Crocs, Inc.
Form 10-Q
October 31, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

or

¨ **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. 000-51754

Crocs, Inc.

(Exact name of registrant as specified in its charter)

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

7477 East Dry Creek Parkway, Niwot Colorado 80503

(Address of registrant s principal executive offices)

(303) 848-7000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No ¨

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

As of October 28, 2011, Crocs, Inc. had 90,258,913 shares of its $0.001 par value common stock outstanding.

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Crocs, Inc.

Form 10-Q

Quarter Ended September 30, 2011

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PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

CROCS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

($ thousands, except per share amounts)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenues	$ 274,897	$ 215,605	$ 797,189	$ 610,503
Cost of sales	(127,722)	(96,797)	(360,591)	(273,072)
Gross profit	**147,175**	**118,808**	**436,598**	**337,431**
Selling, general and administrative expenses	(111,597)	(92,192)	(307,858)	(261,017)
Foreign currency transaction gains (losses), net	2,060	908	3,787	2,329
Restructuring charges (Note 12)				(2,539)
Asset impairment	(495)		(527)	(141)
Charitable contributions expense	(75)	(78)	(1,911)	(496)
Income (loss) from operations	**37,068**	**27,446**	**130,089**	**75,567**
Interest expense	(204)	(153)	(632)	(445)
Gain on charitable contribution	61	19	671	135
Other income (expense), net	(98)	(137)	(534)	(87)
Income (loss) before income taxes	**36,827**	**27,175**	**129,594**	**75,170**
Income tax benefit (expense)	(6,620)	(2,179)	(22,377)	(12,173)
Net income (loss)	**$ 30,207**	**$ 24,996**	**$ 107,217**	**$ 62,997**
Net income (loss) per common share:				
Basic	**$ 0.34**	**$ 0.29**	**$ 1.21**	**$ 0.73**
Diluted	**$ 0.33**	**$ 0.28**	**$ 1.18**	**$ 0.72**

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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CROCS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

($ thousands, except number of shares)	September 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 220,388	$ 145,583
Accounts receivable, net of allowances of $14,457 and $10,249, respectively	95,305	64,260
Inventories	151,109	121,155
Deferred tax assets, net	14,134	15,888
Income tax receivable	16,460	9,062
Other receivables	18,488	11,637
Prepaid expenses and other current assets	18,654	13,429
Total current assets	**534,538**	**381,014**
Property and equipment, net	66,115	70,014
Intangible assets, net	47,372	45,461
Deferred tax assets, net	31,423	34,711
Other assets	24,806	18,281
Total assets	**$ 704,254**	**$ 549,481**
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 57,354	$ 35,669
Accrued expenses and other current liabilities	75,563	59,488
Deferred tax liabilities, net	15,237	17,620
Income taxes payable	22,373	23,084
Note payable, current portion of long-term debt and capital lease obligations	1,232	1,901
Total current liabilities	**171,759**	**137,762**
Deferred tax liabilities, net	1,070	847
Long term income tax payable	35,427	29,861
Other liabilities	5,749	4,905
Total liabilities	**214,005**	**173,375**
Commitments and contingencies (Note 11)		
Stockholders equity:		
Preferred shares, par value $0.001 per share, 5,000,000 shares authorized, none outstanding		
Common shares, par value $0.001 per share, 250,000,000 shares authorized, 90,232,212 and 89,725,726 shares issued and outstanding, respectively, at September 30, 2011 and 88,600,860 and 88,065,859 shares issued and outstanding, respectively, at December 31, 2010	90	88
Treasury stock, at cost, 506,486 and 535,001 shares, respectively	(20,103)	(22,008)
Additional paid-in capital	291,609	277,293
Retained earnings	197,098	89,881
Accumulated other comprehensive income	21,555	30,852
Total stockholders equity	**490,249**	**376,106**

Total liabilities and stockholders equity	**$ 704,254**	**$ 549,481**

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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CROCS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

($ thousands)	For the Nine Months Ended September 30, 2011	2010
Cash flows from operating activities:		
Net income (loss)	$ 107,217	$ 62,997
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	28,789	26,704
Loss (gain) on disposal of fixed assets	215	905
Unrealized (gain) loss on foreign exchange transactions	(10,941)	(1,183)
Asset impairment	527	133
Charitable contributions	1,911	512
Gain (loss) on charitable contributions	(671)	(143)
Share-based compensation	6,438	5,511
(Recovery of) provision for doubtful accounts, net	(254)	2,608
Changes in operating assets and liabilities:		
Accounts receivable	(32,269)	(30,876)
Income tax receivable	358	(431)
Inventories	(33,871)	(48,674)
Prepaid expenses and other assets	(15,690)	3,088
Accounts payable	24,551	44,169
Accrued expenses and other liabilities	17,051	22,568
Cash provided by (used in) operating activities	93,361	87,888
Cash flows from investing activities:		
Cash paid for purchases of property and equipment	(21,163)	(19,654)
Proceeds from disposal of property and equipment	217	1,014
Cash paid for intangible assets	(11,434)	(9,217)
Purchases of marketable securities		(5,585)
Maturities of marketable securities		6,283
Change in restricted cash	(511)	335
Cash provided by (used in) investing activities	(32,891)	(26,824)
Cash flows from financing activities:		
Proceeds from note payable	267,523	27,100
Repayment of note payable and capital lease obligations	(268,910)	(28,173)
Issuances of common stock, net	9,810	2,890
Cash provided by (used in) financing activities	8,423	1,817
Effect of exchange rate changes on cash	5,912	2,833
Net increase (decrease) in cash and cash equivalents	74,805	65,714
Cash and cash equivalents beginning of period	145,583	77,343
Cash and cash equivalents end of period	$ 220,388	$ 143,057

Supplemental disclosure of cash flow information cash paid during the period for:				
Interest	$	687	$	425
Income taxes	$	21,414	$	9,289
Non-cash investing and financing activities:				
Assets acquired through capital leases	$		$	2,606
Accrued purchases of property, plant and equipment	$	2,310	$	1,255
Accrued purchases of intangibles	$	1,049	$	1,118

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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CROCS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

Crocs, Inc. and its subsidiaries (collectively, we, us, or the Company) are engaged in the design, manufacture and sale of footwear, apparel and accessories for men, women and children.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the rules and regulations of the Securities and Exchange Commission (SEC) for reporting on Form 10-Q. Accordingly, these statements do not include all of the information and disclosures required by GAAP or SEC rules and regulations for complete financial statements. In the opinion of management, these financial statements reflect all adjustments (consisting solely of normal recurring matters) considered necessary for a fair presentation of the results for the interim periods presented. The results of operations for any interim period are not necessarily indicative of results for the full year.

These statements should be read in conjunction with the consolidated financial statements and footnotes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010 (the 2010 Form 10-K). The accounting policies used in preparing these unaudited condensed consolidated financial statements are the same as those described in Note 1 Summary of Significant Accounting Policies to the consolidated financial statements in the 2010 Form 10-K.

The preparation of financial statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management believes that the estimates, judgments and assumptions made when accounting for items and matters such as, but not limited to, the allowance for doubtful accounts, returns and discounts, impairment assessments and charges, recoverability of assets (including deferred tax assets), uncertain tax positions, share-based compensation expense, the fair value of acquired intangibles, useful lives assigned to long-lived assets, depreciation and provisions for contingencies are reasonable based on information available at the time they are made. Management also makes estimates in the assessments of potential losses in relation to threatened or pending legal and tax matters. See Note 14 Legal Proceedings. Actual results could materially differ from these estimates. For matters not related to income taxes, if a loss is considered probable and the amount can be reasonably estimated, the Company recognizes an expense for the estimated loss. If there is the potential to recover a portion of the estimated loss from a third party, the Company makes a separate assessment of recoverability and reduces the estimated loss if recovery is also deemed probable.

Recently Issued Accounting Standards

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS). This pronouncement was issued to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and IFRS. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for level 3 fair value measurements. This pronouncement is effective for reporting periods beginning on or after December 15, 2011. We do not expect the adoption of ASU 2011-04 to have a significant impact to the consolidated financial position or results of operations.

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income. ASU 2011-05 eliminates the option to report other comprehensive income and its components in the statement of changes in stockholders equity and requires an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement or in two separate but consecutive statements. This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. As ASU 2011-05 concerns presentation and disclosure only, its adoption will not have an impact on the consolidated financial position or results of operations.

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2. INVENTORIES

The following table summarizes inventories by major classification as of September 30, 2011 and December 31, 2010.

($ thousands)	September 30, 2011	December 31, 2010
Finished goods	$ 141,838	$ 111,134
Work-in-progress	136	248
Raw materials	9,135	9,773
Inventories	$ 151,109	$ 121,155

3. PROPERTY AND EQUIPMENT

The following table summarizes property and equipment by major classification as of September 30, 2011 and December 31, 2010.

($ thousands)	September 30, 2011	December 31, 2010
Machinery and equipment(1)	$ 85,179	$ 70,962
Leasehold improvements	60,763	49,519
Furniture and fixtures and other	16,761	16,587
Construction-in-progress	7,933	7,902
Property and equipment, gross	170,636	144,970
Accumulated depreciation(2)	(104,521)	(74,956)
Property and equipment, net	$ 66,115	$ 70,014

(1) Includes $0.4 million of equipment held under capital leases and classified as equipment as of September 30, 2011 and December 31, 2010.

(2) Includes $0.3 million and $0.2 million of accumulated depreciation related to equipment held under capital leases as of September 30, 2011 and December 31, 2010, respectively.

During the three and nine months ended September 30, 2011, we recorded $6.8 million and $21.7 million, respectively, in depreciation expense of which $2.6 million and $9.7 million, respectively, was recorded in cost of sales and the balance was recorded in selling, general and administrative expenses in the unaudited condensed consolidated statements of income. During the three and nine months ended September 30, 2010, we recorded $7.2 million and $21.1 million, respectively, in depreciation expense of which $3.6 million and $10.6 million, respectively, was recorded in cost of sales and the balance was recorded in selling, general and administrative expenses in the unaudited condensed consolidated statements of income.

During the three months ended September 30, 2011, we recorded $0.5 million in asset impairment losses associated molds and tooling which were deemed to be obsolete. Previous depreciation associated with the impaired assets was recorded in Cost of sales. During the nine months ended September 30, 2010, we recorded $0.1 million of asset impairment losses which were primarily related to leasehold improvement write-offs due to a retail store closure in the Europe operating segment.

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4. INTANGIBLE ASSETS

The following table summarizes the identifiable intangible assets as of September 30, 2011 and December 31, 2010.

($ thousands)	September 30, 2011 Gross Carrying Amount	September 30, 2011 Accumulated Amortization	September 30, 2011 Net Carrying Amount	December 31, 2010 Gross Carrying Amount	December 31, 2010 Accumulated Amortization	December 31, 2010 Net Carrying Amount
Capitalized software	$ 62,793[(1)]	$ (19,611)[(2)]	$ 43,182	$ 54,489[(1)]	$ (13,674)[(2)]	$ 40,815
Customer relationships	6,361	(5,749)	612	6,361	(5,485)	876
Patents, copyrights, and trademarks	6,171	(2,700)	3,471	5,703	(1,933)	3,770
Core technology	4,675	(4,675)		4,843	(4,843)	
Other	636	(636)		636	(636)	
Total finite lived intangible assets	80,636	(33,371)	47,265	72,032	(26,571)	45,461
Indefinite lived intangible assets	107		107			
Intangible assets	$ 80,743	$ (33,371)	$ 47,372	$ 72,032	$ (26,571)	$ 45,461

(1) Includes $4.1 million of software held under a capital lease classified as capitalized software as of September 30, 2011 and December 31, 2010.

(2) Includes $0.6 million and $0.3 million of accumulated amortization of software held under a capital lease which is amortized using the straight-line method over the useful life as of September 30, 2011 and December 31, 2010, respectively.

During the three and nine months ended September 30, 2011, amortization expense recorded for intangible assets was $2.6 million and $7.1 million, respectively, of which $0.7 million and $2.1 million was recorded in cost of sales, respectively. During the three and nine months ended September 30, 2010, amortization expense recorded for intangible assets was $1.9 million and $5.6 million, respectively, of which $0.6 million and $1.7 million was recorded in cost of sales, respectively. The remaining amounts were recorded in selling, general and administrative expenses. The following table summarizes the estimated future amortization of intangible assets for the next five years and thereafter (in thousands).

For the Period Ending December 31,	Estimated Amortization
Remainder of 2011	$ 2,737
2012	11,369
2013	10,377
2014	8,436
2015	5,957
Thereafter	8,389
Total	$ 47,265

5. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

The following table summarizes accrued expenses and other current liabilities as of September 30, 2011 and December 31, 2010.

($ thousands)	September 30, 2011	December 31, 2010

Accrued compensation and benefits	$ 29,675	$ 25,666
Fulfillment and freight and duties	7,790	5,396
Professional services	5,898	4,704
Sales/use and VAT tax payable	10,184	6,061
Other	22,016	17,661
Accrued expenses and other current liabilities	$ 75,563	$ 59,488

6. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

Non-Recurring Fair Value Measurements

The majority of our non-financial assets, which include inventories, property, plant and equipment and intangible assets, are not required to be carried at fair value on a recurring basis. However, if certain triggering events occur such that a non-financial asset is required to be evaluated for impairment and deemed to be impaired, the impaired non-financial asset is recorded at its fair value.

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During the three and nine months ended September 30, 2011, we recorded $0.5 million in impairment losses. During the nine months ended September 30, 2010, we recorded $0.1 million in impairment losses. See Note 3 Property and Equipment for further impairment discussion.

Recurring Fair Value Measurements

The following table summarizes the financial instruments required to be measured at fair value on a recurring basis as of September 30, 2011 and December 31, 2010. Other financial instruments including debt are not required to be carried at fair value on a recurring basis. The carrying value of these financial instruments, including cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate fair value due to their short maturities. Based on borrowing rates currently available to us, with similar terms, the carrying values of capital lease obligations and the line of credit approximate their fair values.

	Fair Value as of September 30, 2011			Fair Value as of December 31, 2010			
($ thousands)	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Balance Sheet Classification
Derivative assets:							
Foreign currency forward contracts	$	$ 1,073	$	$	$ 5	$	Prepaid expenses and other current assets
Derivative liabilities:							
Foreign currency forward contracts	$	$ (1,503)	$	$	$ 134	$	Accrued expenses and other current liabilities

Derivative Financial Instruments

We enter into foreign currency exchange forward contracts as cash flow hedges to reduce our exposure to the effect of changes in exchange rates on our operating results. The following table summarizes the notional amounts of the outstanding foreign currency exchange forward contracts at September 30, 2011 and December 31, 2010. The notional amounts of the derivative financial instruments shown below are denominated in their U.S. dollar equivalents and represent the amount of all contracts of the foreign currency specified. These notional values do not necessarily represent amounts exchanged by the parties and, therefore, are not a direct measure of our exposure to the foreign currency exchange risks.

($ thousands)	September 30, 2011	December 31, 2010
Forward currency exchange forward contracts by currency:		
Japanese Yen	$ 24,000	$ 6,000
Euro	12,847	3,921
Mexican Peso	5,350	
Pound Sterling	3,672	2,385
Total notional value	$ 45,869	$ 12,306
Latest maturity date	December 2012	March 2011

During all periods presented, we did not designate any derivatives as hedges. Therefore, all changes in the fair value of derivative financial instruments are reflected in the results of operations. The following table presents the amounts affecting the unaudited condensed consolidated statements of income for the three and nine months ended September 30, 2011 and 2010.

($ thousands)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010	Location of (Loss) Gain Recognized In Income on Derivatives
Foreign currency exchange forward contracts	$ (298)	$ 96	$ (773)	$ (23)	Other income (expense), net

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7. NOTES PAYABLE AND CAPITAL LEASE OBLIGATIONS

The following table summarizes notes payable and capital lease obligations as of September 30, 2011 and December 31, 2010.

($ thousands)	September 30, 2011	December 31, 2010
Revolving credit facility	$ 46	$ 3
Capital lease obligations (for certain capitalized software) bearing interest rates ranging from 8.7% to 12.4% and maturities through 2013	1,114	2,488
Capital lease obligations (for certain equipment) bearing interest at 8.8% and maturities through 2014	102	155
Total notes payable and capital lease obligations	$ 1,262	$ 2,646

As of September 30, 2011 and December 31, 2010, we had issued and outstanding letters of credit of $5.8 million and $1.0 million, respectively, which were reserved against the borrowing base under the terms of the revolving credit facility.

8. EQUITY AND STOCK-BASED COMPENSATION

During the three and nine months ended September 30, 2011, 0.4 million and 1.9 million shares of common stock, respectively, were issued related to stock option exercises and the vesting of restricted stock shares and units. During the year ended December 31, 2010, 2.8 million shares of common stock were issued related to stock option exercises and the vesting of restricted stock shares.

Options granted generally vest straight-line over four years with the first year vesting on a cliff basis followed by monthly vesting for the remaining three years. Restricted stock shares and restricted stock units granted generally vest on a straight-line basis over three or four years depending on the terms of the grant. Stock-based compensation expense is recognized on a straight-line basis over the applicable vesting period and is recognized in the Cost of sales and Selling, general and administrative expense in the unaudited condensed consolidated statements of income. During the three and nine months ended September 30, 2011, $2.5 million and $6.4 million of stock-based compensation expense was recorded, respectively, of which $0.4 million and $1.0 million was recorded in Cost of sales, respectively. During the three and nine months ended September 30, 2010, $1.6 million and $5.5 million of stock-based compensation expense was recorded, respectively, of which $0.3 million and $1.0 million was recorded in Cost of sales, respectively.

Stock Options

The following tables summarize the stock option activity for the three and nine months ended September 30, 2011 and 2010.

	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
Options	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at June 30, 2011 and December 31, 2010, respectively	3,903,041	$ 11.07	5,007,337	$ 9.10
Granted	40,000	27.03	388,000	20.62
Exercised	(373,991)	8.64	(1,633,671)	6.30
Forfeited or expired	(81,704)	9.93	(274,320)	10.98
Outstanding at September 30, 2011	3,487,346	$ 11.54	3,487,346	$ 11.54

Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010

Options