SKECHERS USA INC
Form 10-Q
August 08, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

¨ **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 x 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 x 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 x	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 x

THE NUMBER OF SHARES OF CLASS A COMMON STOCK OUTSTANDING AS OF AUGUST 1, 2014: 40,647,761.

THE NUMBER OF SHARES OF CLASS B COMMON STOCK OUTSTANDING AS OF AUGUST 1, 2014: 10,569,918.

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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, except par values)

	June 30, 2014	December 31, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 414,808	$ 372,011
Trade accounts receivable, less allowances of $21,112 in 2014 and $15,926 in 2013	318,460	225,941
Other receivables	10,667	10,599
Total receivables	329,127	236,540
Inventories	360,491	358,168
Prepaid expenses and other current assets	37,094	26,094
Deferred tax assets	22,115	22,115
Total current assets	1,163,635	1,014,928
Property, plant and equipment, at cost, less accumulated depreciation and amortization	364,746	361,755
Goodwill and other intangible assets, less accumulated amortization	1,910	2,377
Deferred tax assets	1,624	9,950
Other assets, at cost	19,420	19,560
Total non-current assets	387,700	393,642
TOTAL ASSETS	$ 1,551,335	$ 1,408,570
LIABILITIES AND EQUITY		
Current Liabilities:		
Current installments of long-term borrowings	$ 12,218	$ 12,028
Short-term borrowings	184	87
Accounts payable	314,196	258,183
Accrued expenses	44,283	40,124
Total current liabilities	370,881	310,422
Long-term borrowings, excluding current installments	110,331	116,488

Other long-term liabilities	15,081	1,740
Total non-current liabilities	125,412	118,228
Total liabilities	496,293	428,650
Commitments and contingencies		
Stockholders equity:		
Preferred Stock, $.001 par value; 10,000 authorized; none issued and outstanding	0	0
Class A Common Stock, $.001 par value; 100,000 shares authorized; 40,056 and 39,688 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	40	40
Class B Common Stock, $.001 par value; 60,000 shares authorized; 10,570 and 10,870 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	11	11
Additional paid-in capital	346,793	342,143
Accumulated other comprehensive loss	(7,623)	(8,701)
Retained earnings	662,596	596,829
Skechers U.S.A., Inc. equity	1,001,817	930,322
Non-controlling interests	53,225	49,598
Total equity	1,055,042	979,920
TOTAL LIABILITIES AND EQUITY	$ 1,551,335	$ 1,408,570

See accompanying notes to unaudited condensed consolidated financial statements.

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

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

(In thousands, except per share data)

	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 sales	$ 587,051	$ 428,247	$ 1,133,569	$ 879,868
Cost of sales	317,676	233,353	623,791	492,242
Gross profit	269,375	194,894	509,778	387,626
Royalty income	1,836	1,424	4,858	3,194
	271,211	196,318	514,636	390,820
Operating expenses:				
Selling	53,839	42,088	90,581	79,784
General and administrative	163,616	137,066	322,139	278,534
	217,455	179,154	412,720	358,318
Earnings from operations	53,756	17,164	101,916	32,502
Other income (expense):				
Interest income	197	137	300	208
Interest expense	(3,656)	(3,128)	(6,352)	(5,747)
Other, net	148	(695)	(934)	(3,619)
Total other expense	(3,311)	(3,686)	(6,986)	(9,158)
Earnings before income tax expense	50,445	13,478	94,930	23,344
Income tax expense	12,232	4,632	23,669	6,910
Net earnings	38,213	8,846	71,261	16,434
Less: Net earnings attributable to non-controlling interests	3,411	1,752	5,494	2,660
Net earnings attributable to Skechers U.S.A., Inc.	$ 34,802	$ 7,094	$ 65,767	$ 13,774
Net earnings per share attributable to Skechers U.S.A., Inc.:				
Basic	$ 0.69	$ 0.14	$ 1.30	$ 0.27

Diluted	$ 0.68	$ 0.14	$ 1.29	$ 0.27
Weighted average shares used in calculating net earnings per share attributable to Skechers U.S.A, Inc.:				
Basic	50,565	50,298	50,562	50,297
Diluted	50,914	50,497	50,879	50,494

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 June 30,		Six-Months Ended June 30,	
	2014	2013	2014	2013
Net earnings	$ 38,213	$ 8,846	$ 71,261	$ 16,434
Other comprehensive gain (loss):				
Gain (loss) on foreign currency translation adjustment, net of tax	801	(4,491)	1,102	(4,566)
Comprehensive income	39,014	4,355	72,363	11,868
Less: Comprehensive income attributable to non-controlling interests	3,516	1,683	5,519	2,651
Comprehensive income attributable to Skechers U.S.A., Inc.	$ 35,498	$ 2,672	$ 66,844	$ 9,217

See accompanying notes to unaudited condensed consolidated financial statements.

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six-Months Ended June 30, 2014	2013
Cash flows from operating activities:		
Net earnings	$ 71,261	$ 16,434
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation of property, plant and equipment	22,886	20,542
Amortization of deferred financing costs	601	838
Amortization of intangible assets	467	453
Provision for bad debts and returns	6,597	1,424
Tax benefits from share-based compensation	10	(4)
Non-cash share-based compensation	2,920	1,159
Loss on disposal of property, plant and equipment	244	194
Deferred income taxes	20,162	3,299
(Increase) decrease in assets:		
Receivables	(95,196)	(39,801)
Inventories	(3,249)	51,392
Prepaid expenses and other current assets	(10,942)	3,271
Other assets	(474)	(3,279)
Increase (decrease) in liabilities:		
Accounts payable	53,985	(18,666)
Accrued expenses	4,994	(7,131)
Net cash provided by operating activities	74,266	30,125
Cash flows from investing activities:		
Capital expenditures	(23,927)	(17,578)
Net cash used in investing activities	(23,927)	(17,578)
Cash flows from financing activities:		
Net proceeds from the issuances of stock through employee stock purchase plan and the exercise of stock options	1,721	1,417
Payments on long-term debt	(5,967)	(5,748)
Proceeds (payments) on short-term borrowings	97	(1,116)
Contribution from non-controlling interests of consolidated entity	83	3,152
Distributions to non-controlling interests of consolidated entity	(1,975)	(1,675)

Net cash used in financing activities	(6,041)	(3,970)
Net increase in cash and cash equivalents	44,298	8,577
Effect of exchange rates on cash and cash equivalents	(1,501)	(1,397)
Cash and cash equivalents at beginning of the period	372,011	325,826
Cash and cash equivalents at end of the period	$ 414,808	$ 333,006
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 5,735	$ 5,152
Income taxes	13,577	4,600

See accompanying notes to unaudited condensed consolidated financial statements.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 and 2013

(Unaudited)

(1) GENERAL

Basis of Presentation

The accompanying condensed consolidated financial statements of Skechers U.S.A., Inc. (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 normal 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, 2013.

The results of operations for the six months ended June 30, 2014 are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2014.

Fair Value of Financial Instruments

The carrying amount of the Company s financial instruments are considered Level 1 assets, which principally include cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and approximates fair value because of the relatively short maturity of such instruments.

The carrying amount of the Company s long-term borrowings are considered Level 2 liabilities and approximates fair value based upon current rates and terms available to the Company for similar debt.

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.

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 the 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. Wholesale and e-commerce sales are recognized net of allowances for estimated returns, sales allowances, discounts, chargebacks and amounts billed for shipping and handling costs. The Company recognizes revenue from retail sales at the point of sale. Allowances for estimated returns, discounts, doubtful accounts and chargebacks are recorded 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, the Company receives up-front fees, which are generally characterized as prepaid royalties. These fees are initially deferred and recognized as revenue as earned. In addition, the Company receives royalty payments based on actual sales of the licensed products. Typically, at each quarter-end the Company receives correspondence from the licensees indicating the actual sales for the period. This information is used to calculate and record the related royalties based on the terms of the agreement.

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Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) amended the FASB Accounting Standards Codification and created a new Topic 606, *Revenue from Contracts with Customers* . This amendment prescribes that an entity should recognize 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. The amendment supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition* , and most industry-specific guidance throughout the Industry Topics of the Codification. The amendments will become effective for the Company s annual and interim reporting periods beginning January 1, 2017. The Company is evaluating the impact on its consolidated financial statements, however, the Company does not expect that the adoption of this standard will have a material impact on the Company s consolidated financial statements.

(2) NON-CONTROLLING INTERESTS

The Company has equity interests in several joint ventures that were established either to distribute the Company s products throughout Asia or to construct the Company s domestic distribution facility. These joint ventures are variable interest entities (VIE)s under Accounting Standards Codification (ASC) 810-10-15-14. The Company s determination of the primary beneficiary of a VIE considers all relationships between the Company and the VIE, including management agreements, governance documents and other contractual arrangements. The Company has determined for its VIEs the Company is the primary beneficiary because it has both of the following characteristics: (a) the power to direct the activities of a VIE that most significantly impact the entity s economic performance, and (b) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. Accordingly, the Company includes the assets and liabilities and results of operations of these entities in its condensed consolidated financial statements, even though the Company may not hold a majority equity interest. There have been no changes during 2014 in the accounting treatment or characterization of any previously identified VIE. The Company continues to reassess these relationships quarterly. The assets of these joint ventures are restricted in that they are not available for general business use outside the context of such joint ventures. The holders of the liabilities of each joint venture have no recourse to the Company. The Company does not have a variable interest in any unconsolidated VIEs.

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The following VIEs are consolidated into the Company s condensed consolidated financial statements and the carrying amounts and classification of assets and liabilities were as follows (in thousands):

HF Logistics-SKX, LLC	**June 30, 2014**	**December 31, 2013**
Current assets	$ 3,028	$ 3,076
Noncurrent assets	127,044	129,796
Total assets	$ 130,072	$ 132,872
Current liabilities	$ 1,618	$ 1,835
Noncurrent liabilities	78,740	79,389
Total liabilities	$ 80,358	$ 81,224

Distribution joint ventures (1)	**June 30, 2014**	**December 31, 2013**
Current assets	$ 64,595	$ 49,835
Noncurrent assets	9,523	9,209
Total assets	$ 74,118	$ 59,044
Current liabilities	$ 21,059	$ 15,687
Noncurrent liabilities	33	32
Total liabilities	$ 21,092	$ 15,719

(1) Distribution joint ventures include Skechers China Limited, Skechers Southeast Asia Limited, Skechers Thailand Limited and Skechers South Asia Private Limited.

Net earnings attributable to non-controlling interests were $3.4 million and $1.8 million for the three months ended June 30, 2014 and 2013, respectively, which represents the share of net earnings that is attributable to our joint venture partners. Net earnings attributable to non-controlling interests were $5.5 million and $2.7 million for the six months ended June 30, 2014 and 2013, respectively. HF Logistics-SKX, LLC made capital distributions of $0.7 million and $1.6 million during the three and six months ended June 30, 2014, respectively. HF Logistics-SKX, LLC made capital distributions of $0.5 million and $1.7 million during the three and six months ended June 30, 2013, respectively. Skechers China Limited made capital distributions of $0.3 million during the six months ended June 30, 2014. Our distribution joint venture partners made cash capital contributions of $0.1 million during the three and six months ended June 30, 2014, respectively. Our distribution joint venture partners made cash capital contributions of $3.2 million during the six months ended June 30, 2013.

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(3) SHARE-BASED COMPENSATION

For stock-based awards the Company recognized compensation expense based on the grant date fair value. Share-based compensation expense was $1.6 million and $0.6 million for the three months ended June 30, 2014 and 2013, respectively. Share-based compensation expense was $2.9 million and $1.2 million for the six months ended June 30, 2014 and 2013, respectively.

A summary of the status and changes of our nonvested shares related to the Company s Equity Incentive Plans as of and for the six months ended June 30, 2014 is presented below:

	Shares	Weighted Average Grant-Date Fair Value
Nonvested at December 31, 2013	276,166	$ 20.05
Granted	319,000	27.54
Vested	(7,500)	18.75
Cancelled	(7,500)	18.75
Nonvested at June 30, 2014	580,166	23.82

As of June 30, 2014, there was $9.7 million of unrecognized compensation cost related to nonvested common shares. The cost is expected to be amortized over a weighted average period of 1.9 years.

(4) EARNINGS PER SHARE

Basic earnings per share represent net earnings divided by the weighted average number of common shares outstanding for the period. Diluted earnings per share, in addition to the weighted average determined for basic earnings per share, includes potential common shares, if dilutive, which would arise from the exercise of stock options and nonvested shares using the treasury stock method.

The Company has two classes of issued and outstanding common stock, Class A Common Stock and Class B Common Stock. Holders of Class A Common Stock and holders of Class B Common Stock have substantially identical rights, including rights with respect to any declared dividends or distributions of cash or property and the right to receive proceeds on liquidation or dissolution of the Company after payment of the Company s indebtedness. The two classes have different voting rights, with holders of Class A Common Stock entitled to one vote per share while holders of Class B Common Stock are entitled to ten votes per share. The Company uses the two-class method for calculating net earnings per share. Basic and diluted net earnings per share of Class A Common Stock and Class B Common Stock are identical.

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):

	Three Months Ended June 30,	Six Months Ended June 30,

Basic earnings per share	**2014**	**2013**	**2014**	**2013**
Net earnings attributable to Skechers U.S.A., Inc.	$ 34,802	$ 7,094	$ 65,767	$ 13,774
Weighted average common shares outstanding	50,565	50,298	50,562	50,297
Basic earnings per share attributable to Skechers U.S.A., Inc.	$ 0.69	$ 0.14	$ 1.30	$ 0.27

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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):

Diluted earnings per share	Three Months Ended June 30, 2014	2013	Six Months Ended June 30, 2014	2013
Net earnings attributable to Skechers U.S.A., Inc.	$ 34,802	$ 7,094	$ 65,767	$ 13,774
Weighted average common shares outstanding	50,565	50,298	50,562	50,297
Dilutive effect of stock options	349	199	317	197
Weighted average common shares outstanding	50,914	50,497	50,879	50,494
Diluted earnings per share attributable to Skechers U.S.A., Inc.	$ 0.68	$ 0.14	$ 1.29	$ 0.27

There were no options excluded in the computation of diluted earnings per share for the three and six months ended June 30, 2014 and 2013.

(5) INCOME TAXES

Income tax expense and the effective tax rate for the three and six months ended June 30, 2014 and 2013 were as follows (in thousands, except the effective tax rate):

	Three Months Ended June 30, 2014	2013	Six-Months Ended June 30, 2014	2013
Income tax expense.	$ 12,232	$ 4,632	$ 23,669	$ 6,910
Effective tax rate	24.2%	34.4%	24.9%	29.6%

The tax provision for the three and six months ended June 30, 2014 and 2013 was computed using the estimated effective tax rates applicable to each of the domestic and international taxable jurisdictions for the full year. The Company estimates its ongoing effective annual tax rate in 2014 to be between 24% and 28%, which is subject to management s quarterly review and revision, if necessary.

The Company s provision for income tax expense and effective income tax rate are significantly impacted by the mix of the Company s domestic and foreign earnings (loss) before income taxes. In the foreign jurisdictions in which the Company has operations, the applicable statutory rates range from 0% to 34%, which are generally significantly lower than the U.S. federal and state combined statutory rate of approximately 39%. For the three months and six months ended June 30, 2014, the decrease in the effective tax rate was primarily attributable to an increase in the amount of foreign earnings relative to domestic earnings as compared to the same period in the prior year.

As of June 30, 2014, the Company had approximately $414.8 million in cash and cash equivalents, of which $159.0 million, or 38.3%, was held outside the U.S. Of the $159.0 million held by the Company s foreign subsidiaries, approximately $34.6 million is available for repatriation to the U.S. without incurring U.S. income

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taxes and applicable foreign income and withholding taxes in excess of the amounts accrued in the Company s condensed consolidated financial statements as of June 30, 2014. Under current applicable tax laws, if the Company chooses to repatriate some or all of the funds designated as indefinitely reinvested outside the U.S., the amount repatriated would be subject to U.S. income taxes and applicable foreign income and withholding taxes. The Company does not expect to repatriate any of the funds presently designated as indefinitely reinvested outside the U.S. As such, the Company did not provide for deferred income taxes on its accumulated undistributed earnings of the Company s foreign subsidiaries.

(6) LINE OF CREDIT, SHORT-TERM AND LONG-TERM BORROWINGS

The Company and its subsidiaries had $4.0 million of outstanding letters of credit as of June 30, 2014 and December 31, 2013, and $0.2 million and $0.1 million in short-term borrowings as of June 30, 2014 and December 31, 2013, respectively.

Long-term borrowings are as follows (in thousands):

	June 30, 2014	December 31, 2013
Note payable to banks, due in monthly installments of $339.1 (includes principal and interest), variable-rate interest at 3.90% per annum, secured by property, balloon payment of $77,060 due October 2015	$ 78,404	$ 78,908
Note payable to banks, due in monthly installments of $531.4 (includes principal and interest), fixed-rate interest at 3.54% per annum, secured by property, balloon payment of $12,635 due December 2015	20,781	23,573
Note payable to banks, due in monthly installments of $483.9 (includes principal and interest), fixed-rate interest at 3.19% per annum, secured by property, balloon payment of $11,670 due June 2016	21,733	24,265
Note payable to TCF Equipment Finance, Inc., due in monthly installments of $30.5, (includes principal and interest) fixed-rate interest at 5.24% per annum, maturity date of July 2019	1,631	1,770
Subtotal	122,549	128,516
Less current installments	12,218	12,028
Total long-term borrowings	$ 110,331	$ 116,488

(7) LITIGATION

The Company recognizes legal expense in connection with loss contingencies as incurred.

In accordance with accounting principles generally accepted in the U.S., the Company records a liability in its condensed consolidated financial statements for loss contingencies when a loss is known or considered probable and the amount can be reasonably estimated. When determining the estimated loss or range of loss, significant judgment is required to estimate the amount and timing of a loss to be recorded. Estimates of probable losses resulting from litigation and governmental proceedings are inherently difficult to predict, particularly when the matters are in the procedural stages or with unspecified or indeterminate claims for damages, potential penalties, or fines. Accordingly, the Company cannot determine the final amount, if any, of its liability beyond the amount accrued in the condensed consolidated financial statements as of June 30, 2014, nor is it possible to estimate what litigation-related costs will be in the future.

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(8) STOCKHOLDERS EQUITY

During the three months ended June 30, 2014, 289,480 shares of Class B common stock were converted into shares of Class A common stock. During the six months ended June 30, 2014, 299,776 shares of Class B common stock were converted into shares of Class A common stock. During the three months ended June 30, 2013, no shares of Class B common stock were converted into shares of Class A common stock. During the six months ended June 30, 2013, 16,236 shares of Class B common stock were converted into shares of Class A common stock.

The following table reconciles equity attributable to non-controlling interests (in thousands):

	Six Months Ended June 30,	
	2014	**2013**
Non-controlling interests, beginning of period	$ 49,598	$ 43,120
Net earnings attributable to non-controlling interests	5,494	2,660
Foreign currency translation adjustment	25	(9)
Capital contribution by non-controlling interests	83	3,152
Capital distribution to non-controlling interests	(1,975)	(1,675)
Non-controlling interests, end of period	$ 53,225	$ 47,248

(9) SEGMENT AND GEOGRAPHIC REPORTING INFORMATION

The Company has four reportable segments domestic wholesale sales, international wholesale sales, retail sales, and e-commerce sales. Management evaluates segment performance based primarily on net sales and gross profit. All other costs and expenses of the Company are analyzed on an aggregate basis, and these costs are not allocated to the Company s segments. Net sales, gross margins, identifiable assets and additions to property and equipment for the domestic wholesale, international wholesale, retail, and the e-commerce segments on a combined basis were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Net sales:				
Domestic wholesale	$ 256,684	$ 189,648	$ 489,177	$ 382,209
International wholesale	151,051	98,094	330,134	239,860
Retail	171,881	133,434	300,759	244,633
E-commerce	7,435	7,071	13,499	13,166
Total	$ 587,051	$ 428,247	$ 1,133,569	$ 879,868

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Gross profit:				

Domestic wholesale	$ 94,186	$ 69,016	$ 178,741	$ 135,833
International wholesale	64,792	41,343	141,081	100,142
Retail	106,817	81,384	183,578	145,620
E-commerce	3,580	3,151	6,378	6,031
Total	$ 269,375	$ 194,894	$ 509,778	$ 387,626

	June 30, 2014	**December 31, 2013**
Identifiable assets:		
Domestic wholesale	$ 952,267	$ 865,071
International wholesale	401,527	374,738
Retail	197,307	168,532
E-commerce	234	229
Total	$ 1,551,335	$ 1,408,570

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Additions to property, plant and equipment:				
Domestic wholesale	$ 2,950	$ 3,854	$ 4,956	$ 5,926
International wholesale	3,929	605	4,933	832
Retail	5,678	5,344	14,038	10,820
Total	$ 12,557	$ 9,803	$ 23,927	$ 17,578

Geographic Information:

The following summarizes the Company s operations in different geographic areas for the period indicated (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net Sales (1):				
United States	$ 402,009	$ 310,741	$ 746,663	$ 605,283
Canada	18,433	14,749	40,118	31,662
Other international (2)	166,609	102,757	346,788	242,923
Total	$ 587,051	$ 428,247	$ 1,133,569	$ 879,868

	June 30, 2014	December 31, 2013
Property, plant and equipment, net:		
United States	$ 335,798	$ 337,727
Canada	5,336	5,079
Other international (2)	23,612	18,949
Total	$ 364,746	$ 361,755

(1) The Company has subsidiaries in Canada, United Kingdom, Germany, France, Spain, Portugal, Italy, the Netherlands, Japan, Brazil and Chile that generate net sales within those respective countries and in some cases the neighboring regions. The Company has joint ventures in China, Hong Kong, Malaysia, Singapore, Thailand and India that generate net sales from those countries. The Company also has a subsidiary in Switzerland that generates net sales from that country in addition to net sales to distributors located in numerous non-European countries. Net sales are attributable to geographic regions based on the location of the Company subsidiary.

(2) Other international consists of Switzerland, United Kingdom, Germany, Austria, France, Spain, Portugal, Italy, Belgium, the Netherlands, Brazil, Chile, China, Hong Kong, Malaysia, Singapore, Thailand, Vietnam, India and

Japan.

(10) BUSINESS AND CREDIT CONCENTRATIONS

The Company generates the majority of its sales in the United States; however, several of its products are sold into various foreign countries, which subjects the Company to the risks of doing business abroad. In addition, the Company operates in the footwear industry, which is impacted by the general economy, and its business depends on the general economic environment and levels of consumer spending. Changes in the marketplace may significantly affect management s estimates and the Company s performance. Management performs regular evaluations concerning the ability of customers to satisfy their obligations and provides for estimated doubtful accounts. Domestic accounts receivable, which generally do not require collateral from customers, were $190.9 million and $138.4 million before allowances for bad debts, sales returns and chargebacks at June 30, 2014 and December 31, 2013, respectively. Foreign accounts receivable, which in some cases are collateralized by letters of credit, were equal to $148.6 million and $103.5 million before allowance for bad debts, sales returns and chargebacks at June 30, 2014 and December 31, 2013, respectively. The Company s charges for bad debt and reserves for credit losses for the three months ended June 30, 2014 and 2013 were $1.1 million and $0.4 million, respectively. The Company s credit losses attributable to write-offs for the six months ended June 30, 2014 and 2013 were $4.9 million and $1.0 million, respectively.

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Assets located outside the U.S. consist primarily of cash, accounts receivable, inventory, property, plant and equipment, and other assets. Net assets held outside the United States were $454.5 million and $413.2 million at June 30, 2014 and December 31, 2013, respectively.

The Company s net sales to its five largest customers accounted for approximately 16.2% and 19.3% of total net sales for the three months ended June 30, 2014 and 2013, respectively. The Company s net sales to its five largest customers accounted for approximately 16.6% and 18.6% of total net sales for the six months ended June 30, 2014 and 2013, respectively. No customer accounted for more than 10% of our net sales during the three and six months ended June 30, 2014 and 2013. No customer accounted for more than 10% of net trade receivables at June 30, 2014 or December 31, 2013.

The Company s top five manufacturers produced the following, as a percentage of total production, for the three and six months ended June 30, 2014 and 2013:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Manufacturer #1	35.8%	34.5%	36.3%	33.2%
Manufacturer #2	7.1%	7.4%	6.3%	7.9%
Manufacturer #3	6.0%	7.3%	5.7%	6.7%
Manufacturer #4	4.9%	6.6%	5.3%	5.9%
Manufacturer #5	3.9%	4.6%	4.3%	4.9%
	57.7%	60.4%	57.9%	58.6%

The majority of the Company s products are produced in China. The Company s operations are subject to the customary risks of doing business abroad, including, but not limited to, currency fluctuations and revaluations, custom duties and related fees, various import controls and other monetary barriers, restrictions on the transfer of funds, labor unrest and strikes and, in certain parts of the world, political instability. The Company believes it has acted to reduce these risks by diversifying manufacturing among various factories. To date, these business risks have not had a material adverse impact on the Company s operations.

(11) RELATED PARTY TRANSACTIONS

On July 29, 2010, the Company formed Skechers Foundation (the Foundation), which is a 501(c)(3) non-profit entity that does not have any shareholders or members. The Foundation is not a subsidiary of and is not otherwise affiliated with the Company, and the Company does not have a financial interest in the Foundation. However, two officers and directors of the Company, Michael Greenberg who is its President and David Weinberg who is its Chief Operating Officer and Chief Financial Officer, are also officers and directors of the Foundation. There were no contributions made to the Foundation during the three and six months ended June 30, 2014. The Company contributed $0.3 million and $0.5 million to the Foundation for the Foundation to use for various charitable causes during the three and six months ended June 30, 2013.