Crocs, Inc.
Form 424B4
August 17, 2006

Use these links to rapidly review the document
TABLE OF CONTENTS

Filed pursuant to Rule 424(b)(4)
Registration Nos. 333-134481
and 333-136690

8,290,000 Shares

CROCS, INC.

Common Stock

$27.66 per share

The selling stockholders named in this prospectus are offering 8,290,000 shares. We will not receive any proceeds from the sale of our shares by the selling stockholders.

The last reported sale price of our common stock on August 16, 2006 was $27.66 per share

Trading symbol: Nasdaq Global Select Market CROX

This investment involves risk. See "Risk Factors" beginning on page 7.

	Per Share	Total
Public offering price	$ 27.66	$ 229,301,400
Underwriting discount	$ 1.17	$ 9,699,300
Proceeds to selling stockholders	$ 26.49	$ 219,602,100

The underwriters have a 30-day option to purchase up to 1,243,500 additional shares of common stock from the selling stockholders to cover over-allotments, if any. We will not receive any of the proceeds from the sale of such shares by the selling stockholders.

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

Piper Jaffray **Thomas Weisel Partners LLC**

Cowen and Company

BB&T Capital Markets

D.A. Davidson & Co.

Wedbush Morgan Securities

The date of this prospectus is August 16, 2006.

TABLE OF CONTENTS

Summary

Risk Factors

A Special Note Regarding Forward-Looking Statements

Use of Proceeds

Price Range of Common Stock

Dividend Policy

Capitalization

Selected Consolidated Financial Data

Management's Discussion and Analysis of Financial Condition and Results of Operations

Business

Management

Executive Compensation

Certain Relationships and Related Party Transactions

Principal and Selling Stockholders

Description of Capital Stock

Shares Eligible for Future Sale

U.S. Federal Tax Considerations for Non-U.S. Holders

Underwriting

Legal Matters

Experts

Where You Can Find More Information

Incorporation of Certain Documents by Reference

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

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

SUMMARY

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

Crocs, Inc.

We are a rapidly growing designer, manufacturer and marketer of footwear for men, women and children under the **crocs** brand. All of our footwear products incorporate our proprietary closed-cell resin material, which we believe represents a substantial innovation in footwear comfort and functionality. Our proprietary closed-cell resin, which we refer to as *croslite*, enables us to produce a soft and lightweight, non-marking, slip- and odor-resistant shoe. These unique properties make our footwear ideal for casual wear, as well as for recreational uses such as boating, hiking, fishing or gardening, and have enabled us to successfully market our products to a broad range of consumers. We have combined the unique properties of *croslite* with fun colors and innovative designs to provide a new level of comfort, functionality and style in the casual lifestyle footwear category at attractive retail price points ranging from $19.99 to $49.99. Since we began marketing our first model in November 2002, we have expanded our product line to include 18 models in a wide variety of colors, color combinations and patterns and we were recognized in 2005 as the "Brand of the Year" by *Footwear News*, a leading industry publication. We recorded $108.6 million of revenues and net income of $17.0 million in 2005, compared to $13.5 million of revenues and a net loss of $1.5 million in 2004. We recorded $130.5 million of revenues and net income of $22.1 million in the six months ended June 30, 2006, compared to $36.7 million of revenues and net income of $5.4 million in the six months ended June 30, 2005.

The broad appeal of our footwear has enabled us to successfully market our products to a wide range of distribution channels. Our footwear is currently sold through traditional footwear channels, including specialty footwear stores such as Brown's Shoe Fit and Journeys, sporting goods and outdoor retailers such as The Sports Authority, Dick's Sporting Goods, REI, Bass Pro Shops and West Marine, and department stores, including Dillard's, Nordstrom and Von Maur. Our products are also sold through a variety of other specialty channels, including gift shops, uniform suppliers, independent bicycle dealers, specialty food retailers, health and beauty stores and other specialty stores. We distribute our products through over 10,000 store locations domestically, and we sell our products in over 60 countries worldwide. We also sell our products directly to consumers through our website, www.crocs.com, and through company-operated kiosks that are located in high foot traffic areas. Our website and kiosks serve to promote our products and increase our brand awareness.

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

Our Business Strategy

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

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

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

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

Enhance our **crocs** *brand.* A core element of our strategy is to build our brand by capitalizing on market opportunities arising from the unique versatility of *croslite*, while offering our existing consumer base an expanded line of **crocs** products. We also intend to employ targeted marketing strategies to continue to expand market awareness of our **crocs** products, and recently became the title sponsor of the AVP Pro Beach Volleyball Tour.

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

Our Growth Strategy

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

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

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

Further develop international distribution. We are expanding our distribution efforts internationally and plan to continue establishing a sales presence in major foreign markets. We have initiated direct sales efforts in Australia, Austria, the Caribbean, Chile, France, Germany, Hong Kong, Japan, the Netherlands, Singapore, and the United Kingdom. We also market our products in approximately 60 countries through third party distributors.

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

Our History

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

Since June 2004, we have significantly expanded all aspects of our operations in order to take advantage of what we believe to be an attractive market opportunity. We have substantially increased the depth and breadth of our distribution and currently sell our products in over 10,000 domestic store locations and in over 60 countries worldwide. Additionally, we have expanded our product line to include 18 models in a wide variety of colors, color combinations and patterns.

Risks Affecting Us

We face a number of competitive challenges and potential risks, as discussed in "Risk Factors." In particular, our business and growth strategies could be negatively impacted if we are not able to manage our future growth effectively; if the popularity of our footwear products does not continue to grow as rapidly as in the past, or declines; or if we are unable to successfully expand our product line or fill our customers' orders. In addition, we face significant competition, including from companies that produce footwear products that are very similar in design and materials to our products. We must also effectively assimilate our new managers and employees, particularly in our finance and accounting and operations and logistics departments, implement additional processes and management information systems in order to accurately manage our business and report our financial results on a timely basis.

Corporate Information

We were organized as a limited liability company in Colorado in 1999, converted to a Colorado corporation in January 2005, and reincorporated in Delaware in June 2005. Our principal executive offices are located at 6328 Monarch Park Place, Niwot, Colorado 80503. Our telephone number at that location is (303) 848-7000. Our website address is www.crocs.com. This is a textual reference only. We do not incorporate the information on our website into this prospectus and you should not consider any information on, or that can be accessed through, our website as part of this prospectus.

The Offering

Common stock offered by the selling stockholders	8,290,000 shares
Common stock to be outstanding after the offering	38,729,005 shares
Use of proceeds	We will not receive any proceeds from the sale of our common stock by the selling stockholders.
Nasdaq Global Select Market symbol	CROX

The information in this prospectus is based on the number of shares outstanding as of July 31, 2006 and, unless otherwise indicated, excludes:

- 3,148,438 shares of common stock issuable upon exercise of options outstanding under our 2005 Equity Incentive Plan, at a weighted average exercise price of $18.83 per share, 3,060,829 of which were exercisable as of July 31, 2006 and of which options to purchase 357,930 shares were vested as of July 31, 2006;

- 1,197,303 shares of common stock issuable upon exercise of options outstanding outside of our 2005 Equity Incentive Plan, at a weighted average exercise price of $1.17 per share, of which options to purchase 447,772 shares were vested and exercisable as of July 31, 2006;

- 2,748,756 shares of common stock reserved for future grants under our 2005 Equity Incentive Plan, of which 609,662 shares have been reserved for issuance to employees and consultants in the future under restricted stock award agreements; and

- exercise of the underwriters' over-allotment option to purchase up to 1,243,500 shares of common stock from the selling stockholders.

Summary Consolidated Financial Data

The summary financial data presented below under the heading "Consolidated Statement of Operations Data" for the years ended December 31, 2002, 2003, 2004 and 2005 and the summary financial data presented below under the heading "Consolidated Balance Sheet Data" as of December 31, 2003, 2004 and 2005 have been derived from, and are qualified by reference to, the consolidated financial statements incorporated by reference in this prospectus. The summary financial data presented below under the headings "Consolidated Statement of Operations Data" and "Consolidated Balance Sheet Data" for the six months ended and as of June 30, 2005 and 2006 are unaudited, have been derived from unaudited consolidated financial statements that are incorporated by reference in this prospectus and have been prepared on the same basis as the annual consolidated financial statements. The summary financial data presented below under the heading "Consolidated Balance Sheet Data" as of December 31, 2002 are derived from our unaudited financial statements. In the opinion of management, the unaudited summary financial data presented below under the headings "Consolidated Statement of Operations Data" and "Consolidated Balance Sheet Data" reflect all adjustments, which include only normal and recurring adjustments, necessary to present fairly our results of operations for and as of the periods presented. Historical results are not necessarily indicative of the results of operations to be expected for future periods. You should read the summary consolidated financial data in conjunction with "Management's Discussion and Analysis of Financial Conditions and Results of Operations" and with our consolidated financial statements and related notes incorporated by reference herein.

	Year Ended December 31,				Six Months Ended June 30,	
	2002[1]	2003	2004	2005[2]	2005[3]	2006
	(dollars in thousands, except per share data)					
Consolidated Statement of Operations Data						
Revenues	$ 24	$ 1,165	$ 13,520	$ 108,581	$ 36,727	$ 130,477
Cost of sales (including share-based compensation expense of $, $, $, $84, $29 and $448, respectively)	16	891	7,162	47,773	15,919	59,828
Gross profit	8	274	6,358	60,808	20,808	70,649
Selling, general and administrative expense (including share-based compensation expense of $240, $356, $1,792, $4,673, $2,352 and $3,951, respectively)	453	1,471	7,929	33,916	13,225	36,978
Income (loss) from operations	(445)	(1,197)	(1,571)	26,892	7,583	33,671
Interest expense		3	47	611	202	391
Other (income) expense net			19	(8)	23	(662)
Income (loss) before income taxes	(445)	(1,200)	(1,637)	26,289	7,358	33,942
Income tax expense (benefit)[2]			(143)	9,317	1,968	11,835
Net income (loss)	(445)	(1,200)	(1,494)	16,972	5,390	22,107
Dividends on redeemable convertible preferred shares[4]			142	275	136	33
Net income (loss) attributable to common stockholders	$ (445)	$ (1,200)	$ (1,636)	$ 16,697	$ 5,254	$ 22,074
Income (loss) per common share:						
Basic	$ (0.05)	$ (0.06)	$ (0.07)	$ 0.51	$ 0.16	$ 0.62
Diluted	$ (0.05)	$ (0.06)	$ (0.07)	$ 0.51	$ 0.16	$ 0.56
Weighted average common shares:						
Basic	8,288,710	20,855,385	24,641,953	25,493,577	25,197,004	35,608,875
Diluted	8,288,710	20,855,385	24,641,953	33,570,000	33,289,163	39,351,248

	As of December 31,				As of June 30,	
	2002[1]	2003	2004	2005	2005[5]	2006
			(dollars in thousands)			
Consolidated Balance Sheet Data						
Cash and cash equivalents	$ 73	$ 326	$ 1,054	$ 4,787	$ 3,165	$ 67,017
Total assets	454	1,304	16,224	78,032	39,938	190,196
Long-term obligations		400	3,660	5,513	3,995	3,912
Redeemable common shares		1,800	1,800	1,800	1,800	
Redeemable convertible preferred shares			5,500	5,500	5,500	
Total stockholders' equity (deficit)	389	(1,642)	(3,591)	18,914	3,946	148,639

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

(2) On January 4, 2005, we converted from a limited liability company to a taxable corporation. For the tax years beginning on January 1, 2005 and afterward, we have been subject to corporate-level U.S. federal and state income taxes. Additionally, the statement of operations for the year ended December 31, 2005 reflects a one-time income tax benefit of $797,000 to record the net deferred tax assets at the date of conversion.

(3) Subsequent to the issuance of our consolidated financial statements for the six months ended June 30, 2005, we determined that the fair value of our common stock used for certain equity grants during 2005 was understated. As a result, the consolidated financial statements for the six months ended June 30, 2005 have been restated from the amounts previously reported. See note 14 to our unaudited consolidated financial statements for the six months ended June 30, 2006 incorporated by reference in this prospectus.

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

(5) Subsequent to the issuance of our consolidated financial statements for the six months ended June 30, 2005, we determined that the accumulated deficit as of January 4, 2005, the date of our conversion from a limited liability company to a corporation, should have been reclassified to additional paid-in capital in accordance with SEC Staff Accounting Bulletin Topic 4:B "S Corporations."

RISK FACTORS

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

Risks Related to Crocs, Inc.

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

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

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

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

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

We have significantly expanded the nature and scope of our operations over the past two years, and we anticipate that substantial further expansion will be required to address potential growth in our customer base and new market opportunities. Prior to June 2004, we distributed in the U.S. under our **crocs** brand a limited range of footwear products manufactured and sold to us by Foam Creations. In June 2004, we acquired Foam Creations. Since that acquisition, we have expanded our product line to include 18 footwear models, and in addition, over the last two years, we expanded from:

- 136 employees at June 30, 2004, to 1,710 employees at June 30, 2006; and
- $3.0 million in revenues in the six months ended June 30, 2004, to $130.5 million in revenues in the six months ended June 30, 2006.

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

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

Our recent growth is substantially attributable to sales of **crocs** footwear, which represented approximately 95.3% of our revenues in the six months ended June 30, 2006. We expect that footwear will constitute our principal product line for the foreseeable future. The footwear industry is subject to rapidly changing consumer demands and preferences and fashion trends, and our **crocs** footwear may not remain popular or we may fail to develop additional models that appeal to consumers. If the popularity of our **crocs** footwear declines or does not expand in the future, we may experience, among other things:

- lower sales;
- loss of retail customers;
- excess inventories;
- inventory markdowns and discounts provided to retailers;
- deterioration of our brand image; and
- lower gross and operating margins, including as a result of price reductions.

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

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

We generated approximately 95.3% of our revenues for the six months ended June 30, 2006 from sales of our **crocs** footwear, which consisted of 18 models. Sales of our Beach and Cayman models accounted for approximately 74.1% of our footwear revenues in the six months ended June 30, 2006. Most of our **crocs** footwear models are developed from the same base design as our Beach and Cayman models, and we expect to continue to derive a substantial portion of our revenues from these models or related products in the foreseeable future. Because we are dependent on a line of footwear models that have substantial similarities, factors such as changes in consumer preferences and general market conditions in the footwear industry may have a disproportionately greater impact on us than on our competitors. In addition, other footwear companies have introduced products that are substantially similar to our footwear models, which may reduce sales of our footwear products. In the event that consumer preferences evolve away from our footwear models or from casual lifestyle footwear in general, or our retail customers purchase similar products sold by our competitors, the resulting loss of sales, increase in inventories and discounting of our products are likely to be significant, and this could have a material and adverse impact on our business and operations.

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

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

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

We may also encounter difficulties in producing new **crocs** footwear models that we did not anticipate during the development stage. Our development schedules for new products are difficult to predict and are subject to change as a result of shifting priorities in response to consumer preferences and competing products. For example, once we have begun to design a new footwear model, it can take six to nine months to progress to full production because of the need to fabricate new molds and to implement modified production tooling and revised manufacturing techniques. If we are not able to efficiently manufacture newly-developed products in quantities sufficient to support retail distribution, we may not be able to recoup our investment in the development of new models and product lines, and we would continue to be subject to the risks inherent in having a limited product line. Even if we develop and manufacture new footwear products that consumers find appealing, the ultimate success of a new model may depend on our pricing. We have a limited history of introducing new products, and we may set the prices of new models too high for the market to bear. Failure to gain market acceptance for new products that we introduce could impede our growth, reduce our profits, adversely affect the image of our brands, erode our competitive position and result in long term harm to our business.

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

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

We will incur significant time and expense in documenting, testing and certifying our internal control over financial reporting, and any deficiencies in our financial reporting or internal controls could adversely affect our business and the price of our common stock.

The Securities and Exchange Commission, or SEC, rules require that our chief executive officer and chief financial officer periodically certify the existence and effectiveness of our internal control over financial reporting. Our independent auditors will be required, beginning with our Annual Report on Form 10-K for our fiscal year ending on December 31, 2007, to attest to our officers' assessment of our internal controls. This process generally requires significant documentation of policies, procedures and systems, review of that documentation by our internal accounting staff and our outside auditors, and testing of our internal control over financial reporting by our internal accounting staff and our outside auditors. Documentation and testing of our internal controls, which we have only undertaken to a limited extent in the past, will involve considerable time and expense, and may strain our internal resources and have an adverse impact on our costs.

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

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

The footwear industry generally is characterized by significant seasonality of sales. Due to the growth in sales of our products in the past two years we cannot assess with certainty the degree to which sales of our footwear products will be subject to seasonal variation, but a majority of our footwear is more suited for fair weather use, so we expect some degree of seasonality in the future. For example, our revenues for the three months ended December 31, 2005 were approximately 12% lower than our revenues for the three months ended September 30, 2005, and we believe that the decline was primarily attributable to seasonal declines in demand for our products. In addition, extended periods of unusually cold weather during the spring and summer could reduce demand for our footwear. Seasonal variations in consumer demand may result in fluctuations in our results of operations from quarter to quarter, and the effect of favorable or unfavorable weather on sales may be significant enough to materially affect our quarterly results. Wide variations in our quarterly operating results may increase the volatility of the price of our common stock.

We rely on two third parties for a significant portion of our warehouse, distribution and fulfillment operations. If these parties are unwilling to continue providing services to us, or are unable to adequately perform such services for us on a cost effective basis, our business could be materially harmed.

We engaged Expeditors International of Washington, Inc. in July 2005 to operate our warehouse, distribution and fulfillment process for a significant portion of our domestic sales, and we have recently engaged Colorado Distribution Group, LLC to provide similar services for us. We are dependent on Expeditors and Colorado Distribution to manage inventory, process orders and distribute products to our customers in a timely manner. We do not have a long-term contract with Expeditors or Colorado Distribution and either party may unilaterally terminate its relationship with us at any time or seek to

increase the prices it charges us. Any disruption in our relationship with Expeditors or Colorado Distribution could cause significant delays in the fulfillment of our customers' orders, and we may not be able to locate another distributor that can provide comparable warehouse, distribution and fulfillment services in a timely manner or on acceptable commercial terms. Additionally, any serious disruption to the services provided to us by Expeditors or Colorado Distribution could harm our ability to supply products to our customers, including:

- damage or destruction to Expeditors's or Colorado Distribution's warehouse and distribution center used for our products due to fire, earthquake or any other natural disaster;
- work stoppages, disputes or difficulties between Expeditors or Colorado Distribution and their respective employees;
- malfunctions in Expeditors's or Colorado Distribution's information systems; or
- disruptions in Expeditors's or Colorado Distribution's shipping channels.

In recent periods, our warehouse, distribution and fulfillment operations have been unable to satisfy the increased demand for our products. The inability to process and deliver sufficient quantities of our products has prevented us from completely filling orders placed by our customers, and has led to increased costs as we have attempted to use other methods, such as air freight, to import products from our third party manufacturers for distribution to our customers. We have also experienced an increase in the rates charged by Expeditors for the services that it performs for us. As a result of these and other factors, our gross profit margins have declined in recent periods.

In the event that the distribution of our products by Expeditors or Colorado Distribution is interrupted for any reason, or Expeditors and Colorado Distribution are unable to distribute sufficient quantities of our products on a cost efficient basis, our business may be materially and adversely affected.

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

In 2005, we established a company-operated warehouse and order processing and customer order facility in Niwot, Colorado that manages all Internet, apparel and accessories orders and shipments. We have established or are in the process of establishing additional company-operated warehouse and fulfillment operations in Canada, China, Colorado, Hawaii, Mexico, the Netherlands, Puerto Rico, and Singapore, and are developing relationships with third parties in Australia, Japan and New Zealand to provide such services to us. We believe these warehousing, distribution and fulfillment services will enable us to ship our products from the facilities that manufacture our products directly to our customers, rather than remaining dependent on third party distribution facilities. The transition from Expeditors or Colorado Distribution to another vendor or to a company-operated warehousing, distribution and fulfillment operation could result in significant delays and disruptions in the supply of our products and could require that we make significant additional expenditures that may adversely impact our operating results.

Moreover, until recently we had never engaged in the warehousing of our products or provided order fulfillment for our retail customers or consumers. As such, we cannot ensure that we will be able to successfully conduct these activities, or that other third parties will be able to conduct these activities for us in a satisfactory manner. Additionally, these warehouse, distribution and fulfillment operations subject us to many of the same risks that our current relationships with Expeditors and Colorado

Distribution do, as noted above. In the event that we or a third party are unable to conduct warehousing, distribution and fulfillment activities in a cost effective, timely, and accurate manner, the distribution of our products may be adversely affected, which could result in harm to our relationships with our retail customers and consumers, a reduction in demand for our products, and additional expenses to us.

Because we depend on third party manufacturers, we may face challenges in maintaining a sufficient supply of goods to meet sales demand, and we may experience interruptions in our supply chain. Any shortfall in the supply of our products may decrease our sales and have an adverse impact on our customer relationships.

In the six months ended June 30, 2006, third party manufacturers produced approximately 75.4% of our footwear products as measured by number of units, and one such manufacturer produced approximately 51.8% of our footwear products. Currently, we have footwear manufacturing arrangements with third party manufacturers located in China, Florida, Italy and Romania. We depend on these manufacturers' ability to finance the production of goods ordered and to maintain adequate manufacturing capacity. We do not exert direct control over the third party manufacturers, so we may be unable to obtain timely delivery of acceptable products.

In addition, we do not have long-term supply contracts with most of these third party manufacturers, including the third party manufacturer that produced the majority of our footwear products in the six months ended June 30, 2006, and any of them may unilaterally terminate their relationship with us at any time or seek to increase the prices they charge us. As a result, we are not assured of an uninterrupted supply of products of an acceptable quality and price from our third party manufacturers. We may not be able to offset any interruption or decrease in supply of our products by increasing production in our company-operated manufacturing facilities due to capacity constraints, and we may not be able to substitute suitable alternative third party manufacturers in a timely manner or at acceptable prices. Any disruption in the supply of products from our third party manufacturers may harm our business and could result in a loss of sales and an increase in production costs, which would adversely affect our results of operations.

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

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

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

In the six months ended June 30, 2006, we produced approximately 24.6% of our **crocs** footwear production at our company-operated manufacturing facilities in Canada and Mexico. The manufacturing of our products from our proprietary closed-cell resin, which we refer to as *croslite*, requires the use of a complex process, and we may experience difficulty in producing footwear that meets our high quality control standards. We will be required to absorb the costs of manufacturing and disposing of products that do not meet our quality standards. These costs are primarily incurred in connection with the initial production of new products, although we may also experience increases in

training costs when we initiate production of new products. Additionally, we may incur increased costs as a result of the introduction of new manufacturing equipment such as molds and injection molding machines. Any increases in our manufacturing costs could adversely impact our margins. Furthermore, our manufacturing capabilities are subject to many of the same risks and challenges noted above with respect to our third party manufacturers, including our ability to scale our production capabilities to meet the needs of our customers, and our manufacturing may be disrupted for reasons beyond our control, including work stoppages, fires, earthquakes, floods or other natural disasters. Any disruption to our manufacturing operations will hinder our ability to deliver products to our customers in a timely manner, and could have a material and adverse effect on our business.

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

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

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

Additionally, a single third party processor in Italy compounded all of the *croslite* we used in producing **crocs** footwear in 2004, and we expect that this third party processor will continue to provide at least a majority of our requirements for the foreseeable future. Although we have arranged for two additional third party processors to compound *croslite* and we began compounding *croslite* at Foam Creations's facility in Quebec City, Canada in 2005, the compounding process is complex and difficult to perfect on a large scale, and we and our new third party processor may not be able to compound meaningful quantities of *croslite* suitable for use in our products.

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

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

Several of our executive officers have recently joined us and therefore have limited experience in managing our company. For example, in February 2006, we hired Peter Case as Senior Vice President Finance and a new corporate controller. Mr. Case became our Chief Financial Officer in April 2006. We may experience difficulty assimilating our recently hired managers, which may adversely impact our business. The addition of our new Chief Financial Officer and Senior Vice President

Finance and corporate controller is also subject to other risks and uncertainties. For example, in connection with the audit of our financial statements for each of the years ended December 31, 2002, 2003 and 2004, our independent registered public accounting firm identified material weaknesses in our internal control over financial reporting. It is possible that the changes to our finance and accounting staff will hamper, rather than aid, our efforts to improve our internal control over financial reporting due to, among other things, the time and effort required to integrate the new employees. Furthermore, we are now subject to SEC reporting obligations and if these new employees are not properly integrated into our finance and accounting staff, we may be unable to adequately address our SEC reporting obligations.

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

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

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

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

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

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

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

We believe our trademarks, trade names, copyrights, trade secrets, issued and pending patents, trade dress and designs are valuable and integral to our success and competitive position. From time to time, we have identified competitors selling products that are very similar in design to certain of our **crocs** footwear models, and that are manufactured from what may be comparable materials to our products. We believe that some of these products may infringe our intellectual property rights. Given the increased popularity of our **crocs** brand, we believe there is a high likelihood that counterfeit products or other products infringing on our intellectual property rights will continue to emerge, seeking to benefit from the consumer demand for **crocs** footwear. In order to protect our brand, we may be required to spend significant resources to monitor and police our intellectual property rights. We may not be able to detect infringement and may lose our competitive position in the market before we are able to do so. In addition, enforcing rights to our intellectual property may be difficult and expensive, and we may not be successful in combating counterfeit products and stopping infringement of our intellectual property rights, particularly in some foreign countries, which could make it easier for competitors to capture market share. Intellectual property rights may also be unavailable or limited in the United States and some foreign countries. Furthermore, our efforts to enforce our trademark and other intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our trademark and other intellectual property rights. For example, our attempts to register **crocs** and our **crocs** logo as trademarks have been challenged by a large apparel company, and certain jurisdictions have rejected our attempted registration of our logo as a trademark based upon such challenge and based upon trademarks owned by the same company and at least one other large apparel company. If we are unsuccessful in protecting and enforcing our intellectual property rights, or if we were required to change our name or use a different logo, continued sales of such competing products by third parties could harm our brand and adversely impact our business, financial condition and results of operations. Similarly, in our enforcement litigation against manufacturers of knock-off products, at least one manufacturer has alleged counterclaims challenging the validity and enforceability of our patents and we expect that other defendants in the litigation may assert similar claims.

We have registered **crocs** as a trademark for footwear in Aruba, Australia, the European Union, Israel, Japan, Mexico, Netherlands Antilles, New Zealand, Panama and the World Intellectual Property Office. As of July 31, 2006, we have also applied to register **crocs** and the **crocs** logo as trademarks in 43 jurisdictions around the world, including the U.S., but such applications have not been approved and are currently pending. In addition, we have recently extended the scope of our trademark registrations and applications for both the **crocs** mark and logo to cover non-footwear products such as sunglasses, goggles, knee pads, watches, luggage, and some of our Internet sales activities. Although we believe that we have applied for trademark registrations in all jurisdictions where we are doing or intend to do business, there is a possibility that we have not applied to register the **crocs** mark, the company logos, the individual brand names for our products or our marketing slogans in countries where we will do business in the future, and we have elected not to apply for trademark registrations for some marks in some jurisdictions. Furthermore, we may not obtain trademark registrations in connection with any applications that we do file and trademark protection, whether registered or common law, may not be available in every country in which we offer or intend to offer our products. Failure to adequately protect our trademark rights could damage or even destroy our **crocs** brand, expose us to trademark liability and impair our ability to compete effectively. In addition, defending or enforcing our trademark rights could result in the expenditure of significant financial and managerial resources.

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

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

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

From time to time, third parties may claim that we are infringing on their intellectual property rights, and we may be found to infringe those intellectual property rights. While we do not believe that any of our products infringe the valid intellectual property rights of third parties, we may be unaware of the intellectual property rights of others that may cover some of our technology or products. If we are forced to defend against such third party claims, whether or not such claims are resolved in our favor, we could encounter expensive and time consuming litigation which could divert our management and key personnel from business operations. For example, one company has filed a lawsuit against us claiming that our Aspen model infringed its trademark rights, and that by using the Aspen name and intellectual property we have committed acts of false designation of origin, trademark dilution, unfair competition and unfair or deceptive trade practices. We have subsequently changed the name of our Aspen model to the "Endeavor." If we are found to be infringing on the intellectual property rights of this company or others, we may be required to pay damages or ongoing royalty payments, or comply with other unfavorable terms. Additionally, if we are found to be infringing on the intellectual property rights of this company or others, we may not be able to obtain license agreements on terms acceptable to us, and this may prevent us from manufacturing, marketing or selling our products. Thus, such third party claims may significantly reduce the sales of our products or increase our cost of goods sold. Any such reductions in sales or cost increases could be significant, and could have a material and adverse affect on our business.

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

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

In the six months ended June 30, 2006, our ten largest retail customers accounted for approximately 29.8% of our revenues, with Dillard's, our largest customer for the period, accounting for approximately 6.5% of our revenues. If any of our major retail customers experiences a significant downturn in their business or fails to remain committed to our products or brand, then these customers may reduce or discontinue purchases from us. In addition, we extend credit to our customers based on an evaluation of each customer's financial condition. If a significant customer to whom we have extended credit experiences financial difficulties, our bad debt expense may increase relative to revenues in the future. Any significant increase in our bad debt expense relative to revenues would adversely impact our net income and cash flow and could affect our ability to pay our own obligations as they become due.

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

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

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

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

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

- the strength of the **crocs** brand and competitive conditions in new markets that we attempt to enter;
- our ability to attract and retain qualified distributors or agents or to develop direct sales channels;
- our ability to use and protect the **crocs** brand, and our other intellectual property, in these new markets and territories; and
- our ability to successfully enter and compete in markets and territories, especially internationally, where we have little distribution experience and where our **crocs** brand is not well known.

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

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

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

- tariffs, import and export controls and other non-tariff barriers such as quotas and local content rules;
- increased transportation costs due to distance, energy prices or other factors;
- delays in the transportation and delivery of goods due to increased security concerns;
- foreign currency fluctuations, for which we do not currently engage in any material hedging transactions;
- restrictions on the transfer of funds;
- changing economic conditions;
- restrictions, due to privacy laws, on the handling and transfer of consumer and other personal information;
- changes in governmental policies and regulations;
- political unrest, terrorism or war, any of which can interrupt commerce;
- expropriation and nationalization;

18

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

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

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

In addition, during 2005, we generated approximately $12.9 million, or 11.9% of our revenues outside of the U.S., and in the six months ended June 30, 2006, we generated approximately $37.5 million, or 28.7% of our revenues outside of the U.S., and we expect to expand our international sales and marketing operations in the future. Our ability to capitalize on growth in new international markets and to maintain the current level of operations in our existing international markets is subject to risks associated with international sales operations, as noted above, as well as the difficulties associated with promoting products in unfamiliar cultures.

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

We have made, and may in the future make, acquisitions of, or investments in, other companies. For example, in June 2004, we acquired Foam Creations, and in April 2005, we acquired the manufacturing operations of a footwear producer in Mexico. We expect to consider other opportunities to acquire or make investments in other businesses and products that could enhance our manufacturing capabilities, complement our current products or expand the breadth of our markets or customer base. The pursuit of acquisitions may divert the attention of management and cause us to incur various expenses in identifying, investigating and pursuing suitable acquisitions, whether or not they are consummated. In the event we finance acquisitions by issuing equity or convertible debt securities, our stockholders may be diluted.

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

- unanticipated costs associated with the acquisition;

- diversion of management's attention from our core business;

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

- the potential loss of key employees; or

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

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

We may be adversely affected by currency exchange rate fluctuations.

We purchase products and supplies from third parties in U.S. dollars and receive payments from certain of our international customers in foreign currencies. The cost of these products and supplies sourced overseas, and payments received from customers, may be affected by changes in the value of the relevant currencies. Price increases caused by currency exchange rate fluctuations could make our products less competitive or have an adverse effect on our profitability. Currency exchange rate fluctuations 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. Foreign currency fluctuations could have a material adverse effect on our results of operations and financial condition.

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

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

Our 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 our company or changes in our management. Among other things, these provisions:

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

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

- prohibit stockholders from calling special meetings of stockholders;

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

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

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

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

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

Risks Related to this Offering

Our common stock price has been and may continue to be volatile and you may lose all or part of your investment.

We completed our initial public offering in February 2006, and an active trading market for our common stock may not be sustained. Since our initial public offering, the price of our common stock as reported on the Nasdaq Global Select Market has ranged from a low of $20.32 on March 22, 2006 to a high of $37.00 on May 5, 2006.

Numerous factors, many of which are beyond our control, may cause the market price of our common stock to fluctuate significantly. These factors include:

expiration of lock-up agreements;

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

changes in financial estimates by us or by any securities analysts who might cover our stock;

speculation about our business in the press or the investment community;

significant developments relating to our manufacturing or distribution relationships;

stock market price and volume fluctuations of other publicly traded companies and, in particular, those that are in the sports apparel or footwear industries;

customer orders of new products from us and our competitors;

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

the operating and stock performance of comparable companies;

general economic conditions and trends;

major catastrophic events;

announcements by us or our competitors of new products, significant acquisitions, strategic partnerships or divestitures;

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

- loss of external funding sources;
- sales of our common stock, including sales by our directors, officers or significant stockholders; and
- additions or departures of key personnel.

In addition, the timing of orders by our customers and timing of shipments to our customers may cause quarterly fluctuations of our results of operations that may, in turn, affect the market price of the common stock. In the past, securities class action litigation has often been instituted against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs to us and divert our management's attention and resources.

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

Holders of 15,096,701 shares of our common stock, including all of our executive officers and directors, have agreed not to sell shares of our common stock for a period of 90 days following this offering, subject to extension for up to 35 days under specified circumstances at the option of Piper Jaffray and Thomas Weisel Partners. However, Piper Jaffray and Thomas Weisel Partners may waive this restriction and allow any such stockholders to sell shares at any time. See "Underwriting." In addition, other stockholders holding 3,052,663 of shares of our common stock agreed not to sell shares of our common stock until August 23, 2006. Piper Jaffray and Thomas Weisel Partners may waive this restriction and allow any such stockholders to sell shares at any time. Shares of common stock subject to these lockup agreements will become eligible for sale in the public market upon expiration of these lock-up agreements, subject to limitations imposed by Rule 144 under the Securities Act of 1933. Of the shares subject to lock-up agreements, 14,128,740 shares will be "restricted securities" under Rule 144, and all of such shares will be eligible for resale immediately upon expiration of the lock-up agreements. See "Shares Eligible for Future Sale." Sale of shares of our common stock by our stockholders, or the perception that such stockholders may sell shares of our common stock, could have an adverse impact on the market price for our common stock.

We do not intend to pay dividends on shares of our common stock for the foreseeable future.

We have never declared or paid any cash dividends on shares of our common stock. We intend to retain any future earnings to fund the operation and expansion of our business and, therefore, we do not anticipate paying cash dividends on shares of our common stock in the foreseeable future.

A SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- our limited operating history;
- our significant recent expansion;
- changing fashion trends;
- our reliance on market acceptance of the small number of products we sell;
- our ability to develop and sell new products;
- our limited manufacturing capacity and distribution channels;
- our reliance on third party manufacturing and logistics providers for the production and distribution of our products;
- our reliance on a single-source supply for certain raw materials;
- our management and information systems infrastructure;
- our ability to obtain and protect intellectual property rights;
- the effect of competition in our industry;
- the potential effects of seasonality on our sales;
- our ability to attract and retain management talent; and
- other factors described in this prospectus under the heading "Risk Factors."

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

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

23

USE OF PROCEEDS

We will not receive any proceeds from the sale of shares of our common stock to be sold by the selling stockholders.

PRICE RANGE OF COMMON STOCK

Our common stock has traded on the Nasdaq Global Select Market under the symbol "CROX" since it began trading on February 8, 2006. Our initial public offering was priced at $21.00 per share on February 7, 2006. The following table sets forth, for the periods indicated, the high and low intra-day sales prices for our common stock as reported on the Nasdaq Global Select Market.

Year ended December 31, 2006	High	Low
First Quarter (from February 8)	$ 32.50	$ 20.32
Second Quarter	$ 37.00	$ 21.56
Third Quarter (through August 16)	$ 30.75	$ 22.65

On August 16, 2006, the last reported sale price of our common stock on the Nasdaq Global Select Market was $27.66 per share.

Computershare Trust Company, Inc. is the transfer agent and registrar for our common stock. On July 31, 2006, we had approximately 325 holders of record of our common stock.

DIVIDEND POLICY

We have never declared or paid any cash dividends on shares of our common stock. We currently intend to retain all future earnings for the operation and expansion of our business and do not anticipate paying cash dividends on our shares of common stock in the foreseeable future. Any payment of cash dividends in the future will be at the discretion of our board of directors and will depend upon our results of operations, earnings, capital requirements, contractual restrictions, outstanding indebtedness and other factors that our board of directors deems relevant.

CAPITALIZATION

The following table sets forth our cash and cash equivalents and our consolidated capitalization as of June 30, 2006. You should read the information below in conjunction with our consolidated financial statements and their notes incorporated by reference in this prospectus and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus.

		As of June 30, 2006
		(dollars in thousands) (unaudited)
Cash and cash equivalents	$	67,017
Long-term debt and capital lease obligations (including current portion)	$	2,606
Stockholders' equity:		
Common Stock, par value $0.001 per share; 125,000,000 shares authorized and 38,411,692 issued and outstanding		38
Preferred Stock, par value $0.001 per share; 5,000,000 shares authorized no shares issued and outstanding		
Additional paid-in capital		117,202
Deferred compensation		(8,186)
Retained earnings		38,771
Accumulated other comprehensive income		814
Total stockholders' equity		148,639
Total capitalization	$	151,245

SELECTED CONSOLIDATED FINANCIAL DATA

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

The selected financial data presented below under the heading "Consolidated Statement of Operations Data" for the years ended December 31, 2002, 2003, 2004 and 2005 and the selected financial data presented below under the heading "Consolidated Balance Sheet Data" as of December 31, 2003, 2004 and 2005 have been derived from, and are qualified by reference to, the consolidated financial statements incorporated by reference in this prospectus. The selected financial data presented below under the headings "Consolidated Statement of Operations Data" and "Consolidated Balance Sheet Data" for the six months ended and as of June 30, 2005 and 2006 are unaudited, have been derived from unaudited consolidated financial statements that are incorporated by reference in this prospectus and have been prepared on the same basis as the annual consolidated financial statements. The selected consolidated financial data presented below under the heading "Consolidated Balance Sheet Data" as of and for the year ended December 31, 2002 are derived from our unaudited financial statements. In the opinion of management, the unaudited selected financial data presented below under the headings "Consolidated Statement of Operations Data" and "Consolidated Balance Sheet Data" reflect all adjustments, which include only normal and recurring adjustments, necessary to present fairly our results of operations for and as of the periods presented. Historical results are not necessarily indicative of the results of operations to be expected for future periods.

	Year Ended December 31,				Six Months Ended June 30,	
	2002[1]	2003	2004	2005[2]	2005[3]	2006
	(dollars in thousands, except per share data)					
Consolidated Statement of Operations Data						
Revenues	$ 24	$ 1,165	$ 13,520	$ 108,581	$ 36,727	$ 130,477
Cost of sales (including share-based compensation expense of $, $, $, $84, $29 and $448, respectively)	16	891	7,162	47,773	15,919	59,828
Gross profit	8	274	6,358	60,808	20,808	70,649
Selling, general and administrative expense (including share-based compensation expense of $240, $356, $1,792, $4,673, $2,352 and $3,951, respectively)	453	1,471	7,929	33,916	13,225	36,978
Income (loss) from operations	(445)	(1,197)	(1,571)	26,892	7,583	33,671
Interest expense		3	47	611	202	391
Other (income) expense net			19	(8)	23	(662)
Income (loss) before income taxes	(445)	(1,200)	(1,637)	26,289	7,358	33,942
Income tax expense (benefit)[2]			(143)	9,317	1,968	11,835
Net income (loss)	(445)	(1,200)	(1,494)	16,972	5,390	22,107
Dividends on redeemable convertible preferred shares[4]			142	275	136	33
Net income (loss) attributable to common stockholders	$ (445)	$ (1,200)	$ (1,636)	$ 16,697	$ 5,254	$ 22,074
Income (loss) per common share:						
Basic	$ (0.05)	$ (0.06)	$ (0.07)	$ 0.51	$ 0.16	$ 0.62
Diluted	$ (0.05)	$ (0.06)	$ (0.07)	$ 0.51	$ 0.16	$ 0.56
Weighted average common shares:						
Basic	8,288,710	20,855,385	24,641,953	25,493,577	25,197,004	35,608,875
Diluted	8,288,710	20,855,385	24,641,953	33,570,000	33,289,163	39,351,248

	As of December 31,				As of June 30,	
	2002[1]	2003	2004	2005	2005[5]	2006
	(dollars in thousands)					
Consolidated Balance Sheet Data						
Cash and cash equivalents	$ 73	$ 326	$ 1,054	$ 4,787	$ 3,165	$ 67,017
Total assets	454	1,304	16,224	78,032	39,938	190,196
Long-term obligations		400	3,660	5,513	3,995	3,912
Redeemable common shares		1,800	1,800	1,800	1,800	
Redeemable convertible preferred shares			5,500	5,500	5,500	
Total stockholders' equity (deficit)	389	(1,642)	(3,591)	18,914	3,946	148,639

(1)

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

(2)

On January 4, 2005, we converted from a limited liability company to a taxable corporation. For the tax years beginning on January 1, 2005 and afterward, we have been subject to corporate-level U.S. federal and state income taxes. Additionally, the statement of operations for the year ended December 31, 2005 reflects a one-time income tax benefit of $797,000 to record the net deferred tax assets at the date of conversion.

(3)

Subsequent to the issuance of our consolidated financial statements for the six months ended June 30, 2005, we determined that the fair value of our common stock used for certain equity grants during 2005 was understated. As a result, the consolidated financial statements for the six months ended June 30, 2005 have been restated from the amounts previously reported. See note 14 to our unaudited consolidated financial statements for the six months ended June 30, 2006 incorporated by reference in this prospectus.

(4)

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

(5)

Subsequent to the issuance of our consolidated financial statements for the six months ended June 30, 2005, we determined that the accumulated deficit as of January 4, 2005, the date of our conversion from a limited liability company to a corporation, should have been reclassified to additional paid-in capital in accordance with SEC Staff Accounting Bulletin Topic 4:B "S Corporations."

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

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

Overview

We are a rapidly growing designer, manufacturer and marketer of footwear for men, women and children under the **crocs** brand. We have been marketing and distributing footwear products since November 2002, shortly after completing the modification and improvement of a shoe produced by Foam Creations. In June 2004, we acquired Foam Creations, including its manufacturing operations, product lines and rights to the proprietary closed-cell resin, which we refer to as *croslite*. All of our footwear products incorporate *croslite*, which enables us to produce a soft and lightweight, non-marking, slip- and odor-resistant shoe that retails at attractive price points ranging from $19.99 to $49.99. In addition to our footwear products, we recently introduced a line of **crocs**-branded apparel and accessory items. We also use *croslite* to manufacture non-branded products that we sell to original equipment manufacturers.

We currently sell our **crocs** -branded products throughout the U.S. and in over 60 countries worldwide. Outside the U.S., we sell our products directly to retailers, or through distributors where we believe they offer a preferable alternative to direct sales. We also sell directly to consumers through our website and our company-operated kiosks and retail stores. The broad appeal of our footwear has allowed us to market our products to a wide range of distribution channels in the U.S., including traditional footwear retailers as well as a variety of specialty channels. As of June 30, 2006, our retail customer base in the U.S. included over 10,000 retail store locations selling our products.

We have achieved significant growth since our inception, driven largely by the popularity of our footwear products and our ability to significantly expand the breadth and depth of our distribution network. For the six months ended June 30, 2006, we recorded revenues of $130.5 million and net income of $22.1 million, compared to $36.7 million of revenues and net income of $5.4 million in the six months ended June 30, 2005. Continued growth of our revenues and profitability will depend substantially on the continued popularity of our existing footwear products, our ability to continue to introduce new models of footwear that meet the evolving demands of our retail customers and end consumers, our ability to effectively manage our sales and distribution network, and our ability to maintain sufficient product supply to meet expected growth in demand.

We have achieved strong gross profit margins since commencing sales of our **crocs** footwear. For the six months ended June 30, 2006, our gross profit was $70.6 million, or 54.1% of revenues, compared to $20.8 million, or 56.7% of revenues, for the six months ended June 30, 2005. We believe a number of factors have contributed to our ability to achieve gross profit margins at these levels. Generally, we have not discounted the purchase price of our **crocs** footwear due to high levels of demand for our products. Additionally, our use of third party manufacturers as well as company-operated manufacturing facilities has allowed us to maintain a relatively low cost structure while enabling us to achieve significant production flexibility.

We currently manufacture our footwear products and accessories, and all of our non-branded products for original equipment manufacturers, at Foam Creations's facility in Quebec City, Canada and we manufacture accessories in our facility in China. We also manufacture our footwear products at our company-operated facility located in Mexico. In addition, we contract with third party manufacturers in China, Florida, Italy and Romania for the production of our footwear products and accessories. We believe our in-house production capabilities enable us to make rapid changes to manufacturing schedules and provide us the flexibility to quickly ship in-demand models and colors, while outsourcing allows us to lower our capital investment and retain the cost-effectiveness of using third party manufacturing.

The popularity of our footwear has in the past resulted in our inability to produce or deliver shoes in sufficient volumes to satisfy the demands of our retail customers and consumers. We have been attempting to meet this demand by actively expanding our company-operated manufacturing capacity, as well as increasing the number of shoes produced for us by third party manufacturers. During 2006, we intend to expand our manufacturing capacity at the facility we operate in Mexico. We also recently expanded production capacity at our third party manufacturers located in China and added third party manufacturing capacity in Romania. In addition to expanding our production capacity, we are actively expanding our fulfillment and distribution capabilities. In April 2006, we entered into a lease agreement for a 264,000 square foot facility in Aurora, Colorado that we intend to use as a company-operated warehouse and distribution facility serving our domestic markets. We also recently entered into a rental arrangement for a 100,000 square foot facility in China. We anticipate that the China facility, which is adjacent to our major third-party manufacturing facilities, will enable us to distribute our products more efficiently on a global basis.

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

On February 13, 2006, we completed an initial public offering of our common stock in which we sold 4,950,000 shares and our selling shareholders sold 6,435,000 shares. Our net proceeds from the offering totaled approximately $94.5 million, after payment of underwriting discounts and commissions and other related offering costs. We used the net proceeds from the offering to repay all amounts outstanding under our amended and restated credit facility and all amounts outstanding under loans from the National Bank of Canada, for capital expenditures related to increasing our manufacturing capacity and infrastructure improvements, developing our international operations and increasing our marketing activities. We did not receive any of the proceeds from the sale of shares of our common stock by the selling stockholders.

General

Revenues are recorded when products are shipped and the customer takes title and assumes risk of loss, collection of related receivables are probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. Title passes on shipment or on receipt by the customer depending on the country of the sale and the agreement with the customer. Allowances for estimated returns and discounts are recognized when related revenue is recorded. Because we use internal manufacturing as well as contract with third parties to manufacture our products, our cost of sales represents our costs to manufacture products in our own facilities, including raw materials costs and all overhead expenses related to production, as well as the cost to purchase finished products from our

third party manufacturers. Cost of sales also includes the cost to transport these products to our facilities and all warehouse and outbound freight expenses. Our selling, general and administrative expense consists primarily of selling, marketing, wages and related payroll and employee benefit costs, travel and insurance expenses, depreciation, amortization, professional fees, facility expenses, bank charges and non-cash charges for stock based compensation.

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

Factors Affecting Comparability

Set forth below are selected factors that we believe have had, or are expected to have, a significant affect on the comparability of recent or future results of operations:

Equity Compensation Expenses

In December 2004, the Financial Accounting Standards Board (FASB) issued a revision to Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, which requires the calculation of the fair value of stock-based compensation, estimation of future forfeitures and income taxes, and recognition of the fair value as a non-cash expense over the vesting period of the underlying instruments. In January 2005, the FASB issued SFAS No. 123(R), *Share-Based Payment,* that revised SFAS No. 123. SFAS No. 123(R) eliminates the ability to account for stock-based compensation transactions using the footnote disclosure-only provisions of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and instead requires that such transactions be recognized and reflected in our financial statements using a fair-value-based method.

We adopted SFAS No. 123(R) effective as of January 1, 2006 using the prospective method for option grants and restricted stock issued prior to August 15, 2005, which was the date we filed a our Registration Statement on Form S-1 in connection with our initial public offering and the modified prospective method for option grants issued after August 15, 2005. The adoption of SFAS No. 123(R)'s fair-value-based method will have a significant adverse impact on our results of operations, although it will have no impact on our overall cash flow. We expect to incur approximately $5.4 million, net of tax, in non-cash stock-based compensation expense during fiscal 2006 based on the number of stock options and restricted stock outstanding as of December 31, 2005. We will recognize additional stock-based compensation expense in 2006 based on the fair value of any share based payment made in 2006. The amount of compensation expense recognized depends on numerous factors and estimates, including the number and vesting period of option grants, the publicly traded price of the common stock, estimated volatility of the stock price, estimates of the timing and volume of exercises and forfeitures of the options and fluctuations in future interest and income tax rates.

Effects of Initial Public Offering

In February 2006, we completed an initial public offering of our common stock. As a part of the initial public offering, we issued 4,950,000 shares of our common stock and received net proceeds of approximately $94.5 million. In connection with the initial public offering, all of our then-outstanding shares of redeemable convertible preferred stock, which was not included in stockholders' equity in our balance sheet, converted into 7,452,492 shares of our common stock, of which a portion was sold in our

initial public offering, and accrued dividends aggregating $171,000 were paid from our net proceeds from the offering. In addition, the put options on our redeemable shares of common stock terminated and such shares were also not previously included in stockholders' equity in our balance sheet. Therefore, the immediate result of our initial public offering was a significant increase in cash and stockholders' equity on our balance sheet, and the elimination of the accrual of dividends on the preferred stock. In addition, the common stock outstanding increased significantly because of the conversion of the preferred stock, the termination of the put options on the redeemable shares of common stock and our issuance of shares of common stock. As a result, the basis for the calculation of net income per share on both a basic and diluted basis has changed significantly.

Seasonality

Due to our short operating history and significant sales growth since our inception, we cannot assess with certainty the degree to which sales of our footwear products will be subject to seasonality. However, we expect that our business, similar to other vendors of footwear and related merchandise, will be subject to seasonal variation. We believe many vendors that market footwear products suited for warm weather normally experience their highest sales activity during the second and third quarters of the calendar year. For example, our revenues for the three months ended December 31, 2005 were lower than our revenues for the three months ended September 30, 2005, and we believe that the decline was primarily attributable to a seasonal decline in the demand for our products. While we have introduced footwear models that are more suitable for cold weather uses, such as the Endeavor and the Georgie, we expect that demand for our products, and therefore our sales, may continue to be subject to seasonal variations and significantly impacted by weather conditions, as 88.3% of our revenues during the six months ended June 30, 2006 were attributable to the Athens, Beach and Cayman models, which are more suitable for warm weather. In addition, our quarterly results of operations may fluctuate significantly as a result of a variety of other factors, including the timing of new model introductions or general economic or consumer conditions. Accordingly, results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for any year, and revenues for any particular period may decrease. See "Risk Factors Risks Related to Our Business Sales of our products are likely to be subject to seasonal variations, which could increase the volatility of the price of our common stock."

Results of Operations

Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005

Revenues. Revenues increased 255.6% or $93.8 million, to $130.5 million, in the six months ended June 30, 2006, from $36.7 million in the six months ended June 30, 2005. This increase was primarily a result of significantly higher unit sales of our footwear products. The higher unit sales resulted from an increase in the number of retail stores selling our products, additional sales resulting from new product offerings, stronger sales to our existing wholesale customers and increases in sales at retail locations operated by us and through our webstore. In addition, our revenues from sales outside of the United States were $37.5 million in the six months ended June 30, 2006 compared to $3.9 million in the six months ended June 30, 2005.

Gross profit. Gross profit increased 239.4% or $49.8 million, to $70.6 million, in the six months ended June 30, 2006, from $20.8 million in the six months ended June 30, 2005. Our gross profit margin was 54.1% for the six months ended June 30, 2006 and 56.7% for the six months ended June 30, 2005. This decrease in margin percentage is attributable to increases in third party logistics costs and increases in depreciation expenses related to increasing production capabilities. These cost increases were partially offset by improved efficiencies in managing inventory requirements and shipping a higher percentage of our products via ocean freight rather than by air freight.

Selling, general and administrative expense. Selling, general and administrative expense increased 180.3% or $23.8 million, to $37.0 million in the six months ended June 30, 2006, from $13.2 million in the six months ended June 30, 2005. This increase was attributable to a $9.1 million increase in sales and marketing costs, $7.0 million of the increase related to personnel expenses and $5.0 million of the increase related to our kiosk operations. We also experienced an increase in our overall corporate infrastructure costs to support our growth. As a percentage of net revenues, selling, general and administrative expenses decreased by 7.7% to 28.3% for the six months ended June 30, 2006 from 36.0% for the corresponding period in 2005. As a percentage of total net revenue, selling, general and administrative expenses decreased primarily due to the effect of the improved leverage of operating expenses. These decreases were partially offset by an increase in the percentage of kiosk-related expenses compared to net sales.

Interest expense. Interest expense was $391,000 in the six months ended June 30, 2006, compared to $202,000 in the six months ended June 30, 2005. The increase in interest expense relates to the increase in average borrowings outstanding on our line of credit and long term debt during the six months ended June 30, 2006 compared to average borrowings outstanding under those arrangements during the six months ended June 30, 2005.

Other income/expense, net. Other income was $662,000 in the six months ended June 30, 2006, compared to expense of $23,000 in the six months ended June 30, 2005 which resulted from an increase in interest income related to an increase in cash and cash equivalents resulting from the completion of our initial public offering in February 2006.

Income tax expense. During the six month period ended June 30, 2006, income tax expense was $11.8 million, representing an effective income tax rate of 34.9%, compared to income tax expense of $2.0 million, representing an effective income tax rate of 26.7%, in the six month period ended June 30, 2005. We recognized a tax benefit of $797,000 in the six month period ended June 30, 2005 to establish our deferred tax assets in connection with the conversion from a limited liability company to a taxable corporation. When compared to the effective income tax rate, excluding the effect of the tax benefit, our effective income tax rate for the six months ended June 30, 2006 decreased by approximately 5.5%. The decrease relates primarily to an increase in the pre-tax earnings in jurisdictions with lower income tax rates as a percentage of total pre-tax earnings.

Dividends on redeemable convertible preferred stock. Dividends on our outstanding redeemable convertible preferred stock were $33,000 for the six months ended June 30, 2006 representing a decrease of $103,000 when compared to the $136,000 for the six months ended June 30, 2005. We first issued equity with preferred liquidation and dividend rights in June 2004, when we sold our Class C membership units. In connection with our conversion from a limited liability company to a corporation, our Class C membership units converted into shares of our Series A preferred stock. Our Series A preferred stock provides for a dividend at the rate of five percent per annum on the initial investment amount per share. The Series A preferred stock was converted into shares of our common stock in connection with the closing of the initial public offering on February 13, 2006.

Comparison of the Year Ended December 31, 2005 and 2004

Revenues. Revenues increased 704.4% or $95.1 million, to $108.6 million, in the year ended December 31 2005, from $13.5 million in the year ended December 31, 2004. This increase was primarily a result of significantly higher unit sales of our footwear products, which increased to 6.0 million pairs for the year ended December 31, 2005, from 649,000 pairs for the year ended December 31, 2004. The higher unit sales resulted from an increase to approximately 8,000 retail stores domestically and internationally selling our products and stronger sales to our existing customers.

During the year ended December 31, 2005, our results included revenues of $5.2 million from sales by Foam Creations. Revenues from sales by Foam Creations that were included in our results of operations for the date of acquisition to December 31, 2004 were $2.7 million. We expect our sales to continue to grow and our revenues to increase as we enter new markets and introduce new products. In addition, our revenues from sales outside of the U.S. were $12.9 million in the year ended December 31, 2005.

Gross profit. Gross profit increased 850.0% or $54.4 million, to $60.8 million, in the year ended December 31, 2005, from $6.4 million in the year ended December 31, 2004. Our gross profit margin improved to 56.0% in the year ended December 31, 2005, from 47.0% in the year ended December 31, 2004. The increase in gross profit margin was due primarily to lower unit costs resulting from the addition of a third party manufacturer located in China, from which we did not obtain footwear products in the year ended December 31, 2004, partially offset by higher freight and duty costs,.

Selling, general and administrative expense. Selling, general and administrative expense increased 329.1% or $26.0 million, to $33.9 million in the year ended December 31, 2005, from $7.9 million in the year ended December 31, 2004. This increase was primarily a result of higher costs associated with increased sales volumes, including an increase in selling and marketing expenses of $6.9 million, increases in personnel expenses of $7.4 million. In addition, professional and consulting fees increased approximately $2.5 million, primarily as a result of increased legal fees, as well as settlement costs with consultants. In addition, stock-based compensation expense was $4.7 million for the year ended December 31, 2005, compared to $1.8 million for the year ended December 31, 2004. As a percentage of revenues, selling, general and administrative expense decreased to 31.2% in the year ended December 31, 2005, from 58.6% in the year ended December 31, 2004, primarily due to substantially higher revenues in 2005.

Interest expense. Interest expense was $611,000 in the year ended December 31, 2005, compared to $47,000 in the year ended December 31, 2004. The increase is related to the interest expense associated with the indebtedness incurred under our line of credit during 2005 and the long term debt at our subsidiary Foam Creations, which we acquired in June 2004.

Other income/expense, net. Other income was $8,000 in the year ended December 31, 2005, compared to expense of $19,000 in the year ended December 31, 2004, which primarily related to a minority interest associated with Foam Creations, which was acquired in June 2004 and an increase in interest income related to the increase in cash and cash equivalents.

Income tax expense (benefit). In the year ended December 31, 2005, income tax expense was $9.3 million, representing an effective income tax rate of 35.4%, compared to a benefit of $143,000 in the year ended December 31, 2004. In the year ended December 31, 2004, we were not a tax-paying entity for U.S. income tax purposes and therefore did not record any income tax expense for the U.S. entity for this period. However, we acquired Foam Creations, a Canadian corporation, in June 2004. During the period subsequent to the acquisition, Foam Creations recorded a tax benefit of $143,000. We recognized a tax benefit of $797,000 in the year ended December 31, 2005 to establish our deferred tax assets in connection with the conversion from a limited liability company to a taxable corporation.

Dividends on redeemable convertible preferred stock. Dividends on our outstanding redeemable convertible preferred stock were $275,000 for the year ended December 31, 2005 compared to $142,000 for the year ended December 31, 2004. We first issued equity with preferred liquidation and dividend rights in June 2004, when we sold our Class C membership units. In connection with our conversion from a limited liability company to a corporation, our Class C membership units converted into shares of our Series A preferred stock. Our Series A preferred stock provides for a dividend at the rate of five

percent per annum on the initial investment amount per share. The Series A preferred stock converted into shares of our common stock in connection with the closing of the initial public offering on February 13, 2006.

Comparison of the Years Ended December 31, 2004 and 2003

Revenues. Revenues increased 1,025.0% or $12.3 million, to $13.5 million, in 2004 from $1.2 million in 2003, primarily as a result of higher unit sales. Sales of our footwear products increased to 649,000 pairs in 2004 from 76,000 pairs in 2003. The higher sales volume in 2004 was primarily a result of the popularity of our Beach model and an increase to 2,400 retail stores selling our products. Our results in 2004 include $2.7 million of revenues from sales by Foam Creations of our non-branded products, which we acquired in June 2004.

Gross profit. Gross profit increased 2,222.6% or $6.1 million, to $6.4 million, in 2004, from $274,000 in 2003. Gross profit margin improved to 47.0% in 2004 from 23.5% in 2003. The increase in gross profit margin was due primarily to lower unit costs associated with production efficiencies resulting from higher sales volumes. Gross profit margin for our non-branded products sold by Foam Creations was approximately 40.0% for the six months ended December 31, 2004.

Selling, general and administrative expense. Selling, general and administrative expense increased 426.6% or $6.4 million, to $7.9 million, in 2004, from $1.5 million in 2003. This increase was primarily a result of higher costs associated with increased sales volumes, including an increase in selling and marketing expenses of $2.3 million, personnel expenses of $1.6 million, a portion of which was included in selling and marketing expenses, and the associated facility expansion costs of $125,000 required to support our growth. The absorption of Foam Creations selling, general and administrative expense contributed an additional $1.5 million to this increase of which $487,000 relates to the amortization of intangibles associated with this acquisition. Depreciation and amortization expense increased to $586,000 in 2004 from $18,000 in 2003, primarily as a result of amortization of intangibles associated with our acquisition of Foam Creations. Share-based compensation expense was $1.8 million in 2004 compared to $356,000 in 2003. This increase was due to a greater number of awards granted to employees, directors and consultants, along with higher equity values for such awards. Additionally, a number of awards were granted in 2004 with immediate vesting, and as a result, we recognized the entire expense associated with those grants at the time of the grant. As a percentage of revenues, selling, general and administrative expense decreased to 58.6% in 2004 from 126.3% in 2003, largely due to substantially higher revenues generated in 2004.

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

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

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

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

Off-Balance Sheet Arrangements

Our primary off-balance sheet arrangements consist of operating leases. We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not engage in trading activities involving non-exchange traded contracts that rely on estimation techniques to calculate fair value. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Liquidity and Capital Resources

Our primary cash needs are working capital and capital expenditures. Other principal uses of cash have been for our acquisition of Foam Creations in June 2004 for $5.2 million, for the distribution in April 2005 of $3.0 million in cash to the members of our predecessor limited liability company pursuant to the operating agreement of that entity, for the purchase of our manufacturing operation in Mexico and associated operating assets in April 2005 for approximately $1.3 million, and for capital expenditures to increase manufacturing capacity and improve our global infrastructure. Prior to our initial public offering, we generally financed these needs through sales of our securities, borrowings under our credit facility and cash provided by operating activities.

As of June 30, 2006, we had $67.0 million in cash and cash equivalents compared to $4.8 million in cash and cash equivalents as of December 31, 2005. The increase in cash and cash equivalents reflects the completion of our initial public offering of our common stock in February 2006 whereby we received proceeds of $94.5 million, net of underwriters' fees and commissions and related offering costs of $2.5 million. To date, we have used $12.0 million of the net proceeds from the offering to pay down our revolving line of credit and long-term debt, $6.9 million of the net proceeds for capital expenditures related to increasing our manufacturing capacity and improving our infrastructure, including approximately $1.4 million to expand and upgrade our existing information technology systems, and $14.7 million to fund the working capital needs associated with rapid growth. We intend to use the remaining net proceeds for the continual development of our global infrastructure, facility upgrades, marketing and advertising, working capital, and other general corporate purposes. In addition, we may use a portion of the remaining proceeds to acquire products or businesses that are complementary to our own.

The significant components of our working capital are cash, accounts receivable and inventory, reduced by accounts payable and accrued expenses. Capital requirements related to manufacturing include compounding and injection molding equipment for facilities we operate, as well as footwear molds used in facilities operated by us or purchased for our third-party manufacturers.

Cash provided by, or used in, operating activities consists primarily of net income or net loss adjusted for certain non-cash items including depreciation, amortization, deferred income taxes, provision for bad debts, stock compensation expense and for the effect of changes in working capital and other activities. Cash used in operating activities in the six months ended June 30, 2006 was $14.7 million and was primarily related to net income of $22.1 million plus non-cash items of depreciation and amortization of $3.2 million and share-based compensation expense of $4.4 million, which was offset by increases in working capital resulting from increases in accounts receivable of $30.1 million, inventory of $12.1 million, and a decrease in accounts payable and accrued liabilities and other liabilities of $682,000. Cash provided by operating activities in the six months ended June 30, 2005 was $4.0 million, primarily related to net income of $5.4 million, non-cash expenses for stock-based compensation of $2.4 million and depreciation and amortization of $1.2 million, partially offset by working capital expenses of $4.4 million.

Cash used in investing activities for the six months ended June 30, 2006 was $8.3 million, which was related to capital expenditures for molds, machinery and equipment of $6.9 million and $1.4 million related to the upgrade and expansion of our information technology systems. Cash used in investing activities in the six months ended June 30, 2005 was $4.7 million resulting from various capital expenditures of $4.1 million and $636,000 relating to a non-compete agreement entered into in connection with the acquisition of our manufacturing operations in Mexico.

Cash provided by financing activities was $85.4 million for the six months ended June 30, 2006 compared to cash provided by financing activities of $2.9 million for the six months ended June 30, 2005. The $82.5 million increase in cash provided by financing activities primarily resulted from the completion of the initial public offering of our common stock whereby we received net proceeds of $94.5 million, after deducting underwriting discounts and commissions and offering costs of $2.5 million, all partially offset by the repayment of borrowings on our line of credit and long term debt of $12.0 million.

On April 8, 2005 we entered into a $5.0 million secured revolving credit facility, and on October 26, 2005 we entered into an amended and restated credit facility increasing the amount available under this facility to $20.0 million. The effective annual interest rate, on borrowings outstanding under the credit facility was 7.25% as of December 31, 2005. Our obligations under the revolving credit facility were secured by substantially all of our property, including, among other things, our accounts receivable, inventory, equipment and fixtures. The credit facility also contained financial covenants that required us to meet a specified consolidated fixed charge coverage ratio and specified levels of consolidated EBITDA. The credit facility was subject to an early termination fee of 1% if we terminated the facility on or prior to October 26, 2006. In February 2006, we repaid all amounts outstanding under the credit facility, together with accrued interest thereon, with a portion of the proceeds from our initial public offering, as of June 30, 2006. We are no longer able to borrow from the facility.

Contractual Obligations and Commercial Commitments

The following table describes our commitments to settle contractual obligations as of December 31, 2005:

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Notes payable	$ 7,957	$ 7,957	$	$	$
Long-term debt[1]	3,759	546	1,625	1,094	494
Operating leases[2]	2,197	1,578	589	30	
Capital leases	331	101	230		
Redeemable common shares[3]	808	808			
Redeemable convertible preferred shares[4]	5,500			5,500	
Purchase obligations	1,425	900	525		
Contractual severance commitment	504	168	336		
Total contractual obligations	$ 22,481	$ 12,058	$ 3,305	$ 6,624	$ 494

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

(2) Operating leases for real property, vehicles, and equipment, excluding operating leases entered into after December 31, 2005 totaling $714,000 of future cash commitments.

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

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

Critical Accounting Policies and Estimates

Our financial statements have been prepared in accordance with accounting principles generally accepted in the U.S., which require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure at the date of our financial statements. On an ongoing basis, we evaluate our estimates and judgments, including those related to revenue, intangible assets, stock compensation, and capitalized software. We base our estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis of our judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results or changes in the estimates or other judgments of matters inherently uncertain that are included within these accounting policies could result in a significant change to the information presented in the consolidated financial statements. We believe that the estimates and assumptions below are among those most important to an understanding of our consolidated financial statements contained in this prospectus.

We consider certain accounting policies related to revenue recognition, reserves for uncollectible accounts receivable and inventories, and share-based compensation to be critical policies due to the estimates and judgments involved in each.

Revenue Recognition. Our revenues are derived principally from wholesale sales to retailers and from internet, retail kiosk and retail store sales directly to consumers. Our standard arrangement for our

37

customers includes a valid purchase order or contract with no customer acceptance provisions. We recognize revenues from sales of products when:

- we enter into a legally binding arrangement with a customer;
- delivery has occurred;
- customer payment is deemed fixed or determinable and free of contingencies or significant uncertainties; and
- collection is reasonably assured.

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

Reserve for Uncollectible Accounts Receivable. We make ongoing estimates relating to the collectibility of our accounts receivable and maintain a reserve for estimated losses resulting from the inability of our customers to make required payments. In determining the amount of the reserve, we consider our historical level of credit losses and make judgments about the creditworthiness of significant customers based on ongoing credit evaluations. Since we cannot predict future changes in the financial stability of our customers, actual future losses from uncollectible accounts may differ from our estimates. If the financial condition of our customers were to deteriorate, resulting in their inability to make payments, a larger reserve might be required. In the event we determined that a smaller or larger reserve was appropriate, we would record a credit or a charge to selling, general and administrative expense in the period in which we made such a determination.

Inventory Write-Downs. We also make ongoing estimates relating to the net realizable value of inventories, based on our assumptions about future demand and market conditions. If we estimate that the net realizable value of our inventory is less than the cost of the inventory recorded on our books, we record a reserve equal to the difference between the cost of the inventory and the estimated net realizable value. This reserve is recorded as a charge to cost of sales. If changes in market conditions result in reductions in the estimated net realizable value of our inventory below our previous estimate, we would increase our reserve in the period in which we made such a determination and record a charge to cost of sales.

Share-Based Compensation. In January 2005, the FASB issued SFAS No. 123(R), *Share-Based Payment*, which is a revision of SFAS No. 123. SFAS No. 123(R) supersedes APB Opinion No. 25, and amends SFAS No. 95, *Statement of Cash Flows*. Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. We adopted SFAS No. 123(R) on January 1, 2006.

Pursuant to the transition requirements of SFAS No. 123(R) for a newly public entity, we adopted the prospective method for all stock option grants issued prior to August 15, 2005, which was the date we

initially filed a Registration Statement on Form S-1 in connection with our initial public offering. Under the prospective method, those nonpublic companies that used the minimum value method of measuring equity share options and similar instruments for either recognition or pro forma disclosure purposes under Statement will apply SFAS No. 123(R) prospectively to new awards and to awards modified, repurchased, or cancelled after the required effective date. We will continue to account for any portion of awards outstanding at the date of initial application using the accounting principles originally applied to those awards which were the provisions of APB Opinion 25 and its related interpretive guidance.

For stock option grants issued after filing our Registration Statement on Form S-1 on August 15, 2005, we have used the modified prospective method.

The fair value of equity units granted from October 2002 through December 2004 was originally estimated by our board of directors based on the best information available to them on the dates of grant, including third party sales of equity units. We did not obtain contemporaneous valuations by valuation specialists because, at the time of the issuances of stock options during this period, our efforts were focused on acquiring new customers, developing our operational infrastructure and executing our business plan. We engaged an independent third party valuation specialist to perform a valuation of our common stock at December 31, 2004, May 1, 2005, June 30, 2005, August 1, 2005, October 1, 2005 and December 1, 2005 in connection with the grant of options to purchase shares of our common stock to employees, consultants and members of our board of directors. The May 1, 2005, June 30, 2005 and August 1, 2005 valuations were restated in the third quarter of 2005 to adjust certain estimates based on our expected market value in the initial public offering. The original value of $3.38 per share was revised to $5.91 per share for May 1, 2005 and the original value of $4.97 per share was revised to $8.89 per share for June 30, 2005. Our estimates of fair value of our stock were based on assumptions that we believe are reasonable. The fair value of our stock is affected by a number of assumptions and judgments including the timing of sales of equity instruments, the negotiated value of those sales, the timing of our third party valuations and significant assumptions included in those valuations, including our estimates of our future performance, discount factors used and comparable companies and transactions selected, among others. If we were to make different assumptions, the estimated value of our stock in 2005 could differ materially from our estimates.

Capitalized Software. We capitalize certain internal software acquisition and development costs that benefit future years in accordance with SOP 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. For software developed for internal use, we expense the costs of developing computer software until the software has reached the application development stage and capitalize all costs incurred from that time until the software has been installed at which time amortization of the capitalized costs begins. Determination of when the software has reached the application development stage is based upon completion of conceptual designs, evaluation of alternative designs and performance requirements. Costs of major enhancements to internal use software are capitalized while routine maintenance of existing software is charged to expense as incurred. The determination of when the software is in the application development stage and the ongoing assessment of the recoverability of capitalized computer software development costs requires considerable judgment by management with respect to certain factors, including, but not limited to estimated economic life and changes in software and hardware technology. We also contract with third parties to help develop or test internal use software and generally capitalize these costs. Internal-use capitalized software costs are amortized over their expected useful life, which is generally five to seven years.

Impact of Recent Accounting Pronouncements

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxe*s ("FIN 48"). FIN 48 requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return and disclosures regarding uncertainties in income tax positions. We are required to adopt FIN 48 effective January 1, 2007. The cumulative effect of initially adopting FIN 48 will be recorded as an adjustment to opening retained earnings in the year of adoption and will be presented separately. Only tax positions that meet the more likely than not recognition threshold at the effective date may be recognized on adoption of FIN 48. We are currently evaluating the impact this new standard will have on our future results of operations and financial position.

In June 2006, the FASB Emerging Issues Task Force issued EITF No. 06-3, *How Sales Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation)*("EITF No. 06-3"), which states that a company must disclose its accounting policy (i.e., gross or net presentation) regarding presentation of taxes within the scope of this issue. If taxes included in gross revenues are significant, a company must disclose the amount of such taxes for each period for which an income statement is presented. The issue will be effective for us beginning January 1, 2007. The disclosures are required for annual and interim financial statements for each period for which an income statement is presented. Based on our current evaluation of this issue, we do not expect the adoption of EITF No. 06-3 to have a significant impact on our consolidated results of operations or financial position.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments an Amendment of FASB Statements Nos. 133 and 140* ("SFAS No. 155"). SFAS No. 155 allows financial instruments that contain an embedded derivative, and that otherwise would require bifurcation, to be accounted for as a whole on a fair value basis, at the holders' election. SFAS No. 155 also clarifies and amends certain other provisions of SFAS No. 133 and SFAS No. 140. SFAS No. 155 is effective for all financial instruments acquired or issued in fiscal years beginning after September 15, 2006. We do not expect that the adoption of SFAS No. 155 will have a material impact on its consolidated financial condition or results of operations.

Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We earn interest on our cash and cash equivalents. Our portfolio generally consists of readily marketable investment grade debt securities of various issuers and maturities ranging from overnight to three months. All investments are denominated in U.S. dollars and are classified as cash and cash equivalents. As interest rates change, the amount of realized gain or losses on these securities will change.

Credit Risk

Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows due to adverse changes in financial and commodity market prices and rates. We are exposed to market risk to the extent that United States and Canadian interest rates change due to inflation or other factors. This exposure is directly related to our normal operating and funding activities. The interest payable on our Canadian line of credit is determined based on the prime rate plus 0.5% per annum, and, the interest rate on our Canadian loan is the bank's float rate less 0.20%, therefore, interest costs are affected by changes in market interest rates. Interest rates on our capital lease lines are dependent on interest rates in effect at the time the lease line is drawn upon. Total liabilities outstanding at June 30, 2006 under the line of credit, loan and capital lease lines were approximately

$2.6 million. Based on amounts borrowed as of June 30, 2006, we would have a resulting decline in future annual earnings and cash flows of approximately $26,000 for every 1% increase in prime lending rates. We have no plans to use derivative instruments or engage in hedging activities.

Foreign Currency Exchange Risk

We pay the majority of our overseas third party manufacturers in U.S. dollars and have had significant revenues from foreign sales in recent periods. Our ability to sell our products in foreign markets and the U.S. dollar value of the sales made in foreign currencies can be significantly influenced by foreign currency fluctuations. A decrease in the value of foreign currencies relative to the U.S. dollar could result in downward price pressure for our products or losses from currency exchange rates. The volatility of the applicable rates and prices are dependent on many factors that cannot be forecast with reliable accuracy. In the event our foreign sales and purchases increase and are denominated in currencies other than the U.S. dollar, our operating results may be affected by fluctuations in the exchange rate of currencies we receive for such sales.

BUSINESS

Overview

We are a rapidly growing designer, manufacturer and marketer of footwear for men, women and children under the **crocs** brand. All of our footwear products incorporate our proprietary closed-cell resin material which enables us to produce a soft and lightweight, non-marking, slip- and odor- resistant shoe. We believe our proprietary closed-cell resin, which we refer to as *croslite*, combined with our unique styling, represents a substantial innovation in footwear comfort and functionality, allowing us to offer a differentiated line of products in the casual lifestyle footwear category at attractive retail price points ranging from $19.99 to $49.99. We currently offer 18 footwear models in a wide variety of different colors, color combinations and patterns. We market our footwear products to a broad range of distribution channels and currently sell our products in over 10,000 retail locations in the United States, and have begun selling our products in over 60 countries. In addition to our footwear products, we market a line of **crocs**-branded apparel and accessory items that are intended to increase awareness of our brand and our products. We also selectively use *croslite* to manufacture a variety of other non-branded products, such as spa pillows and kayak seats, which are marketed to original equipment manufacturers.

Industry Trends

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

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

Business Strategy

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

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

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

Maintain a flexible, low-cost manufacturing model. Our strategy is to maintain a flexible, globally diversified, low-cost manufacturing base. We manufacture a portion of our footwear product volume in facilities that we operate in North America and obtain the remainder from third party manufacturers located around the world. We believe this enables us to rapidly change our production schedule to meet changing customer demand throughout the year, while capitalizing on the efficiencies and cost benefits of contract manufacturing. In addition, we recently began compounding a portion of our supply of *croslite* in-house, to further reduce costs in our supply chain and to provide maximum flexibility in our manufacturing process, such as quickly increasing production of in-demand colors to meet consumer preferences. We believe that this production strategy will enable us to continue to minimize our production costs, shorten production and development times to better serve our retail customers, and increase overall operating efficiencies.

Focus on product design innovation. We believe we have introduced an innovative range of footwear products that is highly differentiated from lines of products offered by our competitors in terms of functionality, comfort and style. We believe continued product innovation will be required to maintain differentiation of our products and will be key to maintaining a competitive advantage in the marketplace. By refining existing models and introducing new models, we expect to continue to offer our consumers and retailers a broad selection of fun and functional styles that remain current with consumer trends. We also believe product innovation will enable us to successfully expand the **crocs** brand into additional footwear categories.

Enhance our **crocs** *brand.* Our initial focus has been to introduce a range of innovative footwear products that appeal to a broad group of men, women and children, and we have taken a grassroots approach to marketing our products in defined target markets. A core element of our strategy is to expand our brand by capitalizing on market opportunities arising from the versatility of *croslite*, while offering our existing consumer base an expanded line of **crocs** products. We also believe that our retail kiosks help to increase brand awareness. In addition, we intend to employ targeted marketing strategies to continue to expand market awareness of our **crocs** products, and recently became title sponsor of the AVP Pro Beach Volleyball Tour. We have also introduced a line of branded apparel and accessories to further support our marketing efforts.

Provide a compelling value proposition to retailers. We believe we offer our customers a compelling value proposition that helps to differentiate us from other footwear vendors. We offer retailers a line of footwear products that we believe are unique in appearance and functionality and retail at attractive price points yet provide compelling profit margins for our retailers. We believe our attractive, space-efficient merchandising display and our brightly colored products can result in increased consumer traffic and high sales per square foot for our retail customers. Additionally, we expect that our flexible production model will enable us to offer our customers timely inventory fulfillment of high-demand products throughout the year. We believe this will enable our retail customers to experience less

time out of stock of key products and to maximize their inventory turns and sales volumes. We expect these factors will allow us to continue to add new customers and to extend our relationships with our current retailers into additional store locations and expanded shelf space.

Growth Strategy

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

Introduce new footwear models. Since we began marketing our first model in November 2002, we have expanded our footwear product portfolio to include 18 models in a wide variety of colors, color combinations and patterns. We plan to continue introducing new models and additional colors at various price points in order to meet the evolving needs of consumers and our retail customers. Our new footwear models will also be designed to further expand the appeal of our products to diverse demographic audiences. As a part of this strategy, we are now offering refined versions of previous models, such as the Endeavor and the Professional, and we are expanding into new footwear categories with models such as the Athens, a flip-flop with a soft footbed, the Islander, a water resistant deck shoe with a stitched leather upper, the Georgie, a calf-high rain boot and shoes specifically designed for medical and institutional uses.

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

Further develop international distribution. We believe that international markets represent a significant opportunity for our products and our brand. We continue to establish a sales presence in major foreign markets and have initiated direct sales efforts in Australia, Austria, the Caribbean, Chile, France, Germany, Hong Kong, Japan, the Netherlands, Singapore, and the United Kingdom. We also market our products in approximately 60 countries through third party distributors, and we will continue to establish distributor relationships in countries where we believe they offer a preferable alternative to a direct sales force.

Expand complementary apparel and accessories offerings. Apparel and accessories present us with an attractive opportunity to increase awareness of the **crocs** brand by leveraging our distribution network. We have recently introduced branded accessory items, including a line of **crocs** sunglasses, and branded apparel such as t-shirts, sweatshirts, hats and socks.

Product Overview

Our primary product line is **crocs**-branded footwear for men, women and children, which we first introduced in 2002 with a single model in six colors. We have since expanded our line of footwear to include 18 models in a wide variety of colors, color combinations and patterns and a range of sizes, representing over 5,800 stock keeping units, or SKUs, and we intend to continue diversifying our footwear portfolio with new model introductions. In addition to our footwear products, we market a line of **crocs** branded apparel and accessory items that are intended to increase awareness of our

brand and our products. We also selectively use *croslite* to manufacture a variety of other non-branded products, such as spa pillows and kayak seats, which are marketed to original equipment manufacturers.

Footwear

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

We have combined the unique properties of *croslite* with designs that are intended to be functional across a broad range of activities. As a result, we believe our products appeal to a wide range of consumers. We introduced **crocs** as a footwear brand in the U.S. with the launch of our Beach model in 2002. Based on our initial success, we made refinements to the Beach model and introduced a second generation of footwear that incorporated a broader range of sizing, provided different levels of ventilation for various climates and offered slightly different styling. We have further broadened our footwear line into new product categories, such as the Athens, a flip-flop with a soft footbed; the Scutes, an open toe sport slide; the Off Road, an evolution of our Beach model with a rugged sole for added traction; and the Islander, a deck shoe integrating a base made from *croslite* with a stitched leather upper. We have also introduced several other new models in 2006. Additionally, we have introduced three footwear models marketed under our Crocs Rx line. These new models have been designed for consumers who require specialized footwear that provides relief from certain medical conditions.

We recently entered into an arrangement with Disney under which we will introduce a limited edition line of footwear featuring some of Disney's most popular characters. The new line will be called "Disney by CROCS." The Disney by CROCS line, which is targeted towards children and adults, will debut with special-edition Mickey Mouse die-cut adult Beach and children's Cayman models. These styles will be available in a broad range of two-toned color combinations, including Mickey Mouse's signature black and red. Other models include an array of unique designs emphasizing the distinctive personalities of Disney's characters including Mickey and Friends, Winnie the Pooh and Friends, Disney Princess, Disney Fairies, as well as *Pirates of the Caribbean* and Disney*Pixar's *Toy Story* and *Cars*.

We have also entered into licensing agreements to market a line of shoes featuring the names and logos of various universities and colleges. These shoes will also feature the school colors and will be sold on college campuses and through our sales and distribution network. In addition, we have entered into sponsorship and marketing agreements with various colleges and universities, which will allow us to advertise in their arenas and stadiums and sell our products on campus and at sporting events.

We currently sell our shoes in an assortment of colors, styles and sizes to provide consumers and retailers a wide variety of options at suggested retail prices ranging from $19.99 to $49.99. We have designed our shoes to offer a number of beneficial structural features to provide maximum comfort and functionality, such as Italian-designed orthotic heels, built-in arch supports and tarsal bars. We also offer models that are based on either general shoe sizing ranging from XXS through 4XL, or specific shoe sizing ranging from children's 6-7 through men's 13. This allows retailers to offer a complete range of sizes or carry a more limited number of SKUs, enabling them to tailor their offerings to their particular clientele and more efficiently allocate limited floor space.

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

Apparel and Accessories

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

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

Other Products

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

Sales and Distribution

Domestic Sales

In the U.S., we sell our products through over 10,000 domestic retail store locations representing over 4,500 customer accounts. Our footwear is currently sold through traditional retail channels, including specialty footwear stores such as Brown's Shoe Fit and Journeys, sporting goods and outdoor retailers such as The Sports Authority, Dick's Sporting Goods, REI, Bass Pro Shops and West Marine, and department stores, including Dillard's, Nordstrom and Von Maur. Sales to Dillard's accounted for approximately 12% of our revenues during the year ended December 31, 2005 and 6.5% of our revenues for the six months ended June 30, 2006. No customer accounted for more than 10% of our revenues during the six months ended June 30, 2006. Our products are also sold through a variety of other specialty channels, including gift shops, independent bicycle dealers, specialty food retailers, health and beauty stores, catalogs, uniform suppliers and kiosks.

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

International Sales

Outside of the U.S., we sell our products through over 6,000 international retail store locations, including four company-operated retail stores. Our strategy is to sell through a broad range of sporting goods and department stores, as well as through specialty retailers, similar to the retail sales channels we have established in the U.S. We intend to continue to establish a direct sales presence in major foreign markets, rather than rely on distributors, which we believe will improve our margins and allow us to better control our marketing and distribution. We have established direct sales efforts in Australia, Austria, the Caribbean, France, Germany, Hong Kong, Japan, the Netherlands, Singapore, and the United Kingdom.

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

Retail Sales

We are currently expanding our direct sales efforts to consumers. We believe that direct sales provide us with an opportunity to showcase our entire line of footwear, apparel and accessory offerings, and believe this strategy will serve as an important and effective means to enhance our product and brand awareness. We also believe that our current direct sales initiatives require low levels of capital investment while enabling us to sell our products at retail, rather than wholesale prices, resulting in higher potential gross margins.

Retail Sites. As of June 30, 2006, we operated 59 retail kiosks located in malls and other high foot traffic areas. With bright and colorful displays, efficient use of retail space and limited initial capital investment, we believe that kiosks are an effective outlet for selling our products. Kiosks enable us to highlight a wide range of our product offering, more effectively interact with potential consumers and enhance our brand awareness among both consumers and local retailers. We plan to continue to open and operate additional kiosk sites in select, high foot traffic locations.

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

Distribution and Logistics

In July 2005, we engaged Expeditors International of Washington, Inc., a global supply chain management and logistics provider, to operate our warehouse, distribution and fulfillment process for a significant portion of our domestic sales. Expeditors operates a distribution center in Aurora, Colorado through which we distribute a substantial portion of our products in the U.S. We have negotiated the use of up to 320,000 square feet of the distribution center to accommodate fluctuations in our inventory. We do not have a long-term contract with Expeditors, and the relationship may be terminated at will on 60 days' notice by either party.

A substantial portion of our products are shipped to Expeditors' distribution center in Aurora, Colorado. From there, Expeditors packages orders and generally ships by package express or truck to our customers, depending on size of order, customer location and availability of inventory. Many of our

large customers receive shipments of footwear directly from the manufacturing facilities. We have also recently engaged Colorado Distribution Group, LLC to provide warehouse and inventory management, and distribution and fulfillment services. Colorado Distribution has leased an approximately 125,000 square foot distribution facility in Denver, Colorado to help perform these services. We have additional company-operated warehouse and fulfillment operations in Canada, China, Hawaii, Mexico, the Netherlands, Puerto Rico and Singapore, and are developing relationships with third parties in Australia, Japan and New Zealand to provide such services to us. We intend to expand our company-operated distribution facility in China and recently entered into a rental arrangement for a 100,000 square foot facility. In addition, we have established a company-operated warehouse facility and customer order facility in Niwot, Colorado, and we are currently processing our Internet, accessories and apparel orders from this facility. We believe that these warehousing, distribution and fulfillment services will enable us to ship a significant portion of our products from facilities adjacent to our manufacturing operations directly to our customers, rather than through Expeditors' distribution facility in Colorado.

We recently entered into a lease agreement for a 264,000 square foot distribution facility in Aurora, Colorado, where we are establishing a company-operated distribution center. We anticipate that a substantial portion of our domestic product fulfillment will be shipped from this facility when it is fully operational.

Raw Materials

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

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

We have historically contracted to have *croslite* compounded by Finproject S.p.A., or Finproject, our third party manufacturer in Italy, and we have recently begun compounding *croslite* at our manufacturing facility in Quebec City, Canada. We have also engaged a processor in Canada to compound a portion of our *croslite* requirements. Recently, we engaged a third party in the United States to compound certain subcomponents of *croslite*. We also developed production capacity at one of our third-party factories in China where the subcomponents will be compounded into *croslite*. We believe that our production strategy, including in-house production, for the compounding of *croslite* will lower our production costs, reduce the risk of supply shortages from our third party processors and provide us with greater production flexibility to meet changing retail demand. However, we will

continue to purchase a portion of our *croslite* requirements from Finproject in accordance with the terms of our supply agreement.

Manufacturing and Sourcing

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

The process for manufacturing our footwear was developed over an eight year period of continual refinement to improve consistency, softness, durability and yield. Prior to October 2004, all of our footwear was manufactured at Foam Creations's facility in Quebec City, Canada. In the six months ended June 30, 2006, we manufactured approximately 24.6% of our footwear products at our company-operated manufacturing facilities in Quebec City and Mexico. We obtain the remainder of our footwear products from third party manufacturers in China, Florida, Romania and Italy. In the six months ended June 30, 2006, a supplier in China produced approximately 51.8% of our footwear unit volume. We have long-term contracts with third party manufacturers in Italy and Florida, but do not have a written supply agreement with our primary third party manufacturer in China. During 2006, we intend to further expand our manufacturing capacity at the facilities we operate in Mexico and Canada.

While we are currently dependent on a limited number of third party manufacturers to produce a majority of our footwear products, we have evaluated and qualified over 15 alternative third party manufacturers that have the current ability and capacity to manufacture our footwear products in the event that one or more of our current third party manufacturers were to reduce or cease production of our footwear. For example, to meet the growing demand for our footwear, in August 2005, we engaged a new third party manufacturer capable of commencing production of our footwear products within two months of entering into discussions with us regarding a manufacturing arrangement.

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

Product Design and Development

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

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

Backlog

As of June 30, 2006, our backlog was approximately $37.3 million compared to $20.8 million as of June 30, 2005. Although orders in the backlog are subject to cancellation by customers, we have not experienced any material levels of cancellation of orders by our customers in the past. For a variety of reasons, including our short operating history, continued growth in customer demand for our products, the addition of new customers in each of our channels, the timing of production and shipments, seasonality, product mix of customer orders, and a shift toward shorter lead times for orders, backlog may not be a reliable measure of future sales for any succeeding period. In addition, our historical cancellation experience may not be indicative of future cancellation rates.

Marketing

We have been successfully building product and brand awareness and generating sales growth through grassroots efforts and a limited marketing budget. To date, we have primarily relied on trade shows, word of mouth, public relations efforts promoting our products in various trade publications and media outlets, and our website to build awareness of our brand. We exhibit at both domestic and international trade shows, including the World Shoe Show, Outdoor Retailer, FFANY, International Trade Fair for Sports Equipment and Fashion, and Fredrickshafen Outdoor Show, where we have the opportunity to showcase our product line to important retail buyers. We were recognized in 2005 as the "Brand of the Year" by *Footwear News*, a leading industry publication. We also promote our products and our brand on our website at www.crocs.com. Our website allows us to present important and relevant information on our products and to provide consumers with information regarding retail store locations that sell our products.

In April 2006, we entered into a three-year agreement which established **crocs** as the title sponsor and official footwear of the AVP Pro Beach Volleyball Tour, or AVP. In connection with this agreement, AVP will issue to us a six year warrant to purchase up to 1,000,000 shares of AVP common stock at an exercise price equal to the closing price of AVP common stock on April 12, 2006, 20% of which will be exercisable immediately upon issuance and an additional 20% will become exercisable in each of the next four years. If the sponsorship agreement is not renewed after the third year, the remainder of the warrant will not become exercisable. We will pay to AVP a cash sponsorship fee of $4.0 million in 2006 and approximately $4.2 million for each subsequent year that the agreement is in effect.

Beginning with the 2006 season, the tour will be known as the "AVP **crocs** Tour." We expect the AVP **crocs** Tour to be the nation's most prominent professional beach volleyball tour, featuring more than 150 of the top beach volleyball players in the world. In addition to becoming the title sponsor, we will sponsor the " **crocs** Cup," which will be awarded to the AVP men's and women's teams that accumulate the most **crocs** Cup Points throughout the AVP season. **crocs** Cup Points will be awarded in a weighted format based on performance in AVP events.

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

We plan to support our marketing efforts with a public relations strategy that is intended to garner positive and accurate editorial comments regarding our company and secure product placement in key magazines, trade journals and publications. In 2005, we hired a well-known public relations firm to refine our communication strategy.

Competition

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

Intellectual Property and Trademarks

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

We own a variety of trademarks, including the **crocs** trademark, in a number of countries around the world. Our trademarks are used on all of our **crocs**-branded footwear, apparel and accessory products. We have registered our **crocs** trademark and other trademarks in Aruba, Australia, the European Union, Israel, Japan, Mexico, Netherlands Antilles, New Zealand, Panama and the World Intellectual Property Office, or WIPO, and have registered our **crocs** logo as a trademark with Aruba, Mexico, Netherlands Antilles, New Zealand, and WIPO. As of July 31, 2006, we had 21 pending applications for our trademarks in the U.S., including an application for the **crocs** trademark and our **crocs** logo. As of July 31, 2006, we also had 298 pending trademark applications in foreign jurisdictions. Trademarks registered outside of the U.S. generally have a duration of ten years depending on the jurisdiction and are also generally subject to an indefinite number of renewals for a like period on appropriate application. We believe our trademarks are crucial to the successful marketing and sale of our products, and we intend to vigorously prosecute and defend our rights throughout the world.

As of July 31, 2006, we had three utility patent applications and 30 design patent applications pending in the U.S., as well as one utility patent and four design patents issued in the U.S. We also had European Union Community Design Registrations directed to our Beach, Highland, Nile, Metro, Islander, Endeavor, and a number of planned future shoe models. We also had three issued design registrations in South Korea, three issued design registrations in India, one issued design registration and two pending design applications in Brazil, and two issued design registrations and one pending design application in China directed to our Beach, Highland, and Nile models. As of July 31, 2006, we also had filed approximately 350 other design applications directed to our Islander, Endeavor, Hydro, Motion, Off Road, Prima, Professional, Scutes, and a number of planned future shoe models in foreign jurisdictions. Forty of these foreign design applications had received registrations. In addition, we had

28 utility patent applications pending in several foreign jurisdictions. We expect to continue to pursue patent protection on our inventions that are significant to our business and pursue other intellectual property protection where applicable.

We consider the formulation of *croslite* used to produce our products to be a valuable trade secret. Prior to our acquisition of Foam Creations in June 2004, Foam Creations developed the formula for *croslite*, and we believe that they did not publish or otherwise make the formula available to third parties without the protection of confidentiality or similar agreements. Since the acquisition, we continue to protect the formula by using confidentiality agreements with our third party processors and by requiring our employees who have access to the formula to execute confidentiality agreements or to be bound by similar agreements concerning the protection of our confidential information. Neither we nor Foam Creations have attempted to seek patent protection for the formula but we are not aware of any third party that has independently developed the formula or that otherwise has the right to use the formula in their products other than Finproject. Under the terms of our supply agreement with Finproject, Finproject has certain limited rights to use *croslite*, which were originally negotiated in connection with our purchase of Foam Creations from Finproject's parent company. We believe the comfort and utility of our shoes depend on the properties achieved from the compounding of *croslite* and is a key competitive advantage for us, and we intend to vigorously protect this trade secret.

On March 31, 2006, we filed a complaint with the International Trade Commission against 11 companies alleging infringement on certain of our utility and design patents that were issued on February 7, 2006 and March 28, 2006 by the United States Patent and Trademark Office. The complaint alleges patent and trade dress infringement and seeks an exclusion order banning the importation of infringing products. In addition, on April 3, 2006, we filed a complaint in the United States District Court for the District of Colorado against 11 companies alleging infringement on certain of our utility and design patents that were issued on February 7, 2006 and March 28, 2006 by the United States Patent and Trademark Office. The complaint alleges patent and trade dress infringement and seeks injunctive relief as well as monetary damages. A counterclaim has been filed by one defendant in the United States District Court for the District of Colorado seeking a declaratory judgment of non-infringement, a declaratory judgment that our patents are not valid, and a declaratory judgment that our patents are not enforceable. These claims have also been raised as defenses in the International Trade Commission action.

In June 2006, we settled all of our intellectual property infringement claims against three of the defendants named in our complaints with the International Trade Commission and in the United States District Court for the District of Colorado. In each settlement, the defendant agreed to cease infringement on our intellectual property rights, and we released the defendant and its customers of any liability for past infringement.

On June 15, 2006, Aspen Licensing International, Inc. filed a complaint against us in the United States District Court for the District of Massachusetts, alleging that, because we have named one of our models the "Aspen" and used such intellectual property in our products, we are infringing upon Aspen Licensing's trademark rights, and that we have committed acts of false designation of origin, trademark dilution, unfair competition and unfair or deceptive trade practices. Aspen Licensing is seeking injunctive relief as well as monetary damages. We are currently evaluating the claims made by Aspen Licensing and we have renamed our Aspen model the "Endeavor."

We also actively combat counterfeiting through monitoring of the global marketplace. We use our employees, sales representatives, distributors and retailers to police against infringing products by encouraging them to notify us of any suspect products and to assist law enforcement agencies. Our sales representatives are also educated on our patents, pending patents and trade dress and assist in preventing potentially infringing products from obtaining retail shelf space. The laws of certain

countries do not protect intellectual property rights to the same extent or in the same manner as do the laws of the United States, and therefore we may have difficulty obtaining legal protection for our intellectual property in certain jurisdictions.

Privacy Policy

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

We have published a formal privacy policy on our website, and we allow our customers to opt-out of marketing practices that make use of their personal information. However, the laws in jurisdictions where we now conduct or expect to conduct sales through our website may require us to take additional steps to safeguard customer information and to accommodate the privacy preferences of our customers. To the extent that we do not comply with privacy laws, we may be subject to legal challenges, enforcement actions, court orders and penalties.

Legal Proceedings

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

In August 2005, Holey Soles filed a lawsuit against us in the United States District Court for the Southern District of New York. Holey Soles seeks a declaratory judgment that we do not have any valid copyright or trade dress rights with respect to the design of our footwear. In addition, Holey Soles seeks a declaratory judgment that the manufacture, sale and distribution of its footwear products does not constitute unfair competition and does not infringe upon our copyrights or trade dress rights. We have filed a motion to dismiss the action or, in the alternative, to transfer the action to the United States District Court for the District of Colorado. On May 1, 2006 the District Court for the Southern District of New York granted our motion to transfer venue of this matter to the United States District Court for the District of Colorado.

On March 31, 2006, we filed a complaint with the International Trade Commission against 11 companies alleging infringement on certain of our utility and design patents that were issued on February 7, 2006 and March 28, 2006 by the United States Patent and Trademark Office. The complaint alleges patent and trade dress infringement and seeks an exclusion order banning the importation of infringing products.

On April 3, 2006, we filed a complaint in the United States District Court for the District of Colorado against 11 companies alleging infringement on certain of our utility and design patents that were issued on February 7, 2006 and March 28, 2006 by the United States Patent and Trademark Office. The complaint alleges patent and trade dress infringement and seeks injunctive relief as well as monetary damages. A counterclaim has been filed by one defendant in the United States District Court for the District of Colorado seeking a declaratory judgment of non-infringement, a declaratory judgment that our patents are not valid, and a declaratory judgment that our patents are not enforceable. These claims have also been raised as defenses in the International Trade Commission action.

In June 2006, we settled all of our intellectual property infringement claims against three of the defendants named in our complaints with the International Trade Commission and in the United States District Court for the District of Colorado. In each settlement, the defendant agreed to cease infringement on our intellectual property rights, and we released the defendant and its customers of any liability for past infringement.

On June 15, 2006, Aspen Licensing International, Inc. filed a complaint against us in the United States District Court for the District of Massachusetts, alleging that, because we have named one of our models the "Aspen" and used such intellectual property in our products, we are infringing upon Aspen Licensing's trademark rights, and that we have committed acts of false designation of origin, trademark dilution, unfair competition and unfair or deceptive trade practices. Aspen Licensing is seeking injunctive relief as well as monetary damages. We are currently evaluating the claims made by Aspen Licensing and we have renamed our Aspen model the "Endeavor."

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

Employees

As of June 30, 2006, we employed approximately 1,710 persons, including 693 employees in the U.S., 497 employees in Canada, 369 employees in Mexico, 126 employees in Asia, and 25 employees in Europe. Approximately 309 of our U.S. employees are employed on a part-time basis at our retail kiosk locations. As of June 30, 2006, none of our employees were represented by a union, other than 202 of our Canadian employees who were represented by the Teamsters Union. We believe our relationship with our employees is good.

Properties

Our principal executive and administrative offices are located at 6328 Monarch Park Place, Niwot, Colorado. We lease, rather than own, all of our facilities. We consider our facilities to be suitable for our needs.

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

Location	Use	Approximate Square Feet
Aurora, Colorado	Distribution center	264,000
Denver, Colorado	Warehouse	46,800
Longmont, Colorado	Warehouse	36,000
Niwot, Colorado	Corporate offices/warehouse	86,000
Purisíma del Rincón, Mexico	Manufacturing facility	115,000
Quebec City, Canada	Manufacturing facility	76,000
Rijswijk, the Netherlands	Warehouse	55,000

In July 2006, we entered into a 20 year lease for a 4,800 square foot property located on Spring Street in New York, New York. This property will be used as a retail store and for corporate design offices. Total base lease payments over the term of the lease are approximately $13.7 million.

In addition to the above properties, our principal distribution center, which is owned and operated by Expeditors International of Washington, Inc., our primary third party logistics provider, is also located in Aurora, Colorado. We also maintain small branch sales offices in Hong Kong, Tokyo, Melbourne, Singapore and The Hague. All of these sales offices are leased. We enter into short-term leases for kiosks, retail stores and small distribution centers domestically and internationally with fixed monthly rents subject to certain covenants with contingent rents based on a percentage of revenues.

MANAGEMENT

Executive Officers and Directors

Set forth below is information concerning our executive officers and the members of our board of directors, as of July 31, 2006.

Name	Age	Position(s)
Ronald R. Snyder	49	Chief Executive Officer, President and Director
Peter S. Case	45	Chief Financial Officer, Senior Vice President Finance and Treasurer
Michael C. Margolis	54	Vice President Sales & Marketing
John P. McCarvel	50	Senior Vice President Global Operations
Raymond D. Croghan	56	Director
Michael E. Marks	55	Director
Mark A. Retzloff	57	Director
Richard L. Sharp	59	Chairman of the Board of Directors
Thomas J. Smach	45	Director
Brad L. Stoffer	49	Director

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

Peter S. Case has served as our Chief Financial Officer and Treasurer since April 2006 and has served as our Senior Vice President Finance since February 2006. Mr. Case served as the Executive Vice President, Chief Financial Officer and Treasurer of Ashworth, Inc., a Nasdaq-listed sports apparel and accessories company, from September 2005 to February 2006. From June 2000 to September 2005, Mr. Case served in several executive and managerial positions with Ashworth, including Director of Finance, Vice President of Finance, and Senior Vice President of Finance and Information Technology.

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

John P. McCarvel has served as Senior Vice President Global Operations since October 2005 and served as our Vice President Asian & Australian Operations from January 2005 to September 2005, after providing consulting services to us during 2004. From October 2001 to January 2005, Mr. McCarvel served as Vice President for the Design, Test and Semiconductor division of Flextronics, Inc., where he was responsible for building Flextronics's engineering infrastructure in Asia and growing Flextronics's business in the region. From 1999 to October 2001, he served as President of U.S. Operations and Senior Vice President of Worldwide Sales and Marketing for Singapore

Technology Assembly Test Services Ltd., a semiconductor services company. He previously worked in executive level positions with Micron Custom Manufacturing Services, Inc. and The Dii Group, Inc.

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

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

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

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

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

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

Board Composition

Effective May 24, 2006, George B. Boedecker, Jr. resigned from our board of directors for personal reasons and did not resign because of a disagreement with our management or on any matter relating to our operations, policies or practices. Mr. Boedecker's resignation reduces the number of directors to seven. Under our amended and restated bylaws, each of our directors holds office until their successors

have been elected and qualified or until their earlier death, resignation, disqualification or removal. We have divided the terms of office of the directors into three classes. Class I consists of Messrs. Retzloff and Stoffer, whose terms will expire at the annual meeting of stockholders to be held in 2006. Class II consists of Messrs. Croghan, Marks and Sharp, whose terms will expire at the annual meeting of stockholders to be held in 2007. Class III consists of Messrs. Smach and Snyder, whose terms will expire at the annual meeting of stockholders to be held in 2008.

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

Rules of the Nasdaq National Market require that our board of directors have a majority of independent directors. All members of the board of directors except Messrs. Snyder and Retzloff are independent directors as defined by the Nasdaq listing standards.

Board Committees

Our board of directors has the authority to appoint committees to perform certain management and administrative functions. Our board of directors has established the following committees:

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

All of the members of the audit committee are, or will be when appointed, independent as determined in accordance with Nasdaq rules and relevant federal securities laws and regulations. Our board of directors has determined that Mr. Smach qualifies as an "audit committee financial expert" as defined by the applicable regulations of the Securities and Exchange Commission.

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

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

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

Code of Conduct and Ethics

The Company has adopted a Code of Business Conduct and Ethics that applies to all directors and employees, including the Company's principal executive, financial and accounting officers. The Code of Business Conduct and Ethics is posted on the Company website at www.crocs.com. The Company intends to satisfy the requirements under Item 5.05 of Form 8-K regarding disclosure of amendments to, or waivers from, provisions of our Code of Business Conduct and Ethics that apply to our directors and principal executive, financial and accounting officers by posting such information on the Company's website.

Limitation of Liability and Indemnification

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

- any breach of their duty of loyalty to us or our stockholders;
- acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- unlawful payments of dividends or unlawful stock repurchases, redemptions or other distributions; and
- any transaction from which the director derived an improper personal benefit.

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

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

Compensation of Directors

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

Corporate Governance

We believe that we will comply with all Nasdaq corporate governance and listing requirements within the time period prescribed by the Nasdaq rules and are in compliance with all applicable federal and state securities laws and regulations. In the interim, we will rely on transition periods available to companies in conjunction with their initial public offering.

Compensation Committee Interlocks and Insider Participation

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

Prior to April 16, 2005, we did not have a compensation committee and Mr. Snyder was a member of our board of directors and was concurrently our Chief Executive Officer. As a member of the board, Mr. Snyder participated in deliberations of our board of directors concerning executive officer compensation.

Executive Compensation

Summary of cash and other compensation

The following summary compensation table indicates the cash and non-cash compensation paid to our Chief Executive Officer and our four other most highly compensated executive officers, collectively referred to as the "named executive officers" in this prospectus, during our fiscal years ended December 31, 2004 and 2005. The compensation described in this table does not include medical, group life insurance or other benefits that are generally available to all of our salaried employees.

Summary Compensation Table

		Annual Compensation		**Long-Term Compensation Awards**		
Name and Principal Position	**Year**	**Salary**	**Bonus**	**Restricted Stock Awards**	**Securities Underlying Options (#)**	**All Other Compensation[(1)]**
Ronald R. Snyder Chief Executive Officer and President	2005 2004	$ 295,000 95,000[(3)]	$ 345,000 90,000	$ 606,182[(2)]	 467,240	$ 500,000[(4)]
Michael C. Margolis Vice President Sales & Marketing	2005	200,000	243,131	386,280[(5)]	280,345	
Caryn D. Ellison[(6)] Vice President Finance	2005	192,000	98,500	1,254,539[(7)]		
John P. McCarvel Senior Vice President Global Operations	2005	195,000	183,445	386,280[(8)]		
Lyndon V. "Duke" Hanson, III Vice President Customer Relations	2005 2004	125,000 95,300	74,625 15,150		58,405	 105,420[(9)]

(1) We have omitted perquisites and other personal benefits that do not exceed the lesser of $50,000 or 10% of the executive officer's annual salary and bonus disclosed in this table.

(2) Includes a grant of 58,405 shares of common stock on September 1, 2005, and grants of 4,868 shares of common stock on each of October 1, November 1, and December 1, 2005 pursuant to the vesting terms under a restricted stock award agreement.

(3) Mr. Snyder began his employment with us in June 2004. In accordance with an arrangement with Vinci Corporation, an entity controlled by Mr. Snyder, we paid an additional $65,000 (including payroll taxes) to Mr. Snyder for services performed by Mr. Snyder on behalf of Vinci Corporation while he was employed by us. Vinci Corporation reimbursed us for these expenses.

(4) Includes 1,500 Class B membership units with a fair market value of $150,000, which converted into 350,430 shares of our common stock, transferred to Mr. Snyder by Mr. Boedecker as compensation for consulting services rendered to us prior to the commencement of his employment with us in June 2004. Also includes 1,500 Class B membership units with a fair market value of $150,000, which converted into 350,430 shares of our common stock, transferred to Mr. Snyder by Anthony Kruse, a holder of more than 5% of our common stock, as compensation for consulting services rendered to us prior to the commencement of his employment with us in June 2004. Also includes 2,000 Class B membership units with a fair market value of $200,000, which converted into 467,240 shares of our common stock, and were granted to Mr. Snyder for consulting services.

(5) Includes a grant of 77,796 shares of common stock on July 1, 2005 pursuant to the vesting terms under a restricted stock award agreement.

(6) Ms. Ellison served as our Chief Financial Officer and Treasurer from November 2004 to April 2006.

(7) Includes a grant of 116,810 shares of common stock on October 1, 2005 pursuant to the vesting terms under a restricted stock award agreement.

(8) Includes a grant of 77,796 shares of common stock on July 1, 2005 pursuant to the vesting terms under a restricted stock award agreement.

(9)
Includes sales commissions of $19,213. Also includes 500 Class B membership units with a fair market value of $86,207, which converted into 116,810 shares of our common stock, as compensation for services.

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

Option Grants in 2005

	Individual Grants				Potential Realizable Value at Assumed Rates of Stock Price Appreciation for Option Term	
Name	**Number of Securities Underlying Options Granted**	**Percent of Total Options Granted to Employees in Fiscal Year**	**Exercise Price**	**Expiration Date**	**5%**	**10%**
Michael C. Margolis	280,345	22%	$ 5.69	8/1/15	$ 7,994,539	$ 13,674,834
Lyndon V. "Duke" Hanson, III	58,405	5%	$ 1.70	1/1/15	$ 1,898,559	$ 3,081,950

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

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

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

The amounts shown on this table as the "Potential Realizable Value at Assumed Rates of Stock Price Appreciation for Option Term" represent hypothetical gains that could be achieved for the respective options if exercised at the end of the option term. These gains are based on assumed rates of stock price appreciation of 5% and 10%, compounded annually, which are required to be presented by Securities and Exchange Commission rules, and do not reflect our estimates or projections of the future price of our common stock. The gains are based on the assumed rates of appreciation presented, beginning on the grant date of the options, in the value of our common stock from the initial public offering price of $21.00 per share. The gains shown are net of the option exercise price, but do not include deductions for taxes or other expenses associated with the exercise. Actual gains, if any, on stock option exercises will depend on the future performance of our common stock, the option holder's continued employment through the option period, and the date on which the options are exercised.