2014 as well as charges incurred to date by reportable segment:

($ thousands)	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014
Americas	$ 1,224	$ 1,224
Asia Pacific	393	393
Japan		
Europe	307	982
Unallocated corporate	2,136	3,711
Total restructuring charges	$ 4,060	$ 6,310

The following table summarizes our accrued restructuring balance and associated activity from December 31, 2013 through June 30, 2014:

($ thousands)	Accrued restructuring as of December 31, 2013	Additions	Cash payments	Adjustments (1)	Accrued restructuring as of June 30, 2014
Severance	$	$ 4,451	$ (1,410)	$ 1	$ 3,042
Lease / contract exit and related costs		1,162	(403)	(1)	758
Other		148	(109)		39
Total accrued restructuring	$	$ 5,761	$ (1,922)	$	$ 3,839

(1) Adjustments relate to differences resulting from the translation of the liability balance at the balance sheet rate and restructuring expense translated at the weighted-average rate of exchange for the applicable period.

Retail Store Closings

As mentioned above, the Company plans to close 75 to 100 retail locations around the globe. As such, we expect to incur certain exit costs specific to store closures including operating lease termination costs, rent obligations for leased facilities, net of expected sublease income, and other expenses in association with this plan. During the three and six months ended June 30, 2014, we closed eight and ten company-operated retail locations, respectively, 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 June 30, 2014, we recorded a liability of approximately $0.5 million related to these locations in accrued restructuring on the condensed consolidated balance sheets. 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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7. 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 June 30, 2014 and December 31, 2013:

	Fair Value as of June 30, 2014				
($ thousands)	Quoted prices in active markets for identical assets or liabilities (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total	Balance Sheet Classification
Cash equivalents	$ 115,846	$	$	$ 115,846	Cash and cash equivalents and other current assets