

SKECHERS USA INC
Form 10-Q
May 15, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from _____ to _____

Commission File Number 001-14429

SKECHERS U.S.A., INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of

Incorporation or Organization)

228 Manhattan Beach Blvd.

Manhattan Beach, California
(Address of Principal Executive Office)

95-4376145
(I.R.S. Employer

Identification No.)

90266
(Zip Code)

(310) 318-3100

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(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 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

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

THE NUMBER OF SHARES OF CLASS A COMMON STOCK OUTSTANDING AS OF MAY 1, 2013: 39,336,387.

THE NUMBER OF SHARES OF CLASS B COMMON STOCK OUTSTANDING AS OF MAY 1, 2013: 11,257,854.

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EXPLANATORY NOTE

As previously disclosed, on April 8, 2013, KPMG LLP (KPMG), notified Skechers U.S.A., Inc., or the Company, that KPMG was resigning, effective immediately, as the Company's independent accountant. KPMG stated it had concluded it was not independent because of alleged insider trading in the Company's securities by one of KPMG's former partners who was the KPMG engagement partner on the Company's audit for the 2011 and 2012 fiscal years. KPMG advised the Company it resigned as the Company's independent accountant solely due to the impairment of KPMG's independence resulting from its now former partner's alleged unlawful activities and not for any reason related to the Company's financial statements, its accounting practices, the integrity of the Company's management or for any other reason.

As a result of the alleged insider trading activity by its now former partner and KPMG's resulting resignation on April 8, 2013, KPMG notified the Company its independence has been impaired and had no option but to withdraw its audit reports on the Company's financial statements for the fiscal years ended December 31, 2011 and 2012 and the effectiveness of internal control over financial reporting as of December 31, 2011 and 2012 and that such reports should no longer be relied upon as a result of KPMG's lack of independence created by the circumstances described above. The Company's Audit Committee and management continue to believe that the Company's financial statements covering the referenced periods fairly present, in all material respects, the financial condition and results of operations of the Company as of the end of and for the referenced periods and that the Company's internal control over financial reporting was effective during these periods.

On April 24, 2013, the Company's Audit Committee approved the appointment of BDO USA, LLP (BDO) as the Company's new independent registered public accounting firm to perform independent audit services for the fiscal year ending December 31, 2013 and to re-audit the Company's financial statements for the fiscal years ended December 31, 2011 and 2012. The Company's unaudited interim financial statements for the quarter ended March 31, 2013 that are presented in this quarterly report have been prepared in accordance with U.S. Securities and Exchange Commission (SEC) rules. The Company expects our independent registered public accounting firm to have the re-audits of the Company's December 31, 2011 and 2012 financial statements completed by the end of the third quarter of 2013.

See Notes 1, *General Basis of Presentation*, and 12, *Subsequent Events*, to the Condensed Consolidated Financial Statements for information on the matters discussed above.

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SKECHERS U.S.A., INC. AND SUBSIDIARIES

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****SKECHERS U.S.A., INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)****(In thousands, except par values)**

	March 31, 2013	(Unaudited) December 31, 2012
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 264,661	\$ 325,826
Trade accounts receivable, less allowances of \$18,000 in 2013 and \$16,922 in 2012	283,442	213,697
Other receivables	7,119	7,491
Total receivables	290,561	221,188
Inventories	253,659	339,012
Prepaid expenses and other current assets	26,646	27,755
Deferred tax assets	26,532	26,531
Total current assets	862,059	940,312
Property, plant and equipment, at cost, less accumulated depreciation and amortization	361,400	362,446
Goodwill and other intangible assets, less accumulated amortization	3,016	3,242
Deferred tax assets	15,261	16,387
Other assets, at cost	20,316	17,833
Total non-current assets	399,993	399,908
TOTAL ASSETS	\$ 1,262,052	\$ 1,340,220
LIABILITIES AND EQUITY		
Current Liabilities:		
Current installments of long-term borrowings	\$ 11,754	\$ 11,668
Short-term borrowings	3,044	2,425
Accounts payable	162,024	241,525
Accrued expenses	30,455	36,923
Total current liabilities	207,277	292,541
Long-term borrowings, excluding current installments	125,545	128,517
Deferred tax liabilities	72	73
Total non-current liabilities	125,617	128,590
Total liabilities	332,894	421,131

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Commitments and contingencies

Stockholders' equity:		
Preferred Stock, \$.001 par value; 10,000 shares authorized; none issued and outstanding	0	0
Class A Common Stock, \$.001 par value; 100,000 shares authorized; 39,038 and 39,021 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	39	39
Class B Common Stock, \$.001 par value; 60,000 shares authorized; 11,258 and 11,274 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	11	11
Additional paid-in capital	336,857	336,278
Accumulated other comprehensive loss	(2,535)	(2,400)
Retained earnings	548,721	542,041
Skechers U.S.A., Inc. equity	883,093	875,969
Noncontrolling interests	46,065	43,120
Total equity	929,158	919,089
TOTAL LIABILITIES AND EQUITY	\$ 1,262,052	\$ 1,340,220

See accompanying notes to unaudited condensed consolidated financial statements.

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SKECHERS U.S.A., INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three-Months Ended March 31,	
	2013	2012
Net sales	\$ 451,621	\$ 351,274
Cost of sales	258,889	195,578
Gross profit	192,732	155,696
Royalty income, net	1,770	1,136
	194,502	156,832
Operating expenses:		
Selling	37,696	30,349
General and administrative	141,468	130,877
	179,164	161,226
Earnings (loss) from operations	15,338	(4,394)
Other income (expense):		
Interest income	71	245
Interest expense	(2,620)	(2,966)
Other, net	(2,923)	(140)
Total other income (expense)	(5,472)	(2,861)
Earnings (loss) before income tax expense (benefit)	9,866	(7,255)
Income tax expense (benefit)	2,278	(3,845)
Net earnings (loss)	7,588	(3,410)
Less: Net earnings attributable to noncontrolling interests	908	256
Net earnings (loss) attributable to Skechers U.S.A., Inc.	\$ 6,680	\$ (3,666)
Net earnings (loss) per share attributable to Skechers U.S.A., Inc.:		
Basic	\$ 0.13	\$ (0.07)
Diluted	\$ 0.13	\$ (0.07)
Weighted average shares used in calculating net earnings (loss) per share attributable to Skechers U.S.A., Inc.:		
Basic	50,295	49,265

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Diluted

50,492

49,265

See accompanying notes to unaudited condensed consolidated financial statements.

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SKECHERS U.S.A., INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	Three-Months Ended March 31, 2013	2012
Net earnings (loss)	\$ 7,588	\$ (3,410)
Other comprehensive income:		
(Loss) gain on foreign currency translation adjustment, net of tax	(75)	4,696
Comprehensive income	7,513	1,286
Less: Comprehensive income attributable to noncontrolling interests	968	409
Comprehensive income attributable to Skechers U.S.A., Inc.	\$ 6,545	\$ 877

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**SKECHERS U.S.A., INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(In thousands)**

	Three-Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net earnings (loss)	\$ 7,588	\$ (3,410)
Adjustments to reconcile net earnings (loss) to net cash (used in) provided by operating activities:		
Depreciation of property, plant and equipment	10,415	9,750
Amortization of deferred financing costs	300	238
Amortization of intangible assets	226	226
Provision for (recovery of) bad debts and returns	1,862	(671)
Tax benefits from share-based compensation	0	(183)
Non-cash share-based compensation	579	3,485
(Gain) on disposal of property, plant and equipment	(1)	0
Deferred income tax	1,125	0
(Increase) decrease in assets:		
Receivables	(70,553)	(47,267)
Inventories	84,934	13,148
Prepaid expenses and other current assets	1,017	51,811
Other assets	(3,005)	139
Increase (decrease) in liabilities:		
Accounts payable	(80,634)	19,319
Accrued expenses	(6,568)	2,990
Net cash (used in) provided by operating activities	(52,715)	49,575
Cash flows from investing activities:		
Capital expenditures	(7,774)	(11,588)
Net cash used in investing activities	(7,774)	(11,588)