

Crocs, Inc.
Form S-1/A
August 14, 2006

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

As filed with the Securities and Exchange Commission on August 14, 2006

Registration No. 333-134481

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 3

to

FORM S-1

REGISTRATION STATEMENT

Under

The Securities Act of 1933

CROCS, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

3021

(Primary Standard Industrial
Classification Code Number)

20-2164234

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

**6328 Monarch Park Place
Niwot, Colorado 80503
(303) 848-7000**

(Address, including zip code and telephone number, including area code, of Registrant's principal executive offices)

**Ronald R. Snyder
President and Chief Executive Officer
Crocs, Inc.**

**6328 Monarch Park Place
Niwot, Colorado 80503
(303) 848-7000**

(Name, address, including zip code and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box:

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Share(2)	Proposed Maximum Aggregate Offering Price(1)(2)	Amount of Registration Fee
Common Stock, \$.001 par value	7,935,000	\$27.88	\$221,227,800	\$23,671.38(3)

- (1) Includes 1,035,000 shares of common stock that the underwriters have the option to purchase to cover over-allotments, if any.
- (2) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended, based on the average of the high and low trading prices for the common stock as reported by the Nasdaq Global Select Market on August 2, 2006.
- (3) This amount has been previously paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the Securities and Exchange Commission declares our registration statement effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to completion, dated August 14, 2006

6,900,000 Shares

CROCS, INC.

Common Stock

\$ per share

The selling stockholders named in this prospectus are offering 6,900,000 shares. We will not receive any proceeds from the sale of our shares by the selling stockholders.

The last reported sale price of our common stock on August 11, 2006 was \$26.88 per share

Trading symbol: Nasdaq Global Select Market CROX

This investment involves risk. See "Risk Factors" beginning on page 7.

	<u>Per Share</u>	<u>Total</u>
Public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds to selling stockholders	\$	\$

The underwriters have a 30-day option to purchase up to 1,035,000 additional shares of common stock from certain of the selling stockholders to cover over-allotments, if any. We will not receive any of the proceeds from the sale of such shares by these selling stockholders.

Neither the Securities and Exchange Commission nor any state securities commission has approved of anyone's investment in these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Piper Jaffray

Thomas Weisel Partners LLC

Cowen and Company

BB&T Capital Markets

D.A. Davidson & Co.

Wedbush Morgan Securities
, 2006.

The date of this prospectus is



TABLE OF CONTENTS

Summary

Risk Factors

A Special Note Regarding Forward-Looking Statements

Use of Proceeds

Price Range of Common Stock

Dividend Policy

Capitalization

Selected Consolidated Financial Data

Management's Discussion and Analysis of Financial Condition and Results of Operations

Business

Management

Executive Compensation

Certain Relationships and Related Party Transactions

Principal and Selling Stockholders

Description of Capital Stock

Shares Eligible for Future Sale

U.S. Federal Tax Considerations for Non-U.S. Holders

Underwriting

Legal Matters

Experts

Where You Can Find More Information

Incorporation of Certain Documents by Reference

You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. This prospectus is not an offer to sell, nor is it seeking an offer to buy, these securities in any state where the offer or sale is not permitted. The information in this prospectus is complete and accurate as of the date on the front cover, but the information may have changed since that date.

We have registered the trademark " crocs" for footwear in Aruba, Australia, the European Union, Israel, Japan, Mexico, Netherlands Antilles, New Zealand, Panama and the World Intellectual Property Office. " crocs," "Foam Creations," "croslite," our shoe model names and our logos are our common law trademarks in the U.S. and certain other countries. This prospectus also contains trademarks and service marks belonging to other entities.

SUMMARY

You should read the following summary together with the more detailed information concerning our company, the common stock being sold in this offering and our financial statements incorporated by reference in this prospectus. Because this is only a summary, you should read the rest of this prospectus before you invest in our common stock. Read this entire prospectus carefully, especially information contained in the "Risk Factors" section. As used in this prospectus, the terms the "Company," "we," "our," or "us" refer to Crocs, Inc., and its consolidated subsidiaries, taken as a whole, unless the context otherwise indicates.

Crocs, Inc.

We are a rapidly growing designer, manufacturer and marketer of footwear for men, women and children under the **crocs** brand. All of our footwear products incorporate our proprietary closed-cell resin material, which we believe represents a substantial innovation in footwear comfort and functionality. Our proprietary closed-cell resin, which we refer to as *croslite*, enables us to produce a soft and lightweight, non-marking, slip- and odor-resistant shoe. These unique properties make our footwear ideal for casual wear, as well as for recreational uses such as boating, hiking, fishing or gardening, and have enabled us to successfully market our products to a broad range of consumers. We have combined the unique properties of *croslite* with fun colors and innovative designs to provide a new level of comfort, functionality and style in the casual lifestyle footwear category at attractive retail price points ranging from \$19.99 to \$49.99. Since we began marketing our first model in November 2002, we have expanded our product line to include 18 models in a wide variety of colors, color combinations and patterns and we were recognized in 2005 as the "Brand of the Year" by *Footwear News*, a leading industry publication. We recorded \$108.6 million of revenues and net income of \$17.0 million in 2005, compared to \$13.5 million of revenues and a net loss of \$1.5 million in 2004. We recorded \$130.5 million of revenues and net income of \$22.1 million in the six months ended June 30, 2006, compared to \$36.7 million of revenues and net income of \$5.4 million in the six months ended June 30, 2005.

The broad appeal of our footwear has enabled us to successfully market our products to a wide range of distribution channels. Our footwear is currently sold through traditional footwear channels, including specialty footwear stores such as Brown's Shoe Fit and Journeys, sporting goods and outdoor retailers such as The Sports Authority, Dick's Sporting Goods, REI, Bass Pro Shops and West Marine, and department stores, including Dillard's, Nordstrom and Von Maur. Our products are also sold through a variety of other specialty channels, including gift shops, uniform suppliers, independent bicycle dealers, specialty food retailers, health and beauty stores and other specialty stores. We distribute our products through over 10,000 store locations domestically, and we sell our products in over 60 countries worldwide. We also sell our products directly to consumers through our website, www.crocs.com, and through company-operated kiosks that are located in high foot traffic areas. Our website and kiosks serve to promote our products and increase our brand awareness.

We currently manufacture our footwear products in our own facilities in North America, and in third party manufacturers' facilities located around the world. A core element of our business strategy is to maintain the flexibility to offer our retailers timely inventory fulfillment throughout the year while capitalizing on the efficiencies and cost advantages of large scale contract manufacturing. As part of this strategy, we produce a significant portion of our footwear in our company-operated North American manufacturing facilities, which provide us maximum production flexibility to more quickly meet changing customer demand. In addition, the geographic diversity of our company-operated and third party manufacturing facilities allows us to more efficiently and cost-effectively serve specific geographic markets.

Our Business Strategy

We seek to differentiate the **crocs** brand and our product offerings by focusing on several core strategies. Our principal strategies are to:

*Continue to highlight the unique characteristics of **crocs** footwear.* We believe the comfort, functionality and styling of our footwear are key competitive advantages that consumers associate with the **crocs** brand. The distinct characteristics of our footwear products make them ideal for a wide range of casual and active uses, and we intend to expand the range of uses with the introduction of new models, reinforcing our reputation for producing functional and comfortable footwear.

Maintain a flexible, low-cost manufacturing model. Our strategy is to maintain a flexible, globally diversified, low-cost manufacturing base. Our company-operated manufacturing facilities allow us to make rapid changes in our production schedules to meet changing customer demand, while contracting with third party manufacturers allows us to capitalize on the efficiencies and cost benefits of outsourced production. We believe this production strategy will enable us to continue to minimize our production costs, shorten production and development times to better serve our retail customers and increase overall operating efficiencies.

Focus on product design innovation. We believe we have introduced a range of innovative footwear products that are clearly differentiated from other footwear lines, and we intend to continue refining existing models and introducing new models in additional footwear categories to expand our product portfolio and broaden our consumer appeal.

*Enhance our **crocs** brand.* A core element of our strategy is to build our brand by capitalizing on market opportunities arising from the unique versatility of *croslite*, while offering our existing consumer base an expanded line of **crocs** products. We also intend to employ targeted marketing strategies to continue to expand market awareness of our **crocs** products, and recently became the title sponsor of the AVP Pro Beach Volleyball Tour.

Provide a compelling value proposition to retailers. We offer retailers footwear products that we believe are unique in appearance and functionality and retail at attractive price points. We believe these factors, combined with our space-efficient merchandising display and year-round inventory replenishment, present our retail customers with attractive profit margins and sales per square foot while improving inventory turnover.

Our Growth Strategy

We seek to increase our market share and drive further growth in our business by pursuing the following strategies:

Introduce new footwear models. We plan to continue introducing new models and additional colors at various price points to meet the evolving demands and tastes of consumers and to expand the appeal of our footwear products to diverse demographic audiences.

Expand domestic distribution. We believe there is a significant opportunity to add new customers within our retail channels as well as expand sales to our existing retail customers. To promote these efforts, we intend to continue to augment our domestic sales force, expand our product offering and provide high quality service to our customers.

Further develop international distribution. We are expanding our distribution efforts internationally and plan to continue establishing a sales presence in major foreign markets. We have initiated direct sales efforts in Australia, Austria, the Caribbean, Chile, France, Germany, Hong Kong, Japan, the Netherlands, Singapore, and the United Kingdom. We also market our products in approximately 60 countries through third party distributors.

Expand complementary apparel and accessories offerings. Apparel and accessories present us with an attractive opportunity to increase awareness of the **crocs** brand by leveraging our distribution network. We recently introduced a line of branded accessories and apparel.

Our History

We were organized as a limited liability company in 1999, and began marketing and distributing footwear products in the U.S. under the **crocs** brand in November 2002, shortly after completing the modification and improvement of a shoe produced by Foam Creations Inc., formerly known as Finproject N.A., Inc. The unique characteristics of *croslite* developed by Foam Creations enabled us to offer consumers an innovative shoe unlike any other footwear model then available. Initially we targeted our products to water sports enthusiasts, but the comfort and functionality of our products appealed to a more diverse group of consumers who used our footwear in a wide range of activities. To capitalize on the broad appeal of our footwear, we expanded our sales infrastructure, strengthened our senior management team and developed relationships with a range of retailers in the U.S through 2003 and 2004. In June 2004, we acquired Foam Creations, including its manufacturing operations, product lines and rights to the trade secrets for *croslite*.

Since June 2004, we have significantly expanded all aspects of our operations in order to take advantage of what we believe to be an attractive market opportunity. We have substantially increased the depth and breadth of our distribution and currently sell our products in over 10,000 domestic store locations and in over 60 countries worldwide. Additionally, we have expanded our product line to include 18 models in a wide variety of colors, color combinations and patterns.

Risks Affecting Us

We face a number of competitive challenges and potential risks, as discussed in "Risk Factors." In particular, our business and growth strategies could be negatively impacted if we are not able to manage our future growth effectively; if the popularity of our footwear products does not continue to grow as rapidly as in the past, or declines; or if we are unable to successfully expand our product line or fill our customers' orders. In addition, we face significant competition, including from companies that produce footwear products that are very similar in design and materials to our products. We must also effectively assimilate our new managers and employees, particularly in our finance and accounting and operations and logistics departments, implement additional processes and management information systems in order to accurately manage our business and report our financial results on a timely basis.

Corporate Information

We were organized as a limited liability company in Colorado in 1999, converted to a Colorado corporation in January 2005, and reincorporated in Delaware in June 2005. Our principal executive offices are located at 6328 Monarch Park Place, Niwot, Colorado 80503. Our telephone number at that location is (303) 848-7000. Our website address is www.crocs.com. This is a textual reference only. We do not incorporate the information on our website into this prospectus and you should not consider any information on, or that can be accessed through, our website as part of this prospectus.

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The Offering

Common stock offered by the selling stockholders	6,900,000 shares
Common stock to be outstanding after the offering	38,729,005 shares
Use of proceeds	We will not receive any proceeds from the sale of our common stock by the selling stockholders.
Nasdaq Global Select Market symbol	CROX

The information in this prospectus is based on the number of shares outstanding as of July 31, 2006 and, unless otherwise indicated, excludes:

3,148,438 shares of common stock issuable upon exercise of options outstanding under our 2005 Equity Incentive Plan, at a weighted average exercise price of \$18.83 per share, 3,060,829 of which were exercisable as of July 31, 2006 and of which options to purchase 357,930 shares were vested as of July 31, 2006;

1,197,303 shares of common stock issuable upon exercise of options outstanding outside of our 2005 Equity Incentive Plan, at a weighted average exercise price of \$1.17 per share, of which options to purchase 447,772 shares were vested and exercisable as of July 31, 2006;

2,748,756 shares of common stock reserved for future grants under our 2005 Equity Incentive Plan, of which 609,662 shares have been reserved for issuance to employees and consultants in the future under restricted stock award agreements; and

exercise of the underwriters' over-allotment option to purchase up to 1,035,000 shares of common stock from the selling stockholders.

Summary Consolidated Financial Data

The summary financial data presented below under the heading "Consolidated Statement of Operations Data" for the years ended December 31, 2002, 2003, 2004 and 2005 and the summary financial data presented below under the heading "Consolidated Balance Sheet Data" as of December 31, 2003, 2004 and 2005 have been derived from, and are qualified by reference to, the consolidated financial statements incorporated by reference in this prospectus. The summary financial data presented below under the headings "Consolidated Statement of Operations Data" and "Consolidated Balance Sheet Data" for the six months ended and as of June 30, 2005 and 2006 are unaudited, have been derived from unaudited consolidated financial statements that are incorporated by reference in this prospectus and have been prepared on the same basis as the annual consolidated financial statements. The summary financial data presented below under the heading "Consolidated Balance Sheet Data" as of December 31, 2002 are derived from our unaudited financial statements. In the opinion of management, the unaudited summary financial data presented below under the headings "Consolidated Statement of Operations Data" and "Consolidated Balance Sheet Data" reflect all adjustments, which include only normal and recurring adjustments, necessary to present fairly our results of operations for and as of the periods presented. Historical results are not necessarily indicative of the results of operations to be expected for future periods. You should read the summary consolidated financial data in conjunction with "Management's Discussion and Analysis of Financial Conditions and Results of Operations" and with our consolidated financial statements and related notes incorporated by reference herein.

	Year Ended December 31,				Six Months Ended June 30,	
	2002 ⁽¹⁾	2003	2004	2005 ⁽²⁾	2005 ⁽³⁾	2006
(dollars in thousands, except per share data)						
Consolidated Statement of Operations Data						
Revenues	\$ 24	\$ 1,165	\$ 13,520	\$ 108,581	\$ 36,727	\$ 130,477
Cost of sales (including share-based compensation expense of \$, \$, \$, \$84, \$29 and \$448, respectively)	16	891	7,162	47,773	15,919	59,828
Gross profit	8	274	6,358	60,808	20,808	70,649
Selling, general and administrative expense (including share-based compensation expense of \$240, \$356, \$1,792, \$4,673, \$2,352 and \$3,951, respectively)	453	1,471	7,929	33,916	13,225	36,978
Income (loss) from operations	(445)	(1,197)	(1,571)	26,892	7,583	33,671
Interest expense		3	47	611	202	391
Other (income) expense net			19	(8)	23	(662)
Income (loss) before income taxes	(445)	(1,200)	(1,637)	26,289	7,358	33,942
Income tax expense (benefit) ⁽²⁾			(143)	9,317	1,968	11,835
Net income (loss)	(445)	(1,200)	(1,494)	16,972	5,390	22,107
Dividends on redeemable convertible preferred shares ⁽⁴⁾			142	275	136	33
Net income (loss) attributable to common stockholders	\$ (445)	\$ (1,200)	\$ (1,636)	\$ 16,697	\$ 5,254	\$ 22,074
Income (loss) per common share:						
Basic	\$ (0.05)	\$ (0.06)	\$ (0.07)	\$ 0.51	\$ 0.16	\$ 0.62
Diluted	\$ (0.05)	\$ (0.06)	\$ (0.07)	\$ 0.51	\$ 0.16	\$ 0.56
Weighted average common shares:						
Basic	8,288,710	20,855,385	24,641,953	25,493,577	25,197,004	35,608,875
Diluted	8,288,710	20,855,385	24,641,953	33,570,000	33,289,163	39,351,248

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	As of December 31,				As of June 30,	
	2002 ⁽¹⁾	2003	2004	2005	2005 ⁽⁵⁾	2006
(dollars in thousands)						
Consolidated Balance Sheet Data						
Cash and cash equivalents	\$ 73	\$ 326	\$ 1,054	\$ 4,787	\$ 3,165	\$ 67,017
Total assets	454	1,304	16,224	78,032	39,938	190,196
Long-term obligations		400	3,660	5,513	3,995	3,912
Redeemable common shares		1,800	1,800	1,800	1,800	
Redeemable convertible preferred shares			5,500	5,500	5,500	
Total stockholders' equity (deficit)	389	(1,642)	(3,591)	18,914	3,946	148,639

- (1) We were founded in 1999 but did not commence operations until 2002, when we began selling footwear in the United States. As a result, there were no material operations prior to 2002.
- (2) On January 4, 2005, we converted from a limited liability company to a taxable corporation. For the tax years beginning on January 1, 2005 and afterward, we have been subject to corporate-level U.S. federal and state income taxes. Additionally, the statement of operations for the year ended December 31, 2005 reflects a one-time income tax benefit of \$797,000 to record the net deferred tax assets at the date of conversion.
- (3) Subsequent to the issuance of our consolidated financial statements for the six months ended June 30, 2005, we determined that the fair value of our common stock used for certain equity grants during 2005 was understated. As a result, the consolidated financial statements for the six months ended June 30, 2005 have been restated from the amounts previously reported. See note 14 to our unaudited consolidated financial statements for the six months ended June 30, 2006 incorporated by reference in this prospectus.
- (4) Dividends accrued in 2004 were paid to holders of our Class C convertible preferred membership units. Our Class C membership units were converted into shares of our Series A preferred stock in connection with our conversion from a limited liability company to a corporation on January 4, 2005.
- (5) Subsequent to the issuance of our consolidated financial statements for the six months ended June 30, 2005, we determined that the accumulated deficit as of January 4, 2005, the date of our conversion from a limited liability company to a corporation, should have been reclassified to additional paid-in capital in accordance with SEC Staff Accounting Bulletin Topic 4:B "S Corporations."

RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below, together with all of the other information included in this prospectus, before making an investment decision. If any of the following risks actually occurs, our business, financial condition or results of operations could suffer. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Related to Crocs, Inc.

We have a limited operating history, which makes it difficult to evaluate our business and prospects.

We commenced sales of our **crocs** footwear, which currently constitute a substantial majority of our sales, in 2002. As an early stage company with a limited operating history, our business is subject to all of the risks inherent in a new business enterprise, including:

products without a significant history in the market;

reliance on a small number of products;

limited manufacturing experience;

lack of established distribution channels;

a small and relatively new management team and an evolving organizational infrastructure; and

weaknesses in newly implemented or limited management information systems and weaknesses in internal controls over financial reporting.

Furthermore, we have recently experienced rapid growth, which has made our current operations and our expected future operations substantially different from our past operating history. For example, to support our growth we have added additional manufacturing capacity and have expanded our distribution and fulfillment capabilities. New manufacturing capacity that we have recently added may not meet our projections or may suffer from operating difficulties. Similarly, our new outsourced distribution and fulfillment provider may not perform as we expect, and our expanded in-house fulfillment capabilities may prove difficult to manage. Our limited operating history will make it difficult for you to evaluate this growth in our business and our prospects for the future.

We have significantly expanded the nature and scope of our operations over the past two years, and if we fail to manage any future growth effectively we may experience greater difficulty in filling customer orders, declines in product quality, increases in costs or other operating difficulties.

We have significantly expanded the nature and scope of our operations over the past two years, and we anticipate that substantial further expansion will be required to address potential growth in our customer base and new market opportunities. Prior to June 2004, we distributed in the U.S. under our **crocs** brand a limited range of footwear products manufactured and sold to us by Foam Creations. In June 2004, we acquired Foam Creations. Since that acquisition, we have expanded our product line to include 18 footwear models, and in addition, over the last two years, we expanded from:

136 employees at June 30, 2004, to 1,710 employees at June 30, 2006; and

\$3.0 million in revenues in the six months ended June 30, 2004, to \$130.5 million in revenues in the six months ended June 30, 2006.

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The expansion of the scope and nature of our business and the growth in the number of employees, customers and other third parties with whom we have relationships and in the number of facilities we use for manufacturing, distribution, and corporate operations, have placed and will continue to place a significant strain on our management and our information systems and resources. To manage growth in our operations, we will need to increase the number of people we employ, upgrade our existing financial and reporting systems as well as improve our business processes and controls. Failure to effectively manage growth could result in greater difficulty in completely filling customer orders, declines in product quality or increases in costs or other production and distribution difficulties, any of which could adversely impact our business performance and operating results.

The popularity of our crocs footwear may not continue to grow as rapidly as it has in the recent past or may decline, which would have a negative impact on our sales and results of operations.

Our recent growth is substantially attributable to sales of **crocs** footwear, which represented approximately 95.3% of our revenues in the six months ended June 30, 2006. We expect that footwear will constitute our principal product line for the foreseeable future. The footwear industry is subject to rapidly changing consumer demands and preferences and fashion trends, and our **crocs** footwear may not remain popular or we may fail to develop additional models that appeal to consumers. If the popularity of our **crocs** footwear declines or does not expand in the future, we may experience, among other things:

lower sales;

loss of retail customers;

excess inventories;

inventory markdowns and discounts provided to retailers;

deterioration of our brand image; and

lower gross and operating margins, including as a result of price reductions.

Given the limited history of our **crocs** brand, it is especially difficult to evaluate whether our products will hold long-term consumer appeal.

We are dependent on sales of a small number of products and the absence of continued market demand for these products would have a significant adverse effect on our operating results.

We generated approximately 95.3% of our revenues for the six months ended June 30, 2006 from sales of our **crocs** footwear, which consisted of 18 models. Sales of our Beach and Cayman models accounted for approximately 74.1% of our footwear revenues in the six months ended June 30, 2006. Most of our **crocs** footwear models are developed from the same base design as our Beach and Cayman models, and we expect to continue to derive a substantial portion of our revenues from these models or related products in the foreseeable future. Because we are dependent on a line of footwear models that have substantial similarities, factors such as changes in consumer preferences and general market conditions in the footwear industry may have a disproportionately greater impact on us than on our competitors. In addition, other footwear companies have introduced products that are substantially similar to our footwear models, which may reduce sales of our footwear products. In the event that consumer preferences evolve away from our footwear models or from casual lifestyle footwear in general, or our retail customers purchase similar products sold by our competitors, the resulting loss of sales, increase in inventories and discounting of our products are likely to be significant, and this could have a material and adverse impact on our business and operations.

Expanding our crocs footwear product line may be difficult and expensive, and if we are unable to successfully continue such expansion, our brand may be adversely affected, and we may not achieve our planned sales growth.

Our growth strategy is founded primarily on the continued growth in sales of **crocs** footwear, and we intend to continue to expand the number of models offered in our **crocs** footwear product line to broaden the appeal of our products to consumers. To successfully expand our footwear product line, we must anticipate, understand and react to the rapidly changing tastes of consumers and provide appealing merchandise in a timely manner. New footwear models that we introduce may not be successful with consumers or our brand may fall out of favor with consumers. If we are unable to anticipate, identify or react appropriately to changes in consumer preferences, we may not grow as fast as we plan or our sales may decline, and our brand image and operating performance may suffer.

Furthermore, achieving market acceptance for new products will likely require us to exert substantial product development and marketing efforts, which could result in a material increase in our selling, general and administrative expense, and there can be no assurance that we will have the resources necessary to undertake such efforts. Material increases in our selling, general and administrative expense could adversely impact our results of operations.

We may also encounter difficulties in producing new **crocs** footwear models that we did not anticipate during the development stage. Our development schedules for new products are difficult to predict and are subject to change as a result of shifting priorities in response to consumer preferences and competing products. For example, once we have begun to design a new footwear model, it can take six to nine months to progress to full production because of the need to fabricate new molds and to implement modified production tooling and revised manufacturing techniques. If we are not able to efficiently manufacture newly-developed products in quantities sufficient to support retail distribution, we may not be able to recoup our investment in the development of new models and product lines, and we would continue to be subject to the risks inherent in having a limited product line. Even if we develop and manufacture new footwear products that consumers find appealing, the ultimate success of a new model may depend on our pricing. We have a limited history of introducing new products, and we may set the prices of new models too high for the market to bear. Failure to gain market acceptance for new products that we introduce could impede our growth, reduce our profits, adversely affect the image of our brands, erode our competitive position and result in long term harm to our business.

Our current management information systems may not be sufficient for the growth of our business, and planned system improvements may not be successfully implemented on a timely basis or be sufficient for our growing business.

We used approximately \$3.5 million of the net proceeds from our initial public offering to upgrade our financial reporting systems and to implement new information technology systems to better track our business, streamline our financial reporting, and improve our internal controls. However, for certain business planning, finance and accounting functions, we still rely on manual processes that are difficult to control and are subject to human error. We may experience difficulties in transitioning to our new or upgraded systems, including loss of data and decreases in productivity as our personnel become familiar with new systems. In addition, our management information systems will require modification and refinement as we grow and our business needs change, which could prolong difficulties we experience with systems transitions, and we may not always employ the most effective systems for our purposes. If we experience difficulties in implementing new or upgraded information systems or experience significant system failures, or if we are unable to successfully modify our management information systems to respond to changes in our business needs, our ability to properly run our business could be adversely affected.

We will incur significant time and expense in documenting, testing and certifying our internal control over financial reporting, and any deficiencies in our financial reporting or internal controls could adversely affect our business and the price of our common stock.

The Securities and Exchange Commission, or SEC, rules require that our chief executive officer and chief financial officer periodically certify the existence and effectiveness of our internal control over financial reporting. Our independent auditors will be required, beginning with our Annual Report on Form 10-K for our fiscal year ending on December 31, 2007, to attest to our officers' assessment of our internal controls. This process generally requires significant documentation of policies, procedures and systems, review of that documentation by our internal accounting staff and our outside auditors, and testing of our internal control over financial reporting by our internal accounting staff and our outside auditors. Documentation and testing of our internal controls, which we have only undertaken to a limited extent in the past, will involve considerable time and expense, and may strain our internal resources and have an adverse impact on our costs.

During the course of our testing, we may identify deficiencies which we may not be able to remediate in time to meet the deadline imposed by SEC rules for certification of our internal control over financial reporting. As a consequence, we may have to disclose in periodic reports we file with the SEC any significant deficiencies or material weaknesses in our system of internal controls. The existence of such material weaknesses would preclude management from concluding that our internal control over financial reporting is effective and would preclude our independent auditors from issuing an unqualified opinion that internal controls are effective. In addition, disclosures of this type in our SEC reports could cause investors to lose confidence in our financial reporting and may negatively affect the price of our common stock. Moreover, effective internal controls are necessary to produce reliable financial reports and to prevent fraud. If we have deficiencies in our internal control over financial reporting it may negatively impact our business, results of operations and reputation.

Sales of our products are likely to be subject to seasonal variations, which could increase the volatility of the price of our common stock.

The footwear industry generally is characterized by significant seasonality of sales. Due to the growth in sales of our products in the past two years we cannot assess with certainty the degree to which sales of our footwear products will be subject to seasonal variation, but a majority of our footwear is more suited for fair weather use, so we expect some degree of seasonality in the future. For example, our revenues for the three months ended December 31, 2005 were approximately 12% lower than our revenues for the three months ended September 30, 2005, and we believe that the decline was primarily attributable to seasonal declines in demand for our products. In addition, extended periods of unusually cold weather during the spring and summer could reduce demand for our footwear. Seasonal variations in consumer demand may result in fluctuations in our results of operations from quarter to quarter, and the effect of favorable or unfavorable weather on sales may be significant enough to materially affect our quarterly results. Wide variations in our quarterly operating results may increase the volatility of the price of our common stock.

We rely on two third parties for a significant portion of our warehouse, distribution and fulfillment operations. If these parties are unwilling to continue providing services to us, or are unable to adequately perform such services for us on a cost effective basis, our business could be materially harmed.

We engaged Expeditors International of Washington, Inc. in July 2005 to operate our warehouse, distribution and fulfillment process for a significant portion of our domestic sales, and we have recently engaged Colorado Distribution Group, LLC to provide similar services for us. We are dependent on Expeditors and Colorado Distribution to manage inventory, process orders and distribute products to our customers in a timely manner. We do not have a long-term contract with Expeditors or Colorado Distribution and either party may unilaterally terminate its relationship with us at any time or seek to

increase the prices it charges us. Any disruption in our relationship with Expeditors or Colorado Distribution could cause significant delays in the fulfillment of our customers' orders, and we may not be able to locate another distributor that can provide comparable warehouse, distribution and fulfillment services in a timely manner or on acceptable commercial terms. Additionally, any serious disruption to the services provided to us by Expeditors or Colorado Distribution could harm our ability to supply products to our customers, including:

damage or destruction to Expeditors's or Colorado Distribution's warehouse and distribution center used for our products due to fire, earthquake or any other natural disaster;

work stoppages, disputes or difficulties between Expeditors or Colorado Distribution and their respective employees;

malfunctions in Expeditors's or Colorado Distribution's information systems; or

disruptions in Expeditors's or Colorado Distribution's shipping channels.

In recent periods, our warehouse, distribution and fulfillment operations have been unable to satisfy the increased demand for our products. The inability to process and deliver sufficient quantities of our products has prevented us from completely filling orders placed by our customers, and has led to increased costs as we have attempted to use other methods, such as air freight, to import products from our third party manufacturers for distribution to our customers. We have also experienced an increase in the rates charged by Expeditors for the services that it performs for us. As a result of these and other factors, our gross profit margins have declined in recent periods.

In the event that the distribution of our products by Expeditors or Colorado Distribution is interrupted for any reason, or Expeditors and Colorado Distribution are unable to distribute sufficient quantities of our products on a cost efficient basis, our business may be materially and adversely affected.

We are in the process of establishing our own warehouse, distribution and fulfillment capabilities, and are also developing relationships with additional third parties to conduct similar services for us. Any additional expenses incurred in connection with, or any disruption in the supply of our products that is caused by, such changes in our logistical infrastructure could adversely affect our business.

In 2005, we established a company-operated warehouse and order processing and customer order facility in Niwot, Colorado that manages all Internet, apparel and accessories orders and shipments. We have established or are in the process of establishing additional company-operated warehouse and fulfillment operations in Canada, China, Colorado, Hawaii, Mexico, the Netherlands, Puerto Rico, and Singapore, and are developing relationships with third parties in Australia, Japan and New Zealand to provide such services to us. We believe these warehousing, distribution and fulfillment services will enable us to ship our products from the facilities that manufacture our products directly to our customers, rather than remaining dependent on third party distribution facilities. The transition from Expeditors or Colorado Distribution to another vendor or to a company-operated warehousing, distribution and fulfillment operation could result in significant delays and disruptions in the supply of our products and could require that we make significant additional expenditures that may adversely impact our operating results.

Moreover, until recently we had never engaged in the warehousing of our products or provided order fulfillment for our retail customers or consumers. As such, we cannot ensure that we will be able to successfully conduct these activities, or that other third parties will be able to conduct these activities for us in a satisfactory manner. Additionally, these warehouse, distribution and fulfillment operations subject us to many of the same risks that our current relationships with Expeditors and Colorado

Distribution do, as noted above. In the event that we or a third party are unable to conduct warehousing, distribution and fulfillment activities in a cost effective, timely, and accurate manner, the distribution of our products may be adversely affected, which could result in harm to our relationships with our retail customers and consumers, a reduction in demand for our products, and additional expenses to us.

Because we depend on third party manufacturers, we may face challenges in maintaining a sufficient supply of goods to meet sales demand, and we may experience interruptions in our supply chain. Any shortfall in the supply of our products may decrease our sales and have an adverse impact on our customer relationships.

In the six months ended June 30, 2006, third party manufacturers produced approximately 75.4% of our footwear products as measured by number of units, and one such manufacturer produced approximately 51.8% of our footwear products. Currently, we have footwear manufacturing arrangements with third party manufacturers located in China, Florida, Italy and Romania. We depend on these manufacturers' ability to finance the production of goods ordered and to maintain adequate manufacturing capacity. We do not exert direct control over the third party manufacturers, so we may be unable to obtain timely delivery of acceptable products.

In addition, we do not have long-term supply contracts with most of these third party manufacturers, including the third party manufacturer that produced the majority of our footwear products in the six months ended June 30, 2006, and any of them may unilaterally terminate their relationship with us at any time or seek to increase the prices they charge us. As a result, we are not assured of an uninterrupted supply of products of an acceptable quality and price from our third party manufacturers. We may not be able to offset any interruption or decrease in supply of our products by increasing production in our company-operated manufacturing facilities due to capacity constraints, and we may not be able to substitute suitable alternative third party manufacturers in a timely manner or at acceptable prices. Any disruption in the supply of products from our third party manufacturers may harm our business and could result in a loss of sales and an increase in production costs, which would adversely affect our results of operations.

Our business could suffer if our third party manufacturers violate labor laws or fail to conform to generally accepted ethical standards.

We generally require our third party manufacturers to meet our standards for working conditions and other matters before we are willing to place business with them. As a result, we may not always obtain the lowest cost production. Moreover, we do not control our third party manufacturers or their respective labor practices. If one of our third party manufacturers violates generally accepted labor standards by, for example, using forced or indentured labor or child labor, failing to pay compensation in accordance with local law, failing to operate its factories in compliance with local safety regulations, or diverging from other labor practices generally accepted as ethical, we likely would cease dealing with that manufacturer, and we could suffer an interruption in our product supply. In addition, such a manufacturer's actions could result in negative publicity and may damage our reputation and the value of our brand and discourage retail customers and consumers from buying our products.

We manufacture a portion of our crocs products, and any difficulties or disruptions in our manufacturing operations could adversely affect our sales and results of operations.

In the six months ended June 30, 2006, we produced approximately 24.6% of our **crocs** footwear production at our company-operated manufacturing facilities in Canada and Mexico. The manufacturing of our products from our proprietary closed-cell resin, which we refer to as *croslite*, requires the use of a complex process, and we may experience difficulty in producing footwear that meets our high quality control standards. We will be required to absorb the costs of manufacturing and disposing of products that do not meet our quality standards. These costs are primarily incurred in connection with the initial production of new products, although we may also experience increases in

training costs when we initiate production of new products. Additionally, we may incur increased costs as a result of the introduction of new manufacturing equipment such as molds and injection molding machines. Any increases in our manufacturing costs could adversely impact our margins. Furthermore, our manufacturing capabilities are subject to many of the same risks and challenges noted above with respect to our third party manufacturers, including our ability to scale our production capabilities to meet the needs of our customers, and our manufacturing may be disrupted for reasons beyond our control, including work stoppages, fires, earthquakes, floods or other natural disasters. Any disruption to our manufacturing operations will hinder our ability to deliver products to our customers in a timely manner, and could have a material and adverse effect on our business.

We established our own manufacturing facility in Mexico by acquiring the assets of an existing footwear manufacturer in April 2005, and subsequently added capacity at our adjacent facility that we leased. Prior to April 2005, we had never independently established our own manufacturing facility, and this facility has not been as efficient or as productive as our other company-operated or third party manufacturing operations. Moreover, the expansion of our company-operated manufacturing capabilities will increase our fixed cost base, and could adversely impact our margins and results of operations in the event our sales decline or do not continue to grow.

We depend on a limited number of suppliers for key production materials, and any disruption in the supply of such materials could interrupt product manufacturing and increase product costs.

We depend on a limited number of sources for the primary materials used to make our **crocs** footwear. We source the elastomer resins that constitute the primary raw materials used in compounding *croslite*, which we use to produce our footwear products, from one supplier. We do not have any formal purchase agreement with the provider of the elastomer resins, and we purchase these elastomer resins on a purchase order basis. If the supplier we rely on for elastomer resins were to cease production of these materials, we may not be able to obtain suitable substitute materials in time to avoid interruption of our production cycle, if at all. We may also have to pay materially higher prices in the future for the elastomer resins or any substitute materials we use, which would increase our production costs and could have a materially adverse impact on our margins and results of operations.

Additionally, a single third party processor in Italy compounded all of the *croslite* we used in producing **crocs** footwear in 2004, and we expect that this third party processor will continue to provide at least a majority of our requirements for the foreseeable future. Although we have arranged for two additional third party processors to compound *croslite* and we began compounding *croslite* at Foam Creations's facility in Quebec City, Canada in 2005, the compounding process is complex and difficult to perfect on a large scale, and we and our new third party processor may not be able to compound meaningful quantities of *croslite* suitable for use in our products.

If we are unable to obtain suitable elastomer resins or if we are unable to procure sufficient quantities of *croslite*, we may not be able to meet our production requirements in a timely manner. Such failure could result in lost potential sales, delays in shipments to customers, strained relationships with customers and diminished brand loyalty.

If we are unable to assimilate our new managers and recruit and retain key personnel necessary to operate our business, our ability to successfully manage our business and develop and market our products may be harmed.

Several of our executive officers have recently joined us and therefore have limited experience in managing our company. For example, in February 2006, we hired Peter Case as Senior Vice President Finance and a new corporate controller. Mr. Case became our Chief Financial Officer in April 2006. We may experience difficulty assimilating our recently hired managers, which may adversely impact our business. The addition of our new Chief Financial Officer and Senior Vice President

Finance and corporate controller is also subject to other risks and uncertainties. For example, in connection with the audit of our financial statements for each of the years ended December 31, 2002, 2003 and 2004, our independent registered public accounting firm identified material weaknesses in our internal control over financial reporting. It is possible that the changes to our finance and accounting staff will hamper, rather than aid, our efforts to improve our internal control over financial reporting due to, among other things, the time and effort required to integrate the new employees. Furthermore, we are now subject to SEC reporting obligations and if these new employees are not properly integrated into our finance and accounting staff, we may be unable to adequately address our SEC reporting obligations.

To expand our business we will also need to attract, retain and motivate highly skilled design, development, management, accounting, sales, merchandising, marketing and customer service personnel. We plan to hire additional personnel in all areas of our business. Competition for many of these types of personnel is intense. As a result, we may be unable to successfully attract or retain qualified personnel. Additionally, any of our officers or employees can terminate their employment with us at any time, and we do not maintain key person life insurance on any of our employees, including any member of our management team. The loss of any key employee or our inability to attract or retain other qualified employees could harm our business and results of operations.

We face significant competition and if we are unable to compete effectively, sales of our products may decline and our business could be harmed.

The footwear industry is highly competitive. Recent growth in the market for casual footwear has encouraged the entry of new competitors into the marketplace and has increased competition from established companies. Some of our competitors are offering products that are substantially similar, in design and materials, to our **crocs**-branded footwear. In addition, access to offshore manufacturing is also making it easier for new companies to enter the markets in which we compete.

Our competitors include most major athletic and footwear companies, branded apparel companies and retailers with their own private labels. A number of our competitors:

- have significantly greater financial resources than we have;
- have more comprehensive product lines than ours;
- have broader market presence than we have in, or have their own, retail outlets;
- have longer-standing relationships with retailers than we have;
- have a longer operating history than ours;
- have greater distribution capabilities than we have;
- have stronger brand recognition than we have; and
- spend substantially more on product advertising and sales than we do.

Our competitors' greater capabilities in these areas may enable them to better withstand periodic downturns in the footwear industry, compete more effectively on the basis of price and production and more quickly develop new products. If we fail to compete successfully in the future, our sales and profits may decline, our financial condition may deteriorate and the market price of our common stock is likely to fall.

If we are unable to establish and protect our trademarks and other intellectual property rights, we may be unable to use the crocs name or logo, and competitors may sell products that are substantially similar to our crocs footwear, or may produce counterfeit versions of our products, and such competing or counterfeit products could divert sales and may damage our brand image.

We believe our trademarks, trade names, copyrights, trade secrets, issued and pending patents, trade dress and designs are valuable and integral to our success and competitive position. From time to time, we have identified competitors selling products that are very similar in design to certain of our **crocs** footwear models, and that are manufactured from what may be comparable materials to our products. We believe that some of these products may infringe our intellectual property rights. Given the increased popularity of our **crocs** brand, we believe there is a high likelihood that counterfeit products or other products infringing on our intellectual property rights will continue to emerge, seeking to benefit from the consumer demand for **crocs** footwear. In order to protect our brand, we may be required to spend significant resources to monitor and police our intellectual property rights. We may not be able to detect infringement and may lose our competitive position in the market before we are able to do so. In addition, enforcing rights to our intellectual property may be difficult and expensive, and we may not be successful in combating counterfeit products and stopping infringement of our intellectual property rights, particularly in some foreign countries, which could make it easier for competitors to capture market share. Intellectual property rights may also be unavailable or limited in the United States and some foreign countries. Furthermore, our efforts to enforce our trademark and other intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our trademark and other intellectual property rights. For example, our attempts to register **crocs** and our **crocs** logo as trademarks have been challenged by a large apparel company, and certain jurisdictions have rejected our attempted registration of our logo as a trademark based upon such challenge and based upon trademarks owned by the same company and at least one other large apparel company. If we are unsuccessful in protecting and enforcing our intellectual property rights, or if we were required to change our name or use a different logo, continued sales of such competing products by third parties could harm our brand and adversely impact our business, financial condition and results of operations. Similarly, in our enforcement litigation against manufacturers of knock-off products, at least one manufacturer has alleged counterclaims challenging the validity and enforceability of our patents and we expect that other defendants in the litigation may assert similar claims.

We have registered **crocs** as a trademark for footwear in Aruba, Australia, the European Union, Israel, Japan, Mexico, Netherlands Antilles, New Zealand, Panama and the World Intellectual Property Office. As of July 31, 2006, we have also applied to register **crocs** and the **crocs** logo as trademarks in 43 jurisdictions around the world, including the U.S., but such applications have not been approved and are currently pending. In addition, we have recently extended the scope of our trademark registrations and applications for both the **crocs** mark and logo to cover non-footwear products such as sunglasses, goggles, knee pads, watches, luggage, and some of our Internet sales activities. Although we believe that we have applied for trademark registrations in all jurisdictions where we are doing or intend to do business, there is a possibility that we have not applied to register the **crocs** mark, the company logos, the individual brand names for our products or our marketing slogans in countries where we will do business in the future, and we have elected not to apply for trademark registrations for some marks in some jurisdictions. Furthermore, we may not obtain trademark registrations in connection with any applications that we do file and trademark protection, whether registered or common law, may not be available in every country in which we offer or intend to offer our products. Failure to adequately protect our trademark rights could damage or even destroy our **crocs** brand, expose us to trademark liability and impair our ability to compete effectively. In addition, defending or enforcing our trademark rights could result in the expenditure of significant financial and managerial resources.

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We believe our success may be enhanced by our ability to obtain and enforce patent protection for our products, and therefore have elected to pursue patent protection for our products in the U.S. and other countries. Currently, we have been issued one Community Design Registration and three Community Multiple Design Registrations in the European Union covering a total of ten shoe designs. Additional shoe design applications have received registrations in Australia, Brazil, China, Hong Kong, India, Israel, Japan, Singapore, South Africa, and South Korea, and we have been issued one utility patent and four design patents in the U.S., but we have not been granted any other utility patents or design patents in the U.S. or any utility patents in other countries. We do not know whether any of our pending or future patent applications will result in the issuance of patents, and competitors may challenge the validity or scope of our issued patents, or our registered designs or patent applications that proceed to issuance. We cannot predict how the patent claims in our issued patents, or any patents issued from any pending or future patent application, will be construed, and such patents may not provide us with the ability to prevent the development, manufacturing, and/or marketing of competing products, or may be challenged by third parties on the basis of validity and enforceability.

We also rely on trade secrets, confidential information and other unpatented proprietary information, related to, among other things, the formulation of *croslite* and product development, especially where we do not believe patent protection is appropriate or obtainable. Using third party manufacturers may increase risk of misappropriation of our trade secrets, confidential information and other unpatented proprietary information. The agreements we use to try to protect our intellectual property, confidential information and other unpatented proprietary information may not effectively protect such intellectual property and information and may not be sufficient to prevent unauthorized use or disclosure of such trade secrets and information. A party to one of these agreements may breach the agreement and we may not have adequate remedies for such breach. As a result, our trade secrets, confidential information and other unpatented proprietary information may become known to others, including our competitors. Furthermore