Crocs, Inc.
Form S-1/A
February 06, 2006

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As filed with the Securities and Exchange Commission on February 6, 2006

Registration No. 333-127526

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 5 to FORM S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

CROCS, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**3021**	**20-2164234**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

6273 Monarch Park Place
Niwot, Colorado 80503
(303) 468-4260
(Address, including zip code and telephone number, including area code, of Registrant's principal executive offices)

Ronald R. Snyder
President and Chief Executive Officer
Crocs, Inc.
6273 Monarch Park Place
Niwot, Colorado 80503
(303) 468-4260
(Name, address, including zip code and telephone number, including area code, of agent for service)

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

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

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

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

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

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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)(2)	Amount of Registration Fee(3)
Common Stock, $.001 par value	$227,700,000	$24,363.90

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) of the Securities Act of 1933, as amended.

(2) Includes offering price of shares that the underwriters have the option to purchase to cover over-allotments, if any.

(3) A fee of $17,066.50 was previously paid.

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

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

Subject to completion, dated February 6, 2006

9,900,000 Shares

CROCS, INC.

Common Stock

$ per share

Crocs, Inc. is offering 4,950,000 shares and the selling stockholders are offering 4,950,000 shares. We will not receive any proceeds from the sale of our shares by the selling stockholders.

We anticipate that the initial public offering price will be between $19.00 and $20.00 per share.

This is our initial public offering and no public market currently exists for our shares.

Reserved trading symbol: Nasdaq National Market CROX

This investment involves risk. See "Risk Factors" beginning on page 9.

	Per Share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to Crocs, Inc.	$	$
Proceeds to selling stockholders	$	$

The underwriters have a 30-day option to purchase up to 1,485,000 additional shares of common stock from the selling stockholders to cover over-allotments, if any.

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

Piper Jaffray **Thomas Weisel Partners LLC**

SG Cowen & Co.

BB&T Capital Markets

D.A. Davidson & Co.

Wedbush Morgan Securities

The date of this prospectus is , 2006.

TABLE OF CONTENTS

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

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

SUMMARY

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

Crocs, Inc.

We are a rapidly growing designer, manufacturer and marketer of footwear for men, women and children under the **crocs** brand. All of our footwear products incorporate our proprietary closed-cell resin material, which we believe represents a substantial innovation in footwear comfort and functionality. Our proprietary closed-cell resin, which we refer to as *croslite*, enables us to produce a soft and lightweight, non-marking, slip- and odor-resistant shoe. These unique properties make our footwear ideal for casual wear, as well as for recreational uses such as boating, hiking, fishing or gardening, and have enabled us to successfully market our products to a broad range of consumers. We have combined the unique properties of *croslite* with fun colors and innovative designs to provide a new level of comfort, functionality and style in the casual lifestyle footwear category at attractive retail price points ranging from $29.99 to $59.99. Since we began marketing our first model in November 2002, we have expanded our product line to include 11 models in up to 18 different colors and we were recently recognized as the "Brand of the Year" by *Footwear News*, a leading industry publication. We recorded $13.5 million of revenues in 2004, compared to $1.2 million of revenues in 2003, and we recorded $75.0 million of revenues in the nine months ended September 30, 2005. Our net loss was $1.5 million in 2004, and we recorded net income of $12.8 million in the nine months ended September 30, 2005.

The broad appeal of our footwear has enabled us to successfully market our products to a wide range of distribution channels. Our footwear is currently sold through traditional footwear channels, including specialty footwear stores such as Brown's Shoe Fit and Journeys, sporting goods and outdoor retailers such as The Sports Authority, Dick's Sporting Goods, REI, Bass Pro Shops and West Marine, and department stores, including Dillard's, Nordstrom and Von Maur. Our products are also sold through a variety of other specialty channels, including gift shops, uniform suppliers, independent bicycle dealers, specialty food retailers, health and beauty stores and other specialty stores. We distribute our products through over 6,500 store locations domestically, and we have begun selling our products in over 40 additional countries worldwide. We also sell our products directly to consumers through our website, www.crocs.com, and through company-operated kiosks that are located in high foot traffic areas. Our website and kiosks serve to promote our products and increase our brand awareness.

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

Our Business Strategy

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

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

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

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

Enhance our **crocs** *brand.* A core element of our strategy is to build our brand by capitalizing on market opportunities arising from the unique versatility of *croslite*, while offering our existing consumer base an expanded line of **crocs** products. We also intend to employ targeted marketing strategies to continue to expand market awareness of our **crocs** products, and we have recently introduced a line of branded apparel and accessories to further support our marketing efforts.

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

Our Growth Strategy

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

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

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

Further develop international distribution. We are expanding our distribution efforts internationally and plan to continue establishing a sales presence in major foreign markets. We have initiated direct sales efforts in Australia, the United Kingdom, Germany, Latin America, the Caribbean, and Japan and other parts of Asia. We also market our products in over 30 countries through third party distributors.

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

Our History

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

Since June 2004, we have significantly expanded all aspects of our operations in order to take advantage of what we believe to be an attractive market opportunity. We have substantially increased the depth and breadth of our distribution and currently sell our products in over 6,500 domestic store locations and in over 40 countries worldwide. To meet the growing demand for our footwear, we have increased our production capacity from 70,000 pairs per month in June 2004, manufactured at a single Foam Creations facility, to approximately 2.2 million pairs per month in December 2005, manufactured at six facilities located around the world. Additionally, we have expanded our product line to include 11 models in up to 18 different colors.

Recent Developments

Changes in Financial Management

On February 2, 2006, we hired Peter S. Case as our Senior Vice President Finance, effective as of February 6, 2006. After a brief transition period, on or about April 1, 2006, we expect that Mr. Case will replace Caryn D. Ellison as our Chief Financial Officer and Ms. Ellison will be our Vice President Finance. Mr. Case served as the Executive Vice President, Chief Financial Officer and Treasurer of Ashworth, Inc., a Nasdaq-listed sports apparel and accessories company, from September 2005 to February 2006. From June 2000 to September 2005, Mr. Case served in several executive and managerial positions with Ashworth, including Director of Finance, Vice President of Finance, and Senior Vice President of Finance and Information Technology. While at Ashworth, Mr. Case also engaged in numerous management initiatives, such as the reorganization of Ashworth's European operations and the implementation of a new company-wide information technology system. We believe Mr. Case will strengthen our finance group, particularly because of his experience with international business operations and public company reporting obligations.

On February 2, 2006, we also hired a new corporate controller, effective as of February 6, 2006, who will be responsible primarily for external financial reporting and technical accounting matters. He will replace our prior corporate controller who recently resigned from his position to return to public accounting. Our prior corporate controller has agreed to continue to serve as a full-time consultant to us for a brief transition period in order to assist with transition and SEC reporting matters.

Financial and Operating Data

Set forth below are certain selected financial data for the 12 months and three months ended December 31, 2005. These data are preliminary and are not derived from reviewed or audited financial statements.

For the 12 months ended December 31, 2005, we estimate that we had revenues of approximately $108 million, and sales of approximately 6.0 million pairs of **crocs** footwear. We estimate that revenues for the three months ended December 31, 2005 will total approximately $33 million, and sales will total approximately 1.6 million pairs of **crocs** footwear. We have not yet completed the procedures and testing necessary to determine our complete results of operations for the three months or twelve months ended December 31, 2005. We expect to file financial statements for the year ended December 31, 2005 subsequent to the completion of this offering.

Risks Affecting Us

We face a number of competitive challenges and potential risks, as discussed in "Risk Factors." In particular, our business and growth strategies could be negatively impacted if we are not able to manage our future growth effectively; if the popularity of our footwear products does not continue to grow as rapidly as in the past, or declines; or if we are unable to successfully expand our product line. In addition, we face significant competition, including from companies that produce footwear products that are very similar in design and materials to our products. We must also effectively assimilate our new managers and employees, particularly in our finance and accounting staff, implement additional processes and management information systems in order to accurately manage our business and report our financial results on a timely basis. Furthermore, the most recent audit of our financial statements identified material weaknesses in our internal control over financial reporting, which could cause a material misstatement in our financial results.

Corporate Information

We were organized as a limited liability company in Colorado in 1999, converted to a Colorado corporation in January 2005, and reincorporated in Delaware in June 2005. Our principal executive offices are located at 6273 Monarch Park Place, Niwot, Colorado 80503. Our telephone number at that location is (303) 468-4260. Our website address is www.crocs.com. This is a textual reference only. We do not incorporate the information on our website into this prospectus and you should not consider any information on, or that can be accessed through, our website as part of this prospectus.

The Offering

Common stock offered:	
By Crocs, Inc.	4,950,000 shares
By the selling stockholders	4,950,000 shares
Total	9,900,000 shares
Common stock to be outstanding after the offering	38,272,247 shares
Use of proceeds	We intend to use the proceeds we receive from this offering to repay amounts outstanding under our U.S. credit facility ($5.9 million as of December 31, 2005) and Canadian credit facility and bank loans ($5.8 million as of December 31, 2005) and for working capital and general corporate purposes. We will not receive any proceeds from the sale of common stock by the selling stockholders. See "Use of Proceeds."
Reserved Nasdaq National Market symbol	CROX

The information in this prospectus is based on the number of shares outstanding as of February 6, 2006 and unless otherwise indicated:

gives effect to:

(1) the conversion of all of our outstanding shares of preferred stock into shares of common stock;

(2) a 233.62-for-one stock split, which occurred on January 30, 2006; and

(3) the adoption and filing of our restated certificate of incorporation and adoption of our amended and restated bylaws.

does not give effect to:

(1) 1,621,343 shares of common stock issuable upon exercise of options outstanding under our 2005 Equity Incentive Plan, at a weighted average exercise price of $5.52 per share, all of which were exercisable as of February 6, 2006 and of which options to purchase 24,191 shares were vested as of February 6, 2006;

(2) 1,284,910 shares of common stock issuable upon exercise of options outstanding outside of our 2005 Equity Incentive Plan, at a weighted average exercise price of $1.20 per share, of which options to purchase 379,632 shares were exercisable as of February 6, 2006;

(3) 4,732,614 shares of common stock reserved for future issuance under our 2005 Equity Incentive Plan, of which options to purchase 1,234,595 shares of common stock are proposed to be issued to our employees, officers and directors in connection with the completion of this offering at an exercise price equal to the price per share of our common stock sold in this offering, and of which 1,062,699 shares have been reserved for issuance to employees and consultants in the future under restricted stock award agreements; and

(4) exercise of the underwriters' over-allotment option to purchase up to 1,485,000 shares of common stock from the selling stockholders.

Summary Consolidated Financial and Operating Data

The summary financial data presented below under the heading "Consolidated Statement of Operations Data" for the years ended December 31, 2002, 2003 and 2004 and the summary financial data presented below under the heading "Consolidated Balance Sheet Data" as of December 31, 2003 and 2004 have been derived from, and are qualified by reference to, the consolidated financial statements included elsewhere in this prospectus. The summary financial data presented below under the headings "Consolidated Statement of Operations Data" and "Consolidated Balance Sheet Data" for the nine months ended and as of September 30, 2004 and 2005 are unaudited, have been derived from unaudited consolidated financial statements that are included elsewhere in this prospectus and have been prepared on the same basis as the annual consolidated financial statements. The summary financial data presented below under the heading "Consolidated Balance Sheet Data" as of and for the year ended December 31, 2002 are derived from our unaudited financial statements. The summary financial data presented below also includes unaudited pro forma financial information under the heading "Pro Forma for acquisition of Foam Creations Year Ended December 31, 2004" to reflect the acquisition of Foam Creations as if it had occurred on January 1, 2004. Such unaudited pro forma financial information does not necessarily reflect the results of operations that may have actually resulted had the acquisition occurred on January 1, 2004, and should not be taken as necessarily indicative of our future results of operations. The unaudited pro forma financial information has been derived from, and is qualified by reference to, the "Unaudited Pro Forma Condensed Combined Consolidated Statement of Operations" included in this prospectus. In the opinion of management, the unaudited summary financial data presented below under the headings "Consolidated Statement of Operations Data" and "Consolidated Balance Sheet Data" reflect all adjustments, which include only normal and recurring adjustments, necessary to present fairly our results of operations for and as of the periods presented. Historical results are not necessarily indicative of the results of operations to be expected for future periods. You should read the summary consolidated financial data in conjunction with "Management's Discussion and Analysis of Financial Conditions and Results of Operations" and with our consolidated financial statements and related notes included in this prospectus.

	Year Ended December 31,			Pro Forma for acquisition of Foam Creations Year Ended December 31, 2004(2)	Nine Months Ended September 30,	
	2002(1)	2003	2004		2004	2005(3)
	(dollars in thousands, except per share data)					
Consolidated Statement of Operations Data						
Revenues	$ 24	$ 1,165	$ 13,520	$ 16,921	$ 8,137	$ 75,022
Cost of sales (including stock-based compensation expense of $, $, $, $, $ and $56, respectively)	16	891	7,162	8,529	4,188	32,032
Gross profit	8	274	6,358	8,392	3,949	42,990
Selling, general and administrative expense (including stock-based compensation expense of $240, $356, $1,792, $1,792, $1,435 and $3,399, respectively)	453	1,471	7,929	9,325	4,430	23,059
Income (loss) from operations	(445)	(1,197)	(1,571)	(933)	(481)	19,931
Interest expense		3	47	101	19	380
Other expense net			19	19	14	25
Income (loss) before income taxes	(445)	(1,200)	(1,637)	(1,053)	(514)	19,526
Income tax expense (benefit)(3)			(143)	31	44	6,724
Net income (loss)	(445)	(1,200)	(1,494)	(1,084)	(558)	12,802
Dividends on redeemable convertible preferred shares(4)			142	275	69	206
Net income (loss) attributable to common stockholders	$ (445)	$ (1,200)	$ (1,636)	$ (1,359)	$ (627)	$ 12,596
Unaudited pro forma income tax benefit(5)			(441)		(240)	
Unaudited pro forma net loss(5)			$ (1,053)		$ (387)	
Income (loss) per common share:						
Basic	$ (.05)	$ (.06)	$ (.07)	$ (.06)	$ (.03)	$ .39
Diluted	$ (.05)	$ (.06)	$ (.07)	$ (.06)	$ (.03)	$ .38
Weighted average common shares:						
Basic	8,288,710	20,855,385	24,641,953	24,641,953	24,481,760	25,329,984
Diluted	8,288,710	20,855,385	24,641,953	24,641,953	24,481,760	33,358,633
Unaudited pro forma income (loss) per common share(6)						
Basic			$ (.03)		$ (.01)	$ .39
Diluted			$ (.03)		$ (.01)	$ .38
Unaudited pro forma weighted average shares						

				Pro Forma for acquisition of Foam Creations Year Ended December 31, 2004(2)	Nine Months Ended September 30,	
outstanding(6)						
Basic			32,094,431		31,934,238	32,782,462
Diluted			32,094,431		31,934,238	33,358,633
Operating Data						
Pairs of **crocs** footwear sold	1,500	76,000	649,000		393,000	4,408,000

	As of December 31,			As of September 30,	
	2002[1]	2003	2004	2004	2005
			(in thousands)		
Consolidated Balance Sheet Data					
Cash and cash equivalents	$ 73	$ 326	$ 1,054	$ 1,245	$ 4,320
Total assets	454	1,304	16,224	13,239	57,643
Long-term obligations		400	3,660	2,974	5,264
Redeemable common shares		1,800	1,800	1,800	1,800
Redeemable convertible preferred shares			5,500	5,000	5,500
Total stockholders' equity (deficit)	389	(1,642)	(3,591)	(129)	13,234

(1) We were founded in 1999 but did not commence operations until 2002, when we began selling footwear in the United States. As a result, there were no material operations prior to 2002.

(2) Pro forma to reflect our acquisition of Foam Creations as if it had occurred on January 1, 2004.

(3) On January 4, 2005, we converted from a limited liability company to a taxable corporation. For the tax years beginning on January 1, 2005 and afterward, we will be subject to corporate-level U.S. federal and state income taxes. Additionally, the statement of operations for the nine months ended September 30, 2005 reflects a one-time income tax benefit of $723,000 to record the net deferred tax assets at the date of conversion.

(4) Dividends accrued in 2004 were paid to holders of our Class C convertible preferred membership units. Our Class C membership units were converted into shares of our Series A preferred stock in connection with our conversion from a limited liability company to a corporation on January 4, 2005.

(5) The unaudited pro forma data presented gives effect to our conversion into a Colorado corporation as if it occurred at the beginning of the year ended December 31, 2004. The unaudited pro forma income tax benefit represents a combined federal and state effective tax rate of 38.25% and does not consider potential tax loss carrybacks, carryforwards or the realizability of deferred tax assets. The unaudited pro forma net loss represents our net loss for the periods presented as adjusted to give effect to the pro forma income tax benefit.

(6) Unaudited pro forma income per common share and unaudited pro forma weighted average shares outstanding for the year ended December 31, 2004 and for the nine months ended September 30, 2004 and 2005 reflect the conversion of shares of our Series A preferred stock to shares of common stock upon completion of this offering as well as the effect of our conversion into a Colorado corporation as set forth in footnote (5) above.

RISK FACTORS

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

Risks Related to Crocs, Inc.

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

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

- products without a significant history in the market;
- reliance on a small number of products;
- limited manufacturing experience;
- lack of established distribution channels;
- a small and relatively new management team and an evolving organizational infrastructure; and
- weaknesses in newly implemented or limited management information systems and weaknesses in internal controls over financial reporting.

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

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

We have significantly expanded the nature and scope of our operations over the past two years, and we anticipate that substantial further expansion will be required to address potential growth in our customer base and new market opportunities. Prior to June 2004, we distributed in the U.S. under our **crocs** brand a limited range of footwear products manufactured and sold to us by Foam Creations. In June 2004, we acquired Foam Creations. Since that acquisition, we have expanded our product line to include 11 footwear models, and in addition, over the last two years, we expanded from:

- 10 employees at September 30, 2003, to 803 employees at September 30, 2005; and
- 65,500 pairs of shoes manufactured for us by Foam Creations in the nine months ended September 30, 2003, to 7.0 million pairs of shoes manufactured by us and our third party manufacturers in the nine months ended September 30, 2005.

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

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

Our recent growth is substantially attributable to sales of **crocs** footwear, which represented approximately 94% of our revenues in the nine months ended September 30, 2005. We expect that footwear will constitute our principal product line for the foreseeable future. The footwear industry is subject to rapidly changing consumer demands and preferences and fashion trends, and our **crocs** footwear may not remain popular or we may fail to develop additional models that appeal to consumers. If the popularity of our **crocs** footwear declines or does not expand in the future, we may experience, among other things:

- lower sales;
- loss of retail customers;
- excess inventories;
- inventory markdowns and discounts provided to retailers;
- deterioration of our brand image; and
- lower gross and operating margins.

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

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

We generated approximately 94% of our revenues for the nine months ended September 30, 2005 from sales of our **crocs** footwear, which currently consists of 11 models, plus children's versions of two of our models. Sales of our Beach model accounted for approximately 63% of our footwear revenues in the nine months ended September 30, 2005. Most of our **crocs** footwear models are developed from the same base design as our Beach model, and we expect to continue to derive a substantial portion of our revenues from these models or related products in the foreseeable future. Because we are dependent on a line of footwear models that have substantial similarities, factors such as changes in consumer preferences and general market conditions in the footwear industry may have a disproportionately greater impact on us than on our competitors. In addition, other footwear companies have introduced products that are substantially similar to our footwear models, which may reduce sales of our footwear products. In the event that consumer preferences evolve away from our footwear models or from casual lifestyle footwear in general, or our retail customers purchase similar products sold by our competitors, the resulting loss of sales, increase in inventories and discounting of our products are likely to be significant, and this could have a material and adverse impact on our business and operations.

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

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

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

We may also encounter difficulties in producing new **crocs** footwear models that we did not anticipate during the development stage. Our development schedules for new products are difficult to predict and are subject to change as a result of shifting priorities in response to consumer preferences and competing footwear products. Once we have begun to design a new 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 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 product pricing. We have a limited history of introducing new products, and we may set the prices of new models too high for the market to bear. Failure to gain market acceptance for new footwear products that we introduce could impede our growth, reduce our profits, adversely affect the image of our brands, erode our competitive position and result in long term harm to our business.

Due to limited manufacturing capacity and high demand for our products, we have typically only partially filled orders placed by our customers, which limits sales of our products and may result in a decrease in sales and a deterioration in our customer relationships.

Due to our limited manufacturing capacity and the inability of our third party manufacturers to produce quantities of our products sufficient to meet the rapid growth in demand we have experienced over the past year, we have typically only partially filled orders placed by our customers. If we cannot procure sufficient quantities of our products to meet customer demand in a timely manner, customers may cancel orders, refuse shipments, negotiate for reduced purchase prices or purchase our competitors' products, any of which could have a material adverse effect on our customer relationships and operating results. In addition, difficulties in filling customer orders could adversely impact future order volume and our customers may purchase similar products from our competitors.

The audit of our financial statements for each of the years ended December 31, 2002, 2003 and 2004, identified material weaknesses in our internal control over financial reporting, and if not corrected, these material weaknesses could result in a material misstatement of our results of operations or financial condition, which could harm our business and reputation and cause the price of our common stock to decline.

In connection with the audit of our financial statements for each of the years ended December 31, 2002, 2003 and 2004, our independent registered public accounting firm identified material weaknesses in our internal control over financial reporting with respect to:

- our financial closing and reporting process;
- our inventory costing and tracking methodology;
- our documentation supporting our accounting records; and
- our contemporaneous documentation of significant, non-routine transactions.

A material weakness is a reportable condition in which the design or operation of one or more accounting controls and procedures does not reduce to a relatively low likelihood the risk that a material misstatement of the annual or interim financial statements will not be prevented or detected within a timely period by employees in the normal course of performing their assigned functions.

The material weakness in our financial closing and reporting process resulted from a combination of the following factors:

- our failure to accurately account for complex transactions;
- our failure to monitor and apply new and emerging accounting principles generally accepted in the U.S., or GAAP;
- our lack of formal processes related to the consolidation of financial information and the financial statement preparation process; and
- our failure to reconcile our accounts in a timely and accurate manner.

The material weakness in our inventory tracking and costing methodology related to the method by which we had accounted for certain inventory related costs in each of 2002, 2003 and 2004. In these years, we did not appropriately capitalize these costs in inventory which resulted in adjustments to our financial statements. In addition, we also did not have a formal process for tracking our inventory.

The material weakness with respect to our accounting records related to our lack of supporting documentation that should have been readily available to evidence routine transactions, principally in 2002 and 2003.

The material weakness in the documentation of significant and non-routine transactions related specifically to a lack of contemporaneous documentation for certain of our equity compensation arrangements in 2002 through 2004 and our acquisition of Foam Creations in 2004.

We are in the process of addressing each of these material weaknesses. However, because these material weaknesses exist, there is a heightened risk that a material misstatement of our annual or interim financial statements will not be prevented or detected. In addition, the remediation steps we have taken, are taking, or plan to take may not effectively remediate the material weaknesses, in which case our accounting controls and procedures in these particular areas will continue to be ineffective.

Furthermore, once we become a public company, we will be required to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 for the year ended December 31, 2007 and subsequent periods. See "We will be required to meet periodic reporting requirements under SEC rules and regulations, and we will incur significant time and expense in documenting, testing and certifying our internal control over financial reporting, and any deficiencies in our internal controls could adversely affect our business." In the event that we do not adequately remedy these material weaknesses, our business, reputation and financial condition may be adversely affected, there may be a negative reaction in the financial markets due to a loss of confidence in the reliability of our financial statements, which could cause the price of our common stock to decline.

We will be required to meet periodic reporting requirements under SEC rules and regulations, and 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.

SEC rules require that, as a publicly-traded company following completion of this offering, we file periodic reports containing our financial statements within a specified time following the completion of quarterly and annual periods. Prior to this offering, we have never been required to have our financial statements completed and reviewed or audited within a specified period, and, as such, we may experience difficulty in meeting the SEC's reporting requirements in a timely manner. Any failure by us to timely file our periodic reports with the SEC could harm our reputation and reduce the market price of our common stock.

Furthermore, once we become a public company, SEC rules require that our chief executive officer and chief financial officer periodically certify the existence and effectiveness of our internal control over financial reporting. Our independent auditors will then be required, beginning with our Annual Report on Form 10-K for our fiscal year ending on December 31, 2007, to attest to our officers' assessment of our internal controls. This process generally requires significant documentation of policies, procedures and systems, review of that documentation by our internal accounting staff and our outside auditors, and testing of our internal control over financial reporting by our internal accounting staff and our outside auditors. Documentation and testing of our internal controls, which we have not undertaken in the past, will involve considerable time and expense, and may strain our internal resources and have an adverse impact on our costs.

During the course of our testing, we may identify deficiencies which we may not be able to remediate in time to meet the deadline imposed by SEC rules for certification of our internal control over financial reporting. As a consequence, we may have to disclose in periodic reports we file with the SEC any significant deficiencies or material weaknesses in our system of internal controls. For example, the audit of our financial statements for the years ended December 31, 2002, 2003 and 2004 identified material weaknesses in our internal control over financial reporting. The existence of such material weaknesses would preclude management from concluding that our internal control over financial reporting is effective and would preclude our independent auditors from issuing an unqualified opinion that internal controls are effective. In addition, disclosures of this type in our SEC reports could cause investors to lose confidence in our financial reporting and may negatively affect the price of our common stock. Moreover, effective internal controls are necessary to produce reliable financial reports and to prevent fraud. If we have deficiencies in our internal control over financial reporting it may negatively impact our business, results of operations and reputation.

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

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

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

The footwear industry generally is characterized by significant seasonality of sales. Due to the growth in sales of our products in the past two years we cannot assess with certainty the degree to which sales of our footwear products will be subject to seasonal variation, but a majority of our footwear is more suited for fair weather use, so we expect some degree of seasonality in the future. Preliminary results indicate that our revenues for the three months ended December 31, 2005 were approximately 13% lower than our revenues for the three months ended September 30, 2005, and we believe that the decline was primarily attributable to seasonal declines in demand for our products. In addition, extended periods of unusually cold weather during the spring and summer could reduce demand for our footwear. Seasonal variations in consumer demand may result in fluctuations in our results of operations from quarter to quarter, and the effect of favorable or unfavorable weather on sales may be significant enough to materially affect our quarterly results. Wide variations in our quarterly operating results may increase the volatility of the price of our common stock.

Because we depend on third party manufacturers, we 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 nine months ended September 30, 2005, third party manufacturers produced approximately 77% of our footwear products as measured by number of units, and one such manufacturer produced approximately 66% of our footwear products. Currently, we have footwear manufacturing arrangements with third party manufacturers located in China, Florida and Italy. We depend on these manufacturers' ability to finance the production of goods ordered and to maintain adequate manufacturing capacity. We do not exert direct control over the third party manufacturers, so we may be unable to obtain timely delivery of acceptable products.

Due to the rapid growth in popularity of our **crocs** footwear, one or more of our third party manufacturers may not have sufficient capacity to enable it to increase production to meet demand for our products. Moreover, some of our third party manufacturers have manufacturing engagements with companies that are much larger than we are and whose production needs are much greater than ours. As a result, one or more manufacturers may choose to devote additional resources to the production of products other than ours if capacity is limited.

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 nine months ended September 30, 2005, and any of them may unilaterally terminate their relationship with us at any time or seek to increase the prices they charge us. As a result, we are not assured of an uninterrupted supply of products of an acceptable quality and price from our third party manufacturers. We may not be able to offset any interruption or decrease in supply of our products by increasing production in our company-operated manufacturing facilities due to capacity constraints, and we may not be able to substitute suitable alternative third party manufacturers in a timely manner or at acceptable prices. Any disruption in the supply of products from our third party manufacturers may harm our business and could result in a loss of sales and an increase in production costs, which would adversely affect our results of operations.

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

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

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

We produce some of our products at our company-operated manufacturing facilities in Canada and Mexico. In the nine months ended Septe