Crocs, Inc.
Form 10-K/A
March 20, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A
(Amendment No. 1)
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File No. 0-51754

CROCS, INC.
(Exact name of registrant as specified in its charter)

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

7477 East Dry Creek Parkway
Niwot, Colorado 80503
(303) 848-7000
(Address, including zip code and telephone number, including area code, of registrant's principal executive offices)
Securities registered pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to the Form 10-K. o

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

Large accelerated filer o	Accelerated filer ý	Non-accelerated filer o (do not check if a smaller reporting company)	Smaller reporting company o	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 30, 2017 was approximately $432.1 million. For the purpose of the foregoing calculation only, all directors and executive officers of the registrant and owners of more than 10% of the registrant’s common stock are assumed to be affiliates of the registrant. This determination of affiliate status is not necessarily conclusive for any other purpose.

The number of shares of the registrant’s common stock outstanding as of February 20, 2018 was 68,830,820.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the registrant’s proxy statement for the 2018 annual meeting of stockholders to be filed no later than 120 days after the end of the registrant’s fiscal year ended December 31, 2017.

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EXPLANATORY NOTE

The sole purpose of this Amendment No. 1 on Form 10-K/A (the “Amendment”) to the Annual Report on Form 10-K for the year ended December 31, 2017 of Crocs, Inc. that was filed with the Securities and Exchange Commission on February 28, 2018 (the “Form 10-K”) is to amend Exhibits 31.1, 31.2, and 32 to reference the correct time period and form by changing “quarterly” to “annual”, “the three months ended” to “the year ended”, and the name of the form from “Form 10-Q” to “Form 10-K”.

Except as described above, no other amendments are being made to the Form 10-K. This Amendment does not modify or update in any way the financial results or disclosures contained in the Form 10-K.

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Cautionary Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”). From time to time, we may also provide oral or written forward-looking statements in other materials we release to the public. Such forward-looking statements are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995.

Statements that refer to industry trends, projections of our future financial performance, anticipated trends in our business and other characterizations of future events or circumstances are forward-looking statements. These statements, which express management’s current views concerning future events or results, use words like “anticipate,” “assume,” “believe,” “continue,” “estimate,” “expect,” “future,” “intend,” “plan,” “project,” “strive,” and future or conditional like “could,” “may,” “might,” “should,” “will,” “would,” and similar expressions or variations. Examples of forward-looking statements include, but are not limited to, statements we make regarding:

- our expectations regarding future trends, expectations, and performance of our business;
- our belief that we have sufficient liquidity to fund our business operations during the next twelve months;
- our expectations about the impact of our strategic plans; and
- our expectations regarding our level of capital expenditures in 2018

Forward-looking statements are subject to risks, uncertainties and other factors, which may cause actual results to differ materially from future results expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially from the forward-looking statements include, without limitation, those described in Part I — Item 1A. Risk Factors of this Annual Report on Form 10-K, elsewhere throughout this report, and those described from time to time in our past and future reports filed with the Securities and Exchange Commission (the “SEC”). Caution should be taken not to place undue reliance on any such forward-looking statements. Moreover, such forward-looking statements speak only as of the date of this report. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

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Crocs, Inc.
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For the Year Ended December 31, 2017

PART I

ITEM 1. Business

The Company

Crocs, Inc. and its consolidated subsidiaries (collectively the “Company,” “Crocs,” “we,” “our,” or “us”) are engaged in the design, development, manufacturing, worldwide marketing, distribution, and sale of casual lifestyle footwear and accessories for men, women, and children. We strive to be the global leader in the sale of molded footwear characterized by functionality, comfort, color, and lightweight design. All of our products utilize our proprietary closed-cell resin, called Croslite™, along with a range of other materials. Our Croslite™ material enables us to produce innovative, lightweight footwear. The Company, a Delaware corporation, is the successor to a Colorado corporation of the same name, and was originally organized in 1999 as a limited liability company.

Products

Our product offerings have grown significantly since we first introduced the single-style clog in six colors in 2002. Recognized across the world for our iconic clog silhouette, we have taken the successful formula of a simple design aesthetic, paired it with modern comfort, and expanded into a wide variety of casual footwear products including sandals, flips and slides, shoes, and boots that meet the needs of the whole family.

At the heart of our brand are the Classic and Crocband clogs, our most iconic styles for adults and children - products that embody our innovation in molding, simplicity of design, and all-day comfort. A key differentiating feature of our footwear products is our proprietary closed-cell resin Croslite™ material, which is uniquely suited for comfort and functionality. The unique look and feel of the Classic clog can be experienced throughout our entire product line due to the use and design of Croslite™. For further information on Croslite™, see ‘Raw Materials’ below.

We strive to provide our global consumer with comfortable, casual, colorful, and innovative footwear styles. Our collections are designed to meet the needs of the family by focusing on key wearing occasions. Our goal is to deliver casual product assortments with all of the comfort, features, and benefits Crocs is known for. We enjoy licensing partnerships with Disney, Marvel, Nickelodeon, and Warner Bros., among others, which allow us to bring popular global franchises and characters to life on our product in a fun, exciting way.

Sales and Marketing

Each season we focus on presenting a compelling brand story and experience for our new product introductions as well as our on-going core products. Our marketing efforts center on presenting our clog and sandal silhouettes. For the years ended December 31, 2017, 2016, and 2015, total marketing costs, inclusive of advertising, production, promotional, and agency expenses, were approximately $59.1 million, $56.0 million, and $58.2 million, respectively.

We run our business across three major geographic regions: the Americas, Asia Pacific, and Europe, which are discussed in more detail in ‘Business Segments and Geographic Information’ below. We prioritize five core markets including: (i) the United States, (ii) Japan, (iii) China, (iv) South Korea and (v) Germany. These countries have been identified as large-scale geographies where we believe the greatest opportunities for growth exist. We are also concentrating our marketing efforts on these countries, in an effort to increase customer awareness of both our brand and our full product range.

Distribution Channels

The broad appeal of our footwear has allowed us to market our products through a wide range of distribution channels. We currently sell our products in more than 90 countries, primarily through three distribution channels: wholesale, retail, and e-commerce. Our wholesale channel includes domestic wholesalers as well as international wholesalers and distributors; our retail channel includes company-operated stores; and our e-commerce channel includes company-operated e-commerce sites.

Wholesale Channel

During the years ended December 31, 2017, 2016, and 2015, approximately 52.4%, 52.7%, and 54.2% of revenues, respectively, were derived through our wholesale channel. Wholesale customers include family footwear retailers, national and regional retail chains, sporting goods stores, independent footwear retailers, and e-tailers.

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Outside the United States, in addition to wholesale customers, we use distributors in select markets where we believe such arrangements are preferable to direct sales. These distributors purchase products pursuant to a price list and are granted the right to resell the products in a defined territory, usually a country or group of countries. Our typical distribution agreements have terms of one to five years and have minimum purchase requirements that allow us to terminate or renegotiate the contract if such minimum requirements are not met. No single wholesale customer accounted for 10% or more of our revenues for any of the years ended December 31, 2017, 2016, and 2015.

Retail Channel

During the years ended December 31, 2017, 2016, and 2015, approximately 33.0%, 34.7%, and 34.7%, respectively, of our revenues were derived from sales through our retail channel. We operate our retail channel through three platforms: company-operated full-price retail and outlet stores, kiosks, and store-in-store locations, which enable us to promote the breadth of our product offering in high-traffic, high-visibility locations. With the worldwide consumer shift toward e-commerce, we are carefully managing and reducing our retail fleet, especially full-priced retail stores, and focusing on enhancing the profitability of this channel. We opened 19 company-operated stores during the year ended December 31, 2017 and closed 130 company-operated stores, including 37 transfers of company-operated stores to distributors. This activity is being taken in connection with the store reduction plan announced early in 2017, pursuant to which we intend to reduce our net retail store count by 160 as of December 31, 2018, compared to December 31, 2016.

Full-Price Retail Stores

Our company-operated full-price retail stores allow us to effectively showcase the full extent of our product ranges to consumers and provide us with the opportunity to interact with our consumers directly. The optimal space for our retail stores is between approximately 1,500 and 1,800 square feet, and is located in high-traffic shopping malls or districts. During the year ended December 31, 2017, we closed 73 and opened 6 full-price retail stores. As of December 31, 2017, 2016, and 2015, we operated 161, 228, and 275 full-price retail stores, respectively. This net reduction of 67 company-operated full-price retail stores during the year ended December 31, 2017 is in line with our continued focus on rationalization of our retail store fleet.

Outlet Stores

Our company-operated outlet stores allow us to sell discontinued and overstock merchandise directly to consumers at discounted prices. We also sell full-priced products in certain of our outlet stores as well as built-for-outlet products in certain stores. Outlet stores are similar in size to our full-price retail stores; however, they are generally located within outlet shopping centers. During the year ended December 31, 2017, we closed 30 outlet stores and opened 13 outlet stores. As of December 31, 2017, 2016, and 2015, we operated 215, 232, and 186 outlet stores, respectively.

Kiosk / Store-in-Store Locations

Our company-operated kiosks and store-in-store locations allow us to market specific product lines with the further flexibility to tailor products to consumer preferences in shopping malls and other high foot traffic areas. With efficient use of retail space, and limited capital investment, we believe that kiosks and store-in-store locations can be an effective vehicle for marketing our products in certain geographic areas. During the year ended December 31, 2017, we closed 27 kiosk and store-in-store locations and opened no new kiosk and store-in-store locations. As of December 31, 2017, 2016, and 2015, we operated 71, 98, and 98 kiosks and store-in-store locations, respectively.

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Company-Operated Retail Stores

The following table illustrates the net change in 2017 in the number of our company-operated retail stores by reportable operating segment and country:

	December 31, 2016	Opened	Closed/Transferred[1]	December 31, 2017
Americas				
United States	174	2	15	161
Canada	10	—	1	9
Puerto Rico	6	—	1	5
Total Americas	190	2	17	175
Asia Pacific				
Korea	87	4	5	86
China	79	9	46	42
Japan [2]	44	—	24	30 20
Hong Kong	17	1	3	15
Singapore	18	—	4	14
Australia [2]	13	—	4	9
United Arab Emirates	12	1	13	—
Total Asia Pacific	270	15	99	186
Europe				
Russia	36	1	1	36
Germany	18	—	3	15
France	10	—	—	10
Austria	6	—	—	6
Netherlands	5	1	2	4
Spain	5	—	1	4
Great Britain	7	—	4	3
Finland	4	—	1	3
Other	7	—	2	5
Total Europe	98	2	14	86
Total	558	19	130	447

[1] We completed the transfer of 37 company-operated stores in the Middle East and China to distributors during the period.

[2] We reclassified five stores between Australia and Japan as of December 31, 2016.

E-commerce Channel

As of December 31, 2017, we offered our products through 13 company-operated e-commerce sites worldwide. During the years ended December 31, 2017, 2016, and 2015, approximately 14.6%, 12.6%, and 11.1%, respectively, of our revenues were derived from sales through our e-commerce channel. Our e-commerce presence enables us to have increased access to our consumers and provides us with an opportunity to educate them about our products and brand. Improving our e-commerce capabilities is one of our key growth strategies, as we continue to leverage increasingly sophisticated digital technologies to enhance the consumer experience and drive sales. We also offer our products through third-party e-commerce sites (e-tailers) and marketplaces. Revenues from third-party e-commerce sites and marketplaces where we have a wholesale relationship are reported in our wholesale channel.

Business Segments and Geographic Information

We have three reportable operating segments based on the geographic nature of our operations: Americas, Asia Pacific, and Europe. Other businesses aggregates insignificant operating segments that do not meet the reportable operating segment threshold, including company-operated manufacturing facilities located in Mexico and Italy as well as corporate operations. See additional discussion of our segments and geographic information, including results of operations and assets by segment and geography in Note 14 — Operating Segments and Geographic Information in the accompanying notes to the consolidated financial statements included in Part II - Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

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Americas

The Americas segment consists of revenues and expenses related primarily to product sales in North and South America. Regional wholesale channel customers consist of a broad range of family footwear and sporting goods stores, e-tailers, and independent retailers and distributors. The Americas retail channel sells directly to consumers through 175 company-operated retail stores in the Americas as well as through our e-commerce site. During the years ended December 31, 2017, 2016, and 2015, revenues from the Americas segment were approximately 46.9%, 45.1%, and 43.7% of our consolidated revenues, respectively. Specifically, revenues from the United States were approximately 38.0%, 37.1%, and 35.8% of our consolidated revenues, respectively, for the years ended December 31, 2017, 2016, and 2015.

Asia Pacific

The Asia Pacific segment consists of revenues and expenses related primarily to product sales throughout Asia, Australia, New Zealand, Africa, and the Middle East. The Asia Pacific wholesale channel consists of sales to a broad range of retailers similar to the wholesale channel we have established in the Americas segment, plus distributors in select markets. We also sell products directly to consumers through 186 company-operated retail stores located in Asia Pacific as well as through our e-commerce sites. During the years ended December 31, 2017, 2016, and 2015, revenues from our Asia Pacific segment were 36.1%, 38.1%, and 39.0% of our consolidated revenues, respectively.

Europe

The Europe segment consists of revenues and expenses related primarily to product sales throughout Western Europe, Eastern Europe, and Russia. The Europe segment wholesale channel customers consist of a broad range of retailers, similar to the wholesale channel we have established in the Americas segment, plus distributors in select markets. We also sell our products directly to consumers through 86 company-operated retail stores located in Europe as well as through our e-commerce sites. During the years ended December 31, 2017, 2016, and 2015, revenues from the Europe segment were 16.9%, 16.7 %, and 17.3% of our consolidated revenues, respectively.

Raw Materials

Croslite™, our branded proprietary closed-cell resin, is the primary material formulation used in the majority of our footwear and some of our accessories. Croslite™ material is formulated to create soft, durable, extremely lightweight, water-resistant footwear that increases comfort. We continue to invest in research and development in order to refine our materials to enhance these properties and to develop new properties for specific applications.

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

Since our inception in 2002, we have increased the number of footwear products we offer, and some of these products are constructed using leather, textile fabrics, or other non-Croslite™ materials. We, or our third-party manufacturers, obtain these materials from a number of third-party sources and we believe these materials are broadly available.

Research, Design, and Development

We continue to leverage our expertise and innovation in injection molding to create a fresh, distinctive point of view in the casual footwear market and to deliver a winning combination of comfort, style, value and versatility to our consumer. We dedicate significant resources to product design and development based on opportunities we identify in the marketplace. Our design and development process is highly collaborative and we continually strive to improve our development function so we can bring products to market quickly, while maintaining product quality. We spent $13.4 million, $11.9 million, and $14.0 million on research, design, and development activities for the years ended December 31, 2017, 2016, and 2015, respectively.

Manufacturing and Sourcing

Our strategy is to maintain a flexible, globally-diversified, low-cost manufacturing base. We currently have company-operated production facilities in Mexico and Italy. We contract with third-party manufacturers to produce certain of our footwear styles.

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In the years ended December 31, 2017, 2016, and 2015, we manufactured approximately 13.4%, 14.6%, and 11.3%, respectively, of our footwear products internally. We sourced the remaining footwear production from multiple third-party manufacturers primarily in China and Vietnam. During the years ended December 31, 2017, 2016, and 2015, our largest third-party manufacturer, operating in both China and Vietnam, produced approximately 41.3%, 43.2%, and 47.5%, respectively, and our second largest third-party manufacturer, operating in Vietnam, produced approximately 19.0%,11.5%, and 9.4%, respectively, of our third-party footwear unit volume. We believe that the manufacturing capabilities required to produce our footwear are broadly available.

Distribution and Logistics

On an ongoing basis, we look to enhance our distribution and logistics network to further streamline our supply chain, increase our speed to market, and lower operating costs. During the year ended December 31, 2017, we stored our raw material and finished goods inventories in company-operated warehouse and distribution facilities located in the United States, Mexico, the Netherlands, Japan, Russia, and Italy. We also utilized third-party operated distribution centers located in China, Japan, Hong Kong, Australia, Korea, Singapore, India, Russia, Brazil, Puerto Rico, and Italy. As of December 31, 2017, our company-operated warehouse and distribution facilities provided us with approximately 0.9 million square feet and our third-party operated distribution facilities provided us with approximately 0.2 million square feet. We also ship a portion of our products directly to our wholesale customers from our internal and third-party manufacturers.

Intellectual Property and Trademarks

We rely on a combination of trademarks, copyrights, trade secrets, trade dress, and patent protections to establish, protect, and enforce our intellectual property rights in our product designs, brands, materials, and research and development efforts, although no such methods can afford complete protection. We own or license the material trademarks used in connection with the marketing, distribution, and sale of all of our products, both domestically and internationally, in most countries where our products are currently either sold or manufactured. Our major trademarks include the Crocs logo and the Crocs word mark, both of which are registered or pending registration in the U.S., the European Union, Japan, Taiwan, China, and Canada among other countries. We also have registrations or pending trademark applications for other marks and logos in various countries around the world.

In the U.S., our patents are generally in effect for up to 20 years from the date of filing the patent application. Our trademarks registered within and outside of the U.S. are generally valid as long as they are in use and their registrations are properly maintained and have not been found to become generic. We believe our trademarks and patents are crucial to the successful marketing and sale of our products. We will continue to strategically register, both domestically and internationally, the trademarks and patents covering the product designs and branding that we utilize today and those we develop in the future. We aggressively police our patents, trademarks, and copyrights and pursue those who infringe upon them, both domestically and internationally, as we deem necessary.

We consider the formulations of the materials covered by our trademark Croslite™ and used to produce our shoes, to be a valuable trade secret. The Croslite™ material formulations are manufactured through a process that combines a number of components in various proportions to achieve the properties for which our products are known. We use multiple suppliers to source these components but protect the formulations by using exclusive supply agreements for key components, confidentiality agreements with our third-party processors, and by requiring our employees to execute confidentiality agreements concerning the protection of our confidential information. Other than our third-party processors, we are unaware of any third party using our formulations in the production of shoes. We believe the comfort and utility of our products depend on the properties achieved from the compounding of the

Croslite™ material and constitute a key competitive advantage for us, and we intend to continue to vigorously protect this trade secret.

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

Seasonality

Due to the seasonal nature of our footwear, which is more heavily focused on styles suitable for warm weather, revenues generated during our fourth quarter are typically less than revenues generated during our first three quarters, when the northern hemisphere is experiencing warmer weather. Our quarterly results of operations may also fluctuate significantly as a result of a variety of other

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factors, including the timing of new model introductions, general economic conditions, and consumer confidence. Accordingly, results of operations and cash flows for any one quarter are not necessarily indicative of expected results for any other quarter or for any other year.

Backlog

We receive a significant portion of orders from our wholesale customers and distributors that remain unfilled as of any date and, at that point, represent orders scheduled to be shipped at a future date. We refer to these unfilled orders as backlog, which can be canceled by our customers at any time prior to shipment. Backlog only relates to wholesale and distributor orders for the next season and current season fill-in orders, and excludes potential sales in our retail and e-commerce channels. Backlog as of a particular date is affected by a number of factors, including seasonality, manufacturing schedules and the timing of product shipments. Backlog also is affected by the timing of customers' orders and product availability. Due to these factors and business model differences around the globe, we believe backlog is an imprecise indicator of future revenues that may be achieved in a fiscal period and cannot be relied upon.

Competition

The global casual, athletic, and fashion footwear markets are highly competitive. Although we believe that we do not compete directly with any single company with respect to the entire spectrum of our products, we believe portions of our wholesale, retail, and e-commerce businesses compete with companies including, but not limited to: Nike Inc., adidas AG, Under Armour, Inc., Deckers Outdoor Corporation, Skechers USA, Inc., Steve Madden, Ltd., Wolverine World Wide, Inc. and VF Corporation. Our company-operated retail locations and e-commerce sites also compete with footwear retailers such as Genesco, Inc., Macy’s Inc., Dillard’s, Inc., Dick’s Sporting Goods, Inc., The Finish Line Inc., and Foot Locker, Inc.

The principal elements of competition in these markets include brand awareness, product functionality, design, comfort, quality, pricing, customer service, and marketing and distribution. We believe that our unique footwear designs, our Croslite™ material, our prices, our product line, and our distribution network continue to position us well in the marketplace. However, a number of companies in the casual footwear industry have greater financial resources, more comprehensive product lines, broader market presence, longer standing relationships with wholesalers, longer operating histories, greater distribution capabilities, stronger brand recognition, and greater marketing resources than we have. Furthermore, we face competition from new companies which have been attracted to the market with products similar to ours as the result of the unique design and success of our footwear products.

Effects of Changes in Exchange Rates on Translated Results of International Subsidiaries

As a global company, we have significant revenues and costs denominated in currencies other than the U.S. Dollar. We are exposed to the risk of gains and losses resulting from changes in exchange rates on monetary assets and liabilities within our international subsidiaries that are denominated in currencies other than the subsidiaries’ functional currencies. Likewise, our U.S. companies are also exposed to the risk of gains and losses resulting from changes in exchange rates on monetary assets and liabilities that are denominated in a currency other than the U.S. Dollar.

We have experienced, and will continue to experience, changes in international currency rates, impacting both results of operations and the value of assets and liabilities denominated in foreign currencies. We enter into forward foreign exchange contracts to buy or sell various foreign currencies to selectively protect against volatility in the value of non-functional currency denominated monetary assets and liabilities. Changes in the fair value of these forward contracts are recognized in earnings in the period that they occur.

Changes in exchange rates have a direct effect on our reported U.S. Dollar consolidated financial statements because we translate the operating results and financial position of our international subsidiaries to U.S. Dollars using current period exchange rates. Specifically, we translate the statements of operations of our foreign subsidiaries into the U.S. Dollar reporting currency using exchange rates in effect during each reporting period. As a result, comparisons of reported results between reporting periods may be impacted significantly due to differences in the exchange rates used to translate the operating results of our international subsidiaries. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II of this Annual Report on Form 10-K for a discussion of the impact of the change in foreign exchange rates on our U.S. Dollar consolidated statements of operations for the years ended December 31, 2017, 2016, and 2015.

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Employees

As of December 31, 2017, we had approximately 4,382 full-time, part-time, and seasonal employees, of which approximately 2,808 were engaged in retail-related functions.

Available Information

We file with, or furnish to, the SEC reports including our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended. These reports are available free of charge on our corporate website (www.crocs.com) as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. Copies of any materials we file with the SEC can be obtained at www.sec.gov or at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Copies of any of these documents will be provided in print to any stockholder who submits a request in writing to Integrated Corporate Relations, 761 Main Avenue, Norwalk, CT 06851. The foregoing website addresses are provided as inactive textual references only. The information provided on our website (or any other website referred to in this report) is not part of this report and is not incorporated by reference as part of this Annual Report on Form 10-K.

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ITEM 1A. Risk Factors

The reader should carefully consider the following risk factors and all other information presented within this report. The risks set forth below are those that our management believes are applicable to our business and the industry in which we operate. These risks have the potential to have a material adverse effect on our business, results of operations, cash flows, financial condition, liquidity, or access to sources of financing. The risks included here are not exhaustive and there may be additional risks that are not presently material or known. Since we operate in a very competitive and rapidly changing environment, new risk factors emerge from time to time and it is not possible for management to predict all risk factors, nor can it assess the impact of all such risk factors on our business. You should carefully consider each of the following risks described below in conjunction with all other information presented in this report.

Risks Specific to Our Company

Our success depends substantially on the value of our brand and failure to strengthen and preserve this value, either through our actions or those of our business partners, could have a negative impact on our financial results.

We believe much of our success has been attributable to the strength of the Crocs global brand. To be successful in the future, particularly outside of the U.S., where the Crocs global brand is less well-known and perceived differently, we believe we must timely and appropriately respond to changing consumer demand and leverage the value of our brand across all sales channels. We may have difficulty managing our brand image across markets and international borders as certain consumers may perceive our brand image to be out of style, outdated, or otherwise undesirable. Brand value is based in part on consumer perceptions on a variety of subjective qualities. In the past, several footwear companies including ours have experienced periods of rapid growth in revenues and earnings followed by periods of declining sales and losses, and our business may be similarly affected in the future. Consumer demand for our products and our brand equity could also diminish significantly if we fail to preserve the quality of our products, are perceived to act in an unethical or socially irresponsible manner, fail to comply with laws and regulations, or fail to deliver a consistently positive consumer experience in each of our markets. Business incidents that erode consumer trust, such as perceived product safety issues, whether isolated or recurring, in particular incidents that receive considerable publicity or result in litigation, can significantly reduce brand value and have a negative impact on our business and financial results. Additionally, counterfeit reproductions of our products or other infringement of our intellectual property rights, including unauthorized uses of our trademarks by third parties, could harm our brand and adversely impact our business.

We may be unable to successfully execute our long-term growth strategy, maintain or grow our current revenue and profit levels, or accurately forecast geographic demand and supply for our products.

Our ability to maintain our revenue and profit levels or to grow in the future depends on, among other things, the continued success of our efforts to maintain our brand image, our ability to bring compelling and profit enhancing footwear offerings to market, our ability to effectively manage or reduce expenses and our ability to expand within our current distribution channels and increase sales of our products into new locations internationally. Successfully executing our long-term growth and profitability strategy will depend on many factors, including our ability to:

- Strengthen our brand globally;
- Focus on relevant geographies and markets, product innovation and profitable new growth platforms while maintaining demand for our current offerings;
-

Effectively manage our company-operated retail stores (including closures of existing stores) while meeting operational and financial targets at the retail store level;

- Successfully implement our previously identified $75 to $85 million annual selling, general and administrative reduction plan;
- Accurately forecast the global demand for our products and the timely execution of supply chain strategies to deliver product around the globe efficiently based on that demand;
- Use and protect the Crocs brand and our other intellectual property in new markets and territories;
- Achieve and maintain a strong competitive position in new and existing markets;
- Attract and retain qualified wholesalers and distributors;
- Consolidate our distribution and supply chain network to leverage resources and simplify our fulfillment process; and

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- Execute multi-channel advertising and marketing campaigns to effectively communicate our message directly to our consumers and employees.

If we are unable to successfully implement any of the above mentioned strategies and the many other factors mentioned throughout these risk factors, our business may fail to grow, our brand may suffer, and our business and financial results may be adversely impacted.

There can be no assurance that the strategic plans we have begun to implement will be successful.

We believe our strategic initiatives will better position Crocs to adapt to changing consumer demands and global economic developments. We are focusing on our core molded footwear heritage by narrowing our product line with an emphasis on higher margin units, as well as developing innovative new casual lifestyle footwear platforms. By streamlining the product portfolio and reducing non-core product development, we believe we will create a more powerful consumer connection to the brand.

We are refining our business model around the world by prioritizing direct investment in larger-scale geographies to focus our resources on the demographics with the largest growth prospects, moving away from direct investment in the retail and wholesale businesses in smaller markets, and transferring significant commercial responsibilities to distributors in smaller markets and in markets where local expertise is advantageous. Further, we intend to expand our engagement with leading wholesale accounts in select markets to drive sales growth, optimize product placement and enhance brand reputation.

In 2017 we identified annual reductions in SG&A in the amount of $75 to $85 million which, once implemented, are projected to generate an annual $30 to $35 million improvement in earnings before interest and taxes by 2019, compared to 2016. We achieved approximately $23 million of these SG&A reductions in 2017 while incurring approximately $10 million of costs to re-set our variable compensation. We remain on track to achieve the targeted SG&A reductions by 2019. We incurred $11 million in non-recurring charges to achieve these SG&A reductions in 2017 and expect to incur approximately $5 million in non-recurring charges in 2018, for a total of $16 million of non-recurring charges associated with our SG&A reduction plan. We reduced our company-operated retail stores in 2017 by 111 and anticipate an additional reduction of approximately 50 company-operated retail stores in 2018, thereby reducing our total store count to approximately 400 from 558 over a two year period. The majority of company-operated store closures are occurring as store leases expire.

While these strategic plans, along with other steps to be taken, are intended to improve and grow our business, there can be no assurance that this will be the case, or that additional steps or accrual of additional material expenses or accounting charges will not be required. If additional steps are required, there can be no assurance that they will be properly implemented or will be successful.

If our online e-commerce sites do not function effectively, our business and financial results could be materially adversely affected.

An increasing amount of our products are sold on our e-commerce sites as well as third-party e-commerce sites. Any failure on our part or third-parties to provide effective, reliable, user-friendly e-commerce platforms that offer a wide assortment of our merchandise could place us at a competitive disadvantage, result in the loss of sales, and could have a material adverse impact on our business and financial results. Our e-commerce business may be particularly vulnerable to cyber threats including denial of service attacks. Sales in our e-commerce channel may also divert sales from our retail and wholesale channels.

We face significant competition.

The footwear industry is highly competitive. Our competitors include most major athletic and non-athletic footwear companies and retailers with their own private label footwear products. A number of our competitors have significantly greater financial resources than us, more comprehensive product lines, a broader market presence, longer standing relationships with wholesalers, a longer operating history, greater distribution capabilities, stronger brand recognition, and spend substantially more than we do on product marketing. Our competitors' greater financial resources and capabilities in these areas may enable them to better withstand periodic downturns in the footwear industry and general economic conditions, compete more effectively on the basis of price and production, launch more extensive or diverse product lines and more quickly develop new products. Continued demand in the market for casual footwear and readily available offshore manufacturing capacity has also 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 products. If we are unable to compete successfully in the future, our sales and profits may decline, we may lose market share, our business and financial results may deteriorate, and the market price of our common stock would likely fall.

Refining our footwear product line may be difficult and expensive. If we are unable to do so successfully, our brand may be adversely affected and we may not be able to maintain or grow our current revenue and profit levels.

To successfully refine our footwear product line, we must anticipate, understand, and react to the rapidly changing tastes of consumers and provide appealing merchandise in a timely manner. New footwear models that we introduce may not be successful with consumers or our brand may fall out of favor with consumers. If we are unable to anticipate, identify, or react appropriately to changes in consumer preferences, our revenues may decrease, our brand image may suffer, our operating performance may decline, and we may not be able to execute our growth plans.

In producing new footwear models, we may encounter difficulties that we did not anticipate during the product development stage. Our development schedules for new products are difficult to predict and are subject to change in response to consumer preferences and competing products. If we are not able to efficiently manufacture new products in quantities sufficient to support wholesale, retail, and e-commerce distribution, we may not be able to recover our investment in the development of new styles and product lines and we would continue to be subject to the risks inherent to having a limited product line. Even if we develop and manufacture new footwear products that consumers find appealing, the ultimate success of a new style may depend on our pricing. We have a limited history of introducing new products in certain target markets; as such, we may introduce products that are not popular, set the prices of new styles too high for the market to bear, or we may not provide the appropriate level of marketing in order to educate the market and potential consumers about our new products. Achieving market acceptance will require us to exert substantial product development and marketing efforts, which could result in a material increase in our selling, general and administrative expenses and there can be no assurance that we will have the resources necessary to undertake such efforts effectively or that such efforts will be successful. Failure to gain market acceptance for new products could impede our ability to maintain or grow current revenue levels, reduce profits, adversely affect the image of our brands, erode our competitive position and result in long-term harm to our business and financial results.

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

The footwear industry is subject to cyclical variations, consolidation, contraction and closings, as well as fashion trends, rapid changes in consumer preferences, the effects of weather, general economic conditions and other factors affecting consumer demand. In addition, sales to our wholesale customers are generally subject to rights of cancellation and rescheduling by the customer. These factors make it difficult to forecast consumer demand. If we overestimate demand for our products, we may be forced to liquidate excess inventories at discounted prices resulting in lower gross margins. Conversely, if we underestimate consumer demand, we could have inventory shortages which can result in lower sales, delays in shipments to customers, expedited shipping costs, and adversely affect our relationships with our customers and diminish brand loyalty. 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 financial results.

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

Our financial success is related to the willingness of our current and prospective wholesale and distributors customers to carry our products. We do not have long-term contracts and sales to our wholesalers and distributors are generally on an order-by-order basis and subject to cancellation and rescheduling. If we cannot fill orders in a timely manner, the sales of our products and our relationships may suffer. Alternatively, if our wholesalers or distributors experience diminished liquidity or other financial issues, we may experience a reduction in product orders, an increase in order cancellations and/or the need to extend payment terms which could lead to larger outstanding balances, delays in collections of accounts receivable, increased expenses associated with collection efforts, increases in bad debt expenses and reduced cash flows if our collection efforts are unsuccessful. For example, we recorded an increase in allowance for doubtful accounts receivable in 2015, primarily as a result of delayed payments and payment defaults from certain distributor partners in China. Future problems with customers may have a material adverse effect on our product sales, financial condition, results of operations and our ability to grow our product line.

Changes in foreign exchange rates, most significantly but not limited to the Singapore Dollar, Chinese Yuan, Japanese Yen, Korean Won, and the Euro could have a material adverse effect on our business and financial results.

As a global company, we have significant revenues and costs denominated in currencies other than the U.S. Dollar (“USD”). We pay the majority of our third-party manufacturers, located primarily in Vietnam and China, in USD. Our ability to sell our products in foreign markets and the USD value of the sales made in foreign currencies can be significantly influenced by changes in exchange rates. A decrease in the value of foreign currencies relative to the USD could result in lower revenues, product price pressures, and increased losses from currency exchange rates. Foreign exchange rate volatility could also disrupt the business of the third-party manufacturers that produce our products by making their purchases of raw materials more expensive and more difficult to finance. In 2017, we experienced a decrease of approximately $1.2 million in our Asia Pacific segment revenues as a result of increases in the value of Asian currencies relative to the USD, and an increase of approximately $4.4 million in our Europe revenues as a result of increases in the Euro and Russian Ruble relative to the USD. Strengthening of the USD against Asian and European currencies, and various other global currencies would adversely impact our USD reported results due to the impact on foreign currency translation. While we enter into foreign currency exchange forward contracts to reduce our exposure to changes in exchange rates on monetary assets and liabilities, the volatility of foreign currency exchange rates is dependent on many factors that cannot be forecasted with reliable accuracy and as a result our forward contracts may not prove effective in reducing our exposures.

We conduct significant business activity outside the U.S. which exposes us to risks of international commerce.

A significant portion of our revenues is generated from foreign sales. Our ability to maintain the current level of operations in our existing international markets is subject to risks associated with international sales operations as well as the difficulties associated with promoting products in unfamiliar cultures. In addition to foreign manufacturing, we operate retail stores and sell our products to retailers outside of the U.S. Foreign manufacturing and sales activities are subject to numerous risks including: tariffs, anti-dumping fines, import and export controls, and other non-tariff barriers such as quotas and local content rules; delays associated with the manufacture, transportation and delivery of products; increased transportation costs due to distance, energy prices, or other factors; delays in the transportation and delivery of goods due to increased security concerns; restrictions on the transfer of funds; restrictions, due to privacy laws, on the handling and transfer of consumer and other personal information; changes in governmental policies and regulations; political unrest, changes in law, terrorism, or war, any of which can interrupt commerce; potential violations of U.S. and foreign anti-corruption and anti-bribery laws by our employees, business partners or agents, despite our policies and procedures relating to compliance with these laws; expropriation and nationalization; difficulties in managing foreign operations effectively and efficiently from the U.S.; difficulties in understanding and complying with local laws, regulations and customs in foreign jurisdictions; longer accounts receivable payment terms and difficulties in collecting foreign accounts receivables; difficulties in enforcing contractual and intellectual property rights; greater risk that our business partners do not comply with our policies and procedures relating to labor, health and safety; and increased accounting and internal control costs. In addition, we are subject to customs laws and regulations with respect to our export and import activity which are complex and vary within legal jurisdictions in which we operate. We cannot assure that there will be not be a control failure around customs enforcement despite the precautions we take. We are currently subject to audits by customs authorities. Any failure to comply with customs laws and regulations could be discovered during a U.S. or foreign government customs audit, or customs authorities may disagree with our tariff treatments, and such actions could result in substantial fines and penalties, which could have an adverse effect on our business and financial results. In addition, changes to U.S. trade laws may adversely impact our operations. For example, the European Union's new General Data Protection Regulation, or similar evolving privacy laws in other jurisdictions, may harm or alter the operations of our e-commerce business, add additional compliance costs and obligations and subject us to significant fines and penalties for non-compliance. Compliance with these and other foreign legal regimes may have a material adverse impact on our business and results of operations.

In addition, as a global company, we are subject to foreign and U.S. laws and regulations designed to combat governmental corruption, including the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act. Violations of these laws and regulations could result in fines and penalties, criminal sanctions against us, our officers, or our employees, prohibitions on the conduct of our business and on our ability to offer our products and services in one or more countries and a materially negative effect on our brands and our operating results. Although we have implemented policies and procedures designed to ensure compliance with these foreign and U.S. laws and regulations, including the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act, there can be no assurance that our employees, business partners or agents will not violate our policies.

Uncertainty about current and future global economic conditions may adversely affect consumer spending and the financial health of our customers and others with whom we do business, which may adversely affect our financial condition, results of operations, and cash resources.

Uncertainty about current and future global economic conditions may cause consumers and retailers to defer purchases or cancel purchase orders for our products in response to tighter credit, decreased cash availability, and weakened consumer confidence. Our financial success is sensitive to changes in general economic conditions, both globally and in specific markets, that may adversely affect the demand for our products including recessionary economic cycles, higher interest rates, higher fuel and other energy costs, inflation, increases in commodity prices, higher levels of unemployment, higher consumer debt levels, higher tax rates and other changes in tax laws, or other economic factors. If global economic and financial market conditions deteriorate or remain weak for an extended period of time, the following factors, among others, could have a material adverse effect on our business and financial results:

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- Changes in foreign currency exchange rates relative to the USD could have a material impact on our reported financial results.
- Slower consumer spending may result in our inability to maintain or increase our sales to new and existing customers, cause reduced product orders or product order cancellations from wholesale accounts that are directly impacted by fluctuations in the broader economy, difficulties managing inventories, higher discounts, and lower product margins.
- If consumer demand for our products declines, we may not be able to profitably establish new retail stores, or continue to operate existing stores, due to higher fixed costs of the retail business.
- A decrease in credit available to our wholesale or distributor customers, product suppliers and other service providers, or financial institutions that are counterparties to our credit facility or derivative instruments may result in credit pressures other financial difficulties or insolvency for these parties, with a potential adverse impact on our ability to obtain future financing, our business and our financial results.
- If our wholesale customers experience diminished liquidity, we may experience a reduction in product orders, an increase in customer order cancellations, and/or the need to extend customer payment terms which could lead to larger balances and delayed collection of our accounts receivable, reduced cash flows, greater expenses for collection efforts, and increased risk of nonpayment by our wholesalers.
- If our manufacturers or other parties in our supply chain experience diminished liquidity, and as a result are unable to fulfill their obligations to us, we may be unable to provide our customers with our products in a timely manner, resulting in lost sales opportunities or a deterioration in our customer relationships.

Opening company-operated global retail stores incurs substantial fixed costs. If we are unable to generate sales, operate our retail stores profitably or otherwise fail to meet expectations, we may be unable to reduce such fixed costs and avoid losses or negative cash flows.

Opening and operating company-operated retail stores requires substantial financial commitments, including fixed costs, and are subject to numerous risks including consumer preferences, location and other factors that we do not control. Declines in revenue and operating performance of our company-operated retail stores could cause us to record impairment charges and have a material adverse effect on our business and financial results. During 2017, we opened, closed, and operated 19, 130, and 447 retail stores, respectively.

Although our strategic plan initiatives include a net reduction in our retail sales channel, we intend to continue to open new retail locations globally. Our ability to open new stores, including kiosks and store-in-store locations, successfully depends on our ability to identify suitable store locations, negotiate acceptable lease terms, hire, train, and retain store personnel and satisfy the fashion preferences in new geographic areas. Many of our company-operated retail stores are located in shopping malls and outlet malls and our success depends in part on obtaining prominent locations and the overall ability of the malls to successfully generate and maintain customer traffic. We cannot control the success of individual malls or store closures by other retailers, which may lead to mall vacancies and reduced customer foot traffic. In addition, consumer spending and shopping preferences have shifted, and may continue to further shift, away from brick and mortar retail to e-commerce channels, which may contribute to declining foot traffic in company-operated retail locations. Continued reduced customer foot traffic could reduce sales at our company-operated retail stores or hinder our ability to open retail stores in new markets, which could in turn negatively affect our business and financial results. In addition, some of our company-operated retail stores occupy street locations that are heavily dependent on customer traffic generated by tourism. Any substantial decrease in tourism resulting from an economic slowdown, political, terrorism, social or military events or otherwise, is likely to adversely affect sales in our existing stores.

We may be required to record impairments of long-lived assets or incur other charges relating to our company-operated retail operations.

Impairment testing of our retail stores' long-lived assets requires us to make estimates about our future performance and cash flows that are inherently uncertain. These estimates can be affected by numerous factors, including changes in economic conditions, our results of operations, and competitive conditions in the industry. Due to the fixed-cost structure associated with our retail operations, negative cash flows or the closure of a store could result in impairment of leasehold improvements, impairment of other long-lived assets, write-downs of inventory, severance costs, significant lease termination costs or the loss of working capital, which could adversely impact our business and financial results. For example, during 2017, 2016, and 2015, we recorded impairments of which $0.5 million, $2.7 million, and $9.6 million, respectively, related to our retail stores. These impairment charges may increase as we continue to evaluate our retail operations. The recording of additional impairments in the future may have a material adverse impact on our business and financial results.

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We depend heavily on third-party manufacturers located outside the U.S.

Third-party manufacturers located in Vietnam and China produced the majority of our footwear products in 2017 and are expected to do so in 2018. We depend on the ability of these manufacturers to finance the production of goods ordered, maintain adequate manufacturing capacity and meet our quality standards. We compete with other companies for the production capacity of our third-party manufacturers, and we do not exert direct control over the manufacturers' operations. As such, from time to time we have experienced delays or inabilities to fulfill customer demand and orders. We cannot guarantee that any third-party manufacturer will have sufficient production capacity, meet our production deadlines or meet our quality standards.

Foreign manufacturing is subject to additional risks, including transportation delays and interruptions, work stoppages, political instability, expropriation, nationalization, foreign currency fluctuations, changing economic conditions, changes in governmental policies and the imposition of tariffs, import and export controls, and other barriers. We may not be able to offset any interruption or decrease in supply of our products by increasing production in our internal 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. In addition, manufacturing delays or unexpected demand for our products may require us to use faster, more expensive transportation methods, such as aircraft, which could adversely affect our profit margins. The cost of fuel is a significant component in transportation costs. Increases in the price of petroleum products can adversely affect our product margins.

In addition, because our footwear products are manufactured outside the U.S., the possibility of adverse changes in trade or political relations between the U.S. and other countries, political instability, increases in labor costs, changes in international trade agreements and tariffs, or adverse weather conditions could significantly interfere with the production and shipment of our products, which would have a material adverse effect on our operations and financial results. For example, the Trump Administration has suggested modifying existing trade agreements and/or imposing tariffs on foreign products. Changes in existing trade agreements, including the North American Free Trade Agreement ("NAFTA"), or the imposition of tariffs on our products could have a material adverse effect on our operations and financial results.

We manufacture a portion of our products which causes us to incur greater fixed costs. Any difficulties or disruptions in our manufacturing operations could adversely affect our sales and results of operations.

We produce a portion of our footwear products at company-operated manufacturing facilities in Mexico and Italy. There are significant fixed costs associated with the ownership and operations of these facilities and, as a result, efficient production of a sufficient volume of products is necessary to enable recovery of these costs. In addition, the manufacture of our products from the Croslite™ material requires the use of a complex process and we may experience difficulty in producing footwear that meets our high quality control standards. We absorb the manufacturing and disposal costs of products that do not meet our quality standards. Further, significant excess capacity at any of our manufacturing facilities as a result of increased efficiencies in our supply chain process or continued volume declines, could result in under-utilization of our facilities, which could lead to excess fixed overhead costs per unit and reduced product margins. Any increases in our manufacturing costs, lack of operating efficiency or product quality could adversely impact our product margins. Furthermore, our manufacturing capabilities are subject to many of the same risks and challenges faced by our third-party manufacturers, including our ability to scale our production capabilities to meet the needs of our customers. Our manufacturing may also 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 and financial results.

Our third-party manufacturing operations must comply with labor, trade and other laws; failure to do so may adversely affect us.

We require our third-party manufacturers to meet our quality control standards and footwear industry standards for working conditions and other matters, including compliance with applicable labor, environmental, and other laws; however, we do not control our third-party manufacturers or their respective labor practices. A failure by any of our third-party manufacturers to adhere to quality standards or labor, environmental and other laws could cause us to incur additional costs for our products, generate negative publicity, damage our reputation and the value of our brand, and discourage customers from buying our products. We also require our third-party manufacturers to meet certain product safety standards. A failure by any of our third-party manufacturers to adhere to such product safety standards could lead to a product recall which could result in critical media coverage and harm our business, brand and reputation and cause us to incur additional costs.

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In addition, if we or our third-party manufacturers violate U.S. or foreign trade laws or regulations, we may be subject to extra duties, significant monetary penalties, the seizure and the forfeiture of the products we are attempting to import, or the loss of our import privileges. Possible violations of U.S. or foreign laws or regulations could include inadequate record keeping of our imported products, misstatements or errors as to the origin, quota category, classification, marketing or valuation of our imported products, and fraudulent visas or labor violations. The effects of these factors could render our conduct of business in a particular country undesirable or impractical and have a negative impact on our operating results. We cannot predict whether additional U.S. or foreign customs quotas, duties, taxes other charges, or restrictions will be imposed upon the importation of foreign produced products in the future or what effect such actions could have on our business, or results.

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

We depend on a limited number of sources for the primary materials used to make our footwear. We source the elastomer resins that constitute the primary raw materials used in compounding our Croslite™ products, which we use to produce our various footwear products, from multiple suppliers. If the suppliers we rely on for elastomer resins were to cease production of these materials, we may not be able to obtain suitable substitute materials in time to avoid interruption of our production schedules. We are also subject to market issues related to supply and demand for our raw materials. We may have to pay substantially higher prices in the future for the elastomer resins or any substitute materials we use, which would increase our production costs and could have an adverse impact on our product margins. If we are unable to obtain suitable elastomer resins or if we are unable to procure sufficient quantities of the Croslite™ material, we may not be able to meet our production requirements in a timely manner or may need to modify our product characteristics, which could result in less favorable market acceptance, lost potential sales, delays in shipments to customers, strained relationships with customers and diminished brand loyalty.

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

We utilize trademarks, trade names, copyrights, trade secrets, issued and pending patents and trade dress, and designs on nearly all of our products. We believe that having distinctive marks that are readily identifiable trademarks and intellectual property is important to our brand, our success and our competitive position. The laws of some countries, for example, China, do not protect intellectual property rights to the same extent as do U.S. laws. We frequently discover products that are counterfeit reproductions of our products or that otherwise infringe on our intellectual property rights. If we are unsuccessful in challenging another party's products on the basis of trademark or design or utility patent infringement, particularly in some foreign countries, or if we are required to change our name or use a different logo, or it is otherwise found that we infringe on others intellectual property rights, continued sales of such competing products by third parties could harm our brand or we may be forced to cease selling certain products, which could adversely impact our business, financial condition, revenues, and results of operations by resulting in the shift of consumer preference away from our products. If our brands are associated with inferior counterfeit reproductions, the integrity and reputation of our brands could be adversely affected. Furthermore, our efforts to enforce our intellectual property rights are typically met with defenses and counterclaims attacking the validity and enforceability of our intellectual property rights. We may face significant expenses and liability in connection with the protection of our intellectual property, and if we are unable to successfully protect our rights or resolve intellectual property conflicts with others, our business or financial condition could be adversely affected.

We also rely on trade secrets, confidential information, and other unpatented proprietary rights and information related to, among other things, the Croslite™ material and product development, particularly where we do not believe patent protection is appropriate or obtainable. Using third-party manufacturers and compounding facilities may increase the risk of misappropriation of our trade secrets, confidential information and other unpatented proprietary information. The agreements we use in an effort to protect our intellectual property, confidential information, and other unpatented proprietary information may be ineffective or insufficient 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 rights and information may become known to others, including our competitors. Furthermore, our competitors or others may independently develop or discover such trade secrets and information, which would render them less valuable to us.

Our quarterly revenues and operating results are subject to fluctuation as a result of a variety of factors, including seasonal variations, which could increase the volatility of the price of our common stock.

Sales of our products are subject to seasonal variations and are sensitive to weather conditions. A significant portion of our revenues are attributable to footwear styles that are more suitable for fair weather and are derived from sales in the northern hemisphere. We typically experience our highest sales activity during the second and third quarters of the calendar year, when there is warmer

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weather in the northern hemisphere. The effects of favorable or unfavorable weather on sales can be significant enough to affect our quarterly results which could adversely affect our common stock price. Quarterly results may also fluctuate as a result of other factors, including new style introductions, general economic conditions or changes in consumer preferences. Results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for any year. This could lead to results outside of analyst and investor expectations, which could increase volatility of our stock price.

Our financial results may be adversely affected if substantial investments in businesses and operations fail to produce expected returns.

From time to time, we may invest in business infrastructure, acquisitions of new businesses, and expansion of existing businesses, which require substantial cash investment and management attention. We believe cost effective investments are essential to business growth and profitability; however, significant investments are subject to risks and uncertainties. The failure of any significant investment to provide the returns or profitability we expect or the failure to integrate newly acquired businesses could have a material adverse effect on our financial results and divert management attention from more profitable business operations.

Specifically, over the last several years, we have implemented numerous information systems designed to support various areas of our business, including a fully-integrated global accounting, operations, and finance enterprise resource planning system, and warehouse management, order management, and internet point-of-sale systems, as well as various interfaces between these systems and supporting back office systems. Issues in implementing or integrating new systems with our current operations, failure of these systems to operate effectively, problems with transitioning to upgraded or replacement systems, or a breach in security of these systems could cause delays in product fulfillment and reduced efficiency of our operations and require significant additional capital investments to remediate, and may have an adverse effect on our business and financial results.

Our business relies significantly on the use of information technology. A significant disruption to our operational technology or data security breach could harm our reputation and/or our ability to effectively operate our business.

We rely heavily on the use of information technology systems and networks across all business functions. The future success and growth of our business depend on streamlined processes made available through information systems, global communications, internet activity, and other network processes. We rely exclusively on third-party information services providers worldwide for our information technology functions including network, help desk, hardware and software configuration. Additionally, we rely on internal networks and information systems and other technology, including the internet and third-party hosted services, to support a variety of business processes and activities, including procurement and supply chain, manufacturing, distribution, invoicing and collection of payments. We use information systems for certain human resource activities and to process our employee benefits, as well as to process financial information for internal and external reporting purposes and to comply with various reporting, legal, and tax requirements. We also have outsourced a significant portion of work associated with our finance and accounting, human resources, and other information technology functions to third-party service providers. Despite our current security and cybersecurity measures, our systems, and those of our third-party service providers, we may be vulnerable to information security breaches, acts of vandalism, computer viruses, credit card fraud, phishing, and interruption or loss of valuable business data. Any disruption to these systems or networks could result in product fulfillment delays, key personnel being unable to perform duties or communicate throughout the organization, loss of retail and internet sales, significant costs for data restoration, and other adverse impacts on our business and reputation. Denial of service attacks could also materially adversely affect our e-commerce business.

We routinely possess sensitive customer and employee information. Hackers and data thieves are increasingly sophisticated and operate large-scale and complex automated attacks. Any breach of our network may result in the loss of valuable business data, misappropriation of our consumers' or employees' personal information, including credit card information, or a disruption of our business. Despite our existing cybersecurity procedures and controls, if our network becomes compromised, it could give rise to unwanted media attention, materially damage our customer relationships, harm our business, our reputation, and our financial results, which could result in fines or lawsuits, and may increase the costs we incur to protect against such information security breaches, such as increased investment in technology, the costs of compliance with consumer protection laws, and costs resulting from consumer fraud.

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

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

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Failure to continue to obtain or maintain high-quality endorsers of our products could harm our business.

We establish relationships with celebrity endorsers to develop, evaluate, and promote our products, as well as strengthen our brand. In a competitive environment, the costs associated with establishment and retention of these relationships may increase. If we are unable to maintain current associations and/or to establish new associations in the future, this could adversely affect our brand visibility and strength and result in a negative impact to financial results. In addition, actions taken by celebrity endorsers associated with our products that harm the public image and reputations of those endorsers could also seriously harm our brand image with consumers and, as a result, could have an adverse effect on our sales and financial condition.

Our senior revolving credit facility agreement (the “Credit Agreement”) contains financial covenants that require us to maintain certain financial measures and ratios and includes restrictive covenants that limit our ability to take certain actions. A breach of restrictive covenants may cause us to be in default under the Credit Agreement, and our lenders could foreclose on our assets.

Our Credit Agreement requires us to maintain certain financial covenants. A failure to maintain current revenue levels or an inability to control costs or capital expenditures could negatively impact our ability to meet these financial covenants. If we breach any of these restrictive covenants, the lenders could either refuse to lend funds to us or accelerate the repayment of any outstanding borrowings under the Credit Agreement. We may not have sufficient assets to repay such indebtedness upon a default or be unable to receive a waiver of the default from the lender. If we are unable to repay the indebtedness, the lender could initiate a bankruptcy proceeding or collection proceedings with respect to our assets, all of which secure our indebtedness under the Credit Agreement.

The Credit Agreement also contains certain restrictive covenants that limit, and in some circumstances prohibit our ability to, among other things: incur additional debt, sell, lease or transfer our assets, pay dividends on our common stock, make capital expenditures and investments, guarantee debt or obligations, create liens, repurchase our common stock, enter into transactions with our affiliates and enter into certain merger, consolidation or other reorganizations transactions. These restrictions could limit our ability to obtain future financing, make acquisitions or needed capital expenditures, withstand the current or future downturns in our business or the economy in general, conduct operations or otherwise take advantage of business opportunities that may arise, any of which could place us at a competitive disadvantage relative to our competitors.

The risks of maintaining significant cash abroad could adversely affect our cash flows in the U.S. business and financial results.

We have substantial cash requirements in the U.S., but the majority of our cash is generated and held abroad. We generally consider unremitted earnings of subsidiaries operating outside the U.S. to be indefinitely reinvested and it is not our current intent to change this position. Cash held outside of the U.S. is primarily used for the ongoing operations of the business in the locations in which the cash is held. Most of the cash held outside of the U.S. could be repatriated to the U.S., and under the Tax Act, could be repatriated without incurring additional U.S. federal income taxes, noting that some states will continue to subject cash repatriations to income tax. In some countries, repatriation of certain foreign balances is restricted by local laws and could have adverse tax consequences if we were to move the cash to another country. These limitations may affect our ability to fully utilize our cash resources for needs in the U.S. or other countries and may adversely affect our liquidity.

Changes in tax laws and unanticipated tax liabilities and the results of tax audits or tax litigation could adversely affect our effective income tax rate and profitability.

We are subject to income taxes in the United States and numerous foreign jurisdictions. Our effective income tax rate in the future could be adversely affected by a number of factors, including changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws, and the outcome of income tax audits or tax litigation in various jurisdictions around the world. We are regularly subject to, and are currently undergoing, audits by tax authorities in the United States and foreign jurisdictions for prior tax years. Please refer to Item 3. Legal Proceedings in Part I of this Form 10-K as well as Note 13 — Commitments and Contingencies in the accompanying notes to the consolidated financial statements for additional details regarding current tax audits. Although we believe our tax estimates are reasonable and we intend to defend our positions through litigation if necessary, the final outcome of tax audits and related litigation is inherently uncertain and could be materially different than that reflected in our historical income tax provisions and accruals. Moreover, we could be subject to assessments of substantial additional taxes and/or fines or penalties relating to ongoing or future audits, which could have an adverse effect on our financial position and results of operations. Future changes in domestic or international tax laws and regulations could also adversely affect our effective tax rate or result in higher income tax liabilities. Recent developments, including U.S. tax reform, the European Commission's investigations of local country tax authority rulings and whether those rulings comply with European Union rules on state aid, as well as the Organization for Economic Co-operation and Development's

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project on Base Erosion and Profit Shifting, continue to change long-standing tax principles. These and any other additional changes could adversely affect our effective tax rate or result in higher cash tax liabilities.

The ongoing effects of the U.S. Tax Cuts and Jobs Act (“Tax Act”) and the refinement of provisional estimates could make our results difficult to predict.

Our effective tax rate may fluctuate in the future as a result of the Tax Act, which was enacted on December 22, 2017. The Tax Act introduces significant changes to U.S. income tax law that may have a meaningful impact on our provision for income taxes in the future. Accounting for the income tax effects of the Tax Act requires significant judgments and estimates in the interpretation and calculations of the provisions of the Tax Act.

Additionally, on December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of accounting principles generally accepted in the United States of America in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. Specifically, SAB 118 provides a measurement period for companies to evaluate the impacts of the Tax Act on their financial statements. This measurement period begins in the reporting period that includes the enactment date and ends when an entity has obtained, prepared, and analyzed the information that was needed in order to complete the accounting requirements, and cannot exceed one year.

Due to the timing of the enactment and the complexity involved in applying the provisions of the Tax Act, we made reasonable estimates of the effects and recorded provisional amounts in our financial statements for the year ended December 31, 2017. The U.S. Treasury Department, the Internal Revenue Service (“IRS”), and other standard-setting bodies may issue guidance on how the provisions of the Tax Act will be applied or otherwise administered that is different from our interpretation. As we collect and prepare necessary data, and interpret the Tax Act and any additional guidance issued by the IRS or other standard-setting bodies, we may make adjustments to the provisional amounts that could materially affect our financial position and results of operations as well as our effective tax rate in the period in which the adjustments are made.

We are subject to periodic litigation, which could result in unexpected expense of time and resources.

From time to time, we initiate litigation or are called upon to defend ourselves against lawsuits relating to our business. Due to the inherent uncertainties of litigation, we cannot accurately predict the ultimate outcome of any such proceedings. For a detailed discussion of our current material legal proceedings, see Item 3. Legal Proceedings in Part I of this Annual Report on Form 10-K. An unfavorable outcome in any of these proceedings or any future legal proceedings could have an adverse impact on our business, and financial results. In addition, any significant litigation in the future, regardless of its merits, could divert management’s attention from our operations and result in substantial legal fees. In the past, securities class action litigation has been brought against us. If our stock price is volatile, we may become involved in this type of litigation in the future. Any litigation could result in substantial costs and a diversion of management’s attention and resources that are needed to successfully run our business.

We rely on technical innovation to compete in the market for our products.

Our success relies on continued innovation in both materials and design of footwear. Research and development is a key part of our continued success and growth, and we rely on experts to develop and test our materials and products. Croslite^{TM}, our branded proprietary closed-cell resin, is the primary raw material used in our footwear and some of our accessories. Croslite^{TM} is carefully formulated to create soft, durable, extremely lightweight, odor-resistant, water-resistant, and non-marking footwear that conforms to the shape of the foot and increases comfort. We continue to invest in research and development in order to refine our materials to enhance these properties and to develop new properties for specific applications. We strive to produce footwear featuring fun, comfort, color, and functionality. If we fail to introduce technical innovation in our products, consumer demand for our products could decline, and if we experience problems with the quality of our products, we may incur substantial expense to remedy the problems.

We depend on key personnel across the globe, the loss of whom would harm our business.

We rely on executives and senior management to drive the financial and operational performance of our business. Turnover of executives and senior management can adversely impact our stock price, our results of operations, and our client relationships and may make recruiting for future management positions more difficult or may require us to offer more generous compensation packages to attract top executives. Changes in other key management positions may temporarily affect our financial performance and results of operations as new management becomes familiar with our business. When we experience management turnover, we must successfully integrate any newly hired management personnel within our organization in a timely manner in order to achieve our operating objectives. The key initiatives directed by these executives may take time to implement and yield positive results, and there can be no guarantee they will be successful. If our new executives do not perform up to expectations, we may experience declines in our financial performance and/or delays or failures in achieving our long-term growth strategy.

If our internal controls are ineffective, our operating results and market confidence in our reported financial information could be adversely affected.

Our internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls or fraud. Even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal controls or if we experience difficulties in their implementation, our business and operating results and market confidence in our reported financial information could be harmed, we could incur significant costs to evaluate and remediate weaknesses, and we could fail to meet our financial reporting obligations.

As of December 31, 2015, we identified material weaknesses in our internal control over financial reporting, which led us to conclude that our internal control over financial reporting as of such date was not effective. The material weaknesses identified were related to controls over the period end closing procedures and inventory monitoring, which were remediated as of December 31, 2016. The existence of a material weakness precludes management from concluding that our internal control over financial reporting is effective and precludes our independent auditors from issuing an unqualified opinion that our internal controls are effective. In addition, a material weakness could cause investors to lose confidence in our financial reporting and may negatively affect the price of our common stock. We also can make no assurances that we will be able to remediate any future internal control deficiencies timely and in a cost effective manner. Moreover, effective internal controls are necessary to produce reliable financial reports and to prevent fraud. If we are unable to satisfactorily remediate future deficiencies or if we discover other deficiencies in our internal control over financial reporting, such deficiencies may lead to misstatements in our financial statements or otherwise negatively impact our business, financial results and reputation.

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

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

Labor disruptions could adversely impact our business.

Our business depends on our ability to source and distribute products in a timely, efficient, and cost-effective manner. Labor disputes impacting our suppliers, manufacturers, transportation carriers, or ports pose significant threat to our business, particularly if such disputes result in work slowdowns, lockouts, strikes or other disruptions during our peak importing or manufacturing seasons. Any such disruption could result in delayed or canceled orders by customers, unplanned inventory accumulation or shortages, and increased transportation and labor costs, negatively impacting our results of operations and financial position.

Our reported financial results may be adversely affected by changes in accounting principles generally accepted in the United States.

Generally accepted accounting principles in the United States are subject to interpretation by the Financial Accounting Standards Board, the Securities and Exchange Commission, and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant impact on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change.

Extreme weather conditions or natural disasters could negatively impact our operating results and financial condition.

Natural disasters such as earthquakes, hurricanes, tsunamis, or other adverse weather and climate conditions, whether occurring in the U.S. or abroad, and the consequences and effects thereof, including damage to our supply chain, manufacturing or distribution centers, retail stores, changes in consumer preferences or spending priorities, energy shortages, and public health issues, could harm or disrupt our operations or the operations of our vendors other suppliers, or customers, or result in economic instability that may negatively impact our operating results and financial condition. Additionally, certain catastrophes are not covered by our general insurance policies, which could result in significant unrecoverable losses.

Risks Specific to Our Capital Stock

The issuance of Series A Convertible Preferred Stock (“Series A”) to Blackstone Capital Partners VI L.P. (“Blackstone”) in 2014 and certain of its permitted transferees reduces the relative voting power of holders of our common stock, may dilute the ownership of such holders, and may adversely affect the market price of our common stock.

The Company issued shares of Series A Convertible Preferred Stock (“Series A Preferred Stock”) to Blackstone and certain of its permitted transferees (collectively, the “Blackstone Purchasers”) in January 2014. The Blackstone Purchasers currently own all of the outstanding shares of Series A Preferred Stock, and based on the number of shares of our common stock outstanding as of December 31, 2017, the Blackstone Purchasers collectively own Series A Preferred Stock convertible into approximately 16.7% of our common stock. Holders of the Series A Preferred Stock are entitled to receive dividends declared or paid on the Company’s common stock and are entitled to vote together with the holders of the Company’s common stock as a single class, in each case, on an as-converted basis. Holders of the Series A Preferred Stock also have certain limited special approval rights, including with respect to the issuance of pari passu or senior equity securities of the Company.

Conversion of the Series A Preferred Stock to common stock will dilute the ownership interest of existing holders of our common stock, and any sales in the public market of the common stock issuable upon conversion of the Series A Preferred Stock could adversely affect prevailing market prices of our common stock. We have granted the Blackstone Purchasers registration rights in respect of the shares of Series A Preferred Stock and any shares of common stock issued upon conversion of the Series A Preferred Stock. These registration rights would facilitate the resale of such securities into the public market, and any such resale would increase the number of shares of our common stock available for public trading. Sales by the Blackstone Purchasers of a substantial number of shares of our common stock in the public market, or the perception that such sales might occur, could have a material adverse effect on the price of our common stock.

We are required to pay regular dividends on the Series A issued to Blackstone, which ranks senior to our common stock, and we may be required under certain circumstances to repurchase the outstanding shares of Series A Preferred Stock; such obligations could adversely affect our liquidity and financial condition.

The Series A Preferred Stock ranks senior to our common stock with respect to dividend rights, and holders of Series A Preferred Stock are entitled to quarterly cumulative cash dividends at a rate of 6.0% per annum of the stated value of $1,000 per share. If we fail to make timely dividend payments, the dividend rate will increase to 8.0% per annum until such time as all accrued but unpaid dividends have been paid in full. In addition, the holders of our Series A Preferred Stock have certain redemption rights, including upon certain change in control events involving us, which, if exercised, could require us to repurchase all of the outstanding shares of Series A Preferred Stock at 100% or more of the stated value of the shares, plus all accrued but unpaid dividends. Our obligations to pay regular dividends to the holders of our Series A Preferred Stock or any required repurchase of the outstanding shares of Series A Preferred Stock could impact our liquidity and reduce the amount of cash flows available for working capital, capital expenditures, growth opportunities, acquisitions, and other general corporate purposes. Our obligations to the holders of Series A Preferred Stock could also limit our ability to obtain additional financing or increase our borrowing costs, which could have an adverse effect on our business and financial results.

Blackstone may exercise significant influence over us, including through its ability to elect up to two members of our Board of Directors.

As of December 31, 2017, the shares of Series A Preferred Stock owned by the Blackstone Purchasers represent approximately 16.7% of the voting rights of our common stock, on an as-converted basis, so the Blackstone Purchasers will have the ability to significantly influence the outcome of any matter submitted for the vote of our stockholders. In addition, the Certificate of Designations of the Series A Preferred Stock grants certain consent rights to the holders of Series A Preferred Stock in respect of certain actions by the Company, including the issuance of pari passu or senior equity securities of the Company, certain amendments to our certificate of incorporation or bylaws, any increase in the size of our Board of Directors (the “Board”) above eight members, the payment of certain distributions to our stockholders, and the origination or refinancing of a certain level of indebtedness. The Blackstone Purchasers may have interests that diverge from, or even conflict with, those of our other stockholders. For example, Blackstone and its affiliates may have an interest in directly or indirectly pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their other equity investments, even though such transactions might involve risks to us. Blackstone and its affiliates are in the business of making or advising on investments in companies, including businesses that may directly or indirectly compete with certain portions of our business. They may also pursue acquisition opportunities that may be complementary to our business, and, as a result, those acquisition opportunities may not be available to us.

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In addition, the Investment Agreement grants Blackstone certain rights to designate directors to serve on our Board. For so long as the Blackstone Purchasers (i) beneficially own at least 95% of the Series A Preferred Stock or the as-converted common stock purchased pursuant to the Investment Agreement or (ii) maintain beneficial ownership of at least 12.5% of our outstanding common stock (the “Two-Director Threshold”), Blackstone will have the right to designate for nomination two directors to our Board. For so long as the Blackstone Purchasers beneficially own shares of Series A Preferred Stock or the as-converted common stock purchased pursuant to the Investment Agreement that represent less than the Two-Director Threshold but more than 25% of the number of shares of the as-converted common stock purchased pursuant to the Investment Agreement, Blackstone will have the right to designate for nomination one director to our Board. The directors designated by Blackstone are entitled to serve on Board committees, subject to applicable law and stock exchange rules.

ITEM 1B. Unresolved Staff Comments

None.

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ITEM 2. Properties

Our principal executive and administrative offices are located at 7477 East Dry Creek Parkway, Niwot, Colorado 80503. We lease all of our domestic and international facilities. We currently enter into short-term and long-term leases for kiosk, store-in-store, manufacturing, office, retail, and warehouse space. The terms of our leases include fixed monthly rents and/or contingent rents based on percentage of revenues for certain of our retail locations, and expire at various dates through the year 2033. The general location, use, and approximate size of our principal properties, and the reportable operating segment are given below.

Location	Reportable Operating Segment	Use	Approximate Square Feet	Expiration [(1)]
León, Mexico [(2)]	Other Businesses	Manufacturing/warehouse	392,000	Mar 2019
Ontario, California	Americas	Warehouse	339,000	Mar 2019
Rotterdam, the Netherlands	Europe	Warehouse	174,000	Dec 2021
Narita, Japan	Asia Pacific	Warehouse	156,000	Apr 2019
Niwot, Colorado	Americas	Corporate headquarters and regional office	98,000	Jun 2021
Padova, Italy	Other Businesses	Manufacturing/warehouse/office	45,000	Sep 2018
Hoofddorp, the Netherlands	Europe	Regional office	31,000	May 2020
Shenzhen, China	Asia Pacific	Regional office	22,000	Mar 2018
Singapore	Asia Pacific	Regional office	17,000	Dec 2018
Westwood, Massachusetts	Americas	Global commercial center	16,000	Sep 2021
Shanghai, China	Asia Pacific	Regional office	13,000	Jul 2018
Tokyo, Japan	Asia Pacific	Regional office	13,000	Oct 2018

(1) Expiration of the initial or existing lease term, excluding optional renewals.

(2) The Mexico property consists of a manufacturing facility and a warehouse, which are approximately 226,000 square feet and 166,000 square feet, respectively.

Aside from the principal properties listed above, we lease various other offices and distribution centers worldwide to meet our sales and operations needs. We also lease 447 retail, outlet, and kiosk/store-in-store locations worldwide. See Item 1. Business of this Annual Report on Form 10-K for further discussion regarding global company-operated stores.

ITEM 3. Legal Proceedings

We were subjected to an audit by the Brazilian Federal Tax Authorities related to imports of footwear from China between 2010 and 2014. On January 13, 2015, we were notified about the issuance of assessments totaling 14.4 million Brazilian Real (“BRL”), or approximately $4.3 million, plus interest and penalties, for the period January 2010 through May 2011. We have disputed these assessments and asserted defenses to the claims. On February 25, 2015, we received additional assessments totaling 33.3 million BRL, or approximately $10.1 million, plus interest and penalties, related to the remainder of the audit period. We have also disputed these assessments and asserted defenses to these claims in administrative appeals. On August 29, 2017, the Company received a favorable ruling on its appeal of the first assessment, which dismissed all fines, penalties, and interest. The tax authorities have requested a special appeal to that decision. If the appeal is accepted, Crocs will have the opportunity to both defend the appeal as well as challenge it procedurally. Should the Brazilian Tax Authority prevail in this final administrative appeal, Crocs may still challenge the assessments through the court system, which would likely require the posting of a bond. Additionally, the second appeal for the remaining assessments is scheduled to be heard on March 1, 2018. The Company has not recorded these items within the consolidated financial statements. Due to the inherent uncertainty of litigation and legal challenges, it is not possible to accurately predict the timing or outcome of this matter or to estimate an amount of loss, if any.

Although we are subject to other litigation from time to time in the ordinary course of business, including employment, intellectual property and product liability claims, we are not party to any other pending legal proceedings that we believe would reasonably have a material adverse impact on our business and financial results.

ITEM 4. Mine Safety Disclosures

Not applicable.

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PART II

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

Market Information

Our common stock is listed on the NASDAQ Global Select Market under the stock symbol “CROX.” The following table shows the high and low sales prices of our common stock for the periods indicated.

2017	High	Low
First quarter	$7.54	$6.26
Second quarter	7.81	5.93
Third quarter	9.85	7.42
Fourth quarter	13.34	8.64

2016	High	Low
First quarter	$10.16	$8.09
Second quarter	11.50	7.63
Third quarter	12.54	8.02
Fourth quarter	8.99	6.70

Performance Graph

The following performance graph illustrates a five-year comparison of cumulative total return of our common stock, the NASDAQ Composite Index and the Dow Jones U.S. Footwear Index from December 31, 2012 through December 31, 2017. The graph assumes an investment of $100.00 on December 31, 2012 and assumes the reinvestment of all dividends and other distributions.

The Dow Jones U.S. Footwear Index is a sector index and includes companies in the major line of business in which we compete. This index does not encompass all of our competitors or all of our product categories and lines of business. The Dow Jones U.S.

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Footwear Index consists of Crocs, Inc., NIKE, Inc., Deckers Outdoor Corporation., adidas AG, Skechers U.S.A., Inc., Steven Madden Ltd. and Wolverine World Wide, Inc., among other companies. As Crocs, Inc. is part of the Dow Jones U.S. Footwear Index, the price and returns of our stock have an effect on this index. The Nasdaq Composite Index is a market capitalization-weighted index and consists of more than 3,000 common equities, including Crocs, Inc. The stock performance shown on the performance graph above is not necessarily indicative of future performance. We do not make or endorse any predictions as to future stock performance.

Holders

The approximate number of stockholders of record of our common stock was 82 as of February 20, 2018.

Dividends

We have never declared or paid cash dividends on our common stock, and we do not anticipate paying any cash dividends on our common stock in the foreseeable future. Our financing arrangements do not permit us to pay cash dividends on our common stock. In addition, the Certificate of Designations governing the Series A Convertible Preferred Stock restricts us from declaring and paying certain dividends on our common stock if we fail to pay all accumulated and unpaid regular dividends and/or declared and unpaid participating dividends to which the preferred holders are entitled. Any future determination to declare cash dividends on our common stock will be made at the discretion of our Board, subject to compliance with covenants under any then-existing financing agreements and the terms of the Certificate of Designations.

Purchases of Equity Securities by the Issuer

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
October 1-31, 2017	1,306,409	$ 9.86	1,306,409	$ 78,777,549
November 1-30, 2017	556,763	10.69	556,763	72,825,981
December 1-31, 2017	372,549	10.82	372,549	68,796,140
Total	2,235,721	$ 10.22	2,235,721	$ 68,796,140

(1) On December 26, 2013, the Company's Board of Directors approved and authorized a program to repurchase up to $350.0 million of our common stock. As of December 31, 2017, approximately $68.8 million remained available for repurchase under our share repurchase authorization. On February 20, 2018, the Board approved an increased repurchase authorization up to $500.0 million of our common stock. The number, price, structure and timing of the repurchases, if any, will be at our sole discretion and future repurchases will be evaluated by us depending on market conditions, liquidity needs, restrictions under our revolving credit facility, and other factors. Share repurchases may be made in the open market or in privately negotiated transactions. The repurchase authorization does not have an expiration date and does not oblige us to acquire any particular amount of our common stock. The Board may

suspend, modify, or terminate the repurchase program at any time without prior notice.

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ITEM 6. Selected Financial Data

The following table presents selected historical financial data for each of our last five years. The information in this table should be read in conjunction with our consolidated financial statements and accompanying notes presented in Item 8. Financial Statements and Supplementary Data, and Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations in Part II of this Annual Report on Form 10-K.

	Year Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands, except per share data)				
Revenues	$1,023,513	$1,036,273	$1,090,630	$1,198,223	$1,192,680
Cost of sales	506,292	536,109	579,825	603,893	569,482
Restructuring charges [1]	—	—	—	3,985	—
Gross profit	517,221	500,164	510,805	590,345	623,198
Gross margin	50.5 %	48.3 %	46.8 %	49.3 %	52.3 %
Selling, general and administrative expenses	494,601	503,174	559,095	565,712	549,154
Selling, general and administrative expenses as a % of revenues	48.3 %	48.6 %	51.3 %	47.2 %	46.0 %
Restructuring charges [1]	—	—	8,728	20,532	—
Asset impairments [2]	5,284	3,144	15,306	8,827	10,949
Income (loss) from operations	$17,336	$(6,154)	$(72,324)	$(4,726)	$63,095
Income (loss) before income taxes	$18,180	$(7,213)	$(74,744)	$(8,549)	$59,959
Income tax expense (benefit)	7,942	(9,281)	(8,452)	3,623	(49,539)
Net income (loss)	10,238	(16,494)	(83,196)	(4,926)	10,420
Dividends on Series A convertible preferred stock	(12,000)	(12,000)	(11,833)	(11,301)	—
Dividend equivalents on Series A convertible preferred shares related to redemption value accretion and beneficial conversion feature	(3,532)	(3,244)	(2,978)	(2,735)	—
Net income (loss) attributable to common stockholders	$(5,294)	$(31,738)	$(98,007)	$(18,962)	$10,420
Net income (loss) per common share:					
Basic	$(0.07)	$(0.43)	$(1.30)	$(0.22)	$0.12
Diluted	$(0.07)	$(0.43)	$(1.30)	$(0.22)	$0.12
Weighted average common shares:					
Basic	72,255	73,371	75,604	85,140	87,989
Diluted	72,255	73,371	75,604	85,140	89,089
Cash provided by (used in) operating activities	$98,264	$39,754	$9,698	$(11,651)	$83,464
Cash used in investing activities	(10,972)	(18,657)	(18,627)	(57,992)	(69,758)
Cash provided by (used in) financing activities [3]	(65,370)	(16,443)	(101,260)	23,431	(1,161)

[1] We commenced restructuring in July 2014 and concluded in December 2015.

[2] Asset impairments consist of impairments of long-lived assets of retail locations in all years, as well as a $4.8 million write-off of a discontinued project in 2017 and $0.4 million of goodwill impairment in 2016.

[3] Cash used in financing activities includes approximately $50.0 million, $85.9 million and $145.9 million including commissions used to repurchase the Company's common shares during 2017, 2015, and 2014, respectively. The

Company did not repurchase shares in 2016 or 2013.

	December 31,				
	2017	2016	2015	2014	2013
	(in thousands)				
Cash and cash equivalents	$172,128	$147,565	$143,341	$267,512	$317,144
Inventories	130,347	147,029	168,192	171,012	162,341
Working capital	268,031	276,335	278,852	441,523	453,149
Total assets	543,695	566,390	608,020	806,931	875,159
Long-term liabilities	18,379	17,966	19,294	27,849	63,487
Total stockholders' equity	185,865	220,383	245,972	452,518	624,744

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ITEM 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Business Overview

Crocs, Inc. and its consolidated subsidiaries (collectively, the “Company,” “Crocs,” “we,” “our,” or “us”) are engaged in the design, development, manufacturing, worldwide marketing, distribution, and sale of casual lifestyle footwear and accessories for men, women, and children. We strive to be the global leader in the sale of molded footwear characterized by functionality, comfort, color, and lightweight design. All of our products utilize our proprietary closed-cell resin, called Croslite™, along with a range of other materials. The broad appeal of our footwear has allowed us to market our products through a wide range of distribution channels. We currently sell our products in more than 90 countries, through three distribution channels: wholesale, retail, and e-commerce. Our wholesale channel includes domestic wholesalers as well as international wholesalers and distributors; our retail channel includes company-operated stores; and our e-commerce channel includes company-operated e-commerce sites.

Known or Anticipated Trends

Based on our recent operating results and current perspectives on our operating environment, we anticipate certain trends to impact our operating results:

- Consumer spending preferences continue to shift toward e-commerce and away from brick and mortar stores. This has resulted in continued sales growth in our e-commerce channel, as well as on various e-tail sites operated by wholesalers, and contributed to declining foot traffic in our retail locations.
- We anticipate lower retail revenues and selling, general and administrative expenses (“SG&A”) as we close less productive stores as leases expire and transfer select company-operated stores to distributors. Distributor revenues are reported within our wholesale channel.
- A cautious retail environment may negatively affect customer purchasing trends.
- Foreign exchange rate volatility may continue to impact our reported U.S. Dollar results from our foreign operations.
- In 2017 we identified annual reductions in SG&A in the amount of $75 to $85 million which, once implemented, are projected to generate an annual $30 to $35 million improvement in earnings before interest and taxes by 2019, compared to 2016. We achieved approximately $23 million of these SG&A reductions in 2017 while incurring approximately $10 million of costs to re-set our variable compensation. We remain on track to achieve the targeted SG&A reductions by 2019. We incurred $11 million in non-recurring charges to achieve these SG&A reductions in 2017 and expect to incur approximately $5 million in non-recurring charges in 2018, for a total of $16 million of non-recurring charges associated with our SG&A reduction plan. We reduced our company-operated retail stores in 2017 by 111 and anticipate an additional reduction of approximately 50 company-operated retail stores in 2018, thereby reducing our total store count to approximately 400 from 558 over a two year period. The majority of company-operated store closures are occurring as store leases expire.

Use of Non-GAAP Financial Measures

In addition to financial measures presented on the basis of accounting principles generally accepted in the United States of America (“U.S. GAAP”), we present certain information related to our current period results of operations through “constant currency,” which is a non-GAAP financial measure and should be viewed as a supplement to our results of operations and presentation of reportable segments under U.S. GAAP. Constant currency represents current period results that have been retranslated using prior year average foreign exchange rates for the comparative period to enhance the visibility of the underlying business trends excluding the impact of foreign currency exchange rate fluctuations.

Management uses constant currency to assist in comparing business trends from period to period on a consistent basis in communications with the Board, stockholders, analysts, and investors concerning our financial performance. We believe constant currency is useful to investors and other users of our consolidated financial statements as an additional tool to evaluate operating performance. We believe it also provides a useful baseline for analyzing trends in our operations. Investors should not consider constant currency in isolation from, or as a substitute for, financial information prepared in accordance with U.S. GAAP.

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2017 Financial Highlights

Revenues were $1,023.5 million for the year ended December 31, 2017, a 1.2% decrease compared to the year ended December 31, 2016. The decrease in 2017 revenues compared to 2016 revenues was due to the net effects of: (i) higher sales volumes, despite a net reduction of 111 company-operated retail stores, which increased revenues by $39.6 million, or 3.8%; (ii) lower average selling prices as our product and channel mix continued to change, which decreased revenues by $57.2 million, or 5.5%; and (iii) favorable changes in exchange rates, which increased revenues by $4.8 million, or 0.5%.

The following were significant developments in our businesses during the year ended December 31, 2017:

- We sold 57.9 million pairs of shoes worldwide, an increase of 3.1% from 56.1 million pairs in 2016.
- Gross margin improved 220 basis points compared to 2016 to 50.5% for the year ended December 31, 2017. We drove this improvement by continuing to prioritize high margin molded product, improving our go to market capabilities, and better managing promotions.
- SG&A was $494.6 million, a decrease of $8.6 million, or 1.7%, compared to 2016. This includes the effects of $17.0 million in non-recurring charges and approximately $10 million of incremental costs related to variable compensation in 2017.
- Income from operations improved by $23.5 million, after incurring approximately $17.0 million in non-recurring charges, for the year ended December 31, 2017 compared to last year's loss of $6.2 million.
- Net loss attributable to common stockholders improved $26.4 million to a loss of $5.3 million compared to a loss of $31.7 million in 2016. Basic and diluted net loss per common share was $0.07 for the year ended December 31, 2017, compared to a loss of $0.43 per common share for the year ended December 31, 2016.
- We continued to focus on improving the efficiency and effectiveness of our operations, including carefully managing and reducing our retail fleet, especially full-priced retail stores, and focusing on enhancing the profitability of this channel. During the year ended December 31, 2017, we opened a total of 19 stores and closed or transferred to distributors 130 stores for a net reduction of 111 company-operated retail stores.
- We continued to focus on simplifying our product line and disciplined inventory management to allow investment in higher margin, faster-turning product and reduced our inventory by $16.7 million, or 11.3%, from $147.0 million to $130.3 million.
- During 2017, we repurchased 5.7 million shares of common stock at an aggregate cost of $50.0 million.

Future Outlook

We intend to continue our strategic plans for long-term improvement and growth of the business, which comprise these key initiatives:

(1) simplifying our business to reduce costs,
(2) improving the quality of our revenues, and
(3) positioning ourselves to return to sustainable, profitable growth.

We believe these initiatives will better position Crocs to adapt to changing customer demands and global economic developments. We are focusing on our core molded footwear heritage by narrowing our product line with an emphasis on higher margin units, as well as developing innovative new casual lifestyle footwear platforms. By streamlining the product portfolio and reducing non-core product development, we believe we will create a more powerful consumer connection to the brand.

We are refining our business model around the world, prioritizing direct investment in larger-scale geographies to focus our resources on the demographics with the largest growth prospects, moving away from direct investment in retail and wholesale businesses in smaller markets, and transferring significant commercial responsibilities to distributors and other third-parties. Further, we intend to expand our engagement with leading wholesale accounts in select markets to drive sales growth, optimize product placement, and enhance brand reputation.

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Results of Operations

Comparison of the Years Ended December 31, 2017, 2016, and 2015

	Year Ended December 31,			$ Change		% Change	
	2017	2016	2015	2017-2016	2016-2015	2017-2016	2016-2015
	(in thousands, except per share data, margin, and average selling price data)						
Revenues	$1,023,513	$1,036,273	$1,090,630	$(12,760)	$(54,357)	(1.2)%	(5.0)%
Cost of sales	506,292	536,109	579,825	29,817	43,716	5.6%	7.5%
Gross profit	517,221	500,164	510,805	17,057	(10,641)	3.4%	(2.1)%
Selling, general and administrative expenses	494,601	503,174	567,823	8,573	64,649	1.7%	11.4%
Asset impairments	5,284	3,144	15,306	(2,140)	12,162	(68.1)%	79.5%
Income (loss) from operations	17,336	(6,154)	(72,324)	23,490	66,170	381.7%	91.5%
Foreign currency gain (loss), net	563	(2,454)	(3,332)	3,017	878	122.9%	26.4%
Interest income	870	692	967	178	(275)	25.7%	(28.4)%
Interest expense	(869)	(836)	(969)	(33)	133	(3.9)%	13.7%
Other income	280	1,539	914	(1,259)	625	(81.8)%	68.4%
Income (loss) before income taxes	18,180	(7,213)	(74,744)	25,393	67,531	352.0%	90.3%
Income tax expense	7,942	9,281	8,452	1,339	(829)	14.4%	(9.8)%
Net income (loss)	10,238	(16,494)	(83,196)	26,732	66,702	(162.1)%	(80.2)%
Dividends on Series A convertible preferred stock	(12,000)	(12,000)	(11,833)	—	(167)	—%	(1.4)%
Dividend equivalents on Series A convertible preferred shares related to redemption value accretion and beneficial conversion feature	(3,532)	(3,244)	(2,978)	(288)	(266)	(8.9)%	(8.9)%
Net loss attributable to common stockholders	$(5,294)	$(31,738)	$(98,007)	$26,444	$66,269	83.3%	67.6%
Net loss per common share:							
Basic	$(0.07)	$(0.43)	$(1.30)	$0.36	$0.87	83.7%	66.9%
Diluted	$(0.07)	$(0.43)	$(1.30)	$0.36	$0.87	83.7%	66.9%
Gross margin [1]	50.5%	48.3%	46.8%	220bp	150bp	4.6%	3.2%
Operating margin [1]	1.7%	(0.6)%	(6.6)%	230bp	600bp	383.3%	90.9%
Footwear unit sales	57,850	56,097	57,763	1,753	(1,666)	3.1%	(2.9)%
Average footwear selling price	$17.31	$18.21	$18.53	$(0.90)	$(0.32)	(4.9)%	(1.7)%

[1] Changes for gross margin and operating margin are shown in basis points (“bp”).

Revenues. Revenues decreased $12.8 million, or 1.2%, during the year ended December 31, 2017, compared to the same period in 2016. The revenues decreased primarily due to the sale of our Taiwan business in the fourth quarter of 2016, the sale of our Middle East business in the second quarter of 2017, reductions in the number of company-operated retail stores, and additional actions taken to optimize our wholesale, retail, and e-commerce channels. The revenue decline associated with store closures and transfers was approximately $39.1 million. Higher sales volumes increased revenues by $39.6 million, or 3.8%, offset by lower average footwear selling prices, which decreased revenues by approximately $57.2 million, or 5.5%, as our product and channel mix continued to change. Favorable exchange rate activity drove an increase of $4.8 million, or 0.5%.

During the year ended December 31, 2016, revenues decreased 5.0% compared to the same period in 2015. The decrease in revenues is due to the net impact of (i) a $46.3 million, or 4.2%, decrease associated with lower sales volumes, (ii) a $4.7 million, or 0.5%, decrease associated with lower average selling prices per pair, and (iii) a $3.4 million, or 0.3%, decrease associated with unfavorable changes in foreign currency rates.

Cost of sales. During the year ended December 31, 2017, cost of sales decreased by $29.8 million, or 5.6%, compared to the same period in 2016. Lower average costs per unit were primarily the result of changes in our product mix, reflecting an ongoing focus on core molded products, which cost less to produce, and continued supply chain cost reductions, including a reallocation of third-party manufacturing production to lower-cost suppliers within the Asia Pacific region. Higher unit sales volume increased cost of sales by $16.8 million, or 3.1%, but was more than offset by a reduction of approximately $49.6 million, or 9.3%, due to lower average costs per unit, while foreign currency translation drove an increase of $3.0 million, or 0.6%.

During the year ended December 31, 2016, cost of sales decreased $43.7 million, or 7.5%, compared to the same period in 2015. The decrease in cost of sales was primarily due to the net impact of: (i) a $24.6 million, or 4.2%, decrease due to lower sales volumes, (ii) an $18.6 million, or 3.2%, decrease due to a lower average cost per unit sold, and (iii) a $0.5 million, or 0.1%, decrease due to the impact of foreign currency translation.

Gross profit. During the year ended December 31, 2017, gross profit increased $17.1 million, or 3.4%, and gross margin increased 220 basis points to 50.5%, compared to the same period in 2016. The increase in gross profit was primarily due to our ongoing focus on higher margin core molded products, particularly clogs and sandals, and our reduction of low-margin European discount channel sales. A decrease of $0.3 million, or 0.1%, resulted from a decrease in our average selling price per unit which exceeded a decrease in average cost per unit, and an increase of approximately $15.7 million, or 3.1%, resulted from higher sales unit volumes. Foreign currency translation drove an increase of $1.7 million, or 0.3%, to gross profit.

During the year ended December 31, 2016, gross profit decreased $10.6 million, or 2.1%, and gross margin increased 143 basis points to 48.3% compared to the same period in 2015. The decrease in gross profit is primarily due to the net impact of: (i) a $21.6 million, or 4.2%, decrease due to lower sales volumes, (ii) a $14.0 million, or 2.7%, increase due to the combined impact of a lower average cost of sales per unit partially offset by a lower average selling price, and (iii) a $3.0 million, or 0.6%, decrease due to the unfavorable impact of foreign currency translation. Gross profit declined by approximately $1.0 million as a result of the sale of our South Africa operations, which was completed on April 15, 2016.

Selling, general and administrative expenses. SG&A decreased $8.6 million, or 1.7%, during the year ended December 31, 2017, compared to the same period in 2016. This includes the effects of $17.0 million in non-recurring charges and approximately $10 million of incremental costs related to variable compensation in 2017. The decrease was primarily due to the combined impacts of a decrease in facilities expenses of $13.1 million as a result of fewer company-operated retail stores and the sales of our Taiwan and Middle East businesses, and lower bad debts expense of $3.8 million. These savings were offset in part by higher marketing expenses of $3.1 million and higher net other expenses of $5.2 million, which were individually insignificant.

SG&A decreased $55.9 million, or 10.0%, during the year ended December 31, 2016 compared to the same period in 2015. This change was primarily driven by (i) bad debt expense decrease of $22.8 million, (ii) an $8.7 million decrease in rent expenses associated with contingent rents and closed retail stores partially offset by (iii) $4.3 million increase in outside services expense. During the year ended December 31, 2016, our bad debt expense was $3.2 million compared to $26.0 million in the same period in the prior year. Substantially all of this decrease in bad debt expense was due to stricter credit collection policies from our China operations, which is included in our Asia Pacific segment. Restructuring charges of $8.7 million were incurred in 2015, while none were incurred in 2016.

Asset impairment charges. During the years ended December 31, 2017, 2016, and 2015, we incurred $0.5 million, $2.7 million, and $15.3 million, respectively, in retail asset impairment charges related to certain underperforming retail locations that were unlikely to generate sufficient cash flows to fully recover the carrying value of the stores' assets over their remaining economic lives. In addition, during the year ended December 31, 2017, we incurred additional charges of $4.8 million related to a discontinued project. In the year ended December 31, 2016, we incurred $0.4 million of goodwill impairment.

Foreign currency gain (loss), net. Foreign currency gain (loss), net, consists of unrealized and realized foreign currency gains and losses from the remeasurement and settlement of monetary assets and liabilities denominated in non-functional currencies as well as realized and unrealized gains and losses on foreign currency derivative instruments. During the year ended December 31, 2017, we recognized realized and unrealized net foreign currency gains of $0.6 million compared to net losses of $2.5 million during the year ended December 31, 2016. During the year ended December 31, 2015, we recognized realized and unrealized net foreign currency losses of $3.3 million.

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Income tax expense. During the year ended December 31, 2017, we recognized income tax expense of $7.9 million on pre-tax book income of $18.2 million, representing an effective tax rate of 43.7%, compared to income tax expense of $9.3 million on pre-tax book loss of $7.2 million in 2016, which represented an effective tax rate of 128.7%. Our effective tax rate has varied dramatically in recent years due to differences in our profitability level and relative operating earnings across multiple jurisdictions, and is most notably impacted by the significant amount of operating losses that cannot be benefited for tax purposes.

The following are some of our key jurisdictions and the income tax expense for each in 2017, 2016, and 2015, respectively:

Income Tax Jurisdiction	For the Year Ended December 31, 2017 Net Income (Loss) Before Income Taxes	Income Tax Expense (Benefit)	2016 Net Income (Loss) Before Income Taxes	Income Tax Expense (Benefit)	2015 Net Income (Loss) Before Income Taxes	Income Tax Expense (Benefit)
	(in thousands)					
United States	$(34,406)	$2,809	$(55,617)	$437	$(83,537)	$(3,345)
Netherlands	25,859	2,813	39,184	4,711	25,988	4,262
Japan	2,615	909	(5,229)	—	(69)	2,345
Canada	547	208	740	361	(850)	(391)
China	5,413	(470)	821	(473)	(21,572)	4,433
Korea	2,321	829	2,529	511	4,141	1,081
Other	15,831	844	10,359	3,734	1,155	67
Total	$18,180	$7,942	$(7,213)	$9,281	$(74,744)	$8,452
Effective tax rate		43.7 %		128.7 %		11.3 %

The differences in total tax expense and effective rate variance in the table above resulted primarily from the following factors: we recognized tax expense resulting from the Tax Act as well as increased withholding taxes related to intercompany activity which is likely to recur in the U.S; we decreased withholding tax expense in the Netherlands; we recognized net income and tax expense after incurring losses in prior years in Japan; and we recognized net income and a tax benefit as a result of recognizing the benefit of prior year tax losses in China.

Effective Income Tax Rate Reconciliation

The following provide additional information about the effective income tax rate reconciliation presented in Note 11 — Income Taxes in the accompanying notes to the consolidated financial statements included in Part II - Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K:

- 'U.S. tax on foreign earnings' includes the impact of the tax expense accrued on undistributed foreign earnings net of the related foreign tax credits. During 2017, the Tax Act significantly changed the U.S. taxation of foreign earnings. As a result, the impact of the transition tax as well as current year distributions, and reversal of the deferred tax liability associated with undistributed earnings and profits attributable to foreign subsidiaries, the Company is reflecting a $32.4 million tax benefit, which equates to a 178.4% favorable impact on the rate reconciliation. The total income tax provision impact of this benefit is offset by a corresponding change in the valuation allowance.
- 'Enacted changes in tax law' represents the estimated impact of the Tax Act of $17.6 million, equating to a 97.1% unfavorable impact. The Tax Act was enacted on December 22, 2017 and introduces significant changes to U.S.

income tax law. Effective in 2018, the Tax Act reduces the U.S. statutory tax rate from 35% to 21% and creates new taxes on certain foreign-sourced earnings. Additionally, in 2017 we were subject to a one-time transition tax on accumulated foreign subsidiary earnings for which U.S. tax was not previously accrued.

The change in 'Foreign differential' is principally driven by differences in pre-tax book income between the periods compared and the source of this income, which is subject to different jurisdictional tax rates. During 2017, the effect of rate differences resulted in an $11.8 million tax benefit, or 64.7% favorable rate impact, compared to a $12.6 million tax benefit, or 175% favorable rate impact, in 2016. The change was driven primarily by tax expense relative to profitable jurisdictions, partially offset by operating losses in certain jurisdictions where the Company has determined that it is not more likely than not to realize the associated tax benefits. Further, we employ a tax planning strategy that directly impacts the total tax expense directly attributable to the level of foreign earnings in the specific jurisdictions. However, we note that the impact on the effective tax rate is different due to book earnings recorded in 2017 compared to 2016. Through

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at least 2019, we expect to continue to have an equivalent favorable impact on the tax provision and effective tax rate based on the specific foreign earnings.

- ‘Non-deductible/non-taxable items’ resulted in a $6.0 million tax expense in 2017, representing an unfavorable rate impact of 33.0%, compared to a $2.7 million tax expense in 2016, representing an unfavorable rate impact of 37.4%. The expense recognized in 2017 primarily relates to non-deductible executive and foreign share-based compensation, which we anticipate will recur in the foreseeable future, and the write-off of non-deductible goodwill, which we do not expect to recur in the foreseeable future.
- We continue to evaluate the realizability of our deferred tax assets. The impact of changes in valuation accounts to the effective tax rate was $24.4 million recorded on deferred tax assets that are not anticipated to be realized, equating to a 134.2% unfavorable impact. The specific circumstances regarding management's assertion of the realizability of certain deferred tax assets is discussed as part of the disclosures in Note 11 — Income Taxes. We maintain total valuation allowances of approximately $119.5 million as of December 31, 2017, which may be reduced in the future depending upon the achieved or sustained profitability of certain entities.
- During both 2017 and 2016, we recorded tax expense for audits settled during the year of $0.4 million and $0.3 million, respectively. The amount included in settlements during 2017 is netted against total uncertain tax position releases during the same period relating to the same positions. Furthermore, in Note 11 — Income Taxes the ‘Uncertain tax benefits’ line item in 2017 includes net accruals related to current year positions recorded, and is consistent with amounts accrued during prior years. We have released a significant portion of historical uncertain tax benefits based on effective and actual settlements. There is not currently an expectation that uncertain tax positions will significantly impact our tax expense on an ongoing basis.
- We incur state income tax losses during the period due to net operating losses recorded in the U.S., as well as applicable state modifications related to the taxability of foreign dividends. The tax provision benefit of these losses are offset by a valuation allowance. We are subject to certain minimal state income taxes.

In 2017, we began operating under a tax holiday in one of our foreign jurisdictions. This tax holiday is in effect through 2022, and may be extended if certain additional requirements are met. The tax holiday is conditional upon our meeting certain employment and investment thresholds. The impact of the tax holiday in 2017 decreased tax expense in that jurisdiction by approximately $0.1 million and had no impact to our reported earnings per diluted share.

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Revenues by Channel

	Year Ended December 31,			% Change		Constant Currency % Change [1]	
	2017	2016	2015	2017-2016	2016-2015	2017-2016	2016-2015
	(in thousands)						
Wholesale:							
Americas	$211,342	$202,211	$210,887	4.5 %	(4.1)%	3.8 %	(2.6)%
Asia Pacific	215,762	232,541	255,897	(7.2)%	(9.1)%	(7.2)%	(10.3)%
Europe	108,142	110,511	123,131	(2.1)%	(10.2)%	(3.8)%	(9.3)%
Other businesses	870	745	1,096	16.8 %	(32.0)%	13.4 %	(32.1)%
Total wholesale	536,116	546,008	591,011	(1.8)%	(7.6)%	(2.4)%	(7.3)%
Retail:							
Americas	188,367	191,855	197,306	(1.8)%	(2.8)%	(1.9)%	(2.6)%
Asia Pacific	108,868	125,037	136,320	(12.9)%	(8.3)%	(12.7)%	(8.9)%
Europe	40,998	42,712	44,873	(4.0)%	(4.8)%	(8.4)%	(0.4)%
Total retail	338,233	359,604	378,499	(5.9)%	(5.0)%	(6.4)%	(4.6)%
E-commerce:							
Americas	80,437	72,940	68,017	10.3 %	7.2 %	10.1 %	7.5 %
Asia Pacific	45,036	37,500	32,274	20.1 %	16.2 %	22.8 %	17.8 %
Europe	23,691	20,221	20,829	17.2 %	(2.9)%	14.0 %	(2.8)%
Total e-commerce	149,164	130,661	121,120	14.2 %	7.9 %	14.4 %	8.5 %
Total revenues	$1,023,513	$1,036,273	$1,090,630	(1.2)%	(5.0)%	(1.7)%	(4.7)%

[1] Reflects year over year change as if the current period results were in “constant currency,” which is a non-GAAP financial measure. See “Use of Non-GAAP Financial Measures” for more information.

Wholesale channel revenues. During the year ended December 31, 2017, revenues from our wholesale channel decreased $9.9 million, or 1.8%, compared to the year ended December 31, 2016. A $35.1 million, or 6.4%, decrease was due to lower average selling prices as we shifted to higher margin, lower-priced molded product. Higher sales volumes increased revenues by approximately $21.9 million, or 4.0%, despite the impact of strategic reductions in sales via discount channels in our Europe operating segment as well as the decline in our wholesale business in Japan while we strengthen our wholesale network. The effect of foreign currency translation was an increase of $3.3 million, or 0.6%, to revenues.

During the year ended December 31, 2016, revenues from our wholesale channel decreased $45.0 million, or 7.6%, compared to the same period in 2015. The decrease in wholesale channel revenues was primarily due to the net impact of: (i) a $42.0 million, or 7.1%, decrease in sales volumes, (ii) a $3.6 million, or 1.0%, decrease due to a lower average selling price, and (iii) a $1.5 million, or 0.4%, decrease due to the unfavorable impact of foreign currency translation. Sales volumes for the year ended December 31, 2016 were negatively impacted by approximately $8.4 million as a result of the sale of our South Africa operations, which was completed on April 15, 2016.

Retail channel revenues. During the year ended December 31, 2017, revenues from our retail channel decreased $21.4 million, or 5.9%, compared to the year ended December 31, 2016. Sales volumes decreased by approximately $12.8 million, or 3.6%, primarily due to a net decrease of 111 company-operated retail stores as we optimized our store fleet and shifted our store mix from full-price retail to outlet. Average selling prices were lower by $10.3 million, or 2.9%, as we shifted to higher margin, lower-priced molded product. These declines were partially offset by an increase of $1.7 million, or 0.6%, from foreign currency translation.

During the year ended December 31, 2016, revenues from our retail channel decreased $18.9 million, or 5.0%, compared to the same period in 2015. The decrease in retail channel revenues was due to the net impact of: (i) a $13.8 million, or 3.7%, decrease in sales volumes, (ii) a $3.6 million, or 1.0%, decrease due to a lower average selling price, and (iii) a $1.5 million, or 0.4%, decrease due to the unfavorable impact of foreign currency translation.

E-commerce channel revenues. During the year ended December 31, 2017, revenues from our e-commerce channel increased $18.5 million, or 14.2%, compared to the year ended December 31, 2016. We invested in marketing with an enhanced digital

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focus, and we continued to grow our e-commerce team and work toward global adoption of best practices. Revenues increased by approximately $30.6 million, or 23.4%, due to higher sales volumes, partially offset by decreases of $11.8 million, or 9.0%, due to lower average selling prices and $0.3 million, or 0.2%, due to the unfavorable impact of foreign currency translation.

During the year ended December 31, 2016, revenues from our e-commerce channel increased $9.5 million, or 7.9%, compared to the same period in 2015. The increase in e-commerce revenues was due to the net impact of: (i) a $30.2 million, or 24.9%, increase in sales volumes (primarily due to increased sales volumes in the Americas and Asia Pacific segments), (ii) a $20.0 million, or 16.4%, decrease due to a lower average selling price, and (iii) a $0.7 million, or 0.6%, decrease due to the unfavorable impact of foreign currency translation.

Reportable Operating Segments

The following table sets forth information related to our reportable operating business segments for the years ended December 31, 2017, 2016, and 2015:

	Year Ended December 31,			% Change		Constant Currency % Change [1]	
	2017	2016	2015	2017-2016	2016-2015	2017-2016	2016-2015
	(in thousands)						
Revenues:							
Americas	$480,146	$467,006	$476,210	2.8 %	(1.9)%	2.5 %	(0.7)%
Asia Pacific [2]	369,667	395,078	424,491	(6.4)%	(6.9)%	(6.1)%	0.8 %
Europe	172,830	173,444	188,833	(0.4)%	(8.1)%	(2.9)%	(1.7)%
Segment revenues	1,022,643	1,035,528	1,089,534	(1.2)%	(5.0)%	(1.7)%	(0.3)%
Other businesses	870	745	1,096	16.8 %	(32.0)%	13.4 %	0.1 %
Total consolidated revenues	$1,023,513	$1,036,273	$1,090,630	(1.2)%	(5.0)%	(1.7)%	(0.3)%
Income from operations:							
Americas	$86,880	$58,844	$49,422	47.6 %	19.1 %	48.0 %	(2.8)%
Asia Pacific	79,273	78,907	48,447	0.5 %	62.9 %	0.5 %	2.8 %
Europe	25,736	17,757	15,629	44.9 %	13.6 %	42.2 %	(1.6)%
Segment income from operations	191,889	155,508	113,498	23.4 %	37.0 %	23.2 %	(0.2)%
Reconciliation of segment income from operations to income (loss) before income taxes:							
Other businesses	(22,861)	(26,935)	(30,092)	(15.1)%	(10.5)%		
Unallocated corporate	(151,692)	(134,727)	(155,730)	12.6 %	(13.5)%		
Total consolidated income (loss) from operations	17,336	(6,154)	(72,324)	(381.7)%	(91.5)%		
Foreign currency transaction gain (loss), net	563	(2,454)	(3,332)	(122.9)%	(26.4)%		
Interest income	870	692	967	25.7 %	(28.4)%		
Interest expense	(869)	(836)	(969)	3.9 %	(13.7)%		
Other income	280	1,539	914	(81.8)%	68.4 %		
Income (loss) before income taxes	$18,180	$(7,213)	$(74,744)	(352.0)%	(90.3)%		

[1] Reflects year over year change as if the current period results were in “constant currency,” which is a non-GAAP financial measure. See “Use of Non-GAAP Financial Measures” for more information.

(2) Revenues for the year ended December 31, 2016 were negatively impacted by approximately $8.4 million as a result of the sale of our South Africa operations, which was completed on April 15, 2016.

Americas Operating Segment

Revenues. During the year ended December 31, 2017, revenues for our Americas segment increased $13.1 million, or 2.8%, compared to the year ended December 31, 2016. The increase in revenues was led by a 10.3% increase in e-commerce revenues, while a modest increase in wholesale revenues was partially offset by a decrease in retail revenues, reflecting 15 fewer company-operated retail stores compared to last year. Higher sales volumes resulted in an increase of approximately $17.0 million, or 3.7%, while lower average selling prices resulted in a decrease of $5.5 million, or 1.2%, and foreign currency translation resulted in an increase of $1.6 million, or 0.3%.

During the year ended December 31, 2016, revenues for our Americas segment decreased $9.2 million, or 1.9%, compared to the same period in 2015. The decrease in the Americas segment revenues was due to the net impact of: (i) a $13.6 million, or 2.9%, decrease related to lower sales volumes, (ii) an $8.0 million, or 1.7%, increase related to an increase in the average selling price, and (iii) a $3.6 million, or 0.7%, decrease due to the unfavorable impact of foreign currency translation.

Income from Operations. During the year ended December 31, 2017, income from operations for our Americas segment was $86.9 million, an increase of $28.0 million, or 47.6%. Gross profit increased $21.4 million, or 9.5%, and gross margin increased 310 basis points to 51.4%, compared to the year ended December 31, 2016. The increase in gross profit is due to the net impact of an increase of $10.3 million, or 4.6%, due to higher sales volumes, despite a net reduction of 15 company-operated retail locations, an increase of $10.9 million, or 4.8%, due to a decrease in our average cost per unit which exceeded a decrease in average selling price per unit, and an increase of $0.2 million, or 0.1%, from foreign currency translation.

During the year ended December 31, 2017, SG&A for our Americas segment decreased $5.3 million, or 3.2%, compared to the same period in 2016. The decrease in SG&A was primarily due to the net impact of a decrease of $3.1 million in facilities expenses as a result of reductions in the number of company-operated retail stores and our SG&A reduction efforts, and a net decrease of $2.2 million in services, information technology, and other expenses. Impairment expense related to company-operated retail stores decreased by $1.3 million compared to 2016.

During the year ended December 31, 2016, income from operations for our Americas segment was $58.8 million, an increase of $9.4 million, or 19.1%. Gross profit increased $1.0 million, or 0.4%, and gross margin increased 120 basis points to 48.3% compared to the same period in 2015. The increase in the Americas segment gross profit is due to the net impact of a $6.4 million, or 2.9%, decrease due to lower sales volumes, a $9.3 million, or 4.2%, increase due to the combined impact of a higher average selling price and a lower average cost of sales per unit, and a $1.9 million, or 0.9%, decrease due to the impact of foreign currency translation.

During the year ended December 31, 2016, SG&A for our Americas segment decreased $1.7 million, or 1.0%, compared to the same period in 2015.

Asia Pacific Operating Segment

Revenues. During the year ended December 31, 2017, revenues for our Asia Pacific segment decreased $25.4 million, or 6.4%, compared to the year ended December 31, 2016. Wholesale revenues were lower as we continued to pursue business model changes to drive higher quality revenues and improve profitability across Asia, including the sales of our Taiwan and Middle East businesses and the strengthening of our wholesale network in Japan. Retail revenues decreased as a result of a net reduction of 84 company-operated retail stores. E-commerce revenues increased by 20.1%, with particularly strong performance in China. An increase in sales volumes of approximately $38.9 million, or 9.8%, was offset by a decrease in average selling prices of $63.1 million, or 15.9%, as we shifted to higher margin, lower-priced molded product. The impact of foreign currency translation was a decrease of $1.2 million, or 0.3%.

During the year ended December 31, 2016, revenues for our Asia Pacific segment decreased $29.4 million, or 6.9%, compared to the same period in 2015. The decrease in the Asia Pacific segment revenues was due to the net impact of: (i) a $2.4 million, or 0.6%, decrease due to lower sales volumes, (ii) a $30.3 million, or 7.1%, decrease in the average selling price and (iii) a $3.3 million, or 0.8%, increase due to the favorable impact of foreign currency translation. Sales volumes for the year ended December 31, 2016 were negatively impacted by approximately $8.4 million as a result of the sale of our South Africa operations, which was completed on April 15, 2016.

Income from Operations. During the year ended December 31, 2017, income from operations for our Asia Pacific segment was $79.3 million, an increase of $0.4 million, or 0.5%. Gross profit decreased $16.1 million, or 7.2%, and gross margin decreased 50 basis points to 55.8% compared to the year ended December 31, 2016 as our channel mix shifted toward a more outlet-focused retail footprint. The decrease in the Asia Pacific segment gross profit was due to the net impact of an increase in unit sales volumes

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of $22.7 million, or 10.2%, offset by a decrease in our average selling prices that exceeded the decline in our average costs per unit of $38.0 million, or 17.1%, and a decrease of $0.8 million, or 0.3%, from foreign currency translation.

During the year ended December 31, 2017, SG&A for our Asia Pacific segment decreased $15.8 million, or 11.1%, compared to the same period in 2016. The decrease in SG&A was primarily due to the net impact of decreases of $3.2 million in salaries and wages and $8.0 million in facilities expenses as a result of the reduction in the number of company-operated retail stores and our SG&A reduction efforts, including the sale of our Middle East business, lower bad debts expense of $0.9 million, and a decrease of $3.7 million in services and other costs, none of which were individually significant. Impairment expense related to company operated retail stores decreased by $0.6 million compared to 2016.

During the year ended December 31, 2016, income from operations for our Asia Pacific segment was $78.9 million, an increase of $30.5 million, or 62.9%. Gross profit decreased $8.5 million, or 3.7%, and gross margin increased 190 basis points to 56.3% compared to the same period in 2015. The decrease in the Asia Pacific segment gross profit is due to the net impact of: (i) a $1.3 million, or 0.6%, decrease due to lower sales volumes, (ii) a $8.8 million, or 3.7%, decrease due to lower average selling prices in excess of a lower average cost per unit, and (iii) a $1.5 million, or 0.6%, increase due to the impact of foreign currency translation. Gross profit declined by approximately $0.1 million as a result of the sale of our South Africa operations, which was completed on April 15, 2016.

During the year ended December 31, 2016, SG&A for our Asia Pacific segment decreased $29.6 million, or 17.2%, compared to the same period in 2015. The decrease in SG&A was primarily due to the net impact of: (i) a $25.4 million decrease associated with bad debt expense, (ii) a $5.5 million increase associated with services, (iii) a $6.3 million decrease in sales expense, (iv) a $5.0 million decrease in rent expense, and (v) other items that are individually insignificant.

Europe Operating Segment

Revenues. During the year ended December 31, 2017, revenues for our Europe segment decreased $0.6 million, or 0.4%, compared to the year ended December 31, 2016, as we continued to reduce discount channel sales and company-operated stores, while growing our e-commerce business. Approximately $16.4 million, or 9.4%, of the decrease was due to lower unit sales volumes, partially offset by an increase of $11.4 million, or 6.6%, from higher average selling prices, and an increase of $4.4 million, or 2.4%, from foreign currency translation.

During the year ended December 31, 2016, revenues for our Europe segment decreased $15.4 million, or 8.1%, compared to the same period in 2015. The decrease in the Europe segment revenues was due to the net impact of: (i) a $22.8 million, or 12.1%, decrease due to lower sales volumes, (ii) a $10.6 million, or 5.7%, increase due to higher average selling prices, and (iii) a $3.2 million, or 1.7%, decrease due to the impact of foreign currency translation.

Income from Operations. During the year ended December 31, 2017, income from operations for our Europe segment was $25.7 million, an increase of $8.0 million, or 44.9%. Gross profit increased $3.8 million, or 4.5%, and gross margin increased by 240 basis points to 51.3% compared to the year ended December 31, 2016. The increase in the Europe segment gross profit is due to the net impact of a decrease of $9.7 million, or 11.4%, due to lower unit sales volumes, offset by an increase of $11.2 million, or 13.2%, due to increases in average selling prices, and an increase of $2.3 million, or 2.7%, from foreign currency translation.

During the year ended December 31, 2017, SG&A for our Europe segment decreased $3.5 million, or 5.2%, compared to the same period in 2016. The decrease in SG&A was primarily due to decreases in facilities expenses of $3.3

million as a result of the net reduction of 12 company-operated retail stores and SG&A reduction efforts, and lower bad debt expense of $2.4 million, offset in part by an increase in services and other costs of $2.2 million, none of which were individually significant. Impairment expense decreased by $0.7 million compared to 2016.

During the year ended December 31, 2016, income from operations for our Europe segment was $17.8 million, an increase of $2.1 million, or 13.6%. Gross profit decreased $4.2 million, or 4.7%, and gross margin increased 180 basis points to 48.9% compared to the same period in 2015. The decrease in the Europe segment gross profit was due to the net impact of: (i) a $10.8 million, or 12.1%, decrease due to lower sales volumes, (ii) an $8.3 million, or 9.3%, increase due to a higher average selling price in excess of higher costs per unit, and (iii) a $1.7 million, or 1.9%, decrease due to the impact of foreign currency translation.

During the year ended December 31, 2016, SG&A for our Europe segment decreased $2.6 million, or 3.8%, compared to the same period in 2015. The decrease in SG&A was primarily due to the net impact of: (i) a $2.0 increase in bad debt expense, (ii) a $0.9 million decrease in rent expense, and (iv) other items that are individually insignificant.

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Other Businesses, Unallocated Corporate

During the year ended December 31, 2017, total net costs within ‘Other businesses’ and ‘Unallocated corporate’ increased by $12.9 million, or 8.0%, compared to the same period in 2016. The increase was due to an increase of $9.8 million in salaries and wages, primarily related to our variable compensation, an increase of $7.8 million in marketing expenses, primarily related to our endorsement and promotional activities, and increased impairments of $4.8 million, which were partially offset by a decrease of $3.8 million in travel and entertainment costs and a decrease of $7.7 million in supply chain costs. Services and other costs, none of which were individually significant, increased by $2.0 million.

During the year ended December 31, 2016, total net costs within ‘Other businesses’ and ‘Unallocated corporate’ decreased by $24.2 million, or 13.0%, compared to the same period in 2015. The decrease was primarily due to decreases in corporate unallocated SG&A costs as a result of our SG&A cost reduction efforts.

Store Locations and Comparable Store Sales

The table below illustrates the overall change in the number of our company-operated retail locations by type of store and reportable operating segment:

	December 31, 2015	Opened	Closed/Transferred	December 31, 2016	Opened	Closed/Transferred	December 31, 2017
Type:							
Kiosk/store-in- store	98	14	14	98	—	27	71
Retail stores	275	19	66	228	6	73	161
Outlet stores	186	50	4	232	13	30	215
Total	559	83	84	558	19	130	447
Operating segment:							
Americas	196	7	13	190	2	17	175
Asia Pacific	261	67	58	270	15	99	186
Europe	102	9	13	98	2		