

SKECHERS USA INC  
Form 10-Q  
November 09, 2010

**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 September 30, 2010

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)

95-4376145

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

228 Manhattan Beach Blvd.

Manhattan Beach, California

(Address of Principal Executive Office)

90266

(Zip Code)

(310) 318-3100

(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

(Do not check if a 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 NOVEMBER 1, 2010:  
36,317,159.

THE NUMBER OF SHARES OF CLASS B COMMON STOCK OUTSTANDING AS OF NOVEMBER 1, 2010:

11,310,610.

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**SKECHERS U.S.A., INC. AND SUBSIDIARIES**  
**FORM 10-Q**  
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**PART I FINANCIAL INFORMATION****ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****SKECHERS U.S.A., INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)  
(In thousands)**

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 248,828	\$ 265,675
Short-term investments	0	30,000
Trade accounts receivable, net	286,085	219,924
Other receivables	4,497	12,177
Total receivables	290,582	232,101
Inventories	326,651	224,050
Prepaid expenses and other current assets	46,987	28,233
Deferred tax assets	8,950	8,950
Total current assets	921,998	789,009
Property and equipment, at cost, less accumulated depreciation and amortization	268,642	171,667
Intangible assets, less accumulated amortization	7,762	9,011
Deferred tax assets	13,678	13,660
Other assets, at cost	18,196	12,205
<b>TOTAL ASSETS</b>	<b>\$ 1,230,276</b>	<b>\$ 995,552</b>
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Short-term borrowings	\$ 2,329	\$ 2,006
Current installments of long-term borrowings	15,767	529
Accounts payable	231,533	196,163
Accrued expenses	22,206	31,843
Total current liabilities	271,835	230,541
Long-term borrowings, excluding current installments	15,802	15,641
Total liabilities	287,637	246,182
Commitments and contingencies		
Equity:		
Preferred Stock, \$.001 par value; 10,000 authorized; none issued and outstanding	0	0
	36	34

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Class A Common Stock, \$.001 par value; 100,000 shares authorized; 36,310 and 34,229 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively respectively

Class B Common Stock, \$.001 par value; 100,000 shares authorized; 11,311 and 12,360 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively respectively

Additional paid-in capital	12	13
Accumulated other comprehensive income	301,714	272,662
Retained earnings	9,304	9,348
	596,776	463,865
Skechers U.S.A., Inc. equity	907,842	745,922
Noncontrolling interests	34,797	3,448
Total equity	942,639	749,370
TOTAL LIABILITIES AND EQUITY	\$ 1,230,276	\$ 995,552

See accompanying notes to unaudited condensed consolidated financial statements.

**SKECHERS U.S.A., INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME**  
**(Unaudited)**  
**(In thousands, except per share data)**

	<b>Three-Months Ended</b>		<b>Nine-Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net sales	\$ 554,626	\$ 405,374	\$ 1,552,249	\$ 1,047,820
Cost of sales	301,975	221,648	824,535	616,062
Gross profit	252,651	183,726	727,714	431,758
Royalty income	1,888	418	3,148	1,022
	254,539	184,144	730,862	432,780
Operating expenses:				
Selling	59,516	41,245	146,262	97,568
General and administrative	139,455	110,454	389,241	304,340
	198,971	151,699	535,503	401,908
Earnings from operations	55,568	32,445	195,359	30,872
Other income (expense):				
Interest income	487	322	2,350	1,612
Interest expense	(3)	(987)	(835)	(1,944)
Other, net	(3,143)	2,176	(1,323)	2,203
	(2,659)	1,511	192	1,871
Earnings before income taxes	52,909	33,956	195,551	32,743
Income tax expense	16,330	10,175	62,532	8,236
Net earnings	36,579	23,781	133,019	24,507
Less: Net earnings (loss) attributable to noncontrolling interests	201	(679)	108	(2,246)
Net earnings attributable to Skechers U.S.A., Inc.	\$ 36,378	\$ 24,460	\$ 132,911	\$ 26,753
Net earnings per share attributable to Skechers U.S.A., Inc.:				
Basic	\$ 0.76	\$ 0.53	\$ 2.81	\$ 0.58

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Diluted	\$ 0.74	\$ 0.52	\$ 2.71	\$ 0.57
Weighted average shares used in calculating earnings per share attributable to Skechers U.S.A., Inc.:				
Basic	47,586	46,405	47,268	46,304
Diluted	49,176	47,095	49,017	46,649
Comprehensive income:				
Net earnings	\$ 36,378	\$ 24,460	\$ 132,911	\$ 26,753
Unrealized gain on marketable securities, net of tax	0	0	0	8,151
Gain (loss) on foreign currency translation adjustment, net of tax	10,372	1,009	(44)	4,883
Total comprehensive income	\$ 46,750	\$ 25,469	\$ 132,867	\$ 39,787

See accompanying notes to unaudited condensed consolidated financial statements.

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

	<b>Nine-Months Ended September</b>	
	<b>30,</b>	
	<b>2010</b>	<b>2009</b>
Cash flows from operating activities:		
Net earnings	\$ 132,911	\$ 26,753
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Noncontrolling interest in subsidiaries	108	(2,246)
Depreciation of property and equipment	17,641	14,465
Amortization of deferred financing costs	1,111	370
Amortization of intangible assets	1,287	579
Provision for bad debts and returns	4,663	2,959
Non-cash stock compensation	10,136	2,464
Loss on disposal of property and equipment	42	2
Deferred taxes	(19)	(614)
Impairment of property and equipment	0	761
(Increase) decrease in assets:		
Receivables	(63,355)	(31,039)
Inventories	(101,911)	70,925
Prepaid expenses and other current assets	(18,681)	2,369
Other assets	(7,342)	(1,362)
Increase (decrease) in liabilities:		
Accounts payable	32,332	(6,339)
Accrued expenses	(9,642)	10,229
Net cash provided by (used in) operating activities	(719)	90,276
Cash flows from investing activities:		
Capital expenditures	(65,617)	(31,197)
Purchases of investments	0	(30,000)
Maturities of investments	30,000	375
Redemption of auction rate securities	0	95,250
Intangible additions	(40)	0
Net cash provided by (used in) investing activities	(35,657)	34,428
Cash flows from financing activities:		
Net proceeds from the issuances of stock through employee stock purchase plan and the exercise of stock options	11,527	1,344
Payments on long-term debt	(576)	(275)
Increase in short-term borrowings	281	525
Capital contribution from noncontrolling interest of consolidated entity	1,000	4,000
Excess tax benefits from stock-based compensation	7,389	0



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Net cash provided by financing activities	19,621	5,594
Net increase (decrease) in cash and cash equivalents	(16,755)	130,298
Effect of exchange rates on cash and cash equivalents	(92)	1,141
Cash and cash equivalents at beginning of the period	265,675	114,941
Cash and cash equivalents at end of the period	\$ 248,828	\$ 246,380

Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest	\$ 1,830	\$ 3,260
Income taxes	82,941	1,624
Non-cash transactions:		
Land contribution from noncontrolling interest of consolidated entity	30,000	0
Note payable contribution from noncontrolling interest of consolidated entity	16,032	0
Acquisition of Chilean distributor	0	4,382

See accompanying notes to unaudited condensed consolidated financial statements.

**SKECHERS U.S.A., INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2010 and 2009**  
**(Unaudited)**

**(1) GENERAL***Basis of Presentation*

The accompanying condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include certain footnotes and financial presentations normally required under accounting principles generally accepted in the United States of America for complete financial reporting. The interim financial information is unaudited, but reflects all material normal recurring adjustments and accruals which are, in the opinion of management, considered necessary to provide a fair presentation for the interim periods presented. The accompanying condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

The results of operations for the nine months ended September 30, 2010 are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2010.

*Use of Estimates*

The preparation of the condensed consolidated financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

*Noncontrolling interests*

The Company has interests in certain joint ventures which are consolidated into its financial statements. Noncontrolling interest was income of \$0.2 million and loss of \$0.7 million for the three months ended September 30, 2010 and 2009, respectively, which represents the share of net earnings or loss that is attributable to our joint venture partners. Noncontrolling interest was income of \$0.1 million and a loss of \$2.2 million for the nine months ended September 30, 2010 and 2009, respectively. Our joint venture partners made a \$30.0 million capital contribution in kind and a cash capital contribution of \$1.0 million during the nine months ended September 30, 2010.

For the period ended September 30, 2010, the Company has determined that its joint venture with HF Logistics I, LLC ( HF ) is a variable interest entity ( VIE ) and that the Company is the primary beneficiary. The VIE is consolidated into the condensed consolidated financial statements and the carrying amounts and classification of assets and liabilities was as follows (in thousands):

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
Current assets	\$ 8,669	\$ 0
Noncurrent assets	84,960	0
Total assets	\$ 93,629	\$ 0
Current liabilities	\$ 17,551	\$ 0
Noncurrent liabilities	16,031	0
Total liabilities	\$ 33,582	\$ 0

The Company does not have a significant variable interest in any unconsolidated VIE's.



*Recent accounting pronouncements*

In June 2009, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2009-17, *Amendments to FASB Interpretation No. 46(R)*. ASU 2009-17 requires a qualitative approach to identifying a controlling financial interest in a VIE, and requires ongoing assessment of whether an entity is a VIE and whether an interest in a VIE makes the holder the primary beneficiary of the VIE. ASU 2009-17 is effective for interim and annual reporting periods beginning after November 15, 2009. Our adoption of ASU 2009-17 did not have a material impact on our consolidated financial statements.

**(2) INVESTMENTS**

At December 31, 2009, short-term investments were \$30.0 million, which consisted of U.S. government obligations with maturities of greater than 90 days. These investments were redeemed at par during the nine months ended September 30, 2010.

**(3) REVENUE RECOGNITION**

The Company recognizes revenue on wholesale sales when products are shipped and the customer takes title and assumes risk of loss, collection of relevant receivable is reasonably assured, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. This generally occurs at time of shipment. The Company recognizes revenue from retail sales at the point of sale. Allowances for estimated returns, discounts, doubtful accounts and chargebacks are provided for when related revenue is recorded. Related costs paid to third-party shipping companies are recorded as a cost of sales.

Royalty income is earned from licensing arrangements. Upon signing a new licensing agreement, we receive up-front fees, which are generally characterized as prepaid royalties. These fees are initially deferred and recognized as revenue as earned (i.e., as licensed sales are reported to the company or on a straight-line basis over the term of the agreement). The first calculated royalty payment is based on actual sales of the licensed product. Typically, at each quarter-end we receive correspondence from our licensees indicating the actual sales for the period. This information is used to calculate and accrue the related royalties based on the terms of the agreement.

**(4) OTHER COMPREHENSIVE INCOME**

In addition to net earnings, other comprehensive income includes changes in foreign currency translation adjustments and unrealized gains and losses on marketable securities. The Company operates internationally through several foreign subsidiaries. Assets and liabilities of the foreign operations denominated in local currencies are translated at the rate of exchange at the balance sheet date. Revenues and expenses are translated at the weighted average rate of exchange during the period of translation. The resulting translation adjustments, along with translation adjustments related to long-term intercompany loans, make up the translation adjustment in other comprehensive income.

The activity in other comprehensive income, net of income taxes, was as follows (in thousands):

<b>Diluted earnings per share</b>	<b>Three-Months Ended</b>		<b>Nine-Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net earnings	\$ 36,579	\$ 23,781	\$ 133,019	\$ 24,507
Unrealized gain on marketable securities, net of tax	0	0	0	8,151
Income on foreign currency translation adjustment, net of tax	10,555	1,093	197	4,992
Comprehensive income	47,134	24,874	133,216	37,650
Comprehensive income (loss) attributable to noncontrolling interest	384	(595)	349	(2,137)
Comprehensive income attributable to Skechers U.S.A.	\$ 46,750	\$ 25,469	\$ 132,867	\$ 39,787



**(5) STOCK COMPENSATION**

The Company recognizes compensation expense for stock-based awards based on the grant date fair value. Stock compensation expense was \$3.5 million and \$1.3 million for the three months ended September 30, 2010 and 2009, respectively. Stock compensation expense was \$10.1 million and \$2.5 million for the nine months ended September 30, 2010 and 2009, respectively.

Stock options granted pursuant to the 1998 Stock Option, Deferred Stock and Restricted Stock Plan and the 2007 Incentive Award Plan (collectively, the Equity Incentive Plan ) were as follows:

	<b>SHARES</b>	<b>WEIGHTED AVERAGE EXERCISE PRICE</b>	<b>WEIGHTED AVERAGE REMAINING CONTRACTUAL TERM</b>	<b>AGGREGATE INTRINSIC VALUE</b>
Outstanding at December 31, 2009	1,505,694	\$ 12.01		
Granted	0	0		
Exercised	(906,516)	12.46		
Cancelled	(24,791)	3.94		
Outstanding at September 30, 2010	574,387	11.65	1.6 years	\$6,838,894
Exercisable at September 30, 2010	574,387	11.65	1.6 years	\$6,838,894

A summary of the status and changes of our nonvested shares related to the Equity Incentive Plan as of and during the nine months ended September 30, 2010 is presented below:

	<b>SHARES</b>	<b>WEIGHTED AVERAGE GRANT-DATE FAIR VALUE</b>
Nonvested at December 31, 2009	2,158,644	\$ 17.86
Granted	139,000	30.38
Vested	(105,977)	17.29
Cancelled	0	0
Nonvested at September 30, 2010	2,191,667	18.68

As of September 30, 2010, there was \$28.5 million of unrecognized compensation cost related to nonvested common shares. The cost is expected to be amortized over a weighted average period of 2.1 years.

**(6) EARNINGS PER SHARE**

Basic earnings per share represents net earnings divided by the weighted average number of common shares outstanding for the period. Diluted earnings per share represents the weighted average number of common shares and potential common shares, if dilutive, that would arise from the exercise of stock options and nonvested shares using the treasury stock method.

The following is a reconciliation of net earnings and weighted average common shares outstanding for purposes of calculating basic earnings per share (in thousands, except per share amounts):

<b>Basic earnings per share</b>	<b>Three-Months Ended</b>		<b>Nine-Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net earnings attributable to Skechers U.S.A., Inc.	\$ 36,378	\$ 24,460	\$ 132,911	\$ 26,753
Weighted average common shares outstanding	47,586	46,405	47,268	46,304
Basic earnings per share attributable to Skechers U.S.A., Inc.	\$ 0.76	\$ 0.53	\$ 2.81	\$ 0.58

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The following is a reconciliation of net earnings and weighted average common shares outstanding for purposes of calculating diluted earnings per share (in thousands, except per share amounts):

<b>Diluted earnings per share</b>	<b>Three-Months Ended</b>		<b>Nine-Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net earnings attributable to Skechers U.S.A., Inc.	\$ 36,378	\$ 24,460	\$ 132,911	\$ 26,753
Weighted average common shares outstanding	47,586	46,405	47,268	46,304
Dilutive effect of stock options	1,590	690	1,749	345
Weighted average common shares outstanding	49,176	47,095	49,017	46,649