

Crocs, Inc.  
Form S-1/A  
February 02, 2006

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As filed with the Securities and Exchange Commission on January 19, 2006

Registration No. 333-127526

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## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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### Amendment No. 4

to

### FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

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### CROCS, INC.

(Exact name of Registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**3021**

(Primary Standard Industrial  
Classification Code Number)

**6273 Monarch Park Place**

**Niwot, Colorado 80503**

**(303) 468-4260**

**20-2164234**

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

(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:

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

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

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

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

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**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.**

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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 January 19, 2006

**9,000,000 Shares**

**CROCS, INC.**

**Common Stock**

**\$ per share**

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Crocs, Inc. is offering 4,500,000 shares and the selling stockholders are offering 4,500,000 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 \$13.00 and \$15.00 per share.

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

Reserved trading symbol: Nasdaq National Market CROX

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

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	<b>Per Share</b>	<b>Total</b>
Public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds, before expenses, to Crocs, Inc.	\$	\$
Proceeds to selling stockholders	\$	\$

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*The underwriters have a 30-day option to purchase up to 1,350,000 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.

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**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 6,200 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](http://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

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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 6,200 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

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 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](http://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.	4,500,000 shares
By the selling stockholders	4,500,000 shares
Total	9,000,000 shares
Common stock to be outstanding after the offering	37,812,511 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 December 31, 2005 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 will occur prior to the completion of this offering; 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 December 31, 2005 but none of which are vested as of December 31, 2005;
- (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 262,778 shares were exercisable as of December 31, 2005;
- (3) 4,742,348 shares of common stock reserved for future issuance under our 2005 Equity Incentive Plan, of which options to purchase 401,833 shares of common stock are proposed to be issued 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 1,072,433 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 1,350,000 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.



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	Year Ended December 31,			Pro Forma for acquisition of Foam Creations Year Ended December 31, 2004 <sup>(2)</sup>	Nine Months Ended September 30,	
	2002 <sup>(1)</sup>	2003	2004		2004	2005 <sup>(3)</sup>
(dollars in thousands, except per share data)						
<b>Consolidated Statement of Operations Data</b>						
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) <sup>(3)</sup>			(143)	31	44	6,724
Net income (loss)	(445)	(1,200)	(1,494)	(1,084)	(558)	12,802
Dividends on redeemable convertible preferred shares <sup>(4)</sup>			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 <sup>(5)</sup>			(441)		(240)	
Unaudited pro forma net loss <sup>(5)</sup>			\$ (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 <sup>(6)</sup>						
Basic			\$ (.03)		\$ (.01)	\$ .39
Diluted			\$ (.03)		\$ (.01)	\$ .38
Unaudited pro forma weighted average shares						

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outstanding <sup>(6)</sup>				Pro Forma for acquisition of Foam Creations	
				Year Ended December 31, 2004 <sup>(2)</sup>	Nine Months Ended September 30,
Basic	32,094,431			31,934,238	<del>32,782,402</del>
Diluted	32,094,431			31,934,238	33,358,633

**Operating Data**

Pairs of <b>crocs</b> footwear sold	1,500	76,000	649,000	393,000	4,408,000
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	As of December 31,			As of September 30,	
	2002 <sup>(1)</sup>	2003	2004	2004	2005
(in thousands)					
<b>Consolidated Balance Sheet Data</b>					
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

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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 September 30, 2005, we produced approximately 22% of our **crocs** footwear production at our Canadian facility, and we recently commenced production at our company-operated facility in Mexico. The manufacturing of our products from our proprietary closed-cell resin, which we refer to as *croslite*, requires the use of a complex process, and we may experience difficulty in producing footwear that meets our high quality control standards. We will be required to absorb the costs of manufacturing and disposing of products that do not meet our quality standards. These costs are primarily incurred in connection with the initial production of new products, although we may also experience increases in training costs when we initiate production of new products. Additionally, we may incur increased costs as a result of the introduction of new manufacturing equipment such as molds and injection molding machines. Any increases in our manufacturing costs could adversely impact our margins. Furthermore, our manufacturing capabilities are subject to many of the same risks and challenges noted above with respect to our third party manufacturers, including our ability to scale our production capabilities to meet the needs of our customers, and our manufacturing may be disrupted for reasons beyond our control, including work stoppages, fires, earthquakes, floods or other natural disasters. Any disruption to our manufacturing operations will hinder our ability to deliver products to our customers in a timely manner, and could have a material and adverse effect on our business.

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

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

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

Additionally, a single third party processor in Italy compounded all of the *croslite* we used in producing **crocs** footwear in 2004, and we expect that this third party processor will continue to provide at least a majority of our requirements for the foreseeable future. Although we have arranged for another third party processor to compound *croslite* and we began compounding *croslite* at Foam Creations's facility in Quebec City, Canada in 2005, the compounding process is complex and difficult to perfect on a large scale, and neither we nor our new third party processor may be able to compound meaningful quantities of *croslite* suitable for use in our products.

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

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

Several of our executive officers have recently joined us and therefore have limited experience in managing our company. For example, we hired Ronald Snyder, our President and Chief Executive Officer, in June 2004, and Caryn Ellison, our Chief Financial Officer, in November 2004. We may experience difficulty assimilating our recently hired managers, which may adversely impact our business.

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

***We rely on a single third party for a significant portion of our warehouse, distribution and fulfillment operations. If this party is unwilling or unable to continue providing services to us, our business could be materially harmed.***

We engaged Expeditors International of Washington, Inc. in July 2005 to operate our warehouse, distribution and fulfillment process for a significant portion of our domestic sales. We are dependent on Expeditors to manage inventory, process orders and distribute products to our customers in a timely manner. We do not have a long-term contract with Expeditors and they may unilaterally terminate their relationship with us at any time or seek to increase the prices they charge us. Any disruption in our relationship with Expeditors could cause significant delays in the fulfillment of our customers' orders, and we may not be able to locate another distributor that can provide comparable warehouse, distribution and fulfillment services in a timely manner or on acceptable commercial terms. Additionally, any serious disruption to the services provided to us by Expeditors could harm our ability to supply products to our customers, including:

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

work stoppages, disputes or difficulties between Expeditors and its employees;

malfunctions in Expeditors's information systems; or

disruptions in Expeditors's shipping channels.

In the event that the distribution of our products by Expeditors is interrupted for any reason, our business may be materially and adversely affected.

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

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

Moreover, until recently we had never engaged in the warehousing of our products or provided order fulfillment for our retail customers or consumers. As such, we cannot ensure that we will be able to successfully conduct these activities, or that other third parties will be able to conduct these activities for us in a satisfactory manner. Additionally, these warehouse, distribution and fulfillment operations subject us to many of the same risks that our current relationship with Expeditors does, as noted above. In the event that we or a third party are unable to conduct warehousing, distribution and fulfillment activities in a cost effective, timely, and accurate manner, the distribution of our products may be

adversely affected, which could result in harm to our relationships with our retail customers and consumers, a reduction in demand for our products, and additional expenses to us.

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

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

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

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

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

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

We believe our trademarks, trade names, copyrights, trade secrets, issued and pending patents, trade dress and designs are valuable and integral to our success and competitive position. From time to time, we have identified competitors selling products that are very similar in design to certain of our **crocs** footwear models, and that are manufactured from what may be comparable materials to our products. We believe that some of these products may infringe our intellectual property rights. Given the increased popularity of our **crocs** brand, we believe there is a high likelihood that counterfeit products or other products infringing on our intellectual property rights will continue to emerge, seeking to benefit from the consumer demand for **crocs** footwear. In order to protect our brand, we may be required to spend significant resources to monitor and police our intellectual property rights. We may not be able to detect infringement and may lose our competitive position in the market before

we are able to do so. In addition, enforcing rights to our intellectual property may be difficult and expensive, and we may not be successful in combating counterfeit products and stopping infringement of our intellectual property rights, particularly in some foreign countries, which could make it easier for competitors to capture market share. Intellectual property rights may also be unavailable or limited in some foreign countries. Furthermore, our efforts to enforce our trademark and other intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our trademark and other intellectual property rights. If we are unsuccessful in protecting and enforcing our intellectual property rights, continued sales of such competing products by third parties could harm our brand and adversely impact our business, financial condition and results of operations.

We have registered **crocs** as a trademark for footwear in Australia, the European Union, Japan, Mexico, New Zealand and Panama. We have also applied to register **crocs** and the **crocs** logo as trademarks in 36 jurisdictions around the world, including the U.S., but such applications have not been approved and are currently pending. In addition, we have recently extended the scope of our trademark registrations and applications for both the **crocs** mark and logo to cover non-footwear products such as sunglasses, goggles, knee pads, watches, luggage, and some of our Internet sales activities. Although we believe that we have applied for trademark registrations in all jurisdictions where we are doing or intend to do business, there is a possibility that we have not applied to register the **crocs** mark, the company logos, the individual brand names for our products or our marketing slogans in countries where we will do business in the future, and we have elected not to apply for trademark registrations for some marks in some jurisdictions. Furthermore, we may not obtain trademark registrations in connection with any applications that we do file and trademark protection, whether registered or common law, may not be available in every country in which we offer or intend to offer our products. Failure to adequately protect our trademark rights could damage or even destroy our **crocs** brand, expose us to trademark liability and impair our ability to compete effectively. In addition, defending or enforcing our trademark rights could result in the expenditure of significant financial and managerial resources.

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

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

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

From time to time, third parties may claim that we are infringing upon their intellectual property rights, and we may be found to infringe those intellectual property rights. While we do not believe that any of our products infringe the valid intellectual property rights of third parties, we may be unaware of the intellectual property rights of others that may cover some of our technology or products. If we are forced to defend against such third party claims, whether or not such claims are resolved in our favor, we could encounter expensive and time consuming litigation which could divert our management and key personnel from business operations. Further, if we are found to be infringing on the intellectual property rights of others, we may be required to pay damages or ongoing royalty payments, or comply with other unfavorable terms. Additionally, if we are found to be infringing on the intellectual property rights of others, we may not be able to obtain license agreements on terms acceptable to us, and this may prevent us from manufacturing, marketing or selling our products. Thus, such third party claims may significantly reduce the sales of our products or increase our cost of goods sold. Any such reductions in sales or cost increases could be significant, and could have a material and adverse affect on our business.

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

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

In the nine months ended September 30, 2005, our ten largest retail customers accounted for approximately 36% of our revenues, with Dillard's, our largest customer for the period, accounting for approximately 14% of our revenues. If any of our major retail customers experiences a significant downturn in their business or fails to remain committed to our products or brand, then these customers may reduce or discontinue purchases from us. In addition, we extend credit to our customers based on an evaluation of each customer's financial condition. If a significant customer to whom we have extended credit experiences financial difficulties, our bad debt expense may increase relative to revenues in the future. Any significant increase in our bad debt expense relative to revenues would adversely impact our net income and cash flow and could affect our ability to pay our own obligations as they become due.

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

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

The footwear industry is subject to cyclical variations and declines in performance, as well as fashion risks and rapid changes in consumer preferences, the effects of weather, general economic conditions

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

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

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

the strength of the **crocs** brand and competitive conditions in new markets that we attempt to enter;

our ability to attract and retain qualified distributors or agents or to develop direct sales channels;

our ability to use and protect the **crocs** brand, and our other intellectual property, in these new markets and territories; and

our ability to successfully enter and compete in markets and territories, especially internationally, where we have little distribution experience and where our **crocs** brand is not well known.

If we are unable to successfully expand our distribution channels and sell our **crocs**-branded products internationally, our business may fail to grow, our brand may suffer and our results of operations may be adversely impacted.

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

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

tariffs, import and export controls and other non-tariff barriers such as quotas and local content rules;

increased transportation costs due to distance, energy prices or other factors;

delays in the transportation and delivery of goods due to increased security concerns;

foreign currency fluctuations, for which we do not currently engage in any material hedging transactions;

restrictions on the transfer of funds;



changing economic conditions;

restrictions, due to privacy laws, on the handling and transfer of consumer and other personal information;

changes in governmental policies and regulations;

political unrest, terrorism or war, any of which can interrupt commerce;

expropriation and nationalization;

difficulties in managing foreign operations effectively and efficiently from the U.S.; and

difficulties in understanding and complying with local laws, regulations and customs in foreign jurisdictions.

Furthermore, our manufacturing activity outside of the U.S., including the production of our products by third party manufacturers, is subject to risks of poor infrastructure, shortages of equipment, and labor unrest, in addition to those risks noted above. Once our products are manufactured, we may also suffer delays in distributing our products due to work stoppages, strikes or lockouts at the ports where our products arrive. Such labor disruptions could result in product shortages and delays in distributing our products to retailers. These factors and the failure to properly respond to them could make it difficult to obtain adequate supplies of quality products when we need them, resulting in reduced sales and harm to our business.

Additionally, although sales outside of the U.S. did not constitute a significant portion of our revenues in 2004, we expect to expand our international sales and marketing operations in the future. Our ability to capitalize on growth in new international markets and to maintain the current level of operations in our existing international markets is subject to risks associated with international sales operations, as noted above, as well as the difficulties associated with promoting products in unfamiliar cultures.

***If we fail to comply with the covenants contained in our revolving credit facility we may be unable to secure additional financing and repayment obligations on our outstanding indebtedness may be accelerated.***

Our revolving credit facility contains financial and operating covenants with which we must comply. As of October 31, 2005, we were not in compliance with several such covenants, including the EBITDA and capital expenditure covenants in our revolving credit facility. In connection with the preparation of a compliance certificate on January 10, 2006, we determined our non-compliance with these covenants and informed our lender of such non-compliance. On January 18, 2006, we agreed to pay a fee of \$100,000 to the lender and we received a waiver of our non-compliance with these covenants. If we fail to comply with the covenants in the future or if our lender does not agree to a waiver of any future non-compliance, we may be unable to borrow additional funds and our outstanding indebtedness may become immediately due and payable, which could materially harm our business.

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

We have made, and may in the future make, acquisitions of, or investments in, other companies. For example, in June 2004, we acquired Foam Creations, and in April 2005, we acquired the manufacturing operations of a footwear producer in Mexico. We expect to consider other opportunities to acquire or make investments in other businesses and products that could enhance our manufacturing capabilities, complement our current products or expand the breadth of our markets or customer base. The pursuit

of acquisitions may divert the attention of management and cause us to incur various expenses in identifying, investigating and pursuing suitable acquisitions, whether or not they are consummated. In the event we finance acquisitions by issuing equity or convertible debt securities, our stockholders may be diluted.

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

unanticipated costs associated with the acquisition;

diversion of management's attention from our core business;

harm to our existing business relationships with manufacturers and customers as a result of the acquisition;

the potential loss of key employees; or

risks associated with entering new product lines or markets in which we have little or no prior experience.

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

***We intend to make substantial expenditures to expand our operations and remain competitive in the rapidly changing footwear industry, and we may not be able to secure adequate financing to meet the needs of our business.***

Our future success may depend on our ability to obtain additional financing and capital to support our continued growth and operations, including our working capital needs. We may seek to raise capital by:

issuing additional common stock or other equity securities;

issuing debt securities; or

borrowing funds under a credit facility.

We may not be able to obtain additional capital when we want or need it, and capital may not be available to us on satisfactory terms. If we issue additional equity or convertible debt securities to raise capital, it may be dilutive to your ownership interest. Furthermore, any additional financing and capital may have terms and conditions that adversely affect our business, such as restrictive financial or operating covenants. If we fail to secure adequate financing on acceptable terms for our maintenance or growth, our business could be materially harmed.

***We are subject to various environmental laws and regulations that could impose substantial costs upon us and may adversely affect our business and results of operations.***

Some of our operations use substances regulated under various federal, state, local, and international laws governing the environment, including those relating to the storage, use, discharge, disposal, labeling, and human exposure to hazardous and toxic materials. We could incur costs, fines and civil or

criminal sanctions, third-party property damage or personal injury claims, or could be required to incur substantial investigation or remediation costs, if we were to violate or become liable under environmental laws. For example, at one of our leased facilities in Mexico, operations of a prior tenant resulted in releases of hazardous substances, which may have resulted in soil or groundwater contamination. The landlord has indemnified us for pre-existing breaches of environmental laws; however, to the extent that any such pre-existing contamination is not remediated, we could be subject to substantial investigation and remediation costs if it were not possible to substantiate that any contamination was pre-existing or if we were unable to secure indemnification from our landlord for any other reason. Liability under environmental laws can be joint and several and without regard to comparative fault. Compliance with current or future environmental laws and regulations could restrict our ability to expand our facilities or require us to acquire additional expensive equipment, modify our manufacturing processes, or incur other significant expenses. There can be no assurance that violations of environmental laws or regulations have not occurred in the past or will not occur in the future as a result of the inability to obtain permits, human error, equipment failure or other causes, and any such violations could harm our business and financial condition.

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

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

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

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

authorize us to issue preferred stock that can be created and issued by the board of directors without prior stockholder approval, with rights senior to those of common stock;

do not permit cumulative voting in the election of directors, which would otherwise allow less than a majority of stockholders to elect director candidates;

prohibit stockholders from calling special meetings of stockholders;

prohibit stockholder action by written consent, thereby requiring all stockholder actions to be taken at a meeting of our stockholders;

allow the authorized number of directors to be changed only by resolution of the board of directors;

establish advance notice requirements for submitting nominations for election to the board of directors and for proposing matters that can be acted upon by stockholders at a meeting; and

classify our board of directors so that only some of our directors are elected each year.

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

### **Risks Related to this Offering**

*Our common stock has no prior market, and the price of our common stock may be volatile.*

Prior to the offering, there has been no public market for our common stock, and a regular trading market may not develop after the offering. The initial public offering price of our common stock will be determined through negotiations between the underwriters, the selling stockholders and us, but the market price of our common stock may decline below the initial public offering price in the future. Numerous factors, many of which are beyond our control, may cause the market price of our common stock to fluctuate significantly. These factors include:

our earnings releases, actual or anticipated changes in our earnings, fluctuations in our operating results or our failure to meet the expectations of financial market analysts and investors;

significant developments relating to our manufacturing or distribution relationships;

price and volume fluctuations in the overall stock market from time to time;

customer orders of new products from us and our competitors;

investor perceptions of the footwear and apparel industries in general and our company in particular;

the operating and stock performance of comparable companies;

general economic conditions and trends;

major catastrophic events;

changes in accounting standards, policies, guidance, interpretation or principles;

loss of external funding sources;

sales of stock by our executive officers; or

departures of key personnel.

In addition, the timing of orders by our customers may cause quarterly fluctuations of our results of operations that may, in turn, affect the market price of the common stock.

*Future sales of our common stock could depress our stock price.*

Substantially all of our stockholders, including all of our executive officers and directors, have agreed not to sell shares of our common stock for a period of 180 days following this offering, subject to extension for up to 35 days under specified circumstances at the option of Piper Jaffray and Thomas



Weisel Partners. However, Piper Jaffray and Thomas Weisel Partners may waive this restriction and allow any such stockholders to sell shares at any time. See "Underwriting." Shares of common stock subject to these lockup agreements will become eligible for sale in the public market upon expiration of these lock-up agreements, subject to limitations imposed by Rule 144 under the Securities Act of 1933. Of the shares subject to lock-up agreements, 27,875,828 shares will be "restricted securities" under Rule 144, and 27,275,380 of such shares will be eligible for resale immediately upon expiration of the lock-up agreements. See "Shares Eligible for Future Sale." Sale of shares of our common stock by our stockholders, or the perception that such stockholders may sell shares of our common stock, could have an adverse impact on the market price for our common stock.

***We will incur increased costs as a public company, which could adversely affect our financial condition and results of operations.***

As a public company, we will incur significant legal, accounting and other expenses that we do not incur as a privately-owned company. In addition, the Sarbanes-Oxley Act of 2002, as well as new rules subsequently implemented by the SEC and Nasdaq, have required changes in the corporate governance practices of public companies. We expect these new rules and regulations will increase our legal and financial compliance costs and make some activities more time-consuming and costly. In addition, we will incur additional costs associated with our public company reporting requirements. We also expect these new rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as executive officers. Any of these circumstances could adversely affect our business, financial condition or results of operations.

***If you purchase shares of common stock sold in this offering, you will experience immediate dilution.***

If you purchase shares of our common stock in this offering, you will experience dilution of \$12.11 per share, based on an assumed offering price of \$14.00 per share, because the price that you pay will be substantially greater than the net tangible book value per share of the shares you acquire. You will experience additional dilution upon the exercise of stock options, including those stock options currently outstanding and those granted in the future and any issuance of restricted stock or other equity awards under our equity incentive plan. See "Dilution."

***We will have broad discretion in the use of proceeds from this offering and may not obtain a significant return on the use of these proceeds.***

We plan to use the net proceeds from this offering to repay the outstanding balance on our revolving credit facility and for working capital and other general corporate purposes. However, we will have broad discretion in determining how we apply much of the net proceeds from this offering and you may not agree with such uses. Also, we may not be successful in investing the net proceeds from this offering to yield a favorable return. See "Use of Proceeds."

**A SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus contains forward-looking statements. The forward-looking statements are contained principally in the sections entitled "Summary," "Risk Factors," "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business." These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. These risks and uncertainties include, but are not limited to, the following:

our limited operating history;

our significant recent expansion;

changing fashion trends;

our reliance on market acceptance of the small number of products we sell;

our ability to develop and sell new products;

our limited manufacturing capacity and distribution channels;

our reliance on third party manufacturing and logistics providers for the production and distribution of our products;

our reliance on a single-source supply for certain raw materials;

our management and information systems infrastructure;

our ability to obtain and protect intellectual property rights;

the effect of competition in our industry;

the potential effects of seasonality on our sales;

our ability to attract and retain management talent; and

other factors described in this prospectus under the heading "Risk Factors."

In some cases, you can identify forward-looking statements by terms such as "anticipates," "believes," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "projects," "should," "would" and similar expressions intended to identify forward-looking statements. Forward-looking statements reflect our current views with respect to future events, are based on assumptions and subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our estimates and assumptions only as of the date of this prospectus. You should read this prospectus and the documents that we reference in this prospectus, or that we have filed as exhibits to the registration statement of which this prospectus is a part, completely and with the understanding that our actual future results may be materially different from what we expect.

Except as required by law, we assume no obligation to update any forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in any forward-looking statements, even if new information becomes available in the future.





### USE OF PROCEEDS

We estimate that the net proceeds from the sale of 4,500,000 shares of common stock offered by us will be approximately \$56.6 million, assuming a public offering price of \$14.00 per share, which is the mid-point of the range set forth on the cover page of this prospectus, and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us in connection with this offering. All shares of our common stock that are subject to the underwriters' over-allotment option will be sold to the underwriters by the selling stockholders. We will not receive any proceeds from the sale of shares to be sold by the selling stockholders.

We will use approximately \$5.9 million of the net proceeds we receive from the sale of our common stock in this offering to repay all amounts outstanding under our amended and restated credit facility. The amount outstanding under the credit facility at September 30, 2005 was \$5.0 million, and the amount outstanding as of December 31, 2005 was \$5.9 million. Interest on this credit facility accrues at floating rates we select on each borrowing, equal to either the Bank of America prime rate, or a calculated Eurodollar rate equal to an adjusted LIBOR rate plus a margin ranging from 1.75% to 2.50% depending on our EBITDA for the most recently completed four fiscal quarters. The effective interest rate as of December 31, 2005 was 7.25% per annum. Interest accrues on the credit facility monthly and is paid at the end of each month. The credit facility matures on October 26, 2008. We used a portion of the proceeds of borrowings under the credit facility to fund a cash distribution of \$3.0 million which was declared to members as of December 31, 2004 of our predecessor limited liability company pursuant to the operating agreement for that entity. In addition, we used \$1.3 million for the purchase of our manufacturing operation in Mexico and associated operating assets in April 2005 and \$1.6 million to purchase inventory and for working capital purposes.

We will use an additional \$2.0 million of the net proceeds to repay all amounts outstanding under Foam Creations's credit facility. Interest on this facility accrues at the current Canadian prime rate plus 0.50% and matures in 2006. We will also use \$532,000 of the proceeds to repay a loan made to Foam Creations by National Bank of Canada, which accrues interest at the current Canadian prime rate plus 0.75% and matures on March 1, 2006, \$797,000 to repay a loan made to Foam Creations by National Bank of Canada, which accrues interest at the current Canadian prime rate plus 0.75% and matures in October 2012, and \$2.4 million of the proceeds to repay a loan made to Foam Creations by Development Bank of Canada, which includes interest at a rate LIBOR plus 3.3% and matures in August 2011.

All of our outstanding Series A preferred stock will automatically convert into shares of our common stock in connection with the closing of this offering, and we will pay all accrued and unpaid dividends on the preferred stock in connection with the conversion. As of December 31, 2005, there was \$161,000 in unpaid dividends accrued on the Series A preferred stock.

We expect to use approximately \$11.2 million of the net proceeds we receive from this offering for capital expenditures related to increasing our manufacturing capacity and improving our infrastructure, including approximately \$3.5 million to expand and upgrade our existing information technology systems. We also intend to use a portion of the net proceeds to further develop our international operations and to increase our marketing activities, although we have not yet allocated specific amounts for these purposes. In addition, we may use a portion of the net proceeds to acquire or invest in complementary businesses or products or to obtain additional manufacturing facilities. We have no commitments with respect to any acquisition or investment, and we are not involved in negotiations with respect to any similar material transaction. We intend to use the remainder of the net proceeds we receive from this offering for working capital and general corporate purposes.

The principal purposes of this offering are as follows:

to obtain additional capital;

to reduce outstanding debt;

to create a public market for our common stock;

to provide liquidity for our existing stockholders;

to improve the effectiveness of our equity compensation plans in attracting and retaining key employees; and

to enhance our ability to acquire other businesses, products or technologies.

We will have broad discretion in the application of the balance of the net proceeds. You will not have the opportunity to evaluate the economic, financial or other information on which we base our decisions on how to use the proceeds. Pending application of the net proceeds we receive from this offering, we will invest the proceeds in government securities and other short-term, investment-grade interest bearing securities.

#### **DIVIDEND POLICY**

We currently intend to retain all future earnings for the operation and expansion of our business and do not anticipate paying cash dividends on our shares of common stock in the foreseeable future. Any payment of cash dividends in the future will be at the discretion of our board of directors and will depend upon our results of operations, earnings, capital requirements, contractual restrictions, outstanding indebtedness and other factors that our board of directors deems relevant.

**CAPITALIZATION**

The following table sets forth our capitalization as of September 30, 2005:

on an actual basis; and

on a pro forma, as adjusted, basis to give effect to:

conversion of all outstanding shares of Series A preferred stock into 7,452,492 shares of common stock;

the termination of the put option on redeemable shares of our common stock in connection with the closing of this offering;

an amendment to our certificate of incorporation to increase our authorized capital stock to 125,000,000 shares of common stock and 5,000,000 shares of preferred stock;

the issuance of 137,097 shares of common stock to employees on October 1, 2005, 4,868 shares of common stock to our chief executive officer on November 1, 2005, and 4,868 shares of common stock to our chief executive officer on December 1, 2005; and

the sale by us of 4,500,000 shares of common stock in this offering at an assumed initial public offering price of \$14.00 per share, which is the mid-point of the range set forth on the cover page of this prospectus; our receipt of the estimated net proceeds of the offering of \$56.6 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by us; and application of the net proceeds to repay certain indebtedness as set forth in "Use of Proceeds."

The share numbers reflected below give retroactive effect to the 233.62-for-one stock split being effected in connection with this offering as if the split had been effected on September 30, 2005. You should read the information below in conjunction with our consolidated financial statements and their

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notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Use of Proceeds" included elsewhere in this prospectus.

As of September 30, 2005		
	Actual	Pro Forma As Adjusted
(dollars in thousands)		
(unaudited)		
Long-term debt (including current portion)	\$ 10,298	\$
Redeemable common shares, 8,410,320 shares issued and outstanding	1,800	
Redeemable convertible preferred shares, par value \$0.001 per share, 7,000,000 shares authorized:		
Series A:		
7,452,492 shares issued and outstanding, actual; and 0 shares pro forma as adjusted	5,500	
Stockholders' equity:		
Common Stock, par value \$0.001 per share; 25,000,000 shares authorized; 17,302,866 shares issued and outstanding, actual; and 37,812,511 shares issued and outstanding, pro forma as adjusted	17	38
Additional paid-in capital	13,275	77,144
Deferred compensation	(13,404)	(13,404)
Retained earnings	12,596	12,596
Accumulated other comprehensive income	750	750
<b>Total stockholders' equity</b>	<b>13,234</b>	<b>77,124</b>
<b>Total capitalization</b>	<b>\$ 30,832</b>	<b>\$ 77,124</b>

**DILUTION**

If you invest in our common stock in this offering, upon the completion of this offering your ownership interest will be diluted to the extent of the difference between the initial public offering price per share and the pro forma net tangible book value per share of our common stock. Our pro forma net tangible book value as of September 30, 2005 was approximately \$14.9 million, or approximately \$0.45 per share. Pro forma net tangible book value per share is determined by dividing the excess of our pro forma total tangible assets over our pro forma total liabilities by the pro forma total number of shares of common stock outstanding. The pro forma total number of shares of common stock outstanding includes the effect of:

conversion of all outstanding shares of Series A preferred stock into 7,452,492 shares of common stock;

the termination of the put option on redeemable shares of our common stock in connection with the closing of this offering;

an amendment to our certificate of incorporation to increase our authorized capital stock to 125,000,000 shares of common stock and 5,000,000 shares of preferred stock;

the issuance of 137,097 shares of common stock to employees on October 1, 2005, 4,868 shares of common stock to our chief executive officer on November 1, 2005, and 4,868 shares of common stock to our chief executive officer on December 1, 2005; and

the sale by us of 4,500,000 shares of common stock in this offering.

Investors participating in this offering will incur immediate, substantial dilution. After giving effect to our sale and issuance of common stock in this offering at the initial public offering price of \$14.00 per share, which is the mid-point of the range set forth on the cover page of this prospectus, and our receipt of the estimated net proceeds of the offering of \$56.6 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma net tangible book value as of September 30, 2005 would have been approximately \$71.5 million, or \$1.89 per share of common stock. This represents an immediate increase in net tangible book value of \$1.44 per share to existing stockholders and an immediate dilution of \$12.11 per share to new investors purchasing shares of common stock in this offering at the initial offering price. The following table illustrates this dilution on a per share basis:

Assumed initial public offering price per share		\$ 14.00
		<u>          </u>
Pro forma net tangible book value per share at September 30, 2005	\$ 0.45	
	<u>          </u>	
Increase in pro forma net tangible book value per share attributable to this offering	\$ 1.44	
	<u>          </u>	
Pro forma net tangible book value per share after this offering		\$ 1.89
		<u>          </u>
Dilution per share to new investors		\$ 12.11
		<u>          </u>

The following table sets forth on a pro forma basis as of September 30, 2005, the total number of shares of common stock purchased from us, the total consideration paid to us for these shares and the average price per share paid to us by our existing stockholders and by new investors, before deducting underwriting discounts and commissions and estimated offering expenses payable by us at an assumed

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initial public offering price of \$14.00 per share, which is the mid-point of the range set forth on the cover page of this prospectus.

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders	33,312,511	88.1%	\$ 3,807,000	5.7%	0.11
New investors	4,500,000	11.9%	\$ 63,000,000	94.3%	14.00
<b>Total</b>	<b>37,812,511</b>	<b>100%</b>	<b>\$ 66,807,000</b>	<b>100%</b>	<b>1.77</b>

Sales by the selling stockholders in this offering will cause the number of shares held by existing stockholders to be reduced to 28,812,511, or 76.2% of the total number of shares of our common stock outstanding after this offering, and will increase the total number of shares held by new investors to 9,000,000, or 23.8% of the total number of shares of our common stock outstanding after this offering. If the underwriters' over-allotment option is exercised in full, the number of shares held by existing stockholders after this offering, including the effect of sales by the selling stockholders, would be reduced to 27,462,511, or 72.6% of the total number of shares of our common stock outstanding after this offering, and the number of shares held by new investors would increase to 10,350,000, or 27.4% of the total number of shares of our common stock outstanding after this offering.

To the extent options are exercised or shares of common stock are issued pursuant to restricted stock award agreements or other awards under our 2005 Equity Incentive Plan, there will be further dilution to investors in this offering.

**SELECTED CONSOLIDATED FINANCIAL DATA**

You should read the selected consolidated financial data presented below in conjunction with our consolidated financial statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus.

The selected financial data presented below under the heading "Consolidated Statement of Operations Data" for the years ended December 31, 2002, 2003 and 2004 and the selected 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 selected 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 selected consolidated 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 selected 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 selected 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.

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	Year Ended December 31,			Pro Forma for acquisition of Foam Creations Year Ended December 31, 2004 <sup>(2)</sup>	Nine Months Ended September 30,	
	2002 <sup>(1)</sup>	2003	2004		2004	2005 <sup>(3)</sup>
(dollars in thousands, except per share data)						
<b>Consolidated Statement of Operations Data</b>						
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) <sup>(3)</sup>			(143)	31	44	6,724
Net income (loss)	(445)	(1,200)	(1,494)	(1,084)	(558)	12,802
Dividends on redeemable convertible preferred shares <sup>(4)</sup>			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 <sup>(5)</sup>			(441)		(240)	
Unaudited pro forma net loss <sup>(5)</sup>			\$ (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 <sup>(6)</sup>						
Basic			\$ (.03)		\$ (.01)	\$ .39
Diluted			\$ (.03)		\$ (.01)	\$ .38
Unaudited pro forma weighted average shares						



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outstanding <sup>(6)</sup>		Pro Forma for acquisition of Foam Creations	Nine Months Ended September 30,
Basic	32,094,431	Year Ended	31,934,238
Diluted	32,094,431	December 31, 2004 <sup>(2)</sup>	35,358,633

**Operating Data**

Pairs of <b>crocs</b> footwear sold	1,500	76,000	649,000	393,000	4,408,000
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As of December 31,			As of September 30,	
2002 <sup>(1)</sup>	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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS**

*You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our financial statements and related notes included elsewhere in this prospectus. This discussion and analysis contains forward-looking statements based on our current expectations, assumptions, estimates and projections. These forward-looking statements involve risks and uncertainties. See "Special Note Regarding Forward-Looking Statements." Our actual results could differ materially from those indicated in these forward-looking statements as a result of various factors, as more fully discussed below and elsewhere in this prospectus, particularly in the section entitled "Risk Factors."*

**Overview**

We are a rapidly growing designer, manufacturer and marketer of footwear for men, women and children under the **crocs** brand. We have been marketing and distributing footwear products since November 2002, shortly after completing the modification and improvement of a shoe produced by Foam Creations. In June 2004, we acquired Foam Creations, including its manufacturing operations, product lines and rights to the proprietary closed-cell resin, which we refer to as *croslite*. All of our footwear products incorporate *croslite*, which enables us to produce a soft and lightweight, non-marking, slip- and odor-resistant shoe that retails at attractive price points ranging from \$29.99 to \$59.99. In addition to our footwear products, we recently introduced a line of **crocs**-branded apparel and accessory items. We also use *croslite* to manufacture non-branded products that we sell to original equipment manufacturers.

We currently sell our **crocs**-branded products throughout the U.S. and in over 40 countries worldwide. Outside the U.S., we sell our products directly to retailers, or through distributors where we believe they offer a preferable alternative to direct sales. We also sell directly to consumers through our website and our company-operated kiosks. The broad appeal of our footwear has allowed us to market our products to a wide range of distribution channels in the U.S., including traditional footwear retailers as well as a variety of specialty channels. As of December 31, 2005, our retail customer base included over 3,200 accounts that represented over 6,200 retail store locations selling our products.

We have achieved significant growth since our inception, driven largely by the popularity of our footwear products and our ability to significantly expand the breadth and depth of our distribution network. Since we started marketing our first footwear model in November 2002, we have increased our unit volumes from 76,000 pairs of footwear sold in 2003 to 649,000 pairs of footwear sold in 2004. We sold 4.4 million pairs of footwear in the nine months ended September 30, 2005. As a result, our revenues have increased from \$1.2 million in 2003 to \$13.5 million in 2004, and we recorded \$75.0 million of revenues in the nine months ended September 30, 2005. Sales of non-branded products by Foam Creations, which we acquired in June 2004, accounted for \$3.9 million of our revenues for the nine months ended September 30, 2005, and \$2.7 million of our revenues in 2004. Our net income for the nine months ended September 30, 2005 was \$12.8 million, compared to a loss of \$558,000 for the nine months ended September 30, 2004. Continued growth of our revenues and profitability will depend substantially on the continued popularity of our existing footwear products, our ability to continue to introduce new models of footwear that meet the evolving demands of our retail customers and end consumers, our ability to effectively manage our sales and distribution network, and our ability to maintain sufficient product supply to meet expected growth in demand.

We have achieved strong gross profit margins since commencing sales of our **crocs** footwear. For the nine months ended September 30, 2005, our gross profit was \$43.0 million, or 57.3% of revenues, compared to \$3.9 million, or 48.5% of revenues, for the nine months ended September 30, 2004. We believe a number of factors have contributed to our ability to achieve gross profit margins at these

levels. Generally, we have not discounted the purchase price of our **crocs** footwear due to high levels of demand for our products. In addition, the strong demand for our products has resulted in limited returns from our customers. Additionally, our use of third party manufacturers as well as company-operated manufacturing facilities has allowed us to maintain a relatively low cost structure while enabling us to achieve significant production flexibility. We continue to refine our supply, manufacturing and distribution strategies to improve our operating efficiencies and reduce our costs. However, gross profit margins will be affected by our ability to accurately forecast demand and avoid excess inventory, our ability to control our supply, manufacturing and distribution costs, and by changes in the mix of products we sell.

We currently manufacture our footwear products and accessories, and all of our non-branded products for original equipment manufacturers, at Foam Creations's facility in Quebec City, Canada. We also manufacture our footwear products at our company-operated facility located in Mexico. In addition, we contract with third party manufacturers in China, Florida and Italy for the production of our footwear products, and we expect to initiate production in the first quarter of 2006 at a facility in Romania operated by one of our existing third party manufacturers. For the nine months ended September 30, 2005, one of our third party manufacturers located in China produced approximately 66% of our footwear unit volume. We believe our in-house production capabilities enable us to make rapid changes to manufacturing schedules, providing us the flexibility to quickly ship in-demand models and colors, while outsourcing allows us to lower our capital investment and retain the cost-effectiveness of using third party manufacturing.

The popularity of our footwear has often resulted in our inability to produce shoes in sufficient volumes to satisfy the demands of our retail customers and consumers. We have been attempting to meet this demand by actively expanding our company-operated manufacturing capacity, as well as increasing the number of shoes produced for us by third party manufacturers. During 2006 we intend to expand our manufacturing capacity at the facility we operate in Mexico, in addition to adding third party manufacturing capacity in Romania. We also recently expanded production capacity at our third party manufacturers located in China. In the event we are successful in further growing our brand and increasing sales of our products, we will need to continue to increase our supply of raw materials and our manufacturing capacity in our company-operated and third party facilities, as well as handle increased shipments through our distribution facilities.

We intend to continue to diversify our product line with new footwear models in order to capitalize on a growing market for casual lifestyle footwear. Successful introduction of new products will require us to identify and address changing consumer preferences and will also require us to devote additional resources to product development and marketing. In addition, in order to capitalize on what we believe to be a growing market for our products, we intend to expand our distribution network and increase sales to our existing retail customers, which will require us to expand our sales and marketing activities.

Revenues represent sales booked upon shipment of products and freight income from customers, less an estimated reserve for sales returns and allowances. Because we use internal manufacturing as well as contract with third parties to manufacture our products, our cost of sales represents our costs to manufacture products in our own facilities, including raw materials costs and all overhead expenses related to production, as well as the cost to purchase finished products from our third party manufacturers. Cost of sales also includes the cost to transport these products to our facilities and all warehouse and outbound freight expenses. Our selling, general and administrative expense consists primarily of selling, marketing, wages and related payroll and employee benefit costs, travel and insurance expenses, research and development costs, depreciation, amortization, professional fees, facility expenses, bank charges and non-cash charges for stock based compensation.

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We were organized as a limited liability company and until January 4, 2005 were treated as a partnership for U.S. federal and state income tax purposes for each of the tax years ended December 31, 2002, 2003 and 2004. Under U.S. tax law, partnerships are treated as pass-through entities and are not subject to direct taxation. However, partners are subject to income tax on their allocable share of the partnership's income. On January 4, 2005, we converted from a limited liability company to a taxable corporation. For tax years beginning on January 1, 2005 and afterward, we will be subject to corporate-level U.S. federal and state income taxes. In addition, our foreign operations will be subject to foreign taxes.

From 2002 through 2004, we issued three classes of equity interests in our predecessor limited liability company, designated as Class A and Class B membership interests or units and Class C convertible preferred membership units. Upon our conversion to a corporation on January 4, 2005, Class A and B membership units were converted into shares of our common stock, and Class C membership units were converted into shares of our Series A preferred stock, which will convert into shares of our common stock on a one-for-one basis in connection with the completion of this offering.

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 United States of America, 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.

As a result of these weaknesses, we are in the process of implementing detailed procedures for documenting transactions, consolidating financial information, reconciling accounts and preparing financial statements, including additional levels of review by our existing corporate accounting staff, as part of our quarter- and year-end close process beginning in the second quarter of 2005. In addition, we have revised the methodology by which we track and cost inventory.

We hired a Chief Financial Officer, a director of internal audit, a corporate controller responsible primarily for external financial reporting and technical accounting matters, including consolidations, an assistant controller with responsibility for accounts payable, general ledger and payroll, an experienced accountant with responsibility for inventory tracking and costing methodology, a tax and treasury manager and approximately nine other employees with accounting or financial reporting expertise. We plan to hire additional employees with technical accounting and external financial reporting expertise to further strengthen our corporate accounting staff.

Additionally, we are in the process of implementing procedures as part of our quarter- and year-end close process beginning in the second quarter of 2005, and are using the additional financial reporting resources identified above to strengthen our review process of significant and complex financial reporting areas and financial statement preparation processes. Furthermore, we intend to use a portion of the proceeds of this offering to upgrade our existing information technology systems to, among other matters, strengthen our accounting and financial reporting and consolidation capabilities. We expect these systems to be in place during 2006. See "Risk Factors Risks Related to Crocs, Inc. 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 of financial condition, which could harm our business and reputation and cause the price of our common stock to decline" 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."

#### **Restatement of Prior 2005 Interim Financial Statements**

Subsequent to the issuance of our consolidated financial statements for the three months ended March 31, 2005 and the six months ended June 30, 2005, we determined that the fair value of common stock used for certain equity grants during 2005 was understated. Additionally, we determined that the accumulated deficit as of January 4, 2005, the date of our conversion from a limited liability company to a corporation, should have been reclassified to additional paid-in capital in accordance with SEC Staff Accounting Bulletin Topic 4:B "S Corporations".

The consolidated financial statements as of and for the nine months ended September 30, 2005 included elsewhere in this prospectus include the impact of these adjustments. The consolidated financial statements for the three months ended March 31, 2005 and the six months ended June 30,

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2005 will be restated at the time those financial statements are refiled with our 2006 quarterly financial statements. A summary of the effect of these adjustments is shown below:

**As of and for the three months ended March 31, 2005 (In thousands)**

*Consolidated balance sheet impact*

	<u>Previously Reported</u>	<u>Adjustment</u>	<u>As Adjusted</u>
<b>Current liabilities:</b>			
Accounts payable	\$ 5,070		\$ 5,070
Members' distribution payable	3,000		3,000
Accrued expenses and other liabilities	3,756	(221) <sup>(4)</sup>	3,535
Noted payable and current installments of long-term debt	1,344		1,344
	<u>13,170</u>	<u>(221)</u>	<u>12,949</u>
Total liabilities	16,959	(221) <sup>(4)</sup>	16,738
Redeemable common shares	1,800		1,800
Redeemable convertible preferred shares	5,500		5,500
<b>Stockholders' deficit:</b>			
Common shares	1		1
Addition paid-in capital	4,467	(3,672) <sup>(1)</sup> 74 <sup>(2)</sup> 3,480 <sup>(3)</sup>	4,349
Deferred compensation	(4,208)	503 <sup>(2)</sup> (3,480) <sup>(3)</sup>	(7,185)
Accumulated deficit	(1,344)	3,672 <sup>(1)</sup> (356) <sup>(2)</sup>	1,972
Accumulated other comprehensive income	529		529
	<u>(555)</u>	<u>221</u>	<u>(334)</u>
Total liabilities and stockholders' deficit	\$ 23,704		\$ 23,704
<i>Consolidated statement of operations impact</i>			
Revenues	\$ 10,958		\$ 10,958
Cost of sales	4,119		4,119
	<u>6,839</u>		<u>6,839</u>
Gross profit	6,839		6,839
Selling, general and administrative expense (including stock based compensation of \$699 (previously reported) and \$1,276 (as adjusted))	4,096	577 <sup>(2)</sup>	4,673
	<u>2,743</u>	<u>(577)</u>	<u>2,166</u>
Income from operations	2,743	(577)	2,166
Interest expense and other expenses, net	54		54
	<u>2,689</u>	<u>(577)</u>	<u>2,112</u>
Income before income taxes	2,689	(577)	2,112
Income tax expense	293	(221) <sup>(4)</sup>	72
	<u>2,396</u>	<u>(356)</u>	<u>2,040</u>
Net income	\$ 2,396	\$ (356)	\$ 2,040
<b>Income per common share<sup>(5)</sup></b>			
Basic	\$ 0.09	\$ (0.01)	\$ 0.08
	<u>0.09</u>	<u>(0.01)</u>	<u>0.08</u>
Diluted	\$ 0.07	\$ (0.01)	\$ 0.06

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<b>Previously Reported</b>	<b>Adjustment</b>	<b>As Adjusted</b>
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As of and for the six months ended June 30, 2005 (In thousands)

<i>Consolidated balance sheet impact</i>	<u>Previously Reported</u>	<u>Adjustment</u>	<u>As Adjusted</u>
<b>Current liabilities:</b>			
Accounts payable	\$ 10,393	\$	\$ 10,393
Members' distribution payable			
Accrued expenses and other liabilities	8,128	(429) <sup>(4)</sup>	7,699
Noted payable and current installments of long-term debt	6,605		6,605
	<u>25,126</u>	<u>(429)</u>	<u>24,697</u>
<b>Total liabilities</b>	<b>29,121</b>	<b>(429)<sup>(4)</sup></b>	<b>28,692</b>
Redeemable common shares	1,800		1,800
Redeemable convertible preferred shares	5,500		5,500
<b>Stockholders' deficit:</b>			
Common shares	1		1
Addition paid-in capital	5,271	(3,672) <sup>(1)</sup> 89 <sup>(2)</sup> 5,921 <sup>(3)</sup>	7,609
Deferred compensation	(4,449)	1,032 <sup>(2)</sup> (5,921) <sup>(3)</sup>	(9,338)
Accumulated deficit	2,274	3,672 <sup>(1)</sup> (692) <sup>(2)</sup>	5,254
Accumulated other comprehensive income	420		420
	<u>3,517</u>	<u>429</u>	<u>3,946</u>
<b>Total liabilities and stockholders' deficit</b>	<b>\$ 39,938</b>	<b>\$</b>	<b>\$ 39,938</b>
<b>Consolidated statement of operations impact</b>			
Revenues	\$ 36,727	\$	\$ 36,727
Cost of sales (including stock based compensation of \$29 (previously reported) and \$29 (as adjusted))	15,919		15,919
	<u>20,808</u>		<u>20,808</u>
Gross profit			
Selling, general and administrative expense (including stock based compensation of \$1,231 (previously reported) and \$2,352 (as adjusted))	12,104	1,121 <sup>(2)</sup>	13,225
	<u>8,704</u>	<u>(1,121)</u>	<u>7,583</u>
Income from operations			
Interest expense and other expenses, net	225		225
	<u>8,479</u>	<u>(1,121)</u>	<u>7,358</u>
Income before income taxes			
Income tax expense	2,397	(429) <sup>(4)</sup>	1,968
	<u>6,082</u>	<u>(692)</u>	<u>5,390</u>
Net income	\$	\$	\$
<b>Income per common share<sup>(5)</sup></b>			
Basic	\$ 0.18	\$ (0.02)	\$ 0.16
	<u>0.17</u>	<u>(0.01)</u>	<u>0.16</u>
Diluted	\$	\$	\$

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- (1) Restatement for reclassification in accordance with SAB Topic 4:B.
- (2) Restatement for stock compensation for employee and non-employees.
- (3) Impact on deferred compensation from restatement of stock compensation.
- (4) Income tax provision impact for restatement of stock compensation.
- (5) As adjusted for the stock split of 233.62 to 1.

**Effect of Future Amortization of Deferred Compensation**

As a result of the issuance of stock options and restricted stock grants, we have deferred compensation as of September 30, 2005 of \$13.4 million. Estimated future amortization of deferred compensation is as follows (in thousands):

Fourth quarter of 2005	\$ 1,190
Fiscal year ending December 31, 2006	4,564
Fiscal year ending December 31, 2007	4,075
Fiscal year ending December 31, 2008	3,064
Fiscal year ending December 31, 2009	511
	<hr/>
Total	\$ 13,404
	<hr/>

**Acquisition of Foam Creations**

Foam Creations has developed and manufactured consumer products from specialty resins since 1995. In November 2002, we began marketing and distributing in the U.S., under the **crocs** brand, a footwear model that was manufactured by Foam Creations. Due to the popularity of this shoe and our successful launch in the U.S., we expanded our sales infrastructure, strengthened our senior management team and developed relationships with a range of retailers in the U.S. In June 2004, we acquired Foam Creations, including its manufacturing operations, product lines and rights to the trade secrets for *croslite* for a total cash purchase price of \$5.2 million and the assumption of \$1.7 million of long-term debt. To fund our purchase of Foam Creations, we issued \$5.5 million of preferred securities in connection with the acquisition. The consolidated financial statements referred to in this prospectus reflect the acquisition of Foam Creations as of June 29, 2004, the date of acquisition. Pro forma financial information presented in this prospectus for the year ended December 31, 2004 reflects our results of operations and financial condition as if our acquisition of Foam Creations had occurred on January 1, 2004.

As a result of the acquisition, our consolidated statements of operations included amortization of intangible assets related to the acquisition. In addition, as a result of purchase accounting, the fair values of Foam Creations's assets, including inventory, on the date of the acquisition became their new "cost" basis. As a result, cost of sales for the six months following the acquisition include \$195,000 of additional cost due to the purchase accounting adjustment related to the on-hand inventory that was then sold during the following six months. Expenses attributable to amortization of intangible assets resulting from the acquisition will continue to adversely affect our results of operations in the future. As set forth in Note 7 to the consolidated financial statements included elsewhere in this prospectus, the estimated expense of amortizing these intangible assets is approximately \$1.0 million annually in 2005 through 2008, \$600,000 in 2009 and \$400,000 thereafter.

**Seasonality**

Due to our short operating history and significant sales growth since our inception, we cannot assess with certainty the degree to which sales of our footwear products will be subject to seasonality. However, we expect that our business, similar to other vendors of footwear and related merchandise, will be subject to seasonal variation. We believe many vendors that market footwear products suited for warm weather normally experience their highest sales activity during the second and third quarters of the calendar year. Preliminary results indicate that our revenues for the three months ended December 31, 2005 were lower than our revenues for the three months ended September 30, 2005, and we believe that the decline was primarily attributable to a seasonal decline in the demand for our products. While we have introduced footwear models that are more suitable for cold weather uses, such

as the Aspen, Highland and the Georgie, we expect that demand for our products, and therefore our sales, may continue to be subject to seasonal variations and significantly impacted by weather conditions. In addition, our quarterly results of operations may fluctuate significantly as a result of a variety of other factors, including the timing of new model introductions or general economic or consumer conditions. Accordingly, results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for any year, and revenues for any particular period may decrease. See "Risk Factors Risks Related to Our Business Sales of our products are likely to be subject to seasonal variations, which could increase the volatility of the price of our common stock."

## Results of Operations

### Comparison of the Nine Months Ended September 30, 2005 and 2004

*Revenues.* Revenues increased \$66.9 million, to \$75.0 million, in the nine months ended September 30, 2005, from \$8.1 million in the nine months ended September 30, 2004. This increase was primarily a result of significantly higher unit sales of our footwear products, which increased to 4.4 million pairs for the nine months ended September 30, 2005, from 393,000 pairs for the nine months ended September 30, 2004. The higher unit sales resulted from an increase of nearly 1,800 retail stores selling our products and stronger sales to our existing customers. During the nine months ended September 30, 2005, our results included revenues of \$6.1 million from sales by Foam Creations. Revenues from sales by Foam Creations that were included in our results of operations for the nine months ended September 30, 2004 were \$1.3 million. We expect our sales to continue to grow and our revenues to increase as we enter new markets and introduce new products. In addition, our revenues from sales outside of North America were \$2.1 million in the nine months ended September 30, 2005 and we expect our revenues from international sales to increase in the future.

*Gross profit.* Gross profit increased \$39.1 million, to \$43.0 million, in the nine months ended September 30, 2005, from \$3.9 million in the nine months ended September 30, 2004. Our gross profit margin improved to 57.3% in the nine months ended September 30, 2005, from 48.5% in the nine months ended September 30, 2004. The increase in gross profit margin was due primarily to lower unit costs resulting from the addition of a third party manufacturer located in China, from which we did not obtain footwear products in the nine months ended September 30, 2004. In the nine months ended September 30, 2005, this manufacturer produced 66% of our footwear products.

*Selling, general and administrative expense.* Selling, general and administrative expense increased \$18.7 million, to \$23.1 million in the nine months ended September 30, 2005, from \$4.4 million in the nine months ended September 30, 2004. This increase was primarily a result of higher costs associated with increased sales volumes, including an increase in selling and marketing expenses of \$6.6 million, increases in personnel expenses of \$4.0 million and the associated facility expansion costs of \$863,000 required to support our growth both domestically and internationally in Asia, Europe and Mexico. In addition, professional and consulting fees increased approximately \$2.6 million, primarily as a result of increased legal fees, as well as settlement costs with consultants. In addition, stock-based compensation expense was \$3.4 million for the nine months ended September 30, 2005, compared to \$1.4 million for the nine months ended September 30, 2004. As a percentage of revenues, selling, general and administrative expense decreased to 30.7% in the nine months ended September 30, 2005, from 54.4% in the nine months ended September 30, 2004, primarily due to substantially higher revenues in 2005, with comparatively lower increases in headcount, overhead and administrative expenses. We expect our selling, general and administrative expense will increase as we hire additional personnel and incur increased costs related to our growth. In addition, we expect to recognize increased legal, accounting and personnel costs associated with operating as a public company.

*Interest expense.* Interest expense was \$380,000 in the nine months ended September 30, 2005, compared to \$19,000 in the nine months ended September 30, 2004. The increase is related to the interest expense associated with the indebtedness incurred under our line of credit during 2005 and the long term debt at our subsidiary Foam Creations, which we acquired in June 2004.

*Other expense, net.* Other expense was \$25,000 in the nine months ended September 30, 2005, compared to \$14,000 in the nine months ended September 30, 2004, which primarily related to a minority interest associated with Foam Creations, which was acquired in June 2004.

*Income tax expense (benefit).* In the nine months ended September 30, 2005, income tax expense was \$6.7 million, representing an effective income tax rate of 34.4%, compared to \$44,000 in the nine months ended September 30, 2004. In the nine months ended September 30, 2004, we were not a tax-paying entity for U.S. income tax purposes and therefore did not record any income tax expense for the U.S. entity for this period. We recognized a tax benefit of \$723,000 in the nine months ended September 30, 2005 to establish our deferred tax assets in connection with the conversion from a limited liability company to a taxable corporation.

*Dividends on redeemable convertible preferred stock.* Dividends on our outstanding redeemable convertible preferred stock were \$206,000 for the nine months ended September 30, 2005 compared to \$69,000 for the nine months ended September 30, 2004. We first issued equity with preferred liquidation and dividend rights in June 2004, when we sold our Class C membership units. In connection with our conversion from a limited liability company to a corporation, our Class C membership units converted into shares of our Series A preferred stock. Our Series A preferred stock provides for a dividend at the rate of five percent per annum on the initial investment amount per share. The Series A preferred stock will convert into shares of our common stock in connection with the completion of this offering.

#### **Comparison of the Years Ended December 31, 2004 and 2003**

*Revenues.* Revenues increased \$12.3 million, to \$13.5 million, in 2004 from \$1.2 million in 2003, primarily as a result of higher unit sales. Sales of our footwear products increased to 649,000 pairs in 2004 from 76,000 pairs in 2003. The higher sales volume in 2004 was primarily a result of the popularity of our Beach model and an increase of 1,118 retail stores selling our products. Our results in 2004 include \$2.7 million of revenues from sales by Foam Creations of our non-branded products, which we acquired in June 2004.

*Gross profit.* Gross profit increased by \$6.1 million, to \$6.4 million, in 2004, from \$274,000 in 2003. Gross profit margin improved to 47.0% in 2004 from 23.5% in 2003. The increase in gross profit margin was due primarily to lower unit costs associated with production efficiencies resulting from higher sales volumes. In addition, gross profit in 2004 included approximately \$1.0 million from sales by Foam Creations of our non-branded products. Gross profit margin for our non-branded products sold by Foam Creations was approximately 40.0% for the six months ended December 31, 2004.

*Selling, general and administrative expense.* Selling, general and administrative expense increased \$6.4 million, to \$7.9 million, in 2004, from \$1.5 million in 2003. This increase was primarily a result of higher costs associated with increased sales volumes, including an increase in selling and marketing expenses of \$2.3 million, personnel expenses of \$1.6 million, a portion of which was included in selling and marketing expenses, and the associated facility expansion costs of \$125,000 required to support our growth. The absorption of Foam Creations's selling, general and administrative expense contributed an additional \$1.5 million to this increase of which \$487,000 relates to the amortization of intangibles associated with this acquisition. Depreciation and amortization expense increased to \$586,000 in 2004

from \$18,000 in 2003, primarily as a result of amortization of intangibles associated with our acquisition of Foam Creations. Stock-based compensation expense was \$1.8 million in 2004 compared to \$356,000 in 2003. This increase was due to a greater number of awards granted to employees, directors and consultants, along with higher equity values for such awards. Additionally, a number of awards were granted in 2004 with immediate vesting, and as a result, we recognized the entire expense associated with those grants at the time of the grant. As a percentage of revenues, selling, general and administrative expense decreased to 58.6% in 2004 from 126.3% in 2003, largely due to substantially higher revenues generated in 2004, with comparatively lower increases in headcount and administrative expenses.

*Interest expense.* Interest expense was \$47,000 in 2004, compared to \$3,000 in 2003. The increase in interest expense was primarily the result of an increase in long term debt that was assumed as part of our acquisition of Foam Creations in June 2004.

*Other expense, net.* Other expense was \$19,000 in 2004, and we did not recognize any other income or expenses, net, in 2003. The increase in other income was primarily related to a minority interest that arose after our acquisition of Foam Creations in June 2004.

*Income tax expense (benefit).* We recorded a tax benefit of \$142,000 in 2004, compared to no recorded tax benefit or expense in 2003. Prior to our conversion from a limited liability company to a corporation on January 4, 2005, we were not a taxpaying entity for U.S. federal and state income tax purposes. However, we acquired Foam Creations, a Canadian corporation, in June 2004. During the period subsequent to the acquisition, Foam Creations recorded a tax benefit of \$143,000.

*Dividends on redeemable convertible preferred stock.* Dividends on our Class C membership units were \$142,000 in 2004. No dividends were recorded in 2003. We sold Class C membership units in June and July 2004 that provided for a dividend at the rate of five percent per annum on the initial investment amount per share.

#### **Comparison of the Years Ended December 31, 2003 and 2002**

We commenced operations in July 2002 and began marketing and distributing our products in November 2002 with the introduction of our Beach model at a regional trade show. Sales of our products at the trade show represented our only sales for 2002.

*Revenues.* Revenues increased \$1.2 million, to \$1.2 million, in 2003, from \$24,000 in 2002, as a result of higher unit volumes associated with a full year of operations. Sales of our footwear products increased to 76,000 pairs in 2003 from 1,500 pairs in 2002.

*Gross profit.* Gross profit increased by \$266,000, to \$274,000, in 2003, from \$8,000 in 2002. Our gross profit margin decreased to 23.5% in 2003 from 33.3% in 2002 due to higher costs associated with hiring a third party for warehousing, fulfillment and logistics services, and an increase in shipping costs associated with expanding our retail customer base nationwide.

*Selling, general and administrative expense.* Selling, general and administrative expense increased by \$1.0 million, to \$1.5 million, in 2003, from \$453,000 in 2002. This increase was related to costs associated with our significant growth, and a full year of operations in 2003 compared to operations for only a portion of 2002. Stock-based compensation expense was \$356,000 in 2003 compared to \$240,000 in 2002.

*Interest expense.* Interest expense was \$3,000 in 2003 compared to no recorded expense in 2002.

*Income tax expense (benefit).* We operated as a limited liability company in 2003 and 2002. As a result, we did not record a tax liability for either of those years.

#### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements other than operating leases. See "Contractual Obligations and Commercial Commitments" below. We do not believe these operating leases are material to our current or future financial condition, results of operations, liquidity, capital resources or capital expenditures.

#### **Liquidity and Capital Resources**

Our principal sources of liquidity have been sales of our securities, borrowings under our credit facility and cash provided by operating activities. We raised a total of \$7.1 million, which is net of repurchases of \$162,000, from the sale of equity interests and units from 2002 through 2004. As of September 30, 2005, there was \$5.0 million in outstanding borrowings on our secured revolving credit facility, as discussed below. Foam Creation also borrowed \$2.7 million in 2005. The remainder of our liquidity needs have been met from cash provided by operating activities of \$5.5 million through September 30, 2005.

Our principal uses of cash have been for our acquisition of Foam Creations in June 2004 for \$5.2 million, for the distribution in April 2005 of \$3.0 million in cash to the members of our predecessor limited liability company pursuant to the operating agreement for that entity, for the purchase of our manufacturing operation in Mexico and associated operating assets in April 2005 for approximately \$1.3 million, and for capital expenditures of \$6.2 million through September 30, 2005. We expect our principal uses of cash in the future to be for working capital purposes to support our planned growth and for capital expenditures of approximately \$11.2 million related to increasing our manufacturing capacity and improving our infrastructure, including approximately \$3.5 million for expanding and upgrading our information technology systems. We also plan to repay amounts outstanding under our credit facilities upon completion of this offering, as described in "Use of Proceeds."

The significant components of our working capital are cash, accounts receivable and inventory, reduced by accounts payable and accrued expenses. Capital requirements related to manufacturing include compounding and injection molding equipment for facilities we operate, as well as footwear molds used in our company-operated facilities or purchased for our third party manufacturers. We expect cash flows from operations and the proceeds from this offering will be sufficient to meet our foreseeable cash requirements for at least the next twelve months.

Cash provided by, or used in, operating activities consists primarily of net income or net loss adjusted for certain non-cash items including depreciation, amortization, deferred income taxes, provision for bad debts, stock compensation expense and for the effect of changes in working capital and other activities. Cash provided by operating activities in the nine months ended September 30, 2005 was \$5.6 million and was primarily related to net income of \$12.8 million plus non-cash items of depreciation and amortization of \$2.0 million and equity-based compensation expense of \$3.5 million, partially offset by increases in working capital resulting from significant increases in prepaid expenses and other assets of \$2.1 million, inventory of \$12.1 million and accounts receivables of \$17.8 million offset by increases in accounts payable of \$8.4 million and accrued and other liabilities of \$11.7 million, all related to our sales growth and expanded operations. Cash provided by operating activities for the nine months ended September 30, 2004 was \$183,000, reflecting a loss from operations of \$558,000 and changes in our working capital components, including an increase in accounts receivable of \$910,000 in connection with the growth of our business. Cash provided by operating activities in 2004 was \$777,000,

primarily related to non-cash expenses for stock-based compensation of \$1.8 million and depreciation and amortization of \$700,000 that offset our net loss of \$1.5 million. Cash used in operating activities was \$439,000 in 2003 and \$443,000 in 2002, primarily related to a loss from operations in each of these years offset by working capital changes.

Cash used in investing activities for the nine months ended September 30, 2005 was \$6.8 million, which was related to capital expenditures for molds, machinery and equipment. Cash used in investing activities for the nine months ended September 30, 2004 was \$5.4 million primarily related to the acquisition of our wholly owned subsidiary, Foam Creations, for \$5.2 million. Cash used in investing activities in 2004 was \$6.7 million, primarily related to the acquisition of Foam Creations and capital expenditures of \$1.6 million related to an increase in our manufacturing capacity. Cash used in investing activities was \$321,000 in 2003 and \$78,000 in 2002, related to capital expenditures.

Cash provided by financing activities was \$4.4 million for the nine months ended September 30, 2005, primarily as a result of \$5.0 million borrowed against our secured revolving credit facility and \$2.7 million in borrowings at Foam Creations partially offset by a \$3.0 million cash distribution to our members. Cash provided by financing activities for the nine months ended September 30, 2004 was \$6.1 million, consisting principally of \$6.0 million in equity financing. Cash provided by financing activities was \$6.6 million in 2004, consisting primarily of \$6.0 million in equity financing, and the remainder from indebtedness incurred in connection with purchases of capital equipment. Cash provided by financing activities was \$1.0 million in 2003 and \$594,000 in 2002 related to \$1.2 million in equity financing and \$400,000 of member loan proceeds in those years.

On April 8, 2005 we entered into a \$5.0 million secured revolving credit facility, and on October 26, 2005 we entered into an amended and restated credit facility increasing the amount available under the original facility to \$20.0 million. The total amount available at any time is subject to a borrowing base calculation based on various percentages of accounts receivable, inventory and fixed assets. As of September 30, 2005, we had \$5.0 million in borrowings outstanding under the revolving credit facility. As of December 31, 2005, we had \$5.9 million in borrowings outstanding under the amended and restated credit facility. We used a portion of the proceeds of borrowings under the credit facility to fund a cash distribution of \$3.0 million which was declared to members as of December 31, 2004 of our predecessor limited liability company pursuant to the operating agreement for that entity, and of the remaining \$2.9 million, we used \$1.3 million for the purchase of our manufacturing operation in Mexico and associated operating assets in April 2005 and \$1.6 million for working capital purposes. The revolving credit facility as amended and restated bears interest at floating rates we select on each borrowing, equal to either the Bank of America prime rate, or a calculated Eurodollar rate equal to an adjusted LIBOR rate plus a margin ranging from 1.75% to 2.50% depending on our EBITDA for the most recently completed four fiscal quarters. The effective annual interest rate was 7.25% as of December 31, 2005. Our obligations under the revolving credit facility are secured by substantially all of our property, including, among other things, our accounts receivable, inventory, equipment and fixtures. We pay an annual fee of 0.25% of any unused amount under our revolving credit facility, or 0.50% for any period in which the outstanding amount under the facility is less than \$5.0 million. The credit facility also contains financial covenants that require us to meet a specified consolidated fixed charge coverage ratio and specified levels of consolidated EBITDA. We were in compliance with all covenants as of September 30, 2005. The revolving credit facility will expire on October 26, 2008. The credit facility is subject to an early termination fee of 1% if we terminate the facility on or prior to October 26, 2006, or 0.5% if we terminate the facility on or prior to October 26, 2007.

As of October 31, 2005, we were not in compliance with several covenants in our revolving credit facility including the EBITDA and capital expenditure covenants. In connection with the preparation of a compliance certificate on January 10, 2006, we determined our non-compliance with these covenants



and informed our lender of such non-compliance. With respect to our EBITDA covenant, we failed to achieve the minimum EBITDA threshold required by our revolving credit facility for October 2005; and with respect to our capital expenditure covenant, our expenditures in October 2005, when aggregated with our other capital expenditures in 2005, surpassed the total amount of annual capital expenditures permitted under our revolving credit facility. On January 18, 2006, we agreed to pay a fee of \$100,000 to the lender and we received a waiver of our non-compliance with these covenants.

As a result of these breaches of covenants in our revolving credit facility, we have revised our controls and procedures with respect to capital expenditures. These revised procedures include the requirement that all capital expenditures in excess of a specified amount be approved in writing by our Chief Financial Officer.

### Contractual Obligations and Commercial Commitments

The following table describes our commitments to settle contractual obligations as of December 31, 2004:

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(dollars in thousands)				
Long-term debt <sup>(1)</sup>	\$ 2,245	\$ 461	\$ 1,108	\$ 676	\$
Notes payable <sup>(2)</sup>	658	658			
Operating leases <sup>(3)</sup>	1,003	411	589	3	
Redeemable common shares <sup>(4)</sup>	808		808		
Redeemable convertible preferred shares <sup>(5)</sup>	5,500			5,500	
Purchase obligations	2,325	900	1,425		
Members' distribution	3,000	3,000			
Contractual severance commitment	672	168	336	168	
<b>Total contractual obligations</b>	<b>\$ 16,211</b>	<b>\$ 5,598</b>	<b>\$ 4,792</b>	<b>\$ 5,821</b>	<b>\$</b>

(1) Loan with Development Bank of Canada including estimated interest based on current London InterBank Offered Rate ("LIBOR") plus 3.3%.

(2) Bank demand note in Canada including estimated interest based on the Canadian prime rate plus 0.75%.

(3) Operating leases for real property, vehicles, and equipment, excluding operating leases entered into after December 31, 2004 totaling \$714,000 of future cash commitments.

(4) The redeemable common shares are redeemable commencing in the second quarter of 2006 at the option of the holder. Under the terms of the agreements under which such shares were issued, the purchase price is the greater of the holder's original investment or the holder's then current percentage ownership in Crocs, Inc., multiplied by the aggregate of the prior three fiscal years' net income. The amount in this table represents the original investment which is our current contractual obligation. The redemption option associated with these shares will terminate in connection with the completion of this offering.

(5) Excludes dividends payable of \$275,000 per year on shares of our Series A preferred stock, which is redeemable commencing on July 1, 2009 at the option of a majority the holders, to the extent not previously converted. All outstanding shares of Series A preferred stock will convert to common stock in connection with the completion of this offering.

**Critical Accounting Policies and Estimates**

Our financial statements have been prepared in accordance with accounting principles generally accepted in the U.S., which require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure at the date of our financial statements. On an ongoing basis, we evaluate our estimates and judgments, including those related to revenue, intangible assets, and stock compensation. We base our estimates and judgments on historical

experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis of our judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results or changes in the estimates or other judgments of matters inherently uncertain that are included within these accounting policies could result in a significant change to the information presented in the consolidated financial statements. We believe that the estimates and assumptions below are among those most important to an understanding of our consolidated financial statements contained in this prospectus.

We consider certain accounting policies related to revenue recognition, allocation of the purchase price we paid for Foam Creations, valuation of intangible assets and goodwill, and stock-based compensation to be critical policies due to the estimates and judgments involved in each.

*Revenue Recognition.* Our revenues are derived principally from wholesale sales to retailers. Our standard arrangement for our customers includes a valid purchase order or contract with no customer acceptance provisions. We recognize revenues from sales of products when:

we enter into a legally binding arrangement with a customer;

delivery has occurred;

customer payment is deemed fixed or determinable and free of contingencies or significant uncertainties; and

collection is reasonably assured.

Title passes generally upon shipment or upon receipt by the customer depending on the country of the sale and the arrangement with the customer. Allowances for estimated returns and claims are provided for when related revenue is recorded. We base our estimates on historical rates of product returns and claims, and specific identification of outstanding claims and outstanding returns not yet received from customers. Since inception, actual returns and claims have not exceeded our reserves. However, actual returns and claims in any future period are inherently uncertain and thus may differ from our estimates. If actual returns and claims exceed reserves, we would need to reduce our revenues at the time of such determination.

*Allocation of Purchase Price for Foam Creations Pursuant to Purchase Accounting.* Our purchase of substantially all of the issued and outstanding shares of capital stock of Foam Creations constituted a purchase transaction. Under the purchase accounting rules set forth in Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*, we have allocated the net purchase price to the acquired assets and liabilities of Foam Creations based on the estimated fair values as of the date of the transaction. In accordance with SFAS No. 141, our financial statements as of and for all periods after June 29, 2004 reflect the new basis of the assets and liabilities acquired from Foam Creations at that date. We engaged a third party appraisal firm to assist us in determining the fair values of the assets acquired and the liabilities assumed. Our management was responsible for determining the key assumptions used in determining the fair values of the assets acquired and the liabilities assumed. These valuations required us to make significant estimates and assumptions, especially with respect to intangible assets.

The critical estimates we used in allocating the purchase price and valuing specific intangible assets include the discount rate used, future expected cash flows from customers, customer lists, useful lives of long-lived assets, and brand awareness and market position of acquired products. Our estimates of fair value at the time when they were made were based upon assumptions that we believed to be

reasonable, but which are inherently uncertain and unpredictable. If we were to make different assumptions, the estimated fair value of our intangible assets could differ materially from our estimates.

*Goodwill and Intangible Assets.* We periodically evaluate intangible assets and goodwill in accordance with Statement of Financial Accounting Standards SFAS No. 142, *Goodwill and Other Intangible Assets*, for indications of impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Intangible assets include goodwill, patents and trademarks, customer relationships, and core technology.

Factors we consider important that could result in an impairment review include significant under-performance relative to historical or projected future operating results, significant changes in the manner in which we use the acquired assets or the strategy for our overall business, or significant negative industry or economic trends. SFAS No. 142 also requires an annual impairment test for goodwill. In testing for a potential impairment of goodwill, SFAS No. 142 requires the application of a fair value based test at the reporting unit level. Our impairment test of goodwill compares the fair value of the applicable reporting unit to its carrying value. If the carrying value of the reporting unit exceeds the estimate of fair value, impairment is calculated as the excess of the carrying value of goodwill over its implied value. Intangible assets that are determined to have definite lives are amortized over their useful lives and are measured for impairment only when events or circumstances indicate the carrying value to be impaired in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. There was no impairment of goodwill as of December 31, 2004.

*Stock-Based Compensation.* We have elected to follow the intrinsic value-based method prescribed by Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees*, and the related interpretations in accounting for employee stock options rather than adopting the alternative fair value accounting provided under SFAS No. 123, *Accounting for Stock Based Compensation*. Therefore, we do not record any compensation expense for stock options we grant to our employees where the exercise price equals the fair market value of the stock options on the date of grant and the exercise price, number of shares eligible for issuance under the options and vesting period are fixed. We comply with the disclosure provisions of SFAS No. 123 and SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, which require that we disclose our pro forma net income or loss and net income or loss per common share attributable to common stockholders as if we had expensed the fair value of the options. In calculating fair values of our options, we use assumptions of estimated option life, dividend policy, volatility and interest rates.

The fair value of equity units granted from October 2002 through December 2004 was originally estimated by our board of directors based upon the best information available to them on the dates of grant, including third party sales of equity units. We did not obtain contemporaneous valuations by valuation specialists because, at the time of the issuances of stock options during this period, our efforts were focused on acquiring new customers, developing our operational infrastructure and executing our business plan. We engaged an independent third party valuation specialist to perform a valuation of our common stock at December 31, 2004, May 1, 2005, June 30, 2005, August 1, 2005, September 1, 2005 and October 1, 2005 in connection with the grant of options to purchase shares of our common stock to employees, consultants and members of our board of directors. The May 1, 2005 valuation was restated in the third quarter of 2005 to adjust certain estimates based on our expected market value in the initial public offering. The original value of \$3.38 per share was revised to \$5.91 per share. Our estimates of fair value of our stock are based on assumptions that we believe are reasonable. The fair value of our stock is affected by a number of assumptions and judgments including the timing of sales of equity instruments, the negotiated value of those sales, the timing of our third party valuations and significant assumptions included in those valuations, including our estimates of our

future performance, discount factors used and comparable companies and transactions selected, among others. If we were to make different assumptions, the estimated value of our stock could differ materially from our estimates.

As discussed below under "Recent Accounting Pronouncements," the FASB has issued SFAS No. 123(R), which we expect to be required to implement beginning January 1, 2006. We are evaluating the impact that adoption of SFAS No. 123(R) will have on our financial statements.

#### **Quantitative and Qualitative Disclosures About Market Risk**

As of December 31, 2005, we had a \$20.0 million line of credit with a lender. As of September 30, 2005, we had \$5.0 million outstanding on this facility, and we expect that we will continue to borrow under this line or a new line in the future. To the extent we borrow under our revolving credit facility, which bears interest at floating rates based either on the Bank of America's prime rate or an adjusted LIBOR rate, we are exposed to market risk related to changes in interest rates. At December 31, 2005, the applicable interest rate on borrowings outstanding under the credit facility was 7.25% per year. If applicable interest rates were to increase by 100 basis points, for every \$1.0 million outstanding on our revolving credit facility, our income before income taxes would be reduced by approximately \$10,000 per year. We are not party to any material derivative financial instruments. Our credit facility will be repaid upon consummation of this offering.

We pay our overseas third party manufacturers in U.S. dollars and have not had significant revenues from foreign sales in past periods. As a result, we have not faced, and do not currently face, any material risk relating to fluctuations in foreign currency exchange rates. In the event our foreign sales increase and are denominated in currencies other than the U.S. dollar, our operating results may be affected by fluctuations in the exchange rate of currencies we receive for such sales.

#### **Recent Accounting Pronouncements**

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs - An Amendment of ARB No. 43, Chapter 4*. SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, *Inventory Pricing*, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage), and requires that such items be recognized as current-period charges regardless of whether they meet the "so abnormal" criterion outlined in ARB No. 43. SFAS No. 151 also introduces the concept of "normal capacity" and requires the allocation of fixed production overheads to inventory based on normal capacity of the production facilities. Unallocated overheads must be recognized as an expense in the period incurred. SFAS 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005 and is required to be adopted in the first quarter of fiscal year 2006. We have not yet determined the effect of adopting this pronouncement.

In December 2004, the FASB issued SFAS No. 123(revised 2004), *Share-Based Payment*, which is a revision of SFAS No. 123. SFAS No. 123(R) supersedes APB Opinion No. 25, and amends SFAS No. 95, *Statement of Cash Flows*. Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

SFAS No. 123(R) and the related interpretations must be adopted no later than January 1, 2006. We expect to adopt SFAS No. 123(R) on January 1, 2006.

SFAS No. 123(R) permits companies to adopt its requirements using one of two methods:

A "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS No. 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123(R) that remain unvested on the effective date.

A "modified retrospective" method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS No. 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

We adopted the "modified prospective" method as of January 1, 2006; however we have not yet determined the effect of adopting this pronouncement.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Non-Monetary Assets*. The statement refines the measurement of exchanges of non-monetary assets between entities. The provisions of this statement are effective for fiscal periods beginning after June 15, 2005. Historically, we have not transacted significant exchanges of non-monetary assets, but future such exchanges would be accounted for under the standard, when effective.

In March 2005, the FASB issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*. FIN 47 clarifies that the term conditional asset retirement obligation as used in FASB Statement No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. We will adopt FIN 47 in its fiscal year 2006. We are currently evaluating the effect that the adoption of FIN 47 will have on our consolidated results of operations and financial condition.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* (SFAS 154), which replaces APB No. 20, "Accounting Changes" and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements - An Amendment of APB Opinion No. 28*. SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. This pronouncement is required to be adopted by us in the first quarter of 2006. We are currently evaluating the effect that the adoption of SFAS 154 will have on our consolidated results of operations and financial condition but does not expect it to have a material impact.

## BUSINESS

### Overview

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 enables us to produce a soft and lightweight, non-marking, slip- and odor- resistant shoe. We believe our proprietary closed-cell resin, which we refer to as *croslite*, combined with our unique styling, represents a substantial innovation in footwear comfort and functionality, allowing us to offer a differentiated line of products in the casual lifestyle footwear category at attractive retail price points ranging from \$29.99 to \$59.99. We currently offer 11 footwear models in up to 18 different colors. We market our footwear products to a broad range of distribution channels and currently sell our products in over 6,200 retail locations in the United States, and have begun selling our products in over 40 additional countries. In addition to our footwear products, we market a line of **crocs**-branded apparel and accessory items that are intended to increase awareness of our brand and our products. We also selectively use *croslite* to manufacture a variety of other non-branded products, such as spa pillows and kayak seats, which are marketed to original equipment manufacturers.

### Industry Trends

In recent years, footwear manufacturers have increasingly offered more casual shoes in response to growing consumer demand. We believe that the market for casual footwear is expanding and that several factors are driving this trend, including a desire for more comfortable and functional shoes, the incorporation of athletic features into casual shoes, and a general fashion trend towards more casual attire.

We believe that continuing consolidation among retailers, as well as consumers' demand for unique products at attractive prices, has resulted in an increasingly competitive environment for footwear retailers. Retailers continually strive to more efficiently stock limited floor space, improve their sales volumes and profit margins and reduce risk of over or under-stocked inventory. As a result, most footwear retailers seek unique and differentiated footwear products at attractive retail price points to increase consumer traffic and improve sales per square foot in their stores. Additionally, retailers seek footwear models that offer strong profit margins and have broad demographic appeal. We also believe that retailers have recently strategically reduced the number of footwear vendors with whom they work and have attempted to enhance their relationships with their remaining vendors. Specifically, retailers are looking to establish more efficient, just-in-time supplier relationships, allowing for more effective inventory management, increased inventory turns and reduced inventory risk.

### 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 consumers associate the **crocs** brand with broad functionality in a comfortable, stylish shoe. Our footwear is made primarily from *croslite*, which contributes many of the functional characteristics of our products. Use of *croslite* enables us to manufacture shoes that are significantly lighter than traditional casual shoes. In addition to being lightweight, our shoes have non-marking, slip-resistant soles and respond to body heat by softening and conforming to the wearer's feet. These distinct characteristics make our footwear ideal for casual wear and for recreational uses such as boating, hiking, fishing or gardening, as well as for wearing after exercise. Additionally, the soft and lightweight nature of our footwear increases their appeal to people whose jobs require them to stand for long periods of time,

such as those in the medical and food service industries. We intend to expand the range of uses of our footwear products with the introduction of new models, reinforcing our reputation for producing broadly functional and comfortable footwear. Although we believe our fun styles are an important element of our products and our brand image, we believe that the functionality and comfort of our products are key competitive advantages in the market.

*Maintain a flexible, low-cost manufacturing model.* Our strategy is to maintain a flexible, globally diversified, low-cost manufacturing base. We manufacture a portion of our footwear product volume in facilities that we operate in North America and obtain the remainder from third party manufacturers located around the world. We believe this enables us to

rapidly change our production schedule to meet changing customer demand throughout the year, while capitalizing on the efficiencies and cost benefits of contract manufacturing. In addition, we recently began compounding a portion of our supply of *croslite* in-house, to further reduce costs in our supply chain and to provide maximum flexibility in our manufacturing process, such as quickly increasing production of in demand colors to meet consumer preferences. We believe that 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 an innovative range of footwear products that is highly differentiated from lines of products offered by our competitors in terms of functionality, comfort and style. We believe continued product innovation will be required to maintain differentiation of our products and will be key to maintaining a competitive advantage in the marketplace. By refining existing models and introducing new models, we expect to continue to offer our consumers and retailers a broad selection of fun and functional styles that remain current with consumer trends. We also believe product innovation will enable us to successfully expand the **crocs** brand into additional footwear categories.

*Enhance our **crocs** brand.* Our initial focus has been to introduce a range of innovative footwear products that appeal to a broad group of men, women and children, and we have taken a grassroots approach to marketing our products in defined target markets. A core element of our strategy is to expand our brand by capitalizing on market opportunities arising from the 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 believe we offer our customers a compelling value proposition that helps to differentiate us from other footwear vendors. We offer retailers a line of footwear products that we believe are unique in appearance and functionality and retail at attractive price points yet provide compelling profit margins for our retailers. We believe our attractive, space-efficient merchandising display and our brightly colored products can result in increased consumer traffic and high sales per square foot for our retail customers. Additionally, we expect that our flexible production model will enable us to offer our customers timely inventory fulfillment of high-demand products throughout the year. We believe this enables our retail customers to experience less time out of stock of key products and to maximize their inventory turns and sales volumes. We expect these factors will allow us to continue to add new customers and to extend our



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relationships with our current retailers into additional store locations and expanded shelf space.

### 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.* Since we began marketing our first model in November 2002, we have expanded our footwear product portfolio to include 11 models in up to 18 different colors. We plan to continue introducing new models and additional colors at various price points in order to meet the evolving needs of consumers and our retail customers. Our new footwear models will also be designed to further expand the appeal of our products to diverse demographic audiences. As a part of this strategy, we are now offering refined versions of previous models, such as the Aspen, a revised and updated version of our Highland model, and we are expanding into new footwear categories with models such as the Islander, a water resistant deck shoe with a stitched leather upper, the Georgie, a calf-high rain boot and shoes specifically designed for medical and institutional uses.

*Expand domestic distribution.* We believe we have significant opportunities to add new retailers and to increase sales to existing retail customers at additional store locations. We intend to continue to expand our domestic distribution by augmenting our domestic sales force, extending our product offering and providing high quality service to our customers. We also intend to expand our direct retail sales domestically by opening additional company-operated kiosks in malls and other strategic locations throughout the U.S.

*Further develop international distribution.* We believe that international markets represent a significant opportunity for our products and our brand. We continue to establish a sales presence in major foreign markets and 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, and we will continue to establish distributor relationships in countries where we believe they offer a preferable alternative to a direct sales force.

*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 have recently introduced branded accessory items, including a line of **crocs** sunglasses, and branded apparel such as t-shirts, sweatshirts, hats and socks.

### Product Overview

Our primary product line is **crocs**-branded footwear for men, women and children, which we first introduced in 2002 with a single model in six colors. We have since expanded our line of footwear to include 11 models in up to 18 different colors and a range of sizes, representing over 1,100 stock keeping units, or SKUs, and we intend to continue diversifying our footwear portfolio with new model introductions. In addition, we have introduced **crocs** branded apparel and accessories, and we also selectively use *croslite* to manufacture a variety of other non-branded products, such as spa pillows and kayak seats, for original equipment manufacturers.

*Footwear*

A key differentiating feature of our footwear products is *croslite*, which is uniquely suited for comfort and functionality. We have carefully formulated *croslite* to be of a density that creates a comfortable shoe with a high coefficient of friction, allowing for slip-resistant, non-marking footwear that is extremely lightweight. For example, a size large Beach weighs approximately six ounces, which is significantly lighter than more traditional casual footwear products. *Croslite* softens as it warms to better conform to the wearer's feet. Our shoes are also non-absorbent, which makes them water resistant and virtually odor-free, and allows them to be cleaned simply with water or bleach.

We have combined the unique properties of *croslite* with designs that are intended to be functional across a broad range of activities. As a result, we believe our products appeal to a wide range of consumers. We introduced **crocs** as a footwear brand in the U.S. with the launch of our Beach model in 2002. Based on our initial success, we made refinements to the Beach model and introduced a second generation of footwear (the Cayman, Highland and Metro models) that incorporated a broader range of sizing, provided different levels of ventilation for various climates and offered slightly different styling. We have further broadened our footwear line into new product categories, such as the Athens, a flip-flop with a soft footbed; the Nile, an open toe model designed for women; and the Islander, a deck shoe integrating a base made from *croslite* with a stitched leather upper.

We currently sell our shoes in an assortment of colors, styles and sizes to provide consumers and retailers a wide variety of options at suggested retail prices ranging from \$29.99 to \$59.99. We have designed our shoes to offer a number of beneficial structural features to provide maximum comfort and functionality, such as Italian-designed orthotic heels, built-in arch supports and tarsal bars. We also offer models that are based on either general shoe sizing ranging from XXS through 4XL, or specific shoe sizing ranging from children's 8-9 through men's 13. This allows retailers to offer a complete range of sizes or carry a more limited number of SKUs, enabling them to tailor their offerings to their particular clientele and more efficiently allocate limited floor space.

We currently produce and market eleven footwear models:

The Beach model was our original shoe and is now available in 17 vibrant colors and a simple sizing scheme for men, women and children. Ports on the top and sides of the shoe help keep feet ventilated and comfortable. The Beach, like several of our other models, features a heel strap that may also be rolled forward to create a slip-on option.

**Beach**  
**MSRP: \$29.99**

**Colors:** Black, Butter, Chocolate, Coral, Emerald, Fuchsia, Khaki, Light Blue, Lime, Navy, Pearl White, Pink, Purple, Red, Sage, Sea Blue, and Yellow  
**Sizes:** XS, S, M, L, XL, XXL, 3XL (limited colors), 4XL (limited colors)

The Cayman, available in 17 colors, represents our second generation of footwear and was designed to incorporate more specific sizing and a slightly narrower footbed. Unlike the Beach, which comes in sizes from XS to XXL, the Cayman comes in individual shoe sizes.

**Cayman**  
**MSRP: \$29.99**

**Colors:** Black, Butter, Chocolate, Coral, Emerald, Fuchsia, Khaki, Light Blue, Lime, Navy, Pearl White, Pink, Purple, Red, Sage, Sea Blue, and Yellow  
**Sizes:** 5-13 Men, 3-12 Women

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Our Highland model, available in five colors, was developed for consumers seeking a warmer and more water-resistant design. Unlike the Beach and the Cayman, the Highland does not incorporate ports and has a completely closed upper.

**Colors:** Black, Emerald, Khaki, Navy, and Pearl White

**Sizes:** XS, S, M, L, XL, XXL

**Highland**  
**MSRP: \$34.99**

The Aspen is a refined version of the Highland. Suitable for inclement weather use because of its portless design, the Aspen features ergonomic Italian styling and individual shoe sizes.

**Colors:** Black, Chocolate, Coral, Khaki, Light Blue, Navy, Pearl White, Purple, Red, Sage, and Sea Blue.

**Sizes:** 4-13 Men, 6-12 Women

**Aspen**  
**MSRP: \$39.99**

The Professional, available in nine colors, is a hybrid of our Cayman and Aspen models. The Professional protects the foot by eliminating the ports on top of the shoe while retaining them around the side of the foot to maintain ventilation.

**Colors:** Black, Chocolate, Coral, Khaki, Light Blue, Navy, Pearl White, Pink, and Red

**Sizes:** 4-13 Men, 6-12 Women

**Professional**  
**MSRP: \$39.99**

The Relief, available in seven colors, is a hybrid of our Cayman and Highland models. The Relief protects the foot by eliminating the ports on top of the shoe while retaining them around the side of the foot to maintain ventilation.

**Colors:** Black, Chocolate, Khaki, Navy, Light Blue, Pearl White, and Sage

**Sizes:** 4-13 Men, 6-11 Women

**Relief**  
**MSRP: \$44.99**

The Nile, available in 16 colors, is specifically designed for women who want the comfort and functionality of **crocs** footwear in an open toe design.

**Colors:** Black, Butter, Coral, Emerald, Fuchsia, Khaki, Light Blue, Lime, Navy, Pearl White, Pink, Purple, Red, Sage, Sea Blue, and Yellow

**Sizes:** 4-11 Women

**Nile**  
**MSRP: \$29.99**

The Athens, available in 16 colors, combines a lightweight *croslite* flip-flop design with an ultra-suede footbed that wicks moisture away from the foot.

**Colors:** Black, Butter, Coral, Emerald, Fuchsia, Khaki, Light Blue, Lime, Navy, Pearl White, Pink, Purple, Red, Sage, Sea Blue, and Yellow

**Sizes:** 3-13 Men, 5-12 Women

**Athens**  
**MSRP: \$29.99**

The Athens II is a modified version of the Athens that incorporates a *croslite* footbed in place of ultra-suede.

**Colors:** Variety of available color combinations

**Sizes:** 3-13 Men, 5-12 Women

**Athens II**  
**MSRP: \$29.99**

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The Islander is an innovative deck shoe integrating a base made from *croslite* with a stitched leather upper.

**Colors:** Variety of available color combinations

**Sizes:** 4-13 Men, 6-12 Women

### **Islander**

**MSRP: \$59.99**

The Georgie is a lightweight rain boot made from *croslite*. Like our other footwear models, the Georgie's footbed has circulation nubs, a tarsal bar and built-in orthotic support to enhance comfort, and its waterproof design makes it suitable for all-weather wear.

**Colors:** Black, Chocolate, Coral, Fuchsia, Lime, Pearl White, Purple, Red, Sea Blue, Yellow

**Sizes:** XXS, XS, S, M, L

### **Georgie**

**MSRP: \$49.99**

We also recently introduced a line of footwear for children based on our Cayman and Aspen models. Our children's footwear is sold in 13 colors and in sizes 8-9, 10-11, 12-13, 1, 2, and 3 for a suggested retail price of \$29.99.

As part of our strategy of expanding into new footwear categories, we are continually designing new footwear using our in-house design team as well as recognized footwear design experts.

### *Apparel and Accessories*

We have introduced several **crocs**-branded accessory items that complement the fun styling, colors and image of our footwear and that we believe will appeal to a similar demographic base. We have developed a line of **crocs** sunglasses that we intend to market to larger retail customers where we believe accessories will appeal to the retailer's customer base and complement the retailer's merchandising strategy for our footwear. We also intend to develop additional **crocs** accessories for certain targeted markets. For example, we have developed a line of lightweight, colorful kneepads made from *croslite*, which we are marketing to gardening retailers and hardware stores. Our strategy is to develop accessory items that benefit from our unique material and complement the market positioning of our **crocs** footwear.

As part of our strategy to increase awareness of our brand, we have also introduced a line of branded logo apparel which is complementary to our footwear line and embodies the functional and fun aspects of the **crocs** brand. These products include t-shirts, sweatshirts, hats, beanies and socks, all of which come in various colors and prominently feature the **crocs** logo.

### *Other Products*

*Croslite* is well suited to a number of other applications and, in many cases, is superior to materials currently used in such applications. Foam Creations, our wholly owned subsidiary, manufactures spa pillows for the home spa market, as well as seats and pads for use in kayaks and canoes. *Croslite* is also highly functional for other water sports products such as scuba diving fins and recreational flotation devices, and we currently produce these items for several original equipment manufacturers. These products employ *croslite*, but we do not market them under the **crocs** brand name.

## Sales and Distribution

### *Domestic Sales*

In the U.S., we sell our products through over 6,200 domestic retail store locations representing over 3,200 customer accounts. Our footwear is currently sold through traditional retail 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. Sales to Dillard's accounted for approximately 14% of our revenues during the nine months ended September 30, 2005. No other customer accounted for more than 10% of our revenues during the nine months ended September 30, 2005. Our products are also sold through a variety of other specialty channels, including gift shops, independent bicycle dealers, specialty food retailers, health and beauty stores, catalogs and uniform suppliers. As we have introduced new models in new footwear categories, we have strategically aligned ourselves with retailers whom we believe have the reputation for quality and style that will reinforce the high level of quality, performance and functionality associated with the **crocs** brand.

Our domestic accounts are primarily serviced through a network of six independent sales representatives, who focus on selling the appropriate mix and quantity of our products to our retail accounts, ensuring that our products are displayed effectively at retail locations and educating our retailers about our **crocs** brand and the quality of our products. We compensate our independent sales representatives on a commission basis, which we believe provides them with strong incentives to promote our products. We are typically the exclusive footwear brand sold by these representatives, who may also sell complementary products, such as sunglasses or apparel, from other companies. For certain of our larger retail accounts and distributors, we manage the sales relationship through in-house sales executives rather than through independent sales representatives.

### *International Sales*

Outside of the U.S., we sell our products through over 1,500 international retail store locations, including 10 company-operated kiosks. Our strategy is to sell through a broad range of sporting goods and department stores, as well as through specialty retailers, similar to the retail sales channels we have established in the U.S. We intend to continue to establish a direct sales presence in major foreign markets, rather than rely on distributors, which we believe will improve our margins and allow us to better control our marketing and distribution. We have established direct sales efforts in Australia, Austria, the Caribbean, France, Germany, Hong Kong, Japan, Latin America, the Netherlands, Singapore, and the U.K.

We also use distributors in select foreign markets where we believe such arrangements are preferable to direct sales. In markets where we use third party distributors, these distributors purchase products pursuant to a price list and are granted the right to resell such products in a defined territory, usually a country or group of countries. Our typical distribution agreements have terms of one to four years, are terminable upon 60 days' notice prior to the end of the term or upon six months prior notice at any time, and require our distributors to meet a minimum sales threshold.

Our international accounts are primarily serviced through our international offices and a network of sales agents and distributors. In addition, we employ two in-house sales executives who serve as key account managers for several of our largest customers.

### *Retail Sales*

We are currently expanding our direct sales efforts to consumers. We believe that direct sales provide us with an opportunity to showcase our entire line of footwear, apparel and accessory offerings, and

believe this strategy will serve as an important and effective means to enhance our product and brand awareness. We also believe that our direct sales initiatives require low levels of capital investment while enabling us to sell our products at retail, rather than wholesale prices, resulting in higher potential gross margins.

*Retail Sites.* As of December 31, 2005, we operated 50 retail kiosks located in malls and other high foot traffic areas. With bright and colorful displays, efficient use of retail space and limited initial capital investment, we believe that kiosks are an effective outlet for selling our products. Kiosks enable us to highlight a wide range of our product offering, more effectively interact with potential consumers and enhance our brand awareness among both consumers and local retailers. We plan to continue to open and operate additional kiosk sites in select, high foot traffic locations.

*Internet.* We currently offer our products domestically and internationally through our website at [www.crocs.com](http://www.crocs.com). Our Internet presence enables us to educate consumers about our products and brand. As we expand our international marketing efforts, we intend to create local websites targeting consumers in each major market we enter.

#### *Distribution and Logistics*

In July 2005, we engaged Expeditors International of Washington, Inc., a global supply chain management and logistics provider, to operate our warehouse, distribution and fulfillment process for a significant portion of our domestic sales. Expeditors operates a distribution center in Aurora, Colorado through which we distribute a substantial portion of our products in the U.S. We have negotiated the use of up to 190,000 square feet of the distribution center to accommodate fluctuations in our inventory. We do not have a long-term contract with Expeditors, and the relationship may be terminated at will on 60 days' notice by either party.

A substantial portion of our products are shipped to Expeditors's distribution center in Aurora. From there, Expeditors packages orders and generally ships by package express or truck to our customers, depending upon size of order, customer location and availability of inventory. In select cases, large customers may receive shipments of footwear directly from the manufacturing facilities. We have established or are in the process of establishing additional company-operated warehouse and fulfillment operations in Mexico, China, Canada and the Netherlands, and are developing relationships with third parties in Australia, China and Singapore to provide such services to us. In addition, we have recently established a company-operated warehouse facility and customer order facility in Niwot, Colorado, and we are currently processing our Internet, accessories and apparel orders from this facility. We believe that these warehousing, distribution and fulfillment services will enable us to ship our products from facilities adjacent to our manufacturing operations directly to our customers, rather than through Expeditors's distribution facility in Colorado.

#### **Raw Materials**

Our proprietary closed-cell resin, which we refer to as *croslite*, is the primary raw material used in all of our footwear and non-branded products, including spa pillows and seats and pads for kayaks and canoes. *Croslite* is also used in our **crocs**-branded accessory items, such as our kneepads. We have formulated *croslite* to offer a number of unique properties that make our material suitable for a wide range of commercial uses including those mentioned above. Our material is soft and durable and is of a density that provides a high coefficient of friction allowing our material to be slip-resistant and non-marking in addition to being extremely lightweight. Additionally, the closed-cell nature of *croslite* makes it resistant to the bacteria and fungus that cause shoe and foot odor. We continue to invest in research and development in order to refine our materials to enhance these properties as well as target the development of new properties for specific applications.

*Croslite* is produced by compounding elastomer resins that we or one of our third party processors purchase from a major chemicals manufacturer together with certain other production inputs, such as color dyes. Other than the elastomer resins, all of the raw materials we use to produce *croslite* are readily available for purchase from multiple suppliers. At this time, we have only identified one supplier that produces the particular elastomer resins used in *croslite*. However, we may in the future identify and utilize materials produced by other suppliers as an alternative to the elastomer resins we currently use in the production of our proprietary material.

We have historically contracted to have *croslite* compounded by Finproject S.p.A., or Finproject, our third party manufacturer in Italy, and we have recently begun compounding *croslite* at our manufacturing facility in Quebec City, Canada. We have also engaged a processor in Canada to compound a portion of our *croslite* requirements. We believe that in-house production of *croslite* will lower our production costs, reduce the risk of supply shortages from our third party processors and provide us with greater production flexibility to meet changing retail demand. However, we will continue to purchase a portion of our *croslite* requirements from Finproject in accordance with the terms of our supply agreement with Finproject.

### **Manufacturing and Sourcing**

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

The process for manufacturing our footwear was developed over an eight year period of continual refinement to improve consistency, softness, durability and yield. Prior to October 2004, all of our footwear was manufactured at Foam Creations's facility in Quebec City. In the nine months ended September 30, 2005, we manufactured approximately 22% of our footwear products in our Quebec City facility and plan to increase our internal manufacturing capacity through our recent acquisition, and subsequent expansion, of a manufacturing operation in Mexico. We obtain the remainder of our footwear products from third party manufacturers in China, Florida and Italy. In the nine months ended September 30, 2005, a supplier in China produced approximately 66% of our footwear unit volume. We have long-term contracts with third party manufacturers in Italy and Florida, but do not have a written supply agreement with our primary third party manufacturer in China. While we are currently dependent on a limited number of third party manufacturers to produce a majority of our footwear products, we have evaluated and qualified over 15 alternative third party manufacturers that have the current ability and capacity to manufacture our footwear products in the event that one or more of our current third party manufacturers were to reduce or cease production of our footwear. For example, to meet the growing demand for our footwear, in August 2005, we engaged a new third party manufacturer capable of commencing production of our footwear products within two months of entering into discussions with us regarding a manufacturing arrangement.

Our manufacturing facility in Quebec City produces our non-footwear products made from *croslite*, such as kayak seats and spa pillows. We purchase our apparel and accessories from various suppliers in the U.S. that source our products from manufacturers in Guatemala, Honduras and South Korea.

All of our manufacturers and suppliers of our apparel and accessories must comply with our high quality standards, which are an integral component of the reputation of the **crocs** brand. We have instituted pre-production and post-production inspections to meet or exceed the high quality demanded by consumers of our products and to ensure consistent product quality regardless of the location of production. Our quality assurance program includes on-site inspection throughout the entire production process in our Quebec City facility as well as spot inspections of our third party manufacturers. We also inspect our products upon arrival at our U.S. distribution center.

### **Product Design and Development**

Our primary goal in product design and development is to create and introduce new and innovative footwear products that combine our standards of comfort, functionality and style and enhance the awareness of the **crocs** brand. Our footwear product line is designed by a combination of our internal design and development staff supported by outside designers. By introducing outside sources to the design process, we believe we are able to capture a variety of different design perspectives on a cost-efficient basis and anticipate trends more quickly. We are committed to continuing to dedicate significant resources to product design and development to sustain our brand's commitment to innovation, execute on our growth strategy and support our goal of becoming a well recognized global brand.

We develop footwear models based on what we identify as opportunities in the marketplace. Once a design has been identified and demand in the marketplace has been validated, the designs are then translated into product specifications by our developers and made into prototypes in our facility in Quebec City, Canada or by one of our third party manufacturers in Italy or China. Our designers and developers work closely with each other to develop product prototypes, test and refine products and provide quality assurance throughout the manufacturing process. Our design and development process is highly collaborative as members of the design team frequently meet with our sales and marketing staff, production and supply managers and certain of our retail customers to further refine our products to meet the particular needs of our target market. We continually strive to improve our development function so that we can bring products to market quickly and reduce costs while maintaining product quality.

### **Backlog**

As of December 31, 2005, our backlog was approximately \$6.7 million compared to \$1.4 million as of December 31, 2004. Although orders in the backlog are subject to cancellation by customers, we have not yet experienced any material levels of cancellation of orders by our customers and believe that substantially all of the orders will be shipped in 2006. For a variety of reasons, including our short operating history, continued growth in customer demand for our products, the addition of new customers in each of our channels, the timing of production and shipments, seasonality, product mix of customer orders, and a shift toward shorter lead times for orders, backlog may not be a reliable measure of future sales for any succeeding period. In addition, our historical cancellation experience may not be indicative of future cancellation rates.

### **Marketing**

We have been successfully building product and brand awareness and generating sales growth through grassroots efforts and a limited marketing budget. To date, we have primarily relied on trade shows, word of mouth, public relations efforts promoting our products in various trade publications and media outlets, and our website to build awareness of our brand. We exhibit at both domestic and international trade shows, including the World Shoe Show, Outdoor Retailer, FFANY, International Trade Fair for Sports Equipment and Fashion, and Fredrickshafen Outdoor Show, where we have the opportunity to



showcase our product line to important retail buyers. We were recently recognized as the "Brand of the Year" by *Footwear News*, a leading industry publication. We also promote our products and our brand on our website at [www.crocs.com](http://www.crocs.com). Our website allows us to present important and relevant information on our products and to provide consumers with information regarding retail store locations that sell our products.

As we continue to grow, we intend to increase our marketing efforts and expenditures to continue to build **crocs** into a well recognized global brand. We have recently hired an advertising firm to coordinate our marketing efforts and further develop our long-term brand strategy. As part of our marketing strategy, we plan to use traditional media channels, including print advertising, event promotions and sponsorship, as well as athlete or celebrity sponsorship to reach our target consumer markets. Our marketing efforts will be customized for each product category and target market, but the core message will be consistent and integrated with our overall corporate brand strategy.

We plan to support our marketing efforts with a public relations strategy that is intended to garner positive and accurate editorial comments regarding our company and secure product placement in key magazines, trade journals and publications. We have recently hired a well-known public relations firm to refine our communication strategy.

### **Competition**

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

### **Intellectual Property and Trademarks**

We rely on a combination of trademark, copyright, trade secret, trade dress and patent protection to establish, protect and enforce our intellectual property rights in our product designs, brand, materials and research and development efforts, although no such methods can afford complete protection.

We own a variety of trademarks, including the **crocs** trademark, in a number of countries around the world. Our trademarks are used on all of our **crocs**-branded footwear, apparel and accessory products. We have registered our **crocs** trademark in Australia, the European Union, Japan, Mexico, New Zealand and Panama, and have registered our **crocs** logo as a trademark with the World Intellectual Property Office, or WIPO. As of December 31, 2005, we had 18 pending applications for our trademarks in the U.S., including an application for the **crocs** trademark and our **crocs** logo. As of December 31, 2005, we also had 168 pending trademark applications in foreign jurisdictions, including Argentina, Brazil, Canada, Chile, China, Costa Rica, Croatia, Hong Kong, Iceland, India, Indonesia, Israel, Jamaica, Japan, Malaysia, Mexico, New Zealand, Norway, Panama, Philippines, Romania, Russian Federation, Saint Kitts and Nevis, Saudi Arabia, Singapore, South Africa, South Korea, Switzerland, Taiwan, Turkey, Ukraine, United Arab Emirates and the WIPO. Trademarks registered outside of the U.S. generally have a duration of ten years depending upon the jurisdiction and are also generally subject to an indefinite number of renewals for a like period upon appropriate application. We believe our trademarks are crucial to the successful marketing and sale of our products, and we attempt to vigorously prosecute and defend our rights throughout the world.

As of December 31, 2005, we had four utility patent applications and seventeen design patent applications pending in the U.S. We also had European Union Community Design Registrations directed to our Beach, Highland, Nile, Metro, Islander, Aspen, and a number of planned future shoe models. We also had three issued design registrations in South Korea, three issued design registrations in India, three pending design applications in Brazil, and three pending design applications in China directed to our Beach, Highland, and Nile models. We also had 78 other design applications pending directed to our Islander, Aspen, and a number of planned future shoe models in foreign jurisdictions including Australia, Brazil, Canada, China, Europe, India, Israel, Japan, New Zealand, Mexico, Norway, Panama, South Africa, and South Korea. In addition, we had 27 utility patent applications pending in several foreign jurisdictions, including Australia, Brazil, Canada, China, Europe, Hong Kong, India, Japan, Israel, Mexico, New Zealand, Norway, South Africa, and South Korea. We expect to continue to pursue patent protection on our inventions that are significant to our business and pursue other intellectual property protection where applicable.

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

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

#### **Privacy Policy**

In the course of our business we collect information about our customers, including customer data submitted to us in connection with purchases of our products via our website. The customer information includes names, addresses, phone numbers and e-mail addresses, as well as credit card information. We respect the privacy of our customers and take steps to safeguard the confidentiality of the information that they provide to us. We do not sell or license customer information to third parties.

We have published a formal privacy policy on our website, and we allow our customers to opt-out of marketing practices that make use of their personal information. However, the laws in jurisdictions where we now conduct or expect to conduct sales through our website may require us to take additional steps to safeguard customer information and to accommodate the privacy preferences of our

customers. To the extent that we do not comply with privacy laws, we may be subject to legal challenges, enforcement actions, court orders and penalties.

### Legal Proceedings

In January 2005, we filed a lawsuit, through Foam Creations, against Holey Soles Holdings Ltd. in the Federal Court of Canada, Trial Division, in Toronto, Canada. The complaint alleges trademark and copyright infringement relating to the design of some of their shoe models. We believe that we own all copyrights associated with our Beach footwear model and that the design of the Beach model has developed a substantial reputation and goodwill in Canada. Holey Soles offers footwear that is identical in style and visual appearance in every material respect to our Beach model, and we believe Holey Soles has infringed our intellectual property rights. We are seeking a permanent injunction with respect to any further acts of infringement of our intellectual property, as well as damages and attorneys' fees.

In August 2005, Holey Soles filed a lawsuit against us in the United States District Court for the Southern District of New York. Holey Soles seeks a declaratory judgment that we do not have any valid copyright or trade dress rights with respect to the design of our footwear. In addition, Holey Soles seeks a declaratory judgment that the manufacture, sale and distribution of its footwear products does not constitute unfair competition and does not infringe upon our copyrights or trade dress rights. We have filed a motion to dismiss the action or, in the alternative, to transfer the action to the United States District Court for the District of Colorado.

Although we are subject to litigation from time to time in the ordinary course of our business, we are not party to any pending legal proceedings that we believe will have a material adverse impact on our business.

### Employees

As of December 31, 2005, we employed approximately 1,126 persons, including 383 employees in the U.S., 409 employees in Canada, 283 employees in Mexico, 46 employees in Asia, and five employees in Europe. Approximately 100 of our U.S. employees are employed on a part-time basis at our retail locations. As of December 31, 2005, none of our employees were represented by a union, other than 275 of our Canadian employees who were represented by the Teamsters Union. We believe our relationship with our employees is good.

### Properties

Our principal executive and administrative offices are located at 6273 Monarch Park Place, Niwot, Colorado. We also operate a 76,000 square foot manufacturing facility in Quebec City, Canada, a 115,000 square foot manufacturing facility in Purísima del Rincón, Mexico and a 55,000 square foot warehouse in Rijswijk, the Netherlands. We lease, rather than own, all of our facilities and our leases will all expire in 2007. Our distribution center, which is owned and operated by Expeditors International of Washington, Inc., our third party logistics provider, is located in Aurora, Colorado. We consider our facilities to be suitable for our needs.

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

Location	Use	Approximate Square Feet
Niwot, Colorado	Corporate offices/warehouse	49,000
Purísima del Rincón, Mexico	Manufacturing facility	115,000
Quebec City, Canada	Manufacturing facility	76,000
Rijswijk, the Netherlands	Warehouse	55,000

We also maintain small branch sales offices in Hong Kong, Tokyo, Melbourne, Singapore and The Hague. All of these sales offices are leased.

## MANAGEMENT

## Executive Officers and Directors

Set forth below is information concerning our executive officers and the members of our board of directors, as of December 31, 2005.

Name	Age	Position(s)
Ronald R. Snyder	49	Chief Executive Officer, President and Director
Caryn D. Ellison	53	Chief Financial Officer, Treasurer
Lyndon V. "Duke" Hanson, III	43	Vice President Customer Relations
Michael C. Margolis	54	Vice President Sales & Marketing
John P. McCarvel	49	Senior Vice President Global Operations
George B. Boedecker, Jr.	43	Director
Raymond D. Croghan	56	Director
Michael E. Marks	55	Director
Mark A. Retzloff	57	Director
Richard L. Sharp	58	Chairman of the Board of Directors
Thomas J. Smach	45	Director
Brad L. Stoffer	48	Director

**Ronald R. Snyder** has served as our Chief Executive Officer since January 2005, was appointed as our President and a director in June 2004, and served as a consultant from October 2003 to June 2004. From March 2004 to December 2004, he was Chief Executive Officer of Vinci Corporation, a home theater equipment company. From April 2000 to December 2003, Mr. Snyder served as a senior executive with Flextronics, Inc., a Nasdaq-listed electronics equipment manufacturer, where he was most recently President of the Flextronics Design division. Mr. Snyder joined Flextronics upon its acquisition of The Dii Group, Inc., of which he was a founder and officer and where he had previously led various groups, including manufacturing operations, mergers and acquisitions, and sales and marketing.

**Caryn D. Ellison** has served as our Chief Financial Officer since November 2004. From February 2001 through October 2004, Ms. Ellison was President of Classic Sport Companies, Inc., a branded sporting goods manufacturing company. From 1997 through 2000, Ms. Ellison served as the Chief Executive Officer of McZand Herbal Inc., which was sold to Botanical Laboratories, Inc. From 1992 through 1996, she served as the Chief Financial Officer and Vice President of Alfalfa's Markets, Inc., an 11 store chain of natural foods supermarkets, which merged with Wild Oats Markets, Inc. From 1983 to 1992, Ms. Ellison held various finance positions with Celestial Seasonings, Inc., including Chief Financial Officer and Vice President.

**Lyndon V. "Duke" Hanson, III** is one of our co-founders, served as our Chief Operating Officer from July 2002 through January 2005, served as our Vice President Manufacturing from February 2005 to September 2005, and has served as our Vice President Customer Relations since October 2005. From 1998 to March 2002, Mr. Hanson served as Vice President of Contour Systems Group, Inc., a start-up manufacturing company where he co-managed day-to-day sales efforts and operational activities. From 1986 through 1997, Mr. Hanson held various sales and management positions with several software and technology companies.

**Michael C. Margolis** has served as our Vice President Sales & Marketing since January 2005, and led our sales group as an independent consultant from October 2003 to December 2004. From May 1995 to December 2004, Mr. Margolis was a founder and served as Vice President of Source Solutions, Inc., an apparel and merchandising company. He also successfully founded and ran a number of sporting goods

and apparel companies prior to Source Solutions, and has extensive experience establishing and maintaining sales relationships with large retail chains.

**John P. McCarvel** has served as Senior Vice President Global Operations since October 2005 and served as our Vice President Asian & Australian operations from January 2005 to September 2005, after providing consulting services to us during 2004. From October 2001 to January 2005, Mr. McCarvel served as Vice President for the Design, Test and Semiconductor division of Flextronics, Inc., where he was responsible for building Flextronics's engineering infrastructure in Asia and growing Flextronics's business in the region. From 1999 to October 2001, he served as President of U.S. Operations and Senior Vice President of Worldwide Sales and Marketing for Singapore Technology Assembly Test Services Ltd., a semiconductor services company. He previously worked in executive level positions with Micron Custom Manufacturing Services, Inc. and The Dii Group, Inc.

**George B. Boedecker, Jr.** has served as a member of our board of directors since June 2002. Mr. Boedecker was one of our co-founders and served as our Chief Executive Officer from July 2002 through December 2004. From 1996 to February 2002, Mr. Boedecker served as an executive with Quiznos Corporation, most recently serving as Executive Vice President. He is also a founder and managing member of Oregon Food Concepts LLC, a franchise sales and support company that owns and manages Quiznos franchise locations in Oregon and Washington.

**Raymond D. Croghan** has served as a member of our board of directors since August 2004. Since 1999, Mr. Croghan has been retired. From 1991 to 1999, Mr. Croghan ran Croghan & Associates, Inc., a healthcare information technology consulting firm, which merged with Margolis Health Enterprise to form The TriZetto Group. Mr. Croghan serves on the boards of directors of several privately-held companies, and is a member of the board of trustees at Doane College in Crete, Nebraska.

**Michael E. Marks** has served as a member of our board of directors since August 2004. On January 1, 2006, Mr. Marks joined Kohlberg Kravis Roberts & Co., a private equity firm, as a member of the firm. From January 1994 to January 1, 2006, Mr. Marks served as the Chief Executive Officer of Flextronics, Inc. He was appointed Chairman of the Board of Flextronics effective upon his retirement as Chief Executive Officer on January 1, 2006, and he previously served as Chairman of the Board of Flextronics from 1993 to January 2003. Mr. Marks has served as a member of the board of directors of Flextronics since 1991, and also serves as a director of SanDisk Corporation and Schlumberger Limited.

**Mark A. Retzloff** has served as a member of our board of directors since August 2004. He is co-founder, President, Chief Organic Officer and a director of Aurora Dairy Corporation, a privately owned company that operates as Aurora Organic Dairy. From July 2001 to September 2004, he was Chief Executive Officer of Rudi's Organic Bakery, LLC, an organic foods company. Mr. Retzloff co-founded Horizon Organic Holding Corp. and served in various capacities with Horizon Organic from 1991 to August 2002, including as Chairman of the Board and President. He currently serves as a director of Wild Oats Markets, Inc. He is also a founding member and General Partner of Greenmont Capital Partners, a private equity firm that invests in natural products and broader wellness industries.

**Richard L. Sharp** has served as the Chairman of our board of directors since April 2005. From 1982 to 2002, Mr. Sharp served in various positions with Circuit City Stores, Inc., a consumer electronics and personal computer retailer, most recently as President from 1984 to 1997, Chief Executive Officer from 1986 to 2000 and Chairman of the Board from 1994 to 2002. He is also a director of Flextronics, Inc. and Chairman of the Board of Carmax, Inc., the nation's largest specialty retailer of used cars and light trucks.

**Thomas J. Smach** has served as a member of our board of directors since April 2005. Since January 2005, Mr. Smach has served as the Chief Financial Officer of Flextronics, Inc. From April 2000 to December 2004, Mr. Smach served as Senior Vice President Finance of Flextronics. From 1997 to April 2000, he served as the Senior Vice President, Chief Financial Officer and Treasurer of The Dii Group, Inc. Mr. Smach is a certified public accountant. Mr. Smach serves on the board of directors of ADVA AG Optical Networking.

**Bradley L. Stoffer** has served as a member of our board of directors since August 2004. Since 1999, Mr. Stoffer has been a managing member of Oregon Food Concepts LLC, a franchise sales and support company that owns and manages Quiznos franchise locations in Oregon and Washington. Mr. Stoffer previously served as a sales and marketing executive for 16 years with Smith Brothers Office Environments, Inc., the largest furniture dealer in Oregon.

#### **Board of Directors; Committees**

Our board of directors consists of eight members. Under our bylaws, each of our directors holds office until their successors have been elected and qualified or until their earlier death, resignation, disqualification or removal. In connection with this offering, we have divided the terms of office of the directors into three classes. Class I consists of Messrs. Boedecker, Retzloff and Stoffer, whose terms will expire at the annual meeting of stockholders to be held in 2006. Class II consists of Messrs. Croghan, Marks and Sharp, whose terms will expire at the annual meeting of stockholders to be held in 2007. Class III consists of Messrs. Smach and Snyder, whose terms will expire at the annual meeting of stockholders to be held in 2008.

At each annual meeting of stockholders, the successors to directors whose terms expire at such meetings will be elected and will serve from the time of election and qualification until the third annual meeting following election and until their successors are duly elected and qualified. The authorized number of directors may be changed by resolution of the board. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors. Vacancies on the board can be filled by resolution of the board of directors. The classification of the board of directors may have the effect of delaying or preventing changes in control or management of our company.

Rules of the Nasdaq National Market require that our board of directors have a majority of independent directors. All members of the board of directors except Messrs. Snyder, Boedecker and Retzloff are independent directors as defined by Rule 4200(a)(15) of the National Association of Securities Dealers listing standards. Our board has established the following committees:

**Audit Committee.** Messrs. Smach (Chairman) and Croghan are the current members of our audit committee. Within one year after the completion of this offering, we intend to appoint a third independent director to the audit committee. The functions of the audit committee include oversight of the integrity of our financial statements, our compliance with legal and regulatory requirements, the performance, qualifications and independence of our independent auditors and the performance of our internal audit function. Our audit committee is directly responsible, subject to stockholder ratification, for the appointment, retention, compensation, evaluation, termination and oversight of the work of any independent auditor engaged for the purpose of preparing or issuing an audit report or related work. The purpose and responsibilities of our audit committee are set forth in the Audit Committee Charter approved by our board of directors on June 30, 2005.

All of the members of the audit committee are, or will be when appointed, independent as determined in accordance with the rules of the Nasdaq National Market and relevant federal securities laws and

regulations. Our board of directors has determined that Mr. Smach qualifies as an "audit committee financial expert" as defined by the applicable regulations of the SEC.

*Compensation Committee.* Our compensation committee consists of Messrs. Marks (Chairman) and Croghan. The compensation committee has overall responsibility for evaluating and approving our executive officer incentive compensation, benefit, severance, equity-based or other compensation plans, policies and programs. The compensation committee will also be responsible for producing an annual report on executive compensation for inclusion in our proxy statement. The purpose and responsibilities of our compensation committee are set forth in the Compensation Committee Charter approved by our board of directors on June 30, 2005. All of the members of the compensation committee are, or will be when appointed, independent as determined in accordance with the rules of the Nasdaq National Market and relevant federal securities laws and regulations.

*Nominating and Governance Committee.* Our nominating and governance committee consists of Messrs. Sharp (Chairman) and Stoffer. The nominating and governance committee will assist our board of directors in promoting our best interests and the best interests of our stockholders through the implementation of sound corporate governance principles and practices. In furtherance of this purpose, the nominating and governance committee will identify individuals qualified to become board members and recommend to our board of directors the director nominees for the next annual meeting of stockholders. It will also review the qualifications and independence of the members of our board of directors and its various committees on a regular basis and make any recommendations the committee members may deem appropriate from time to time concerning any recommended changes in the composition of our board of directors and its committees. The nominating and governance committee will also recommend to our board of directors the corporate governance guidelines and standards regarding the independence of outside directors applicable to our company and review such guidelines and standards and the provisions of the nominating and governance committee charter on a regular basis to confirm that such guidelines, standards and charter remain consistent with sound corporate governance practices and with any legal or regulatory requirements of the Nasdaq National Market. The nominating and governance committee will also monitor our board of directors and our compliance with any commitments made to our regulators or otherwise regarding changes in corporate governance practices and lead our board of directors in its annual review of our board of directors' performance.

The purpose and responsibilities of our nominating and governance committee are set forth in the Nominating and Governance Committee Charter approved by our board of directors on June 30, 2005. All of the members of the nominating and governance committee are, or will be when appointed, independent as determined in accordance with the rules of the Nasdaq National Market.

#### **Limitation of Liability and Indemnification**

Our certificate of incorporation limits the personal liability of our board members for breaches by them of their fiduciary duties. Our bylaws also require us to indemnify our directors and officers to the fullest extent permitted by Delaware law. Delaware law provides that directors of a corporation will not be personally liable for monetary damages for breach of their fiduciary duties as directors, except:

any breach of their duty of loyalty to us or our stockholders;

acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;

unlawful payments of dividends or unlawful stock repurchases, redemptions or other distributions; and

any transaction from which the director derived an improper personal benefit.

Such limitation of liability may not apply to liabilities arising under the federal securities laws and does not affect the availability of equitable remedies such as injunctive relief or rescission. In addition and in accordance with Delaware law, our bylaws also permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in such capacity, regardless of whether indemnification would be permitted under Delaware law. We currently maintain liability insurance for our directors and officers.

We have entered into agreements to indemnify our directors and executive officers, in addition to the indemnification provided for in our certificate of incorporation and bylaws. These agreements, among other things, provide for indemnification of our directors and executive officers for certain expenses (including attorneys' fees), judgments, fines and settlement amounts incurred by any such person in any action or proceeding, including any action by or in the right of the Company, arising out of such person's services as a director or executive officer of ours, any subsidiary of ours or any other company or enterprise to which the person provided services at our request. We believe that these provisions and agreements are necessary to attract and retain qualified persons as directors and executive officers.

### **Compensation of Directors**

We grant our non-employee directors options to purchase 116,810 shares of our common stock upon their initial election to our board of directors and options to purchase an additional 29,203 shares of our common stock for each year of service. The Chairman of the board of directors also receives options to purchase an additional 58,405 shares of our common stock upon his initial election as Chairman. The Chairman of the audit committee of the board of directors receives options to purchase an additional 29,203 shares of common stock for each year of service. The options are granted at the fair market value of our common stock on the date of grant and have a term of seven years. Each option grant will vest annually over four years, so long as such person remains a director, therefore, the option will be fully vested on the fourth anniversary of the date of grant. In addition, all directors are reimbursed for their reasonable out-of-pocket expenses incurred in attending meetings of the board of directors and committees.

### **Corporate Governance**

We believe that shortly after completion of this offering, we will comply with all Nasdaq National Market corporate governance and listing requirements and all applicable federal and state securities laws and regulations. In the interim, we will rely on transition periods available to companies in conjunction with their initial public offering.

### **Compensation Committee Interlocks and Insider Participation**

The board of directors formed our compensation committee on April 16, 2005 and Messrs. Croghan and Marks served as the members of our compensation committee for the remainder of our fiscal year ended December 31, 2005. No executive officer currently serves, or in the past has served, on the compensation committee or the board of directors of any other company of which any of the members of our compensation committee or any of our directors is an executive officer.

Prior to April 16, 2005, we did not have a compensation committee, and Messrs. Snyder and Boedecker were members of our board of directors and were concurrently our officers and employees. As



members of the board, Messrs. Snyder and Boedecker participated in deliberations of our board of directors concerning executive officer compensation.

## Executive Compensation

### Summary of cash and other compensation

The following summary compensation table indicates the cash and non-cash compensation earned by our executive officers, to whom we refer to as the named executive officers, during the fiscal year ended December 31, 2005. The compensation described in this table does not include medical, group life insurance or other benefits that are generally available to all of our salaried employees.

**Summary Compensation Table**

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation Awards		All Other Compensation <sup>(1)</sup>
		Salary	Bonus	Restricted Stock Awards (\$)	Securities Underlying Options (#)	
Ronald R. Snyder Chief Executive Officer and President	2005	\$ 295,000	\$ 271,250 <sup>(2)</sup>	\$ 606,182 <sup>(3)</sup>		
	2004	95,000 <sup>(4)</sup>	90,000		467,240	\$ 500,000 <sup>(5)</sup>
Michael C. Margolis Vice President Sales & Marketing	2005	200,000	233,248 <sup>(6)</sup>	386,280 <sup>(7)</sup>	280,344	
Caryn D. Ellison Chief Financial Officer, Treasurer	2005	192,000	74,500 <sup>(2)</sup>	1,254,539 <sup>(8)</sup>		
John P. McCarvel Senior Vice President Global Operations	2005	195,000	143,445 <sup>(2)</sup>	386,280 <sup>(9)</sup>		
Lyndon V. "Duke" Hanson, III Vice President Customer Relations	2005	125,000	59,000 <sup>(2)</sup>		58,405	
	2004	95,300	15,150			105,420 <sup>(10)</sup>

- (1) We have omitted perquisites and other personal benefits that do not exceed the lesser of \$50,000 or 10% of the executive officer's annual salary and bonus disclosed in this table.
- (2) Does not include bonus amounts for the fourth quarter of 2005, which will be determined during the first quarter of 2006 based on achievement of specified performance goals. Maximum potential additional bonus amounts are as follows: Mr. Snyder, 25% of base salary; Ms. Ellison, 12.5% of base salary; Mr. McCarvel, 20% of base salary; and Mr. Hanson, 12.5% of base salary.
- (3) Includes a grant of 58,405 shares of common stock on September 1, 2005, and grants of 4,868 shares of common stock on each of October 1, November 1, and December 1, 2005 pursuant to the resting terms under a restricted stock award agreement.
- (4) Mr. Snyder began his employment with us in June 2004. In accordance with an arrangement with Vinci Corporation, an entity controlled by Mr. Snyder, we paid an additional \$65,000 (including payroll taxes) to Mr. Snyder for services performed by Mr. Snyder on behalf of Vinci Corporation while he was employed by us. Vinci Corporation reimbursed us for these expenses.
- (5) Includes 1,500 Class B membership units with a fair market value of \$150,000, which converted into 350,430 shares of our common stock, transferred to Mr. Snyder by Mr. Boedecker as compensation for consulting services rendered to us prior to the commencement of his employment with us in June 2004. Also includes 1,500 Class B membership units with a fair market value of \$150,000, which converted into 350,430 shares of our common stock, transferred to Mr. Snyder by Anthony Kruse, a holder of more than 5% of our common stock, as compensation for consulting services rendered

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to us prior to the commencement of his employment with us in June 2004. Also includes 2,000 Class B membership units with a fair market value of \$200,000, which converted into 467,240 shares of our common stock, and were granted to Mr. Snyder for consulting services.

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- (6) Represents sales commissions for the 11 months ended November 30, 2005. Commissions for December 2005 will be equal to 0.25% of total revenues for the month.
- (7) Includes a grant of 77,796 shares of common stock on July 1, 2005 pursuant to the vesting terms under a restricted stock award agreement.
- (8) Includes a grant of 116,810 shares of common stock on October 1, 2005 pursuant to the vesting terms under a restricted stock award agreement.
- (9) Includes a grant of 77,796 shares of common stock on July 1, 2005 pursuant to the vesting terms under a restricted stock award agreement.
- (10) Includes sales commissions of \$19,213. Also includes 500 Class B membership units with a fair market value of \$86,207, which converted into 116,810 shares of our common stock, as compensation for services.

The following table sets forth certain information concerning option grants to the named executive officers during 2005.

### Option Grants in 2005

Name	Individual Grants				Potential Realizable Value at Assumed Rates of Stock Price Appreciation for Option Term	
	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price	Expiration Date	5%	10%
Michael C. Margolis	280,345	22%	\$ 5.69	8/1/15	\$ 4,797,971	\$ 8,584,835
Lyndon V. "Duke" Hanson	58,405	5%	\$ 1.70	1/1/15	\$ 1,232,610	\$ 2,021,537

The options granted to Mr. Margolis were granted under our 2005 Equity Incentive Plan. The options have a term of 10 years and 25% of the options will vest on August 1, 2006. The remaining 75% will vest in 36 equal monthly installments thereafter.

The options granted to Mr. Hanson were granted outside of our 2005 Equity Incentive Plan. The options have a term of 10 years and 25% of the options vested on January 1, 2006. The remaining 75% will vest in 36 equal monthly installments thereafter. The options are subject to termination prior to the expiration date in the event of the optionee's death, disability or termination of employment, as set forth in the option agreement.

All of the options were granted at an exercise price equal to the fair market value of our common stock on the date of grant, as determined in good faith by our board of directors. Because there was no public market for our stock prior to this offering, our board of directors determined the fair market value of our common stock by considering a number of factors, including, but not limited to, our financial performance and prospects for our future growth and profitability.

The amounts shown on this table as the "Potential Realizable Value at Assumed Rates of Stock Price Appreciation for Option Term" represent hypothetical gains that could be achieved for the respective options if exercised at the end of the option term. These gains are based on assumed rates of stock price appreciation of 5% and 10%, compounded annually, which are required to be presented by SEC rules, and do not reflect our estimates or projections of the future price of our common stock. The gains are based on the assumed rates of appreciation presented, beginning on the grant date of the options, in the value of our common stock from the assumed initial public offering price of \$14.00 per share. The gains shown are net of the option exercise price, but do not include deductions for taxes or other expenses associated with the exercise. Actual gains, if any, on stock option exercises will depend on the future performance of our common stock, the option holder's continued employment through the option period, and the date on which the options are exercised.

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The following table sets forth information concerning the number and value of exercisable and unexercisable options held by the named executive officers who held options as of December 31, 2005. The value of unexercised in-the-money options at December 31, 2005 represents an amount equal to the difference between the assumed initial public offering price of \$14.00 per share and the option exerc