Crocs, Inc.
Form 10-Q/A
June 06, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

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

For the Quarterly Period Ended March 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
(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 ý No 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," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ý Accelerated filer o Smaller reporting company o

Non-accelerated filer o
(Do not check if a smaller reporting company)

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

As of April 30, 2008, Crocs, Inc. had 83,218,542 shares of its $0.001 par value common stock outstanding.

Explanatory Note

Crocs, Inc. (the "Company") is filing this amendment to its Quarterly Report on Form 10-Q ("Form 10-Q/A") to restate its Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2008 as described in Note 18 Restatement, of the Notes to the Condensed Consolidated Financial Statements. As previously disclosed in the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2008, as filed with the United States Securities and Exchange Commission (the "SEC") on May 12, 2008 (the "Original Form 10-Q"), the Company had asset impairment charges for the three months ended March 31, 2008, relating to the closure of the Company's Canadian manufacturing operations. The asset impairment charges primarily related to the closure of the Canadian manufacturing operations and were recorded in error on the Condensed Consolidated Statement of Cash Flows as a reduction to cash paid for purchases of property and equipment and intangible assets in the investing section of the Condensed Consolidated Statement of Cash Flows in the Original Form 10-Q. The Company has concluded to restate its Condensed Consolidated Statement of Cash Flows in order to reflect in operating activities the asset impairment charges and to reflect an appropriate foreign exchange rate. The asset impairment charges were previously included as a reduction of capitalized expenditures in investing cash flows in error.

Upon further review of the Company's Condensed Consolidated Statement of Cash Flows, the Company identified and concluded to correct presentation errors in the proceeds from notes payable and payments on long-term debt and capital leases in the cash flows from financing activities section and the exchange rates used to compute certain foreign currency cash flows and the effect of exchange rates on cash and cash equivalents. This restatement does not impact the Company's previously reported net decrease in cash and cash equivalents in its Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2008. Additionally, this restatement does not impact the Company's Condensed Consolidated Balance Sheets or Condensed Consolidated Statements of Operations for any period presented.

For the convenience of the reader, this Form 10-Q/A sets forth the Company's Original Form 10-Q in its entirety, as amended by, and to reflect, the restatement. No material changes have been made in this Form 10-Q/A to update other disclosures presented in the Original Form 10-Q, except as required to reflect the effects of the restatement. This Form 10-Q/A does not reflect events occurring after the filing of the Original Form 10-Q or modify or update those disclosures, including the exhibits to the Original Form 10-Q affected by subsequent events. The following sections of this Form 10-Q/A have been amended to reflect the restatement:

- Part I Item 1 Financial Statements (Condensed Consolidated Statement of Cash Flows, Restated, Note 18 Restatement),
- Part I Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations (Liquidity and Capital Resources),
- Part I Item 4 Controls and Procedures, and
- Part II Item 1A Risk Factors.

This Form 10-Q/A has been signed as of a current date and all certifications of the Company's Chief Executive Officer and Chief Financial Officer are given as of a current date. Accordingly, this Form 10-Q/A should be read in conjunction with our filings made with the SEC subsequent to the filing of the Original Form 10-Q for the three months ended March 31, 2008, including any amendments to those filings.

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PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

CROCS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share data)

(Unaudited)

	For the three months ended March 31,	
	2008	**2007**
Revenues	$ 198,540	$ 142,002
Cost of sales	113,305	57,517
Gross profit	85,235	84,485
Selling, general and administrative expenses	76,977	47,327
Restructuring charges	3,849	
Impairment charges	10,813	
Income (loss) from operations	(6,404)	37,158
Interest expense	374	63
Other (income) net	(362)	(516)
Income (loss) before income taxes	(6,416)	37,611
Income tax expense (benefit)	(1,889)	12,666
Net income (loss)	$ (4,527)	$ 24,945
Net Income (loss)		
Basic	$ (0.05)	$ 0.31
Diluted	$ (0.05)	$ 0.30
Weighted average common shares:		
Basic	82,488,601	79,263,962
Diluted	82,488,601	82,439,648

See notes to condensed consolidated financial statements.

CROCS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

(Unaudited)

	As Of	
	March 31, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 29,593	$ 36,335
Restricted cash	3,305	300
Accounts receivable, net	154,622	152,919
Inventories	265,515	248,391
Deferred tax assets, net	13,719	12,140
Assets held for sale	927	
Prepaid income taxes	4,336	
Prepaid expenses and other current assets	23,434	17,865
Total current assets	495,451	467,950
Property and equipment, net	90,898	88,184
Restricted cash		1,014
Goodwill	22,975	23,759
Intangible assets, net	34,013	31,634
Deferred tax assets, net	21,412	8,051
Other assets	8,916	6,833
Total assets	$ 673,665	$ 627,425
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 76,074	$ 82,979
Accrued expenses and other current liabilities	54,162	57,246
Accrued restructuring charges	3,765	
Deferred tax liabilities	659	265
Income taxes payable	17,997	19,851
Note payable and current portion of capital lease obligations	42,789	7,107
Total current liabilities	195,446	167,448
Long-term debt, net of current portion		9
Deferred tax liabilities, net	6,236	1,858
Other liabilities	18,576	13,997
Total liabilities	220,258	183,312
Commitments and contingencies (note 14)		
Stockholders' equity:		
Common shares, par value $0.001 per share; 250,000,000 shares authorized, 83,187,803 and 82,663,803 shares issued and outstanding as of March 31, 2008 and 82,722,426 and 82,198,426 shares issued and outstanding as of December 31, 2007	84	83

	As Of	
Treasury stock, 524,000 shares, at cost	(25,022)	(25,022)
Additional paid-in capital	222,036	211,936
Deferred compensation	(1,719)	(2,402)
Retained earnings	244,784	249,309
Accumulated other comprehensive income	13,244	10,209
Total stockholders' equity	453,407	444,113
Total liabilities and stockholders' equity	$ 673,665	$ 627,425

See notes to condensed consolidated financial statements.

CROCS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands)

(Unaudited)

	For the Three Months Ended March 31,	
	2008	**2007**
	(as restated, see note 18)	
Cash flows from operating activities:		
Net income (loss)	$ (4,527)	$ 24,945
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	8,120	3,505
Loss on disposal of fixed assets	78	1
Deferred income taxes	(5,616)	(179)
Asset impairment	10,813	
Share-based compensation	5,415	4,503
Excess tax benefit on share-based compensation	(2,364)	(8,192)
Foreign exchange (gain)/loss	(5,572)	
Changes in operating assets and liabilities:		
Accounts receivable	4,580	(31,557)
Inventories	(10,921)	(7,387)
Prepaid expenses and other assets	(11,198)	3,337
Accounts payable	(21,248)	869
Accrued expenses and other liabilities	303	(973)
Cash used in operating activities	(32,137)	(11,128)
Cash flows from investing activities:		
Cash paid for purchases of property and equipment	(9,525)	(10,625)
Cash paid for intangible assets	(1,215)	(3,101)
Purchases of short-term investments		(1,000)
Sales of short-term investments		13,935
Acquisition of businesses, net of cash acquired	(1,500)	(1,853)
Restricted cash	(1,886)	(669)
Cash used in investing activities	(14,126)	(3,313)
Cash flows from financing activities:		
Proceeds from note payable, net	43,700	299
Payments on long-term debt and capital lease obligations	(8,026)	(122)
Exercise of stock options	3,006	2,059
Excess tax benefit on share-based compensation	2,364	8,192
Cash provided by financing activities	41,044	10,428
Effect of exchange rate changes on cash and cash equivalents	(1,523)	(66)

	For the Three Months Ended March 31,			
Net decrease in cash and cash equivalents		(6,742)		(4,079)
Cash and cash equivalents beginning of period		36,335		42,656
Cash and cash equivalents end of period	$	29,593	$	38,577
Supplemental disclosure of cash flow information cash paid during the period for:				
Interest	$	324	$	13
Income taxes	$	9,197	$	5,696
Supplemental disclosure of non-cash, investing, and financing activities:				
Fair value of assets acquired	$		$	2,167
Cash paid for capital stock				1,853
Liabilities assumed	$		$	314
Accrued purchases of property and equipment	$	8,620	$	455
Accrued purchases of intangibles	$	2,841	$	

See notes to condensed consolidated financial statements.

CROCS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements of Crocs, Inc. and its subsidiaries (collectively, "Crocs" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the rules and regulations for reporting on Form 10-Q/A. Accordingly, they do not include certain information and disclosures required for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature. Operating results for the three months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2008.

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, 2007 (the "2007 Form 10-K"). The accounting policies used in preparing these condensed consolidated financial statements are the same as those described in Note 2 to the consolidated financial statements in the 2007 Form 10-K.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 141(R), *Business Combinations* ("SFAS 141(R)"), which amends SFAS 141 and provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any noncontrolling interest in the acquiree. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for the Company's fiscal year beginning January 1, 2009 and is to be applied prospectively. The Company is currently evaluating the potential impact of adopting this statement on its consolidated financial position, results of operations and cash flows but does not expect that the adoption will have a material impact on its consolidated financial position or results of operations.

In December 2007, the FASB issued FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements- an amendment of ARB No. 51*("SFAS 160"), which establishes accounting and reporting standards pertaining to ownership interests in subsidiaries held by parties other than the parent, the amount of net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of any retained noncontrolling equity investment when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for the Company's fiscal year beginning January 1, 2009. The Company is currently evaluating the impact this new standard will have on its consolidated financial position, results of operations and cash flows but does not expect that the adoption will have a material impact on its consolidated financial position or results of operations.

In March 2008, the FASB issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS 161"), which is intended to improve financial reporting regarding derivative instruments and hedging activities by requiring enhanced disclosures to provide transparency to these activities and their effects on an entity's financial position, financial performance and cash flows. The provisions of SFAS 161 are effective for the Company's fiscal year beginning January 1, 2009. The Company is currently evaluating the impact this new standard will have on its consolidated financial position, results of operations and cash flows but does not expect that the adoption will have a material impact on its consolidated financial position or results of operations.

CROCS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

3. INCOME TAXES

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxe*s ("FIN 48"). FIN 48 requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return and disclosures regarding uncertainties in income tax positions. FIN 48 was effective as of January 1, 2007. Only tax positions that meet the more likely than not recognition threshold at the effective date may be recognized on adoption of FIN 48. The adoption of FIN 48 did not have a material impact on the Company's condensed consolidated balance sheet, statement of operations or cash flows. The Company had unrecognized tax benefits of $11.7 million at January 1, 2008 and $16.1 million as of March 31, 2008. The increase in the FIN 48 reserve results principally from U.S. and Canada income taxes, penalties and interest related primarily to transfer pricing issues in prior years.

Interest and penalties related to income tax liabilities are included in income tax expense. The balance of accrued interest and penalties recorded in the consolidated statement of operations at January 1, 2008 was $452,000 related to the adoption of FIN 48 and an additional $623,000 accrued during the three months ended March 31, 2008 for a total of $1.1 million.

As of March 31, 2008, the Company is being audited in Canada for tax years 2004 through 2006.

As of March 31, 2008, the following tax years remain subject to examination for the major jurisdictions in which the Company conducts business: