Crocs, Inc.
Form 10-K
March 17, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2008

or

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

For the transition period from to

Commission File No. 0-51754

CROCS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-2164234**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	**Name of each exchange on which registered:**
Common Stock, par value $0.001 per share	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

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 ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to the Form 10-K. o .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", "non-accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý Accelerated filer o Non-accelerated filer o Smaller Reporting Company o

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 30, 2008 was approximately $578,519,126. For the purpose of the foregoing calculation only, all directors and executive officers of the registrant and owners of more than 5% of the registrant's common stock are assumed to be affiliates of the registrant. This determination of affiliate status is not necessarily conclusive for any other purpose.

The number of shares of the registrant's common stock outstanding as of January 31, 2009 was 83,019,495.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the registrant's proxy statement for the 2009 annual meeting of stockholders to be filed no later than 120 days after the end of the registrant's fiscal year ended December 31, 2008.

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Crocs, Inc.
2008 Annual Report on Form 10-K

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FORWARD-LOOKING INFORMATION

Throughout this report, references to the "Company," "we," "us" and "our" refer to Crocs, Inc. and its consolidated subsidiaries, unless the context indicates otherwise.

Statements in this Form 10-K and in documents incorporated by reference (or otherwise made by us or on our behalf) contain "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, we may make other written and oral communications from time to time that contain such statements. Forward looking statements include statements as to industry trends and our future expectations and other matters that do not relate strictly to historical facts and are based on certain assumptions of our management. These statements are often identified by the use of words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "estimate," or "continue," and similar expressions or variations. These statements are based on the beliefs and assumptions of our management based on information currently available to us. Such forward looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by such forward looking statements. Important factors that could cause actual results to differ materially from the forward looking statements include, without limitation, the following risk factors:

- macroeconomic issues, including, but not limited to, the current global financial crisis;
- our ability to obtain adequate financing;
- our significant recent expansion;
- our ability to effectively manage our future growth or declines in revenue;
- changing fashion trends;
- our defense and the ultimate outcome of a pending class action lawsuit;
- our ability to accurately anticipate and respond to seasonal or quarterly fluctuations in demand for our products;
- our management and information systems infrastructure;
- our ability to obtain and protect intellectual property rights;
- our reliance on third party manufacturing and logistics providers for the production and distribution of products;
- our reliance on a single source supply for certain raw materials;
- inherent risks associated with the manufacture, distribution and sale of our products overseas;
- our ability to develop and sell new products;

our limited operating history;

our ability to accurately forecast consumer demand for our products;

our ability to maintain effective internal controls;

our ability to attract, assimilate and retain management talent;

our ability to respond to further adverse changes in the retail environment;

our ability to effectively market and maintain a positive brand image;

the effect of competition in our industry; and

the effect of potential adverse currency exchange rate fluctuations.

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We caution the reader to carefully consider all such factors, including those described in Item 1A. "Risk Factors". Furthermore, such forward looking statements speak only as of the date of this report. We undertake no obligation to update any forward looking statements to reflect events or circumstances after the date of such statements.

PART I

ITEM I. Business

Overview

We are a designer, manufacturer, distributor, worldwide marketer and brand manager of footwear for men, women, and children. We aspire to be the global leader in molded footwear design and development. Crocs shoes combine fun colors and innovative design and we manufacture a product offering that provides new and exciting molded footwear products that feature fun, comfort and functionality. We design and sell a broad offering of footwear, apparel, gear and accessories that utilize our proprietary closed cell-resin, called Croslite. Croslite is a unique material that enables us to produce an innovative, soft, lightweight, non-marking, slip and odor-resistant shoe. Shoes made with Croslite have been certified by US Ergonomics to reduce peak pressure on the foot, reduce muscular fatigue while standing and walking and to relieve the musculoskeletal system.

Since the initial introduction and popularity of our Beach and Cayman models, we have expanded our Croslite products to include a variety of new styles and products and have extended our product reach through the acquisitions of new brand platforms such as Jibbitz, LLC ("Jibbitz") and Ocean Minded, LLC ("Ocean Minded"). We intend to continue branching out into other types of footwear, bringing a unique and original perspective to the consumer in styles that may be unexpected from Crocs. All of our products are designed to allow the product to be defined by comfort, fun, and function. In part, we believe this will help us to continue to build a stable year-round business as we look to offer more winter-oriented styles.

Our marketing approach is also becoming significantly more focused on a defined target consumer. All marketing efforts are integrated around specific product launches and the majority of our marketing efforts moving forward will be focused on our retail partners, ensuring that our presentation and story are first class and drive purchasing at point of sale.

We currently sell our Crocs-branded products throughout the U.S. and in 128 countries. We sell our products through domestic and international retailers and distributors and directly to end-user consumers through our webstores, Company-operated retail stores, outlets and kiosks. The broad appeal of our footwear has allowed us to market our products to a wide range of distribution channels, including department stores and traditional footwear retailers as well as a variety of specialty channels.

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 2002, shortly after completing our first footwear design produced by Crocs Canada Inc. ("Crocs Canada"), formerly known as Foam Creations Inc., and Finproject N.A., Inc. The unique characteristics of Croslite, developed by Crocs Canada, 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 for 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. In June 2004, we acquired Crocs Canada, including its manufacturing operations, product lines, and rights to the trade secrets for Croslite. We converted to a Colorado corporation in

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January 2005 and reincorporated in Delaware in June 2005. Beginning in June 2004, we significantly expanded all aspects of our operations in order to take advantage of what we believed was an attractive market opportunity.

From 2002 until 2007, our business grew tremendously, both organically and through acquisitions that we believe leveraged our business model.

In 2006, we added:

- Jibbitz, which produces unique charms specifically suited to fit into Crocs shoes;
- Fury Hockey Inc., formerly 55 Hockey Products Inc. ("Fury"), which produces and distributes hockey, soccer and lacrosse equipment manufactured with Croslite. In June 2008, the Company decided to liquidate Fury after efforts to sell the entity were unsuccessful; and
- EXO Italia, which designs and develops EVA (Ethylene Vinyl Acetate) based finished products, primarily for the footwear industry.

In 2007, we added:

- Ocean Minded, which produces sandals primarily for the beach, action and adventure market;
- Bite, LLC ("Bite"), a manufacturer of performance shoes and sports sandals sold worldwide in five categories, including, golf, adventure, healthy lifestyle, travel and water sports; and
- YOU by Crocs , a women's fashion line that combines the comfort of Croslite with fashionable styles.

In 2008, we added:

- Tagger International B.V. ("Tagger"), a manufacturer of messenger bags.

Recent Events

From our inception through the year ended December 31, 2007, we experienced rapid revenue growth and had difficulty meeting demand for our footwear products. During this period, we significantly increased production capacity, warehouse space and inventory in an effort to meet demand. This pattern changed in 2008. Our revenue growth moderated in the three month period ended March 31, 2008. This trend continued and accelerated throughout 2008. Our total revenues declined from $847.4 million in the year ended December 31, 2007 to $721.6 million during the year ended December 31, 2008.

Should the global economic conditions deteriorate further, we may experience further revenue declines in the Americas, European, and Asian markets. Should we fail to develop and effectively merchandise new products that appeal to the consumer, we may not be able to compete effectively and may experience further declines in revenues.

During 2008, we incurred significant charges related to restructuring and other activities undertaken to right-size our business. These charges include inventory write-downs, incremental sales returns and mark down allowances, fixed asset impairments, goodwill and intangible asset impairments, and severance, facility exit and other related expenses.

See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," for further discussion of our financial conditions and outlooks, including inventory write-downs, restructuring activities and reductions in selling, general and administrative costs.

We may continue to incur operating losses during fiscal year 2009 particularly if our revenues fall short of current expectations. In the event that revenues and product demand fall short of our current expectations, we will need to take further actions to reduce operating costs.

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Product Overview

The Crocs product range is divided into three categories: everyday, style and sport. Our everyday product range is composed of fully molded products, which are closest to our core products and targeted widely to several distribution channels. Our style product range consists of more fashionable silhouettes targeted towards higher-end department stores. Our sport product range includes sport inspired products that offer a Crocs point of view for active end uses like boating, walking, and hiking.

In addition to our footwear products, we market a line of Crocs-branded apparel and other accessory items that are intended to increase awareness of our brand.

Footwear

A key differentiating feature of our footwear products is Croslite, which is uniquely suited for comfort and functionality. We have carefully formulated Croslite to be of a density that creates a comfortable shoe with a high coefficient of friction, allowing for slip-resistant, non-marking footwear that is extremely lightweight. For example, our size large Beach model weighs approximately six ounces, which is significantly lighter than more traditional casual footwear products. Croslite softens as it warms to better conform to the wearer's feet. Croslite is a closed cell resin, which is water resistant and virtually odor-free, and allows many of our footwear products to be cleaned simply with water or bleach. As we have expanded our Crocs brand product offering, we have incorporated traditional materials such as textile fabric and leather into our products. However, we continue to utilize Croslite for the foot bed, sole and other key structural components for these new products.

Our footwear business has grown significantly since we first introduced our Crocs product line in 2002 with a single model in six colors. Over the past few years we:

- Expanded our Crocs product line to 25 models in 2006, over 250 models in 2007 and over 270 models in 2008, including Ocean Minded, YOU by Crocs and Bite footwear models;

- Introduced our SolesUnited program, the first-of-its-kind recycled footwear donation program that allows customers to give back their worn-out Crocs shoes to be recycled into new shoes which are then donated to people in need around the world. Collected worn-out Crocs shoes are sorted, cleaned, ground and manufactured into new SolesUnited recycled footwear;

- Established licensing agreements with Disney, Nickelodeon, Marvel, DC Comics and Warner Bros., and introduced a limited edition line of footwear and Jibbitz charms featuring such popular characters as Cinderella, Ariel, Mickey Mouse, Sponge Bob Square Pants, Dora the Explorer, Spiderman and Batman;

- Introduced our Crocs at Work line that offers Crocs shoes targeted towards healthcare and food industry professionals and is marketed toward the mid-tier distribution channel. We continue to expand the offerings in our Work category, including the introduction of an ESD (electro-static discharge) shoe, which is designed for medical personnel;

- Developed our Crocs Rx line, which offers five models, the Relief, the Silver Relief, the Cloud, the Silver Cloud and the Silver Fox, targeted towards consumers who require specialized footwear that provides relief from certain medical conditions, such as diabetes, plantar pain, heel pain, metatarsalgia, achy feet and post-op conditions. Our Crocs Rx line was rated the #1 Rx shoe in the industry, we received the 2008 company of the year award from the American Podiatric Medical Association (the only shoe company to ever receive this award) and in 2008 we broadened our distribution into drugstore chains;

- Entered into and extended our existing collegiate licensing agreements with various colleges and universities, and our sports licensing agreements with, among others, NFL, MLB, AVP and more recently, the Gaelic Athletic Association and Australian football leagues;

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Expanded into new footwear categories by designing new footwear using our in-house design team as well as recognized footwear design experts. As part of this strategy, we acquired EXO Italia ("EXO") in 2006, which expanded the capabilities of our in-house design team. EXO is based in Padova, Italy and is an Italian producer of EVA (Ethylene Vinyl Acetate) based finished products, primarily for the footwear industry;

Acquired Bite (*www.biteshoes.com*), an adventure driven designer and manufacturer of comfortable and supportive performance shoes and sports sandals sold worldwide in five categories, including, golf, adventure, healthy lifestyle, travel and water sports. In 2008, the decision was made to discontinue the Bite line and we have suspended new product introductions. All of Bite's design and development know-how has been integrated into the design and development of Crocs' sport products;

Introduced YOU by Crocs (*www.youbycrocs.com*), a women's fashion line that combines the comfort of Croslite with 24 designs including various boots, slides, and high heels composed of suede, smooth napa leather, metallic leather and patent leather. All styles include the "Soleful " comfort foot bed, which is manufactured with Croslite and has extra padding on the ball of the foot and heel to provide increased comfort. We will continue to offer a limited offering of the YOU by Crocs styles targeting a distribution in the Crocs operated retail stores at competitive price points;

Acquired substantially all of the assets of Ocean Minded (*www.oceanminded.com*), a designer and manufacturer of high quality leather and EVA based sandals primarily for the beach, adventure and action sports market. Ocean Minded is headquartered in Santa Clemente, California and strives to be innovative in style and design in order to produce the most comfortable sandals in the market. In 2008, Ocean Minded introduced a product line that includes Croslite foot beds to provide increased comfort. As the name, "Ocean Minded" implies, the brand takes an active role in protecting the oceans and beaches through beach clean ups, support of the Surfrider Foundation and various other environmental efforts. Ocean Minded utilizes recycled and recyclable materials whenever possible and is well known in the action sports industry as a leading advocate for environmental awareness and responsibility.

Footwear sales made up 91.6%, 90.1%, and 96.5% of total revenues for the years ended December 31, 2008, 2007, and 2006, respectively. Sales of our classic Beach and Cayman models accounted for 25%, 30%, and 62.2% of total revenues for the years ended December 31, 2008, 2007 and 2006, respectively. For the year ended December 31, 2008 sales of our Mammoth model accounted for 10.1% of our total sales. We intend to continue to evaluate our product offerings to develop product collections in assortments that can be merchandised effectively to the consumer at our retailer and Company operated stores. As such, we expect that our future product offerings will be more focused by category and for color palette and the number of color combinations will be reduced in our seasonal offerings.

During the year ended December 31, 2008, approximately 70% of our sales consisted of products geared towards adults compared to 30% of sales for products geared towards children.

Apparel and Accessories

Apparel. In 2007, we expanded our clothing line and launched a new clothing line for boys, girls and men featuring Croslite material. We added a small amount of Croslite to the material to ensure that each piece is lightweight, durable, breathable, versatile and fade resistant. In 2008, we scaled back our apparel product offering.

Accessories. In addition to our footwear products, we own Jibbitz (*www.jibbitz.com*), a unique accessory brand with colorful snap-on charms specifically suited for Crocs shoes. We acquired Jibbitz in

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December 2006 and have expanded the product line to include a wide variety of charms in varying shapes and sizes, with designs such as flowers, sports gear, seasonal and holiday designs, animals, symbols, letters and rhinestones. Crocs licensing agreements also extend to Jibbitz, allowing Jibbitz to create designs bearing logos and emblems of Disney, NFL, MLB and the Crocs collegiate line. Jibbitz designs allow Crocs consumers to personalize their footwear to creatively express their individuality. As of December 31, 2008, approximately 1,800 unique Jibbitz charm designs were available to consumers for personalizing their Crocs footwear.

We have also introduced several Crocs-branded accessory items that complement the styling, colors, and image of our footwear, which we believe will appeal to a similar demographic base. For example, we have developed a line of lightweight and durable backpacks and messenger bags that are marketed to a wide range of consumers, from professionals to students. The backpacks and bags incorporate bright colors, Croslite shoulder pads for comfort and various holes for Jibbitz so the bags can be personally decorated.

Sales and Distribution

Financial information regarding our revenues, profits and total assets is included in our consolidated financial statements beginning on page F-1. Information relating to our geographic operations is included in Note 17 of our consolidated financial statements.

Domestic Sales

In 2008, sales in the U.S. accounted for approximately 44% of total revenues, compared to 52% in 2007 and 68% in 2006. In the U.S., we sell our products through 148 Crocs branded retail store locations, including Company-operated kiosks and retail stores in such locations as New York, Boston, Chicago, and Maui, and through our webstores. We also sell through a broad range of sporting goods and department stores, as well as through specialty retailers. We do not have long term contracts with any of our retail customers, and sales to our retail customers are generally on an order-by-order basis and are subject to rights of cancellation and rescheduling by the customer.

International Sales

In 2008, international sales accounted for approximately 56% of total revenues, compared to 48% in 2007 and 32% in 2006. Outside of the U.S., we sell our products through over 314 Crocs branded retail store locations, including 131 Company-operated retail stores in a variety of locations including Canada, Finland, United Kingdom, Singapore, Hong Kong, Japan, China and the Netherlands, as well as through our kiosks and webstores. We also sell through a broad range of retailers, similar to the retail sales channels we have established in the U.S. We occasionally utilize sales agents and buying groups in our international locations to service our retail customers. We established a direct sales presence in most major international markets, rather than relying on distributors, which we believe enables us to obtain better margins and allows us to better control our marketing and distribution. As of December 31, 2008, we established direct sales efforts in 31 countries. Outside of our direct sales markets, we utilize third-party distributors.

Wholesale and Distributor Sales

In 2008, approximately 76.5% of our net revenues were derived from sales to our wholesale customers and distributors compared to 91% in 2007 and 89.8% in 2006. Our principal wholesale customers include national and regional retail chains, department stores, sporting goods stores and specialty retailers, such as Nordstrom, Finish Line, Dicks Sporting Goods, The Sports Authority, Dillard's, The Forzani Group and Journeys. No single customer accounted for 10% or more of our

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revenues for the year ended December 31, 2008. We believe we have established strong domestic and international wholesale customer channels.

We use distributors in select markets where we believe such arrangements are preferable to direct sales. In markets where we use third-party distributors, these distributors purchase products pursuant to a price list and are granted the right to resell the products in a defined territory, usually a country or group of countries. Our typical distribution agreements have terms of one to four years, are terminable on 60 days' notice prior to the end of the term or on six months' prior notice at any time, and require our distributors to meet a minimum sales threshold. Our agreements with distributors do not contain contractual rights of returns or price protection features. We will accept returns from wholesale and distributor customers for defective products, quality issues, and shipment errors on an exception basis at the sole discretion of our management. We may also accept returns from our wholesale and distributor customers, on an exception basis at the sole discretion of management, for the purpose of stock re-balancing to ensure that our products are merchandised in the proper assortments. Additionally, at the sole discretion of management, we may provide markdown allowances to key wholesale and distributor customers to facilitate the "in-channel" markdown of products where we have experienced less than anticipated sell-through.

Our domestic accounts are primarily serviced through our internal sales force, which focuses on selling the appropriate mix and quantity of our products to our retail accounts. They ensure our products are displayed effectively at retail locations and educate our retailers about our Crocs brand and the quality of our products.

Our financial success is significantly related to the willingness of our retail customers to continue to carry our products, the expansion to new retail customers and the success of such customers, which factors are directly impacted by the slowdown in the global economy, including reduced foot traffic in shopping malls and lessening consumer demand for our products. We do not have long term contracts with any of our retail customers, and sales to our retail customers are generally on an order-by-order basis and are subject to rights of cancellation and rescheduling by the customer. If we cannot fill our customers' orders in a timely manner, the sales of our products and our relationships with those customers may suffer, and this could have a material adverse effect on our product sales and ability to grow our product line.

Retail Sales

We are currently expanding our direct sales efforts to consumers. We believe that direct sales provide us with an opportunity to showcase our entire line of footwear, apparel, gear and accessory offerings, and that this strategy will serve as an important and effective means to enhance our product and brand awareness. As of December 31, 2008, we operated the following retail stores:

U.S Retail Stores	
Crocs Kiosk	110
Crocs Retail Stores	8
Crocs Outlet Stores	30
Total	148

International Retail Stores	
Crocs Kiosk/Store in Store	67
Crocs Retail Stores	62
Crocs Outlet Stores	2
Total	131

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Kiosks. As of December 31, 2008, we operated 177 domestic and international retail kiosks located in malls and other high foot traffic areas. With bright and colorful displays, efficient use of retail space, and limited initial capital investment, we believe that kiosks are an effective outlet for marketing our products. Kiosks enable us to highlight a wide range of our products; more effectively interact with potential consumers, and enhance our brand awareness among both consumers and local retailers. We plan to continue to open and operate additional kiosk sites in select, high foot traffic locations. Our kiosk opening plans are subject to adjustment based on the impact of economic conditions and demand for our products.

Retail Stores. As of December 31, 2008, we operated 70 domestic and international retail stores. During 2008, we opened retail stores in a variety of locations, including, but not limited to, New York, Boston, Chicago, England, Finland, Canada, Australia, Panama, Japan and China. Company-operated retail stores are designed with colorful displays and allow us to effectively market our new and existing products and interact with customers in order to enhance brand awareness. We plan to continue to open additional Company-operated retail stores in the future. Our retail store opening plans are subject to adjustment based on the impact of economic conditions and demand for our products.

Outlet Stores. As of December 31, 2008, we operated 32 domestic and international outlet stores. During 2008, we opened outlet stores in a variety of locations, including, but not limited to, Texas, Arizona, Chicago, California, Florida, Missouri, and Hong Kong. The outlet stores help us profitably move older products in an orderly fashion. We plan to open more Company operated outlet stores in early 2009. Our outlet store opening plans are subject to adjustment based on the impact of economic conditions and demand for our products.

Internet. We currently offer our products domestically and internationally through our webstores. Our internet presence enables us to educate consumers about our products and brand. We continue to expand our web-based international marketing efforts to continue to drive consumer awareness regarding the availability of our full product range on our market-specific websites.

Raw Materials

Our proprietary closed-cell resin, Croslite, is the primary raw material used in most of our footwear and some of our accessories. Our material is soft and durable and is of a density that provides a high coefficient of friction allowing our material to be slip-resistant and non-marking in addition to being extremely lightweight. The closed-cell nature of Croslite makes it resistant to the bacteria and fungus that cause shoe and foot odor. We continue to invest in research and development in order to refine our materials to enhance these properties and to target the development of new properties for specific applications.

Croslite is produced by compounding elastomer resins that we or one of our third-party processors purchase from major chemical manufacturers together with certain other production inputs, such as color dyes. At this time, we have identified two suppliers that produce the particular elastomer resins used in Croslite. We may, however, in the future identify and utilize materials produced by other suppliers as an alternative to the elastomer resins we currently use in the production of our proprietary material. All of the other raw materials that we use to produce Croslite are readily available for purchase from multiple suppliers.

We transitioned Croslite compounding from our former manufacturing facilities in Canada to other operations and third party facilities during the second quarter of 2008. We compound Croslite internally in Mexico and China utilizing subcomponent materials produced by a third party in the U.S. We also outsource the compounding of Croslite and continue to purchase a portion of our compounded raw materials from a third party in Europe in accordance with the terms of a supply agreement that expires in July in 2009.

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Since our inception, we have substantially increased the number of footwear products that we offer. Many of our new products are constructed using leather, textile fabrics or other materials. We, or our third party factories, obtain these materials from a number of third-party sources and we believe these materials to be broadly available.

Manufacturing and Sourcing

Our strategy is to maintain a flexible, globally diversified, low-cost manufacturing base. We have Company operated production facilities in Mexico and Italy and we also contract with third-party manufacturers located around the world. We believe that our in-house manufacturing capabilities enable us to rapidly make changes to production, providing us with the flexibility to quickly respond to orders for high-demand models and colors throughout the year, while outsourcing allows us to capitalize on the efficiencies and cost benefits of using contract manufacturing. We believe that this production strategy will enable us to continue to minimize our production costs, increase overall operating efficiencies and shorten production and development times to better serve our retail customers.

The process for manufacturing our footwear was developed over an eight year period of continual refinement to improve consistency, softness, durability, and yield. In the year ended December 31, 2008, we manufactured approximately 17% of our footwear products at our Company operated manufacturing facilities in Mexico and Italy and, for a portion of the year, from our facilities in Brazil and Canada. We obtained the remaining 83% of our footwear products from third-party manufacturers in China and Bosnia. In the year ended December 31, 2008, our largest third-party supplier in China produced approximately 49% of our footwear unit volume. We do not have written supply agreements with our primary third-party manufacturers in China. During 2008, we consolidated our manufacturing capacities at the facilities we operate in Mexico and with our third-party manufacturers and shut down our manufacturing facilities in Canada and Brazil to align our production capacities and cost structure to decreased demand and declining revenues.

Distribution and Logistics

We continue to make enhancements to our distribution and logistics network that will streamline our supply chain increasing our speed to market. Over the past year we have consolidated our network to leverage resources and simplify our fulfillment processes while driving down costs in our operations. During the year ended December 31, 2008, we continued to adjust our strategy based upon projected economic conditions and demand for our products. We continued to consolidate our global distribution centers and warehousing, thereby decreasing our fixed costs.

In 2008, approximately 24% of our products were shipped from our internal and third-party manufacturers directly to the customer. The other 76% of our products were fulfilled from the 21 distribution locations strategically located throughout the world. We operated distribution centers in Australia, Colorado, Finland, the Netherlands, India, Japan, Mexico, Shanghai and Singapore as of December 31, 2008. Our Company-operated distribution centers had approximately 1,368,000 square feet of space. We also utilized third-party operated distribution centers. The third-party centers were located in Brazil, Colorado, Dubai, Hong Kong, Korea, and Taiwan. These distribution centers gave us approximately 744,000 additional square feet of space. We believe the combined total of 34 distribution locations and 2.1 million square feet of space gives us the flexibility to meet our rapidly changing business requirements and positions us to support the current level of revenue and any growth of our brands.

In December 2007, we entered into an agreement with Manhattan Associates to provide warehouse management systems within all of our Company-operated distribution centers. We plan to continue to implement the Manhattan software in strategic locations during the next 12 months.

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Intellectual Property and Trademarks

We rely on a combination of trademark, copyright, trade secret, trade dress, and patent protection to establish, protect, and enforce our intellectual property rights in our product designs, brand, materials, and research and development efforts, although no such methods can afford complete protection. We own the material trademarks used in connection with the marketing, distribution and sale of all of our products, both domestically and internationally, where our products are currently either sold or manufactured. Our major trademarks include the Crocs logo and design and the Crocs word mark, both of which are registered or pending registration in the U.S., the European Union, Japan, Taiwan, China and Canada among other places. We also own common law trademark registrations or pending trademark applications for Jibbitz, Jibbitz Logo, YOU by Crocs , YOU by Crocs Logo, Ocean Minded, Fury, Fury Mambaz Logo, Tail Logo, Bite and Bite Logo, as well as for our proprietary material Croslite and the Croslite logo, globally. We intend to continue to strategically register, both domestically and internationally, the trademarks and copyrights we utilize today and those we develop in the future. We will also continue to aggressively police our trademarks and copyrights and pursue those who infringe, both domestically and internationally as we deem necessary.

In the U.S., our patents are generally in effect for up to 20 years from the date of the filing of the patent application. Our trademarks are generally valid as long as they are in use and their registrations are properly maintained and have not been found to become generic. Trademarks registered outside of the U.S. generally have a duration of 10 years depending on the jurisdiction and are also generally subject to an indefinite number of renewals for a like period upon appropriate application. We believe our trademarks are crucial to the successful marketing and sale of our products, and we intend to vigorously prosecute and defend our intellectual property rights throughout the world.

We consider the formulation of Croslite used to produce our products to be a valuable trade secret. Prior to our acquisition of Crocs Canada in June 2004, Crocs Canada developed the formula for Croslite, and we believe that it did not publish or otherwise make the formula available to third parties without the protection of confidentiality or similar agreements. Post acquisition, we continue to protect the formula by using confidentiality agreements with our third-party processors and by requiring our employees who have access to the formula to execute confidentiality agreements or to be bound by similar agreements concerning the protection of our confidential information. Neither we nor Crocs Canada have attempted to seek patent protection for the formula. We are not aware of any third-party that has independently developed the formula or that otherwise has the right to use the formula in their products other than Finproject, our third-party supplier of Croslite in Italy. Under the terms of our supply agreement with Finproject, Finproject has certain limited rights to use Croslite, which were originally negotiated in connection with our purchase of Crocs Canada from Finproject's parent company. We believe the comfort and utility of our products depend on the properties achieved from the compounding of Croslite and constitute a key competitive advantage for us, and we intend to vigorously protect this trade secret.

We also actively combat counterfeiting through monitoring of the global marketplace. We use our employees, sales representatives, distributors, and retailers to police against infringing products by encouraging them to notify us of any suspect products and to assist law enforcement agencies. Our sales representatives are also educated on our patents, pending patents, trademarks and trade dress and assist in preventing potentially infringing products from obtaining retail shelf space. The laws of certain countries do not protect intellectual property rights to the same extent or in the same manner as do the laws of the U.S., and, therefore, we may have difficulty obtaining legal protection for our intellectual property in certain jurisdictions.

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Seasonality

Due to our significant sales growth from our inception through 2007, there is still uncertainty in the degree to which sales of our footwear products will be subject to seasonality. For the year ended December 31, 2008, we experienced a 40% increase in sales in the first quarter of 2008 compared to 2007. However, due to declining economic conditions and declining demand for our products, our sales were flat in the second quarter of 2008 compared to 2007 and our sales declined in the third and fourth quarters of 2008 compared to 2007. We expect that our business, similar to other vendors of footwear and related merchandise, will be subject to seasonal variation. We believe many vendors that market footwear products suited for warm weather normally experience their highest sales activity during the second and third quarters of the calendar year. We intend to continue branching out into other types of footwear, bringing unique and original perspective, to the consumer in styles that may be unexpected from Crocs. While we have introduced footwear models that are more suitable for cold weather, such as the Mammoth, Endeavor, Georgie, All Terrain, Snowmini, and YOU by Crocs styles, we believe that demand for our products, and therefore our sales, may be subject to seasonal variations and may be significantly impacted by weather conditions. The majority of our revenues during the year ended December 31, 2008 were attributable to our footwear styles more suitable for fair weather. However, we believe that the expansion into other types of footwear products will help us build a stable year-round business as we look to offer more winter-oriented styles. In addition, our quarterly results of operations may fluctuate significantly as a result of a variety of other factors, including the timing of new model introductions or general economic or consumer conditions or fluctuating consumer preferences.

In addition, our quarterly results of operations may fluctuate significantly as a result of a variety of other factors, including the timing of new model introductions or general economic or consumer conditions. Accordingly, results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for any year, and revenues for any particular period may fluctuate. We believe that the changes in our business resulting from the deteriorating global economic conditions as well as the lessening demand for our products were so significant in 2008 that we cannot reasonably determine the extent of the seasonality of our business. However, we have observed that our first and fourth quarter revenues are less than our second and third quarter revenues and we expect this seasonality trend to continue.

Backlog

As of December 31, 2008, our backlog, which consists of open orders as of December 31 2008, was approximately $113.3 million, compared to $145.4 million as of December 31, 2007. The backlog decreased as a result of the current economic conditions and the change in purchasing practices by our customers as they work to aggressively manage risk through reduced inventory levels as well the decreased demand for our products. Backlog may not be a reliable measure of future sales for any succeeding period and are subject to cancellation by customers at any time. In addition, our historical cancellation experience may not be indicative of future cancellation rates. We expect the majority of these orders to be fulfilled within the year.

Competition

The global casual footwear and apparel industry is highly competitive. Although we believe that we do not compete directly with any single company with respect to the entire spectrum of our products, portions of our business compete with companies such as, but not limited to, Nike Inc., Heelys Inc., Deckers Outdoor Corp., Sketchers USA Inc. and Wolverine World Wide, Inc. Our retail locations also compete with footwear retailers such as Macy's Inc., Nordstrom Inc., Dicks Sporting Goods Inc., and Collective Brands Inc.

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The principal elements of competition in this industry include brand awareness, product functionality, design, quality, pricing, marketing and distribution. We believe that our unique footwear designs, Croslite, and our expanding product offering and distribution network position us well in the marketplace. However, some companies in the casual footwear and apparel industry have substantially greater brand awareness, financial, distribution, and marketing resources than we currently have. Furthermore, the unique designs and resulting success of our footwear products have attracted new players in the market with imitation products that are similar to ours, and we face competition from these new market entrants.

Product Design and Development

Our primary goal in product design and development is to create and introduce new and innovative footwear products that combine our standards of comfort, functionality, and style, and enhance the awareness of the Crocs brand. We aspire to be the global leader in active casual footwear products. Our footwear product line is designed by a combination of our internal design and development staff supported by outside designers. By introducing outside sources to the design process, we believe that we are able to capture a variety of different design perspectives on a cost-efficient basis and anticipate trends more quickly. To expand our internal design capabilities, we acquired EXO in 2006, an Italian company that has been involved in the design of several of our new styles. We are committed to continuing to dedicate significant resources to product design and development to sustain our commitment to innovation, maintain or grow our current level of revenue and drive our global brand.

We develop footwear models based on what we identify as opportunities in the marketplace. Once a design has been identified and demand in the marketplace has been validated, the designs are then translated into product specifications by our developers and made into prototypes at our facility in Italy or by one of our third-party manufacturers in China. Our designers and developers work closely with each other to develop product prototypes, test and refine products and provide quality assurance throughout the manufacturing process. Our design and development process is highly collaborative, as members of the design team frequently meet with our sales and marketing staff, production and supply managers and certain of our retail customers to further refine our products to meet the particular needs of our target market. We continually strive to improve our development function so we can bring products to market quickly and reduce costs while maintaining product quality. We spent $6.4 million, $5.3 million and $1.8 million in Company-sponsored research, design and development activities for the years ended December 31, 2008, 2007, and 2006, respectively.

Employees

As of December 31, 2008, we employed approximately 3,700 persons, compared to 5,300 as of December 31, 2007. This included 1,940 employees in the U.S., 80 employees in Canada, 220 employees in Mexico, 990 employees in Asia, 90 employees in South America, and 380 employees in Europe. Due to declining economic conditions and the reduced demand for our products, we reduced our headcount by approximately 1,600 persons from 2007, primarily due to closings of our Canadian and Brazilian manufacturing facilities and other reductions in staffing, partially offset by increases in staffing due to expansion of our Company operated retail locations. As of December 31, 2008, none of our employees were represented by a union.

Public Filings and Corporate Information

Our internet address is www.crocs.com. On our website, we post the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission: our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to

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Section 13(a) or 15(d) of the Securities and Exchange Act of 1934. All such filings on our website are available free of charge. Also available on our website are the charters of the committees of our board of directors, as well as our corporate governance guidelines and code of ethics. Copies of any of these documents will be provided in print to any stockholder who submits a request in writing to Integrated Corporate Relations, 450 Post Road East, Westport, CT 06880.

ITEM 1A. Risk Factors

Our short and long-term success is subject to many factors beyond our control. If any of the following risks, as well as any risks described elsewhere in this Form 10-K, actually occur, our business, financial condition or results of operations could suffer. Additional risk factors could exist that we are not presently aware of which could also affect our business, our financial condition or results of operations. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Our auditors have expressed substantial doubt about our ability to continue as a going concern.

The accompanying consolidated financial statements for the year ended December 31, 2008 were prepared under the assumption that we will continue to operate as a going concern. The report of our registered independent public accounting firm on our consolidated financial statements for the year ended December 31, 2008 includes an explanatory paragraph concerning conditions that raise substantial doubt about our ability to continue as a going concern. We incurred losses of $185.1 million in the year ended December 31, 2008 and experienced a decline in revenues from $847.4 million for the year ended December 31, 2007 to $721.6 million for the year ended December 31, 2008. Continued operations are dependent on our ability to secure adequate financing and maintain a reasonable level of liquidity such that we can timely pay our obligations when due. As of December 31, 2008, we had $22.4 million in borrowings under our loan agreement with the Union Bank of California, N.A. ("Revolving Credit Facility"), which currently has a maturity date of April 2, 2009, and we had $51.6 million in cash and cash equivalents.

We are currently in discussions with lending institutions to secure an asset backed borrowing arrangement to replace our current Revolving Credit Facility. The time period required to procure a new asset backed credit facility may extend beyond the maturity date of our current Revolving Credit Facility requiring us to seek an extension of that maturity date with our current lenders. If we cannot obtain a new arrangement prior to the maturity date on our current Revolving Credit Facility and we are unable to obtain an extension of our current Revolving Credit Facility, we will be required to repay all borrowed funds on the maturity date. There can be no assurance that we will be able to secure additional debt or equity financing or receive an extension of the current Revolving Credit Facility by or before the date of maturity of the Revolving Credit Facility and, accordingly, our liquidity and ability to timely pay our obligations when due could be adversely affected. Additionally, we may incur operating losses during fiscal year 2009 if our revenues continue to decline, which may be accelerated by the current economic crisis resulting in less demand for our products. In the event that revenues and product demand fall short of our current expectations, we will need to take further actions to reduce operating costs. There can be no assurance that such actions, if taken, will result in cash flows that will be sufficient to meet our ongoing operating needs.

Our financial statements do not include any adjustments that may result from the outcome of this uncertainty. If we cannot secure additional financing and continue to incur losses, we may be unable to maintain a level of liquidity necessary to continue operating our business.

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The recent financial crisis and general economic conditions may adversely affect consumer spending and the overall general health of our retail customers, which, in turn, may adversely affect our financial condition, results of operations and cash resources.

Uncertainty about the current and future global economic conditions may cause consumers and retailers to defer purchases or cancel purchase orders for our products in response to tighter credit, decreased cash availability and declining consumer confidence. Our financial success is sensitive to changes in general economic conditions, both globally and nationally. Recessionary economic cycles, higher interest borrowing rates, higher fuel and other energy costs, inflation, increases in commodity prices, higher levels of unemployment, higher consumer debt levels, higher tax rates and other changes in tax laws or other economic factors that may affect consumer spending or buying habits could adversely affect the demand for our products. In addition, a number of our third-party retailers may be impacted by the significant decrease in available credit that has resulted from the current financial crisis. If credit pressures or other financial difficulties result in insolvency for these third parties it could adversely impact our estimated reserves and financial results. There can be no assurances that government and consumer responses to the disruptions in the financial markets will restore consumer confidence.

We may not be able to obtain the financing required to operate our business, particularly when the credit and capital markets are unstable, which could limit cash flow available for operations.

Due to recent turmoil in the credit markets and the continued decline in the economy, we may not be able to obtain additional financing on terms that are acceptable to us or at all. Also, we may be impacted by factors relating to or affecting our liquidity and capital resources due to perception in the market that may restrict our flexibility under certain conditions. We anticipate that existing cash balances and cash flows from operations will be sufficient to meet the ongoing needs of our business through March 31, 2009. As of December 31, 2008, we had $22.4 million outstanding on our Revolving Credit Facility. Pursuant to Amendment 9 to the Revolving Credit Facility, we will be required to pay all amounts outstanding on April 2, 2009.

Our debt could have important consequences to our business, including the following:

- requiring that we use a large portion of our cash flow to pay principal and interest, which will reduce the availability of cash to fund working capital, capital expenditures and other business activities;
- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- restricting us from making strategic acquisitions or exploiting business opportunities;
- placing us at a competitive disadvantage relative to competitors that have less debt; and
- limiting our ability to borrow additional monies in the future to fund working capital and capital expenditures, sell assets, acquire other businesses, or repurchase capital stock.

We also may incur additional debt in the future. Although the terms of our Revolving Credit Facility contain restrictions on the incurrence of additional debt, these restrictions are subject to a number of qualifications and exceptions, and debt incurred in compliance with these restrictions could be significant. In addition, we may refinance all or a portion of our debt, including borrowings under our Revolving Credit Facility, and incur more debt as a result. If we incur new debt, the risks described above would intensify.

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We anticipate that existing cash resources and cash flows from operations will be sufficient to meet the ongoing needs of our business through March 31, 2009. In order to provide liquidity beyond March 31, 2009, we are exploring alternatives for a new borrowing arrangement or an extension of our existing Revolving Credit Facility and are currently negotiating with financial institutions to obtain an asset backed lending arrangement. We may also explore other sources for capital to meet our ongoing needs. There can be no assurance that any such capital will be available to us on acceptable terms or at all especially due to current conditions and uncertainty in the global credit markets. Our ability to fund working capital needs, planned capital expenditures and scheduled debt payments depends on our future operating performance and cash flow, which in turn are subject to prevailing economic conditions and to financial, business and other factors, some of which are beyond our control. Our inability to secure financing before the April 2, 2009 maturity date of our Revolving Credit Facility or obtain an additional extension may result in a material adverse effect on our financial condition.

Our future operating performance and our ability to meet our cash requirements and service our debt is dependent on many factors, some of which are beyond our control, including prevailing economic, financial and industry conditions. Our operating performance is also dependent on our ability to continue to realize cost savings and synergies and drive profitable growth. If these initiatives are not met within the time frame we expect, our cash flow could be impacted. A default under our Revolving Credit Facility could restrict or terminate our access to our borrowing capacity under our Revolving Credit Facility and materially impair our ability to meet our obligations as they come due. Any default, or the failure to generate sufficient cash from operations, may require us to seek additional capital or modifications to our credit facility which may not be available. Our suppliers may require us to pay cash in advance or obtain letters of credit as a condition to selling us their products and services. Any of these risks and uncertainties could have a material adverse effect on our financial position, results of operations or cash flow.

We may be unable to successfully execute our growth strategy or maintain our current revenue levels.

Although we have generally exhibited significant growth since we began operations, revenues decreased from $847.4 million for the year ended December 31, 2007 to $721.6 million for the year ended December 31, 2008. We may experience similar decreases in revenues in the future.

Our ability to maintain our revenue levels or to grow in the future depends upon, among other things, the continued success of our efforts to maintain our brand image and expand our footwear offerings and distribution channels. To effectively maintain or grow our current revenue levels in our operations, we will need to continue to streamline our supply chain efforts to increase operation efficiencies and decrease costs. Failure to manage our operations in a cost efficient manner could result in greater difficulty in completely filling customer orders, declines in product quality, difficulty with product acceptance or other production and distribution difficulties, any of which could adversely impact our business performance and operating results. We had net losses for the year ended December 31, 2008 and we may continue to incur losses unless our expenses are reduced or demand for our product improves.

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

Our footwear sales, which represented approximately 91.6% of our revenues for the year ended December 31, 2008, contributed to our significant growth through 2007. We expect that footwear will constitute our principal product line for the foreseeable future. The footwear industry is subject to rapidly changing consumer demands, preferences and fashion trends, and our footwear may not remain popular or we may fail to develop additional models that appeal to consumers. As our products begin to mature in certain markets, we have generally experienced less demand. Likewise, we may experience a decline in demand for our products as counterfeit or imitation products begin to gain market share.

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If the popularity of our 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 revenues and gross and operating margins, as a result of price reductions.

Further, we could experience a decline in our revenues and earnings from any or all of the above. Given the limited history of our Crocs brand, it is especially difficult to evaluate whether our products will hold long-term consumer appeal.

We have been named as a defendant in a securities class action lawsuit that may result in substantial costs and could divert management's attention.

In January 2008, plaintiffs filed a shareholder derivative action in the Colorado District Court for the City and County of Boulder alleging that certain of our officers and directors breached their fiduciary duties, wasted corporate assets, and were unjustly enriched. This derivative action purports to state a claim on behalf of the corporation. The complaint alleges that the claims arise from the same conduct as is alleged in the federal shareholder class action discussed below. We are in the process of responding.

Starting in November 2007, certain stockholders filed several purported shareholder class actions in the U.S. District Court for the District of Colorado alleging violations of Sections 10(b) and 20(a) of the Exchange Act based on alleged statements made by us between July 27, 2007 and October 31, 2007. We and certain of our current and former officers and directors have been named as defendants in complaints filed by investors in the United States District Court for the District of Colorado. The first complaint was filed in November 2007; several other complaints were filed shortly thereafter. These actions were consolidated and, in September 2008, the Court appointed a lead plaintiff and counsel. An amended consolidated complaint was filed in December 2008. The amended complaint purports to state claims under Section 10(b), 20(a), and 20A of the Exchange Act on behalf of a class of all persons who purchased our stock between April 2, 2007 and April 14, 2008 (the "Class Period"). The amended complaint alleges that, during the Class Period, defendants made false and misleading public statements about us and our business and prospects and that, as a result, the market price of our stock was artificially inflated. The amended complaint also claims that certain current and former officers and directors traded our stock on the basis of material non-public information. The amended complaint seeks compensatory damages on behalf of the alleged class in an unspecified amount, interest, and an award of attorneys' fees and costs of litigation. Due to the inherent uncertainties of litigation and because the litigation is at a preliminary stage, we cannot at this time accurately predict the ultimate outcome of the matter, or of the amount or range of potential loss, if any.

In December 2007, a plaintiff filed a shareholder derivative action in the Colorado District Court for the City and County of Boulder alleging that certain officers and directors of the Company breached their fiduciary duties, wasted corporate assets, and were unjustly enriched. This derivative action purported to state a claim on behalf of the Company. Plaintiff filed an amended complaint in July 2008, which alleged claims that arise from the conduct alleged in the federal shareholder class action and allegations regarding additional statements made by the Company between November 2007 and May 2008. The Company and the individual defendants filed motions to dismiss the derivative complaint. On February 26, 2009, the Court dismissed the derivative compliant with prejudice and denied plaintiff leave to amend. The order is subject to appeal.

We are not able to predict the ultimate outcomes of these actions. It is possible that they could be resolved adversely to us, could result in substantial costs, and could divert management's attention and resources, which could harm our business. Risks associated with legal liability are often difficult to assess or quantify, and their existence and magnitude can remain unknown for significant periods of time. While we maintain director and officer insurance, the amount of insurance coverage may not be sufficient to cover a claim, and the continued availability of this insurance cannot be assured. We may, in the future, be the target of additional proceedings, and these proceedings may result in substantial costs and divert management's attention and resources that are needed to successfully run our business.

We may fail to meet analyst expectations, which could cause the price of our stock to decline.

Our common stock is traded publicly, and various securities analysts follow our financial results and issue reports on us and the value of our common stock. These reports include information about our historical financial results as well as the analysts' estimates of our future performance. The analysts' estimates are based upon their own opinions and are often different from our estimates or expectations. If our operating results are below the estimates or expectations of public market analysts and investors, our stock price could decline.

If we do not accurately forecast consumer demand, we may have excess inventory to liquidate or have greater difficulty filling our customers' orders, either of which could adversely affect our business.

The footwear industry is subject to cyclical variations, consolidation, contraction, and closings, as well as fashion trends, rapid changes in consumer preferences, the effects of weather, general economic conditions, and other factors affecting demand. These factors make it difficult to forecast consumer demand, and if we overestimate demand for our products, we may be forced to liquidate excess inventories at a discount to customers, resulting in markdowns and lower gross margins. Conversely, if we underestimate consumer demand, we could have inventory shortages, which can result in lost potential sales, delays in shipments to customers, strains on our relationships with customers and diminished brand loyalty. Moreover, because our product line is limited, we may be disproportionately affected by cyclical downturns in the footwear industry, changes in consumer preferences, and other factors affecting demand, which may make it more difficult for us to accurately forecast our production needs, exacerbating these risks. A decline in demand for our products, or any failure on our part to satisfy increased demand for our products, could adversely affect our business and results of operations.

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

We have made significant improvements to our management information systems over the past several years, specifically 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 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.

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We have substantial cash requirements in the U.S. while a majority of our cash is generated and held outside of the U.S. The risks attendant to holding cash abroad could adversely affect our financial condition and results of operations.

We have substantial cash requirements in the U.S., but a majority of our cash is generated and held abroad. Since repatriation of such cash is subject to limitations and may be subject to significant taxation, we cannot be certain that we will be able to repatriate such cash on favorable terms or in a timely manner. If we continue to incur operating losses and require cash held in international accounts for use in our U.S. operations, a failure to repatriate such cash in a timely and cost-effective manner could adversely affect our business, financial condition, and results of operations.

Failure to adequately protect our trademarks and other intellectual property rights and counterfeiting of our brands could divert sales, damage our brand image and adversely affect our business.

We utilize trademarks, trade names, copyrights, trade secrets, issued and pending patents, and trade dress and designs on nearly all of our products and believe that having distinctive marks that are readily identifiable is an important factor in creating a market for our goods, in identifying us, and in distinguishing our goods from the goods of others. We believe that our trademarks, patents, and other intellectual property rights are important to our brand, our success and our competitive position. We periodically discover products that are counterfeit reproductions of our products or that otherwise infringe on our intellectual property rights. If we are unsuccessful in challenging another party's products on the basis of trademark or design or utility patent infringement, or if we are 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 by resulting in the shift of consumer preference away from our products. We have taken actions to protect our intellectual property rights, some of which are described in Part I, Item 3 *Legal Proceedings.* The actions we have taken or those we will take to establish and protect trademarks, patents, and other intellectual property rights may not be adequate to prevent imitation of our products by others or to prevent others from seeking to block sales of our products as violations of proprietary rights.

In addition, the laws of certain foreign countries may not protect intellectual property rights to the same extent as do the laws of the U.S. 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 December 31, 2008, we have applied to register Crocs and the Crocs logo as trademarks in over 67 other 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. We cannot assure you that the actions we have taken to establish and protect our trademarks and other intellectual property rights outside the U.S. will be adequate to prevent imitation of our products by others or, if necessary, successfully challenge another party's counterfeit products or products that otherwise infringe on our intellectual property rights on the basis of trademark or patent infringement. We may face significant expenses and liability in connection with the protection of our intellectual property rights outside the U.S., and if we are unable to successfully protect our rights or resolve intellectual property conflicts with others, our business or financial condition could be adversely affected.

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 and compounding facilities may increase the 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

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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, as with any trade secret, confidential information, or other proprietary information, others, including our competitors, may independently develop or discover such trade secrets and information, which would render them less valuable 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 year ended December 31, 2008, third-party manufacturers produced approximately 83% of our footwear products as measured by number of units, and one such manufacturer in China produced approximately 49% of our third-party footwear products. Currently, we have footwear manufacturing arrangements with third-party manufacturers located in China and Bosnia. 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 and as such, have experienced at times, delays or inabilities to fulfill customer demand and orders. While we are increasing our communication and relationships with our third-party manufacturers, we cannot guarantee that we will be able to fully mitigate any delays in the production and shipment of our 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 year ended December 31, 2008, 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.

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 year ended December 31, 2008, we produced approximately 17% of our footwear products at our Company-operated manufacturing facilities in North America, Brazil and Italy. 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. 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 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 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 two suppliers. We do not have any formal purchase agreement with the providers of the elastomer resins, and we purchase these elastomer resins on a purchase order basis. If the suppliers 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.

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.

Our products are subject to risks associated with overseas sourcing, manufacturing, shipping and financing.

Because independent manufacturers manufacture a majority of our products outside of our principal sales market, our products must be transported by third parties over large geographic distances. Delays in the shipment or delivery of our products due to the availability of transportation, work stoppages, port strikes, infrastructure congestion, or other factors, and costs and delays associated with transitioning between manufacturers, could adversely impact our financial performance. In addition, manufacturing delays or unexpected demand for our products may require us to use faster, but more expensive, transportation methods such as aircraft, which could adversely affect our profit margins. The cost of fuel is a significant component in transportation costs, so increases in the price of petroleum products can adversely affect our profit margins.

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 91.6% of our revenues for the year ended December 31, 2008 from sales of our footwear products, which consisted of more than 270 models, including Ocean Minded, Bite, YOU by Crocs and our Crocs footwear models. Sales of our classic Beach and Cayman models accounted for approximately 25% of our footwear revenues in the year ended December 31, 2008. A high portion 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 if 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, which could have a material and adverse impact on our business and operations.

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Expanding our 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 maintain or grow our current revenue levels and our revenues may continue to decline.

Our ability to maintain or grow our current revenue levels is founded primarily on the continued sales of our footwear, and we intend to continue to refine the number of models offered in our 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 continue to grow and our revenues may decline further, and our brand image and operating performance may suffer.

We may also encounter difficulties in producing new 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 begin 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 or not provide the appropriate level of marketing in order to educate the market and potential consumers of new products. Achieving market acceptance will 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 effectively. Failure to gain market acceptance for new products that we introduce could impede our ability to maintain or grow our current revenues, reduce our profits, adversely affect the image of our brands, erode our competitive position, and result in long term harm to our business

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

Due to our significant sales growth since our inception, followed by the global economic crisis in 2008, there is still uncertainty in the degree to which sales of our footwear products will be subject to seasonality. For the year ended December 31, 2008, we experienced a 40% increase in sales in the first quarter of 2008 compared to 2007. However, due to declining economic conditions and declining demand for our products, our sales were flat in the second quarter of 2008 compared to 2007 and our sales declined in the third and fourth quarters of 2008 compared to 2007. We expect that our business, similar to other vendors of footwear and related merchandise, will be subject to seasonal variation. We believe many vendors that market footwear products suited for warm weather normally experience their highest sales activity during the second and third quarters of the calendar year. While we have introduced footwear models that are more suitable for cold weather, such as the Mammoth, Endeavor, Georgie, All Terrain, Snowmini, and YOU by Crocs™ styles, we expect that demand for our products, and therefore our sales, may be subject to seasonal variations and significantly impacted by weather conditions because the majority of our revenues during the year ended December 31, 2008 were attributable to our footwear styles more suitable for fair weather.

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In addition, our quarterly results of operations may fluctuate significantly as a result of a variety of other factors, including the timing of new model introductions or general economic or consumer conditions. Accordingly, results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for any year, and revenues for any particular period may fluctuate. This could lead to results outside of analyst and investor expectations which could cause the volatility in our stock price to increase.

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.

Beginning with our Annual Report on Form 10-K for our fiscal year ended on December 31, 2007, the Securities and Exchange Commission ("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. 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 the independent auditors. Continued documentation and testing of our internal controls will involve considerable time and expense, and may strain our internal resources and have an adverse impact on our costs.

During the ongoing course of our testing, we may identify deficiencies which we may not be able to remediate in time to meet the annual deadlines 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 material weaknesses in our system of internal controls. For example, during the three months ended March 31, 2008, we identified a control deficiency that was determined to be a material weakness in our system of internal controls. The material weakness identified related to controls over the preparation and calculation of the consolidated income tax provision and related reserves.

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 our 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, such deficiencies may negatively impact our business, results of operations and reputation.

Third parties may claim that we are infringing their intellectual property rights, and such claims may be costly to defend, may require us to pay licensing fees, damages, or other amounts, and may prevent, or otherwise impose limitations on, the manufacture, distribution or sale of our products.

From time to time, third parties may claim that we are infringing their intellectual property rights, and we may be found to infringe those intellectual property rights. While we do not believe that any of our products infringe the valid intellectual property rights of third parties, we may be unaware of the intellectual property rights of others that may cover some of our technology or products. If we are forced to defend against such third-party claims, whether or not such claims are resolved in our favor, we could encounter expensive and time consuming litigation, which could divert our management and key personnel from business operations. If we are found to be infringing on the intellectual property rights of other companies, we may be required to pay damages or ongoing royalty payments, or comply with other unfavorable terms. If we are found to be infringing on the intellectual property rights of other companies, we may not be able to obtain license agreements on terms acceptable to us, or at all,

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and this may prevent us from manufacturing, marketing or selling our products. Thus, such third-party claims may significantly reduce the sales of our products or increase our cost of goods sold. Any such reductions in sales or cost increases could be significant, and could have a material and adverse affect on our business.

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

We require our third-party manufacturers to meet our standards for working conditions and other matters before we are willing to do 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, damage to our reputation and the value of our brand, and discourage retail customers and consumers from buying our products.

If we are unable to 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.

We are reliant on key personnel and our officers, including our new Chief Executive Officer, John Duerden. To expand our business we will need to attract, retain, and motivate highly skilled design, development, management, accounting, sales, merchandising, marketing, and customer service personnel. Competition for many of these types of personnel is intense. As a result, we may be unable to successfully attract or retain qualified personnel. 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. The loss of any key employee or our inability to attract or retain other qualified employees could harm our business and results of operations.

As a result of the difficult global macroeconomic conditions and extremely challenging retail environments, particularly in the U.S. and Europe, we implemented restructuring and workforce reductions, which may adversely affect the morale and performance of our personnel and our ability to hire new personnel.

Our business has been adversely affected by challenging retail environments in many of the markets in which we operate due in large part to the current global economic downturn. Accordingly, we made the decision in 2008 to right-size our operations to better align with our lower sales volumes and revenues, resulting in us reducing our workforce in North America and Europe. Additionally, we made the decision in 2008 to close our manufacturing plants in Brazil and Canada. This restructuring plan, or any restructuring plans undertaken in the future, may yield unintended consequences, such as attrition beyond our intended reduction in workforce and reduced employee morale, which may cause our employees who were not affected by the reduction in workforce to seek employment elsewhere. We run the risk that our restructuring efforts may not sufficiently reduce costs to maintain profitability, or, in the alternative, our restructuring efforts may result in too many reductions, which could adversely affect our operations and may potentially stunt our growth. Additional attrition or an inability to find adequate replacements for lost personnel could adversely affect our ability to meet our operational or financial goals.

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Our financial success may be limited to the strength of our relationships with our retail customers and to the success of such retail customers.

Our financial success is significantly related to the willingness of our retail customers to continue to carry our products, the expansion to new retail customers, and to the success of such customers. We do not have long term contracts with any of our retail customers, and sales to our retail customers are generally on an order-by-order basis and are subject to rights of cancellation and rescheduling by the customer. If we cannot fill our retail customers' orders in a timely manner, the sales of our products and our relationships with those customers may suffer, and this could have a material adverse effect on our product sales and ability to grow our product line.

Furthermore, many of our retail customers compete with each other, and if they perceive that we are offering their competitors better pricing and support, they may reduce purchases of our products. In addition, we compete directly with our retail customers by selling our products to consumers via the internet and through our Company-operated kiosks and stores. If our retail customers believe that our direct sales to consumers divert sales from their stores, this may weaken our relationships with such customers and cause them to reduce purchases of our products.

The changes in the global economy could also affect our customers' liquidity and capital resources and their ability to meet their payment obligations to us, which in turn would decrease their credit terms and our ability to collect our accounts receivable, which may have a material adverse impact on our cash flows and capital resources. We continue to monitor our accounts receivable aging and have recorded appropriate reserves as we deem appropriate.

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 us;
- have more comprehensive product lines than ours;
- have broader market presence than we have in retail stores, or have more Company-operated retail stores than us;
- have longer-standing relationships with retailers than us;
- have a longer operating history than ours;
- have greater distribution capabilities than us;
- have stronger brand recognition than us; and
- spend substantially more on product advertising and sales than us.

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.

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We may fail to successfully streamline our distribution network or introduce our products internationally, and this may cause our results of operations to fall short of expectations.

As part of our strategy, we plan to streamline our supply chain network and expand the sales of our products into new locations internationally. Successfully executing this strategy will depend on many factors, including:

- the strength of the Crocs brand and competitive conditions in new markets that we attempt to enter;
- our ability to attract and retain qualified distributors or agents or to develop direct sales channels;
- our ability to use and protect the Crocs brand, and our other intellectual property, in these new markets and territories; and
- our ability to consolidate our network to leverage resources and simplify our fulfillment process.

If we are unable to successfully streamline our supply chain and sell our Crocs-branded products internationally, our business may fail to grow, our brand may suffer, and our results of operations may be adversely impacted.

We conduct, and in the future expect to conduct, a significant portion of our activities outside the U.S., and, therefore, we are subject to the risks of international commerce.

We use third-party manufacturers located in foreign countries; we operate manufacturing facilities located in North America, Brazil and Italy; and we sell our products to retailers outside of the U.S. Foreign manufacturing and sales activities are subject to numerous risks, including the following:

- tariffs, import and export controls, and other non-tariff barriers such as quotas and local content rules;
- delays associated with the manufacture, transportation and delivery of foreign-sourced products;
- increased transportation costs due to distance, energy prices, or other factors;
- delays in the transportation and delivery of goods due to increased security concerns;
- foreign currency fluctuations, for which we do not currently engage in any material hedging transactions;
- restrictions on the transfer of funds;
- changing economic conditions;
- restrictions, due to privacy laws, on the handling and transfer of consumer and other personal information;

- changes in governmental policies and regulations;
- political unrest, terrorism, or war, any of which can interrupt commerce;
- expropriation and nationalization;
- difficulties in managing foreign operations effectively and efficiently from the U.S.; and
- difficulties in understanding and complying with local laws, regulations, and customs in foreign jurisdictions.

Furthermore, our manufacturing activity outside of the U.S., including the production of our products by third-party manufacturers, particularly in China, is subject to risks of poor infrastructure,

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shortages of equipment, and labor unrest, in addition to those risks noted above. Once our products are manufactured, we may also suffer delays in distributing our products due to work stoppages, strikes, or lockouts at the ports where our products arrive. Such labor disruptions could result in product shortages and delays in distributing our products to retailers. These factors and the failure to properly respond to them could make it difficult to obtain adequate supplies of quality products when we need them, resulting in reduced sales and harm to our business.

In addition, during 2008, we generated $400.3 million, or 56%, of our revenues outside of the U.S., and in the year ended December 31, 2007, we generated approximately $407.8 million, or 48% of our revenues outside of the U.S. Our ability to maintain the current level of operations in our existing international markets is subject to risks associated with international sales operations, as noted above, as well as the difficulties associated with promoting products in unfamiliar cultures.

We may be adversely affected by currency exchange rate fluctuations.

The market has recently seen significant volatility in the value of the dollar against other foreign markets and currency. We purchase products and supplies from third parties in U.S. dollars and receive payments from certain of our international customers in foreign currencies. The cost of these products and supplies sourced overseas, and payments received from customers, may be affected by changes in the value of the relevant currencies. Price increases caused by currency exchange rate fluctuations could make our products less competitive or have an adverse effect on our profitability. Currency exchange rate fluctuations could also disrupt the business of the third-party manufacturers that produce our products by making their purchases of raw materials more expensive and more difficult to finance. Foreign currency fluctuations could have a material adverse effect on our results of operations and financial condition. For the year ended December 31, 2008, we experienced $25.5 million in non-cash foreign currency exchange rate losses primarily on intercompany balances.

Acquisitions may be difficult to identify and successfully integrate into our business and could have other adverse consequences.

We have made, and may in the future make, acquisitions of, or investments in, other companies. We expect to consider other opportunities to acquire or make investments in other businesses and products that could enhance our manufacturing capabilities, complement our current products or expand the breadth of our markets or customer base. The pursuit of acquisitions may divert the attention of management and cause us to incur various expenses in identifying, investigating and pursuing suitable acquisitions, whether or not they are consummated. In the event we finance acquisitions by issuing equity or convertible debt securities, our stockholders may be diluted.

If we acquire additional businesses, we may not be able to integrate the acquired operations successfully with our business or effectively manage the combined business following completion of the acquisition. We may not achieve the anticipated benefits from the acquired business due to any of the following factors:

- unanticipated costs associated with the acquisition;
- diversion of management's attention from our core business;
- harm to our existing business relationships with manufacturers and customers as a result of the acquisition;
- the potential loss of key employees; or
- risks associated with entering new product lines or markets in which we have little or no prior experience.

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If we are unable to integrate any new business successfully, we could be required either to dispose of the acquired operations or to undertake changes to the acquired operations in an effort to integrate them with our business. If we experience any of the difficulties noted above, our business and financial condition could be materially and adversely affected.

We can issue shares of preferred stock without stockholder approval, which could adversely affect the rights of common stockholders.

Our restated certificate of incorporation permits us to establish the rights, privileges, preferences, and restrictions, including voting rights, of future series of our preferred stock and to issue such stock without approval from our stockholders. The rights of holders of our common stock may suffer as a result of the rights granted to holders of preferred stock that we may issue in the future. In addition, we could issue preferred stock to prevent a change in control of us, depriving common stockholders of an opportunity to sell their stock at a price in excess of the prevailing market price.

Our restated certificate of incorporation, amended and restated bylaws and Delaware law contain provisions that could discourage a third-party from acquiring us and consequently decrease the market value of an investment in our stock.

Our restated certificate of incorporation, amended and restated bylaws, and Delaware corporate law each contain provisions that could delay, defer, or prevent a change in control of us or changes in our management. Among other things, these provisions:

- authorize us to issue preferred stock that can be created and issued by the board of directors without prior stockholder approval, with rights senior to those of common stock;
- do not permit cumulative voting in the election of directors, which would otherwise allow less than a majority of stockholders to elect director candidates;
- prohibit stockholders from calling special meetings of stockholders;
- prohibit stockholder action by written consent, thereby requiring all stockholder actions to be taken at a meeting of our stockholders;
- allow the authorized number of directors to be changed only by resolution of the board of directors;
- establish advance notice requirements for submitting nominations for election to the board of directors and for proposing matters that can be acted upon by stockholders at a meeting; and
- classify our board of directors so that only some of our directors are elected each year.

These provisions could discourage proxy contests and make it more difficult for our stockholders to elect directors and take other corporate actions, which may prevent a change of control or changes in our management that a stockholder might consider favorable. In addition, Section 203 of the Delaware General Corporation Law may discourage, delay, or prevent a change in control of us. Any delay or prevention of a change of control or change in management that stockholders might otherwise consider to be favorable could cause the market price of our common stock to decline.

ITEM 1B. Unresolved Staff Comments

None.

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ITEM 2. Properties

Our principal executive and administrative offices are located at 6328 Monarch Park Place, Niwot, Colorado. We lease, rather than own, all of our facilities. We consider our facilities to be suitable for our needs.

The general location, use and approximate size of our principal properties are given below:

Location	Use	Approximate Square Feet
Rotterdam, the Netherlands	Warehouse	357,000
Aurora, Colorado	Warehouse	264,000
Narita, Japan	Warehouse	260,000
Leon, Mexico	Warehouse/office	207,000
Niwot, Colorado	Corporate offices/warehouse	147,000
Zhangbei, China	Manufacturing facility	100,000
Shanghai, China	Warehouse	81,000
Longmont, Colorado	Warehouse	72,000
Boulder, Colorado	Jibbitz's Corporate offices/warehouse	52,000
Melbourne, Australia	Warehouse	48,000
Den Haag, the Netherlands	Corporate office	40,000
Sorrecaba, Brazil	Corporate office	39,000
Singapore	Warehouse	32,000
Singapore	Corporate offices	26,000
Tempere, Finland	Corporate office and storage	34,000
Shanghai, China	Corporate office	18,000
Haryana, India	Warehouse	17,000
Padova, Italy	EXO's corporate offices/manufacturing facility	10,000

We also maintain small branch sales offices in Hong Kong, Taiwan, Korea, Australia, Puerto Rico, Hawaii, California and India. We enter into short-term leases for kiosks domestically and internationally with fixed monthly rents subject to certain covenants with contingent rents based on percentage of revenues. We also lease retail space at 8 domestic and 62 international retail stores and 30 domestic and 2 international outlet stores. Our short term and long term leases expire at various dates throughout the year 2026. We also still hold a lease on facilities in Quebec City, however, as a result of our restructuring efforts during 2008, we have shut down these facilities and taken the appropriate lease termination charges.

ITEM 3. Legal Proceedings

On March 31, 2006, Crocs filed a complaint with the ITC against Acme Ex-Im, Inc., Australia Unlimited, Inc., Cheng's Enterprises, Inc., Collective Licensing International, LLC, D. Myers & Sons, Inc., Double Diamond Distribution, Ltd., Effervescent, Inc., Gen-X Sports, Inc., Holey Soles Holdings, Ltd., Inter-Pacific Trading Corporation, and Shaka Holdings, Inc., alleging patent and trade dress infringement and seeking an exclusion order banning the importation and sale of infringing products. On August 10, 2006, Crocs filed a motion to voluntarily remove its trade dress claim from the investigation to focus on the patent claims. Crocs' motion was granted by Order No. 20 on August 24, 2006. The utility and design patents asserted in the complaint were issued to Crocs, Inc. on February 7, 2006 and March 28, 2006 respectively, by the United States Patent and Trademark Office. The ITC has issued final determinations terminating Shaka Holdings, Inc., Inter-Pacific Trading Corporation, Acme Ex-Im, Inc., D. Myers & Sons, Inc. and Australia Unlimited, Inc. from the ITC investigation No. 337-TA-567 on the basis of settlement and Cheng's Enterprises, Inc. on the suspension of accused activities. The ITC Administrative Law Judge ("ALJ") issued an Initial Determination of

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non-infringement related to one of the patents at issue. Crocs filed a petition with the Commission to review this determination. The Commission granted Crocs' petition and on February 15, 2007, after briefing by the parties, the Commission vacated the ALJ's determination of non-infringement with respect to the remaining respondents and remanded it to the ALJ for further proceedings consistent with the Commission's order. In light of the Commission's Order, the procedural schedule and hearing date were reset pursuant to Order No. 38. A trial was held before the ALJ from September 7 to14, 2007. The ALJ issued an Initial Determination on April 11, 2008 with a finding of no violation, finding infringement of the utility patent by certain accused products, but also finding that the utility patent was invalid as obvious. The ALJ also found that the design patent was valid, but not infringed by the accused products. Crocs filed a Petition for Review of the Initial Determination which was due on April 24, 2008. On June 18, 2008, the Commission issued a Notice that it would review the ALJ's findings in the Initial Determination with respect to the determination of non-infringement of the design patent and the determination of invalidity of the utility patent. On July 25, 2008, the Commission issued a Notice of its decision to terminate the Investigation with a finding of no violation as to either patent. Crocs filed a Petition for Review of the decision with the United States Court of Appeals for the Federal Circuit on September 22, 2008, and filed its initial brief on January 21, 2009. Briefing before the Federal Circuit is expected to be completed in March 2009 and oral argument has not yet been scheduled.

On April 3, 2006, Crocs filed a complaint in the U.S. District Court for the District of Colorado alleging patent and trade dress infringement and seeking injunctive relief against Acme EX-IM, Inc., Australia Unlimited, Inc., Cheng's Enterprises, Inc., Collective Licensing International, LLC, D. Myers & Sons, Inc., Double Diamond Distribution, Ltd., Effervescent, Inc., Gen-X Sports, Inc., Holey Soles Holdings, Ltd, Inter-Pacific Trading Corporation, Shaka Holdings, Inc., and Does 1-10 based upon certain utility and design patents that were issued to Crocs, Inc. on February 7, 2006 and March 28, 2006 respectively, by the United States Patent and Trademark Office. Consent judgments have been entered against Shaka Holdings, Inc., Interpacific Trading Corporation and Acme Ex-Im, Inc. Crocs entered into a settlement with Australia Unlimited, and filed a stipulation for dismissal of all claims and counterclaims on January 25, 2007. Crocs has entered into a settlement agreement with D. Myers & Sons and obtained a consent judgment in connection therewith on May 23, 2007. This action has been stayed pending resolution in the ITC Proceeding, Investigation No. 337-TA-567, which is currently on appeal to the U.S. Court of Appeals for the Federal Circuit. The Company does not expect that the ultimate resolution of this matter will have a material adverse impact on its business.

The Company and certain current and former officers and directors have been named as defendants in complaints filed by investors in the United States District Court for the District of Colorado. The first complaint was filed in November 2007; several other complaints were filed shortly thereafter. These actions were consolidated and, in September 2008, the Court appointed a lead plaintiff and counsel. An amended consolidated complaint was filed in December 2008. The amended complaint purports to state claims under Section 10(b), 20(a), and 20A of the Exchange Act on behalf of a class of all persons who purchased the Company's stock between April 2, 2007 and April 14, 2008 (the "Class Period"). The amended complaint alleges that, during the Class Period, defendants made false and misleading public statements about the Company and its business and prospects and that, as a result, the market price of the Company's stock was artificially inflated. The amended complaint also claims that certain current and former officers and directors traded in the Company's stock on the basis of material non-public information. The amended complaint seeks compensatory damages on behalf of the alleged class in an unspecified amount, interest, and an award of attorneys' fees and costs of litigation. The Company believes the claims lack merit and intends to defend the action vigorously. Due to the inherent uncertainties of litigation and because the litigation is at a preliminary stage, the Company cannot at this time accurately predict the ultimate outcome of the matter.

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In December 2007, a plaintiff filed a shareholder derivative action in the Colorado District Court for the City and County of Boulder alleging that certain officers and directors of the Company breached their fiduciary duties, wasted corporate assets, and were unjustly enriched. This derivative action purported to state a claim on behalf of the Company. Plaintiff filed an amended complaint in July 2008, which alleges claims that arise from the conduct alleged in the federal shareholder class action and allegations regarding additional statements made by the Company between November 2007 and May 2008. The Company and the individual defendants filed motions to dismiss the derivative complaint. On February 26, 2009, the Court dismissed the derivative compliant with prejudice and denied plaintiff leave to amend. The order is subject to appeal.

Due to the inherent uncertainties of litigation and because the litigation is at a preliminary stage, the Company cannot at this time accurately predict the ultimate outcome of the matter.

On March 17, 2008, Cellect LLC and Sentinel Products Corp. filed a complaint against Crocs, Inc. in the U.S. District Court for the Northern District of New York alleging that Crocs' Croslite materials infringe U.S. Patent No. 5,932,659. Crocs filed an answer on July 11, 2008. On January 12, 2009, the Court entered an order dismissing the action without prejudice. The court's order became a dismissal with prejudice on February 10, 2009.

Although the Company is subject to other litigation from time to time in the ordinary course of business, including employment, intellectual property and product liability claims, the Company is not party to any other pending legal proceedings that the Company believes will have a material adverse impact on its business.

ITEM 4. Submission of Matters to a Vote of Security Holders

Not Applicable.

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PART II

ITEM 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock, par value $0.001, is listed on the NASDAQ Global Select Market and trades under the stock symbol CROX. The following table sets forth, for each of the quarterly periods indicated, the high and low sales prices of our common stock as reported on the NASDAQ Global Select Market. Prices prior to June 14, 2007 have been adjusted to reflect the 2-for-1 stock split, which was effected as a 100% common stock dividend distributed on that date.

Fiscal Year 2008 Three Months Ended	High	Low
March 31, 2008	$39.29	$16.14
June 30, 2008	$20.98	$ 7.67
September 30, 2008	$10.55	$ 3.51
December 31, 2008	$ 3.69	$ 0.79

Fiscal Year 2007 Three Months Ended	High	Low
March 31, 2007	$29.29	$21.43
June 30, 2007	47.40	23.41
September 30, 2007	68.12	41.18
December 31, 2007	75.21	33.75

On November 1, 2007, our board of directors approved an authorization to repurchase up to one million shares of our common stock. On April 14, 2008 , the board of directors also approved an additional authorization to repurchase an additional 5,000,000 shares of our common stock. Share repurchases under these authorizations may be made in the open market or in privately negotiated transactions. The timing and actual number of shares repurchased will depend on a variety of factors, including price, corporate and regulatory requirements and other market conditions. The repurchase authorizations do not have an expiration date and do not oblige us to acquire any particular amount of shares of our common stock. The repurchase authorizations may be modified, suspended or discontinued at any time. The Company did not repurchase any shares in the year ended December 31, 2008.

Performance Graph

The following performance graph compares the cumulative total return of our common stock with that of the NASDAQ Composite Index and the Dow Jones US Footwear Index from February 8, 2006 through December 31, 2008. Our stock was initially listed on NASDAQ on February 8, 2006, the date our shares began to trade publicly. Prior to that time, there was no public market for our stock. The graph assumes an investment of $100 on February 8, 2006 and reinvestments of all dividends and other distributions.

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Comparison of Cumulative Total Return on Investment

	February 8, 2006	Year Ended December 31, 2006	2007	2008
Crocs, Inc.	$ 100.00	$ 144.00	$ 245.40	$ 8.27
Nasdaq Composite Index	$ 100.00	$ 106.86	$ 117.35	$ 69.77
Dow Jones US Footwear Index	$ 100.00	$ 114.93	$ 143.58	$ 102.81

The Dow Jones U.S. Footwear Index consists of Crocs, Inc., NIKE, Deckers Outdoor Corp., Timberland Co. and Wolverine World Wide, Inc. Because Crocs, Inc. is part of the Dow Jones U.S. Footwear Index, the price and returns of Crocs, Inc. stock have a significant effect on this index. The Dow Jones U.S. Footwear Index include companies in the major line of business in which the Company competes. This index does not encompass all of the Company's competitors, nor all product categories and lines of business in which the Company is engaged.

The stock performance shown on the performance graph above is not necessarily indicative of future performance. The Company will not make nor endorse any predictions as to future stock performance.

Holders

The approximate number of stockholders of record of our common stock was 115 as of January 31, 2009. Because many of the shares of our common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of beneficial owners represented by these stockholders of record.

Dividends

We have never declared or paid cash dividends on our common stock. We currently intend to retain all available funds and any future earnings for use in the operation of our business and do not anticipate paying any cash dividends in the foreseeable future. Any future determination to declare cash dividends will be made at the discretion of our board of directors, subject to compliance with covenants under any then existing financing agreements, which may restrict or limit our ability to declare or pay dividends, and will depend on our financial condition, results of operations, capital requirements, general business conditions, and other factors that our board of directors may deem relevant. We issued a stock dividend in connection with our 2-for-1 stock split, which was effected in the form of a 100% common stock dividend distributed on June 14, 2007.

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ITEM 6. Selected Financial Data

The following table presents selected historical financial data of the Company for each of the last five fiscal years. The information in this table should be read in conjunction with the consolidated financial statements and accompanying notes beginning on page F-1 and with "Management's Discussion and Analysis of Financial Conditions and Results of Operations," which is included in Item 7 of this Form 10-K.

	Year Ended December 31,				
	2008	2007	2006	2005	2004
	(in thousands, except per share data)				
Consolidated Statements of Operations Data					
Revenues	$ 721,589	$ 847,350	$ 354,728	$ 108,581	$ 13,520
Cost of sales	486,722	349,701	154,158	47,773	7,162
Restructuring charges	901				
Gross profit	233,966	497,649	200,570	60,808	6,358
Selling, general and administrative expenses	368,800	259,882	105,224	33,916	7,929
Restructuring charges	7,664				
Impairment charges	45,784				
Income (loss) from operations	(188,282)	237,767	95,346	26,892	(1,571)
Interest expense	1,793	438	567	611	47
Other (income) expenses net	(565)	(2,997)	(1,847)	(8)	19
Income (loss) before income taxes	(189,510)	240,326	96,626		