

Crocs, Inc.  
Form 10-K  
February 29, 2016

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-K**

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

For the fiscal year ended December 31, 2015

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File No. 0-51754

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**CROCS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**20-2164234**  
(I.R.S. Employer  
Identification No.)

**7477 East Dry Creek Parkway  
Niwot, Colorado 80503  
(303) 848-7000**

(Address, including zip code and telephone number, including area code, of registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

**Title of each class:**  
Common Stock, par value \$0.001 per share

**Name of each exchange on which registered:**  
The NASDAQ Global Select Market

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

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to the Form 10-K.

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

Large accelerated filer <input checked="" type="radio"/>	Accelerated filer <input type="radio"/>	Non-accelerated filer <input type="radio"/> (do not check if a smaller reporting company)	Smaller reporting company <input type="radio"/>
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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 30, 2015 was \$1.1 billion. For the purpose of the foregoing calculation only, all directors and executive officers of the registrant and owners of more than 10% of the registrant's common stock are assumed to be affiliates of the registrant. This determination of affiliate status is not necessarily conclusive for any other purpose.

The number of shares of the registrant's common stock outstanding as of February 22, 2016 was 73,010,000.

### DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the registrant's proxy statement for the 2016 annual meeting of stockholders to be filed no later than 120 days after the end of the registrant's fiscal year ended December 31, 2015.

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**Special Note Regarding Forward-Looking Statements**

Statements in this Form 10-K and in documents incorporated by reference herein (or otherwise made by us or on our behalf) may contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, we may make other written and oral communications from time to time that contain such statements. Forward-looking statements include statements as to industry trends, our future expectations and other matters that do not relate strictly to historical facts and are based on certain assumptions of our management. These statements, which express management's current views concerning future events or results, use words like "anticipate," "assume," "believe," "continue," "estimate," "expect," "future," "intend," "plan," "project," "strive," and future or conditional tense verbs like "could," "may," "might," "should," "will," "would," and similar expressions or variations. Forward-looking statements are subject to risks, uncertainties, and other factors which may cause actual results to differ materially from future results expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially from the forward-looking statements include, without limitation, those described in the section titled "Risk Factors" (Item 1A. of this annual report on Form 10-K). Moreover, such forward-looking statements speak only as of the date of this report. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

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**PART I**

**ITEM 1. Business**

**The Company**

Crocs, Inc. and its consolidated subsidiaries (collectively the "Company," "we," "our," or "us") are engaged in the design, development, manufacturing, worldwide marketing and distribution of casual lifestyle footwear and accessories for men, women, and children. We strive to be the global leader in the sale of molded footwear featuring fun, comfort, color, and functionality. The Company, a Delaware corporation, is the successor of a Colorado corporation of the same name, and was originally organized in 1999 as a limited liability company. Our products include footwear and accessories that utilize our proprietary closed-cell resin, called Croslite, as well as casual lifestyle footwear that use a range of materials. Our Croslite material enables us to produce innovative, lightweight, non-marking, and odor-resistant footwear. We currently sell our products in more than 65 countries through domestic and international retailers and distributors, and directly to consumers through our company-operated retail stores, outlets, webstores, and kiosks.

Since the initial introduction of our popular Beach and Crocs Classic designs in 2002, we have expanded our classic products to include a variety of new styles and products. Going forward, we are focusing on our core molded footwear heritage, as well as developing innovative casual lifestyle footwear. The broad appeal of our footwear has allowed us to market our products to a wide range of distribution channels, including family footwear stores, department stores, sporting goods stores and traditional footwear retailers, as well as a variety of specialty and independent retail channels, and via the internet.

**Products**

Our product offerings have grown significantly since we first introduced the single-style clog in six colors in 2002. We currently offer a wide variety of footwear products including clogs, sandals, wedges, flats, sneakers, and boots. During the years ended December 31, 2015, 2014, and 2013, approximately 76.2%, 73.5%, and 71.1%, respectively, of unit sales consisted of products geared toward adults compared to 23.8%, 26.5%, and 28.9%, respectively, of unit sales of products geared toward children.

A key differentiating feature of our footwear products is the Croslite material, which is uniquely suited for comfort and functionality. Croslite is carefully formulated to create extremely lightweight, comfortable, and non-marking footwear that conforms to the shape of the foot and increase comfort. Croslite is a closed-cell resin material which is water resistant, virtually odor free and allows many of our footwear styles to be cleaned simply with water. As we have expanded our product offering, we have incorporated traditional materials, such as textile fabric and leather, into many of our styles; however, we continue to utilize the Croslite material for the foot bed, sole, and other key structural components for many of these styles.

We strive to provide our global consumer with a year-round product assortment featuring fun, comfortable, casual, colorful, and innovative styles. Our collections are designed to meet the needs of the family by focusing on key wearing occasions. Our goal is to deliver world-class product assortments for the family with all of the comfort features and benefits Crocs is known for. We have discontinued our non-core products in order to focus on growing our core-molded heritage category while developing more compelling casual footwear platforms.

At the heart of our brand resides the Classic, our first and most iconic style for adults and kids that embodies our innovation in molding and design, delivers all-day comfort, and has established a new category in the footwear marketplace. The unique look and feel of the Classic can be experienced throughout our entire product line due to the use and design of our proprietary material Croslite. We have expanded our core molded product line, introduced in 2002, with the addition of dual density technology, warm lined styles, seasonal flips and slides. Licensed style partnerships from Disney, Marvel, Sanrio,

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Nickelodeon, and Warner Bros., among others, provide popularity to our kids' core line along with our kids-only product innovations, including lights, color-change materials, and interactive elements.

In addition, we have extended our core product assortment with new styling including 'built for her' and 'built for him' silhouettes, which are offered in multiple color and graphic treatments. Our core products are available across a range of channels of distribution and span both stylish and active wearing occasions for the entire family.

**Sales and Marketing**

Each season we focus on presenting a compelling "brand story and experience" for our new product collections and our broader casual lifestyle assortment. Our marketing efforts center on story-telling across diverse wearing occasions and product silhouettes. For the years ended December 31, 2015, 2014, and 2013, total advertising costs were \$58.2 million, \$44.7 million, and \$47.6 million, respectively.

We run our business across three major regions: the Americas, Asia Pacific and Europe. In developing our market growth and expansion strategy, we prioritize six core markets including: (i) the United States, (ii) Japan, (iii) China, (iv) South Korea, (v) Germany, and (vi) the United Kingdom. These countries have been identified as large-scale geographies where we believe the greatest opportunities for growth exist. Accordingly, our product development efforts for our 2016 product line are largely focused on expanding our market share in these locations. We are also focusing our marketing efforts on these regions in an effort to increase customer awareness of both our brand and our full product range.

We have three primary sales channels: wholesale, retail, and e-commerce (discussed in more detail below). Our marketing efforts are aimed at driving business to both our wholesale partners and our company-operated retail and e-commerce stores. Our marketing efforts in the wholesale and retail channels are focused on visual product merchandising with alignment on key stories, activation materials, and creative materials. Retail stores provide a unique opportunity to engage with customers in a three-dimensional manner. Strong emphasis is placed on making the store experience a meaningful and memorable showcase of our larger assortment of casual lifestyle footwear and key new product launches.

***Wholesale Channel***

During the years ended December 31, 2015, 2014, and 2013, approximately 54.2%, 55.7%, and 56.5% of net revenues, respectively, were derived from sales through the wholesale channel which consists of sales to distributors and third-party retailers. Wholesale customers include family footwear retailers, national and regional retail chains, department stores, sporting goods stores, and independent footwear retailers. No single customer accounted for 10% or more of our revenues for any of the years ended December 31, 2015, 2014, and 2013.

Many of our agreements allow us to accept returns from wholesale customers for defective products and quality issues, on an exception basis, and to extend pricing discounts in lieu of defective product returns. We also may accept returns from our wholesale customers, on an exception basis, for the purpose of stock re-balancing to ensure that our products are merchandised in the proper assortments.

We use third-party distributors in select markets where we believe such arrangements are preferable to direct sales. These third-party distributors purchase products pursuant to a price list and are granted the right to resell the products in a defined territory, usually a country or group of countries. Our typical distribution agreements have terms of one to four years, are generally terminable upon 30 days prior notice, and have minimum sales requirements that allow us to terminate or renegotiate the contract if minimum requirements are not met.

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***Retail Channel***

During the years ended December 31, 2015, 2014, and 2013, approximately 34.7%, 35.5%, and 35.0%, respectively, of our net revenues were derived from sales through our retail channel. We operate our retail channel through three integrated platforms: full-service retail locations, outlet locations, and kiosk/store-in-store locations. Our three types of store platforms enable us to organically promote the breadth of our product offering in high-traffic, highly visible locations. Our strategy for expanding our global retail business is to increase our market share in a disciplined manner by selectively opening additional stores in new and existing markets, as well as increasing sales in existing stores. We will continue to moderate the pace of our retail expansion in 2016 with a focus on outlet locations as well as enhancing the profitability of existing locations. We opened 42 company-operated stores during the year ended December 31, 2015 and closed 68 company-operated stores. As retail store performance will vary in new and existing markets due to many factors, including maturity of the market and brand recognition, we periodically evaluate the fixed assets and leasehold improvements related to our retail locations for impairment.

Full-Service Retail Locations

Our company-operated retail locations allow us to effectively showcase the full extent of our new and existing products to customers at retail pricing. In addition, our full-service retail locations enable us to interact with our customers on a personal level in order to ensure a satisfying shopping experience. On average, the optimal space for our retail locations is between approximately 1,500 and 1,800 square feet, depending on the geographic vicinity of the property, and is typically located in high-traffic shopping malls or districts. During the year ended December 31, 2015, we closed 51 stores and opened 15 new stores. As of December 31, 2015, 2014, and 2013, we operated 275, 311, and 327 global full-service retail stores, respectively.

Outlet Locations

Our company-operated outlet locations allow us to sell discontinued and overstock merchandise directly to consumers at discounted prices. We also sell full priced products in certain of our outlet stores. Outlet locations follow a similar size model as our full-service retail stores; however, they are generally located within outlet shopping locations. During the year ended December 31, 2015, we closed four outlet locations and opened 16 new outlet locations. As of December 31, 2015, 2014, and 2013, we operated 186, 174, and 170 global outlet stores, respectively.

Kiosk / Store-in-Store Locations

Our company-operated kiosks and store-in-store locations allow us to market specific product lines with the further flexibility to tailor products to consumer preferences in shopping malls and other high foot traffic areas. With bright and colorful displays, efficient use of retail space, and limited capital investment, we believe that kiosks and shop in shops locations can be an effective outlet for marketing our products where this business model is applicable. During the year ended December 31, 2015, we closed 13 kiosk and store-in-store locations and opened 11 new kiosk and store-in-store locations. As of December 31, 2015, 2014, and 2013, we operated 98, 100, and 122 global kiosks and store-in-stores, respectively.

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The following table illustrates the net change in 2015 with respect to the number of our company-operated retail locations by reportable operating segment and country:

	December 31, 2014	Opened	Closed	December 31, 2015
<b>Company-operated retail locations</b>				
<b>Americas</b>				
United States	185	4	10	179
Canada	13		3	10
Puerto Rico	7			7
Other	5		5	
<b>Total Americas</b>	<b>210</b>	<b>4</b>	<b>18</b>	<b>196</b>
<b>Asia Pacific</b>				
Korea	83	5	4	84
Japan	54	4	6	52
China	43	19	7	55
Hong Kong	23	1	3	21
Singapore	18	1	4	15
Australia	13	1	3	11
United Arab Emirates (UAE)	10	5	1	14
South Africa(1)	9			9
Taiwan	5		5	
<b>Total Asia Pacific</b>	<b>258</b>	<b>36</b>	<b>33</b>	<b>261</b>
<b>Europe</b>				
Russia	39	2	4	37
Germany	20		2	18
Great Britain	15		5	10
France	14		2	12
Netherlands	7		1	6
Finland	6		1	5
Spain	6			6
Other	10		2	8
<b>Total Europe</b>	<b>117</b>	<b>2</b>	<b>17</b>	<b>102</b>
<b>Total</b>	<b>585</b>	<b>42</b>	<b>68</b>	<b>559</b>

(1)

Our South Africa operations were designated as held for sale as of December 31, 2015. These locations were subsequently sold on January 19, 2016. See Note 5 Property and Equipment and Note 21 Subsequent Events to the consolidated financial statements for additional information.

### ***E-commerce Channel***

As of December 31, 2015, we offered our products through 12 company-operated e-commerce webstores worldwide. During the years ended December 31, 2015, 2014, and 2013, approximately 11.1%, 8.8%, and 8.5%, respectively, of our net revenues were derived from sales through our e-commerce channel. Our e-commerce presence enables us to have increased access to our customers and provides us with an opportunity to educate them about our products and brand. Improving our e-commerce capabilities is one of our key strategies in positioning Crocs for sustained growth. Going forward, we will continue to improve our consumer's online experience and look for new ways to leverage digital technologies to connect with them.





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**Business Segments and Geographic Information**

For 2015, we had three reportable operating segments based on the geographic nature of our operations: Americas, Asia Pacific, and Europe. We also have an "Other businesses" category which aggregates insignificant operating segments that do not meet the reportable segment threshold and represents manufacturing operations located in Mexico, Italy and Asia. For 2014 and 2013, we had four reportable operating segments: Americas, Asia Pacific, Japan and Europe. Subsequent to December 31, 2014, Crocs' internal reports reviewed by the Chief Operating Decision Maker ("CODM") began consolidating Japan into the Asia Pacific segment. This change aligned the Company's internal reporting to its new strategic model and management structure, as Japan and Asia Pacific are now managed and analyzed as one operating segment by management and the CODM. Accordingly, prior period segment results have been reclassified to reflect this change. The composition of our reportable operating segments is consistent with that used by our CODM to evaluate performance and allocate resources. See additional discussion of our segments including results of operations and assets by segment in Note 18 in the accompanying notes to the consolidated financial statements.

***Americas***

The Americas segment consists of revenues and expenses related primarily to product sales in the North and South America geographic regions. Regional wholesale channel customers consist of a broad range of family footwear, sporting goods and department stores as well as specialty retailers and distributors. The regional retail channel sells directly to consumers through 196 company-operated store locations in the Americas as well as through webstores. During the years ended December 31, 2015, 2014, and 2013, revenues from the Americas segment constituted approximately 43.7%, 40.9%, and 41.9% of our consolidated revenues, respectively. Specifically, revenues from the United States of America constituted approximately 35.8%, 36.3%, and 33.7% of our consolidated revenues, respectively, for the years ended December 31, 2015, 2014, and 2013.

***Asia Pacific***

The Asia Pacific segment consists of revenues and expenses related primarily to product sales throughout Asia, Australia, New Zealand, the Middle East and South Africa. The Asia Pacific wholesale channel consists of sales to a broad range of retailers similar to the wholesale channel we have established in the Americas segment. We also sell products directly to the consumer through 261 company-operated stores located in Asia as well as through our webstores. During the years ended December 31, 2015, 2014, and 2013, revenues from the Asia segment constituted 39.0%, 39.6%, and 40.0%, of our consolidated revenues, respectively.

***Europe***

The Europe segment consists of revenues and expenses related primarily to product sales throughout Europe and Russia. The Europe segment wholesale channel customers consist of a broad range of retailers, similar to the wholesale channel we have established in the Americas segment. We also sell our products directly to the consumer through 102 company-operated stores located in Europe as well as through our webstores. During the years ended December 31, 2015, 2014, and 2013, revenues from the Europe segment constituted 17.3%, 19.5%, and 18.1% of our consolidated revenues, respectively.

**Distribution and Logistics**

On an ongoing basis, we look to enhance our distribution and logistics network to further streamline our supply chain, increase our speed to market, and lower operating costs. During the year ended December 31, 2015, we stored our raw material and finished goods inventories in company-operated warehouse and distribution facilities located in the United States, Mexico, the Netherlands, Japan,

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Finland, South Africa, Russia, and Italy. We also utilize distribution centers which are operated by third parties located in the United States, China, Japan, Hong Kong, Australia, Korea, Singapore, India, Taiwan, the United Arab Emirates, Russia, Brazil, Argentina, Chile, Puerto Rico, and Italy. Throughout 2015, we continued to engage in efforts to consolidate our global warehouse and distribution facilities to facilitate a lean cost structure. As of December 31, 2015, our company-operated warehouse and distribution facilities provided us with approximately 1.0 million square feet and our third-party operated distribution facilities provided us with approximately 0.4 million square feet. We also ship a portion of our products directly to our customers from our internal and third-party manufacturers.

**Raw Materials**

"Croslite", our branded proprietary closed-cell resin, is the primary raw material used in the majority of our footwear and some of our accessories. Croslite is soft, durable, and allows our material to be non-marking in addition to being extremely lightweight. We continue to invest in research and development in order to refine our materials to enhance these properties and to target the development of new properties for specific applications.

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

Since our inception, we have substantially increased the number of footwear products we offer. Many of these new products are constructed using leather, textile fabrics, or other non-Croslite materials. We, or our third-party manufacturers, obtain these materials from a number of third-party sources and we believe these materials are broadly available. We also outsource the compounding of the Croslite material and continue to purchase a portion of our compounded raw materials from a third party in Europe.

**Design and Development**

We continue to dedicate significant resources to product design and development as we expand the footwear styles we offer based on opportunities we identify in the marketplace. Our design and development process is highly collaborative and we continually strive to improve our development function so we can bring products to market quickly and at reduced costs, while maintaining product quality. We spent \$14.0 million, \$16.7 million, and \$15.4 million in research, design, and development activities for the years ended December 31, 2015, 2014, and 2013, respectively.

**Manufacturing and Sourcing**

Our strategy is to maintain a flexible, globally diversified, low-cost manufacturing base. We currently have company-operated production facilities in Mexico and Italy. We also contract with third-party manufacturers to produce certain of our footwear styles or to provide support to our internal production processes. Our internal 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 contracted manufacturing services. We believe this strategy will continue to minimize our production costs, increase overall operating efficiencies, and shorten production and development times.

In the years ended December 31, 2015, 2014, and 2013, we manufactured approximately 11.3%, 13.9%, and 15.1%, respectively, of our footwear products internally. We sourced the remaining footwear production from multiple third-party manufacturers primarily in China, Vietnam, Eastern Europe and

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South America. During the years ended December 31, 2015, 2014, and 2013, our largest third-party manufacturer in China produced approximately 26.6%, 27.5%, and 28.0%, respectively, of our footwear unit volume. We do not have written supply agreements with our primary third-party manufacturers in Asia.

**Intellectual Property and Trademarks**

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

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

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

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

**Seasonality**

Due to the seasonal nature of our footwear, which is more heavily focused on styles suitable for warm weather, revenues generated during our fourth quarter is typically less than revenues generated during our first three quarters, when the northern hemisphere is experiencing warmer weather. We continue to

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expand our product line to include more winter oriented styles to reduce the seasonality of our revenues. Our quarterly results of operations may also fluctuate significantly as a result of a variety of other factors, including the timing of new model introductions, or general economic, or consumer confidence. Accordingly, results of operations and cash flows for any one quarter are not necessarily indicative of expected results for any other quarter or for any other year.

**Backlog**

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

**Foreign Currency Fluctuations on Revenues and Operating Income (Loss)**

As a global company, we have significant revenues, costs, assets, liabilities and intercompany balances denominated in currencies other than the U.S. Dollar. Accordingly, any amounts recorded in foreign currencies are translated into U.S. Dollars for consolidated financial reporting and are impacted by foreign currency fluctuations. While we enter into foreign currency exchange forward contracts as economic hedges to reduce our exposure to changes in exchange rates, the volatility of foreign currency exchange rates is dependent on many factors that cannot be forecasted with reliable accuracy and our forward contracts may not prove effective in reducing our exposures.

**Competition**

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

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

**Employees**

As of December 31, 2015, we had approximately 5,400 full-time, part-time, and seasonal employees, of which approximately 3,600 were engaged in retail-related functions.

## Edgar Filing: Crocs, Inc. - Form 10-K

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#### **Available Information**

Our internet address is [www.crocs.com](http://www.crocs.com) where we post the following filings, free of charge, as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission: our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Copies of any of these documents will be provided in print to any stockholder who submits a request in writing to Integrated Corporate Relations, 761 Main Avenue, Norwalk, CT 06851.

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**ITEM 1A. Risk Factors**

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

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

Uncertainty about current and future global economic conditions may cause consumers and retailers to defer purchases or cancel purchase orders for our products in response to tighter credit, decreased cash availability, and weakened consumer confidence. Our financial success is sensitive to changes in general economic conditions, both globally and in specific markets, that may adversely affect the demand for our products including recessionary economic cycles, higher interest borrowing rates, higher fuel and other energy costs, inflation, increases in commodity prices, higher levels of unemployment, higher consumer debt levels, higher tax rates and other changes in tax laws, or other economic factors. For example, in 2015 and 2014, we experienced difficulty in our Asia Pacific segment primarily due to decreased performance in our China business which resulted in delayed payments of receivables and increased reserves for uncollectable accounts receivable. In 2015 and 2014, we also experienced volatility in sales in our Asia Pacific segment due to the continued adverse macroeconomic conditions in China. If global economic and financial market conditions deteriorate or remain weak for an extended period of time, the following factors could have a material adverse effect on our business, operating results, cash flows and financial condition:

Slower consumer spending may result in our inability to maintain or increase our sales to new and existing customers, causing reduced orders or order cancellations from wholesale accounts that are directly impacted by fluctuations in the broader economy, which may reduce in increased difficulty in managing inventory, higher discounting efforts, and lower product margins.

If consumer demand for our products declines, we may be unable to open and operate new retail stores, or continue to operate existing stores, due to the high fixed cost nature of the retail segment.

Fluctuations in foreign currency exchange rates relative to the U.S. Dollar could have a material impact on our reported financial results and condition.

Any decrease in available credit caused by a weakened global economy may result in financial difficulties for our wholesale and retail customers, product suppliers and other service providers, as well as the financial institutions that are counterparties to our credit facility and derivative transactions. If credit pressures or other financial difficulties result in insolvency for these parties, it could adversely impact our estimated reserves, our ability to obtain future financing, and our financial results.

If our wholesale customers experience diminished liquidity, we may experience a reduction in product orders, an increase in customer order cancellations, and/or the need to extend customer payment terms which could lead to higher accounts receivable balances, reduced cash flows, greater expense associated with collection efforts, and increased bad debt expense.

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If our manufacturers or other parties in our supply chain experience diminished liquidity, they may not meet their obligations to us, and we may experience the inability to meet customer product demands in a timely manner.

***China's deteriorating macro-economic environment could adversely affect sales in our Asia Pacific segment which may adversely affect our financial condition and results of operations.***

Current and future global economic conditions may adversely affect consumer spending and the financial health of our customers and others with whom we do business which may adversely affect our financial condition, results of operations, and cash resources. Macro-economic conditions in China have deteriorated over the past several quarters resulting in softening consumer demand and payment delays from our China distributors which have negatively impacted the sales volumes and cash collections for our China operations. During 2015, we increased our allowance for doubtful accounts by an additional \$23.2 million related to receivables in China as a result of distributors defaulting on their payment obligations. As a result of this adjustment, our remaining net receivable balance in China is \$5.1 million as of December 31, 2015. If the economic conditions in China continue to decline, we may experience further reductions in consumer demand in the China market resulting in additional losses. As our China operations represent approximately 8% of our total revenue, the impact of declining sales volumes in China could have a material adverse impact on our financial results in future periods.

***We are currently in negotiations with multiple China distributors regarding our terms of payment and there can be no assurance that these negotiations will be successful. If we are not able to agree on acceptable terms with our China distributors, we may need to establish new distributor relationships and we cannot guarantee if we will be able to do so within a reasonable time frame, if at all.***

In the third quarter of 2015, multiple China distributors failed to comply with the terms of their payment obligations. As a result, we have ceased all shipments to these distributors until we are able to develop mutually beneficial terms of payment for both current sales and aged receivables. There are no assurances our efforts to obtain payment will be successful. In the event we are not able to reach an agreement with these distributors we may terminate our relationship and look for new partners in the region. At this time we do not know how long it will take to establish new distributor relationships on acceptable terms to us or if we will be able to establish such relationships at all. If we are unable to establish new partnerships within a reasonable time frame, we could experience a significant decline in sales volumes within China in future periods which could have a material adverse effect on our business including our financial results, cash flows, and financial condition.

***Foreign currency fluctuations could have a material adverse effect on our results of operations and financial condition.***

As a global company, we have significant revenues, costs, assets, liabilities, and intercompany balances denominated in currencies other than the U.S. Dollar. We pay the majority of expenses attributable to our foreign operations in the functional currency of the country in which such operations are conducted and pay the majority of our overseas third-party manufacturers in U.S. Dollars. 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. In 2015, we experienced a decrease of \$31.9 million in revenue in our Asia Pacific segment related to foreign currency translation losses as a result of decreases in the value of the Japanese Yen and Chinese Yuan compared to the U.S. Dollar and a decrease of \$43.3 million in our Europe segment related to foreign currency translation losses as a result of decreases in the value of the Euro and Ruble compared to the U.S. Dollar. A decrease in the value of foreign currencies relative to the U.S. Dollar could result in lower revenues, product price pressures, and increased losses from currency exchange rates. Price increases caused by currency exchange rate fluctuations could make our products less competitive or have an adverse effect on our profitability as most of our purchases from third-party



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suppliers are denominated in U.S. Dollars. 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.

While we enter into foreign currency exchange forward contracts as economic cash flow hedges to reduce our exposure to changes in exchange rates, the volatility of foreign currency exchange rates is dependent on many factors that cannot be forecasted with reliable accuracy and our forward contracts may not prove effective in reducing our exposures.

***We face significant competition.***

The footwear industry is highly competitive. Continued growth in the market for casual footwear has encouraged the entry of new competitors into the marketplace and has increased competition from established companies. Our competitors include most major athletic and non-athletic footwear companies and retailers with their own private label footwear products. A number of our competitors have significantly greater financial resources than us, more comprehensive product lines, a broader market presence, longer standing relationships with wholesalers, a longer operating history, greater distribution capabilities, stronger brand recognition, and spend substantially more than we do on product marketing. Our competitors' greater financial resources and capabilities in these areas may enable them to better withstand periodic downturns in the footwear industry and general economic conditions, compete more effectively on the basis of price and production, and more quickly develop new products. Some of our competitors are offering products that are substantially similar, in design and materials, to 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. If we fail to compete successfully in the future, our sales and profits may decline, we may lose market share, our financial condition may deteriorate, and the market price of our common stock would likely fall.

***Our business relies significantly on the use of information technology and any material disruption to operational technology or failure to protect the integrity and security of customer and employee information could harm our reputation and/or our ability to effectively operate our business.***

We rely heavily on the use of information technology systems and networks in our operations and supporting departments including marketing, accounting, finance, and human resources. The future success and growth of our business depend on streamlined processes made available through information systems, global communications, internet activity, and other network processes. Despite our current security measures, our systems, and those of our third-party service providers, may be vulnerable to information security breaches, acts of vandalism, computer viruses, credit card fraud, phishing, and interruption or loss of valuable business data. Any disruption to these systems or networks could result in product fulfillment delays, key personnel being unable to perform duties or communicate throughout the organization, loss of retail and internet sales, significant costs for data restoration, and other adverse impacts on our business and reputation.

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

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

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

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

Our ability to strengthen the Crocs brand globally into a leading casual lifestyle footwear provider;

Our ability to focus on relevant geographies and markets, product innovation and profitable new growth platforms while maintaining demand for our current offerings;

Our ability to effectively manage our retail stores (including closures of existing stores) while meeting operational and financial targets at the retail store level;

Our ability to accurately forecast the global demand for our products and the timely execution of supply chain strategies to deliver product around the globe efficiently based on that demand;

Our ability to use and protect the Crocs brand and our other intellectual property in new markets and territories;

Our ability to Achieve and maintain a strong competitive position in new and existing markets;

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

Our ability to consolidate our network to leverage resources and simplify our fulfillment process; and

Our ability to execute a multi-channel advertising and marketing campaign to effectively communicate our message directly to our consumers and employees.

If we are unable to successfully implement any of the above mentioned strategies and many other factors mentioned throughout this section, our business may fail to grow, our brand may suffer, and our results of operations and cash flows may be adversely impacted.

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

In July 2014, we announced strategic plans for long-term improvement and growth of our business, which is comprised of four key initiatives: (1) streamlining the global product and marketing portfolio, (2) reducing direct investment in smaller geographic markets, (3) creating a more efficient organizational structure including reducing duplicative and excess overhead which will also enhance the decision making process, and (4) closing or converting retail locations around the world. The initial charges for the strategic plan were incurred in the first quarter of 2014 and continued through 2015. During 2014 and 2015, we closed 172 retail locations, offset by 112 new retail locations opened.



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While these strategic plans, along with other steps to be taken, are intended to improve and grow our business, there can be no assurance that this will be the case, or that additional steps or material accounting charges will not be required. If additional steps are required, there can be no assurance that they will be properly implemented or will be successful. The implementation of our new strategy may take a significant amount of time and resources to implement, and may not impact our financial condition, results of operations and cash flows in the short term, or at all.

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

A significant portion of our revenues is from foreign sales. Our ability to maintain the current level of operations in our existing international markets is subject to risks associated with international sales operations as well as the difficulties associated with promoting products in unfamiliar cultures. In addition to foreign manufacturing, we operate retail stores and sell our products to retailers outside of the U.S. Foreign manufacturing and sales activities are subject to numerous risks including: tariffs, anti-dumping fines, import and export controls, and other non-tariff barriers such as quotas and local content rules; delays associated with the manufacture, transportation and delivery of products; increased transportation costs due to distance, energy prices, or other factors; delays in the transportation and delivery of goods due to increased security concerns; restrictions on the transfer of funds; restrictions, due to privacy laws, on the handling and transfer of consumer and other personal information; changes in governmental policies and regulations; political unrest, changes in law, terrorism, or war, any of which can interrupt commerce; potential violations of U.S. and foreign anti-corruption and anti-bribery laws by our employees, business partners or agents, despite our policies and procedures relating to compliance with these laws; expropriation and nationalization; difficulties in managing foreign operations effectively and efficiently from the U.S.; difficulties in understanding and complying with local laws, regulations and customs in foreign jurisdictions; longer accounts receivable patterns and difficulties in collecting foreign accounts receivables; difficulties in enforcing contractual and intellectual property rights; greater risk that our business partners do not comply with our policies and procedures relating to labor, health and safety; and increased accounting and internal control expenses. In addition, we are subject to customs laws and regulations with respect to our export and import activity which are complex and vary within legal jurisdictions in which we operate. We cannot assure that there will be no control failure around customs enforcement despite the precautions we take. We are currently subject to audits by various customs authorities including the U.S. and Mexico. Any failure to comply with customs laws and regulations could be discovered during a U.S. or foreign government customs audit, or customs authorities may disagree with our tariff treatments, and such actions could result in substantial fines and penalties, which could have an adverse effect on our financial position and results of operations.

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

We believe much of our success has been attributable to the strengthening of the Crocs global brand. To be successful in the future, particularly outside of the U.S., where the Crocs brand is less well-known and perceived differently, we believe we must timely and appropriately respond to changing consumer demand and leverage the value of our brand across all sales channels. We may have difficulty managing our brand image across markets and international borders as certain consumers may perceive our brand image to be outdated and one-dimensional prior to purchasing our products. Brand value is based in part on consumer perceptions on a variety of subjective qualities. In the past, several footwear companies including ours have experienced periods of rapid growth in revenues and earnings followed by periods of declining sales and losses, our business may be similarly affected in the future. Business incidents, such as perceived product safety issues, whether isolated or recurring, that erode consumer trust, particularly if the incidents receive considerable publicity or result in litigation, can significantly reduce brand value and have a negative impact on our financial results. Consumer demand for our products and our brand equity could diminish significantly if we fail to preserve the quality of our products, are perceived to act in an unethical or socially

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irresponsible manner, fail to comply with laws and regulations, or fail to deliver a consistently positive consumer experience in each of our markets. Additionally, counterfeit reproductions of our products or other infringement of our intellectual property rights, including from unauthorized uses of our trademarks by third parties, could harm our brand and adversely impact our business.

***If our online sales platform does not function effectively, our operating results could be materially adversely affected.***

Many of our customers buy our products on our e-commerce webstores as well as third-party webstores. Any failure on our part to provide effective, reliable, user-friendly e-commerce platforms, that offer a wide assortment of our merchandise, could place us at a competitive disadvantage, result in the loss of sales, and could have a material adverse impact on our business and results of operations. Sales in our e-commerce channel may also divert sales from our retail and wholesale channels.

***Opening and operating additional retail locations, which require substantial financial commitments and fixed costs, are subject to numerous risks and declines in revenue of such retail locations could adversely affect our profitability.***

Although we have slowed the expansion of our retail sales channel, we intend to continue to open outlet locations. Our ability to open new locations successfully depends on our ability to identify suitable store locations, negotiate acceptable lease terms, hire, train, and retain store personnel and satisfy the fashion preferences in new geographic areas. Many of our retail locations are located in shopping malls where we depend on obtaining prominent locations and the overall success of the malls to generate customer traffic. We cannot control the success of individual malls and an increase in store closures by other retailers may lead to mall vacancies and reduced foot traffic. Reduced customer traffic could reduce sales of existing retail stores or hinder our ability to open retail stores in new markets, which could negatively affect our operating results and cash flows. In addition, some of our retail stores and kiosks occupy street locations that are heavily dependent on customer traffic generated by tourism. Any substantial decrease in tourism resulting from an economic slowdown, political, social or military events or otherwise, is likely to adversely affect sales in our existing stores and kiosks, particularly those with street locations.

Opening retail stores globally involves substantial investment, including the construction of leasehold improvements, furniture and fixtures, equipment, information systems, inventory and personnel. Operating global retail stores incurs fixed costs; if we have insufficient sales, we may be unable to reduce such fixed costs and avoid losses or negative cash flows.

***We may be required to record impairments of long-lived assets relating to our retail operations.***

The testing of our retail stores' long-lived assets for impairment requires us to make significant estimates about our future performance and cash flows that are inherently uncertain. These estimates can be affected by numerous factors, including changes in economic conditions, our results of operations, and competitive conditions in the industry. Due to the high fixed cost structure associated with our retail operations, negative cash flows or the closure of a store could result in write downs of inventory, impairment of leasehold improvements, impairment losses on other long-lived assets, severance costs, significant lease termination costs or the loss of working capital, which could adversely impact our financial position, results of operations or cash flows. For example, during 2015, 2014, and 2013, we recorded impairments \$15.3 million, \$8.8 million and \$10.9 million, respectively, of which \$9.6 million, \$8.8 million and \$10.6 million, respectively, related to our retail stores. These impairment charges may increase as we evaluate our retail operations. The recording of additional impairments in the future may have a material adverse impact on our financial results.

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

We rely on executives and senior management to drive the financial and operational performance of our business. Turnover of executives and senior management can adversely impact our stock price, our results of operations, and our client relationships and may make recruiting for future management positions more difficult or may require us to offer more generous executive compensation packages to attract top executives. Changes in other key management positions may temporarily affect our financial performance and results of operations as new management becomes familiar with our business. In recent years, we have experienced management turnover. Our future success depends on our ability to identify, attract and retain qualified personnel on a timely basis. In addition, we must successfully integrate any newly hired management personnel within our organization in order to achieve our operating objectives. Effective in January 2015, Gregg Ribatt was appointed as our Chief Executive Officer and effective in December 2015, Carrie Teffner was appointed as Executive Vice President and Chief Financial Officer. Ms. Teffner resigned as a member of the Board prior to her start date with the Company. The key initiatives directed by these executives may take time to implement and yield positive results, if at all. If our new executives do not perform up to expectations, we may experience declines in our financial performance and/or delays in our long-term growth strategy.

As a global company, we also rely on a limited number of key international personnel to perform their functions at a high level in many of our geographic regions. In certain instances, one or two personnel may be the primary knowledge base for business operations in a geographic region. The loss of key international personnel could adversely impact our operations and our client relationships.

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

The footwear industry is subject to cyclical variations, consolidation, contraction and closings, as well as fashion trends, rapid changes in consumer preferences, the effects of weather, general economic conditions and other factors affecting demand and possibly impairing our brand image. In addition, sales to our wholesale customers are generally subject to rights of cancellation and rescheduling by the customer. These factors make it difficult to forecast consumer demand. If we overestimate demand for our products, we may be forced to liquidate excess inventories at discounted prices resulting in lower gross margins. Conversely, if we underestimate consumer demand, we could have inventory shortages which can result in lower sales, delays in shipments to customers, strains on our relationships with customers and diminished brand loyalty. A decline in demand for our products, or any failure on our part to satisfy increased demand for our products, could adversely affect our business and results of operations. In addition, an inability to accurately forecast consumer demand could cause our revenue and earnings guidance to differ materially from our financial results.

***Expanding our footwear product line may be difficult and expensive. If we are unable to successfully continue such expansion, our brand may be adversely affected and we may not be able to maintain or grow our current revenue and profit levels.***

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, our revenues may decrease, our brand image may suffer, our operating performance may decline, and we may not be able to execute our growth plans.

In producing new footwear models, we may encounter difficulties that we did not anticipate during the product development stage. Our development schedules for new products are difficult to predict and are subject to change in response to consumer preferences and competing products. If we are not able to

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

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

Sales of our products are subject to seasonal variations and are sensitive to weather conditions. As a significant portion of our revenues are attributable to footwear styles that are more suitable for fair weather and are derived from sales in the northern hemisphere, we typically experience our highest sales activity during the second and third quarters of the calendar year, when there is fair weather in the northern hemisphere. While we continue to create new footwear styles that are more suitable for cold weather, the effects of favorable or unfavorable weather on sales can be significant enough to affect our quarterly results which could adversely affect our common stock price. Quarterly results may also fluctuate as a result of other factors, including new style introductions, general economic conditions or changes in consumer preferences. Results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for any year and revenues for any particular period may fluctuate. This could lead to results outside of analyst and investor expectations, which could increase volatility of our stock price.

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

Third-party manufacturers located in China and Vietnam produced the majority of our footwear products in 2015 and are expected to do so in 2016. We depend on the ability of these manufacturers to finance the production of goods ordered, maintain adequate manufacturing capacity and meet our quality standards. We compete with other companies for the production capacity of our third-party manufacturers, and we do not exert direct control over the manufacturers' operations. As such, we have experienced at times, delays or inability to fulfill customer demand and orders, particularly in China. We cannot guarantee that any third-party manufacturer will have sufficient production capacity, meet our production deadlines or meet our quality standards.

In addition, we do not have supply contracts with many of these third-party manufacturers 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. Foreign manufacturing is subject to additional risks, including transportation delays and interruptions, work stoppages, political instability, expropriation, nationalization, foreign currency fluctuations, changing economic conditions, changes in governmental policies and the imposition of tariffs, import and export controls, and other barriers. We may not be able to offset any interruption or decrease in supply of our products by increasing production in our internal manufacturing facilities due to capacity constraints, and we may not be able to substitute suitable alternative third-party manufacturers in a timely manner or at acceptable prices. Any disruption in the supply of products from our third-party manufacturers may harm our business and could result in a loss of sales and an increase in production costs, which would adversely affect our results of operations. In addition, manufacturing delays

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or unexpected demand for our products may require us to use faster, more expensive transportation methods, such as aircraft, which could adversely affect our profit margins. The cost of fuel is a significant component in transportation costs. Increases in the price of petroleum products can adversely affect our profit margins.

In addition, because a large portion of our footwear products is manufactured in China and Vietnam, the possibility of adverse changes in trade or political relations between the U.S. and these countries, political instability in China, increases in labor costs, or adverse weather conditions could significantly interfere with the production and shipment of our products, which would have a material adverse effect on our operations and financial results.

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

We produce a portion of our footwear products at our internal manufacturing facilities in Mexico and Italy. Ownership of these facilities adds fixed costs to our cost structure which are not as easily scalable as variable costs. In addition, the manufacture of our products from the Croslite material requires the use of a complex process and we may experience difficulty in producing footwear that meets our high quality control standards. We will be required to absorb the costs of manufacturing and disposing of products that do not meet our quality standards. Any increases in our manufacturing costs could adversely impact our profit margins. Furthermore, our manufacturing capabilities are subject to many of the same risks and challenges faced by our third-party manufacturers, including our ability to scale our production capabilities to meet the needs of our customers. Our manufacturing may also be disrupted for reasons beyond our control, including work stoppages, fires, earthquakes, floods or other natural disasters. Any disruption to our manufacturing operations will hinder our ability to deliver products to our customers in a timely manner and could have a material and adverse effect on our business, results of operations and cash flows.

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

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

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



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***Our revolving credit facility contains financial covenants that require us to maintain certain financial metrics and ratios and restrictive covenants that limit our flexibility. A breach of those covenants may cause us to be in default under the facility, and our lenders could foreclose on our assets.***

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

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

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

Our financial success is related to the willingness of our current and prospective wholesale customers to carry our products. We do not have long term contracts with any of our wholesale customers. Sales to our wholesale 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 customers' orders in a timely manner, the sales of our products and our relationships with those customers may suffer. Alternatively, if our customers experience diminished liquidity or other financial issues, we may experience a reduction in product orders, an increase in customer order cancellations and/or the need to extend customer payment terms which could lead to higher accounts receivable balances, reduced cash flows, greater expense associated with collection efforts, and increased bad debt expense. Specifically, we recorded a reserve for doubtful accounts of approximately \$23.2 million in China for the year ended December 31, 2015, primarily as a result of delayed payments from our partner stores in China. Additional problems with our wholesale customers, including continued payment delays in the Asia Pacific segment or other segments from regional wholesale partners may have a material adverse effect on our product sales, financial condition, results of operations and our ability to grow our product line.

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

We depend on a limited number of sources for the primary materials used to make our footwear. We source the elastomer resins that constitute the primary raw materials used in compounding our Croslite products, which we use to produce our various footwear products, from multiple suppliers. If the suppliers we rely on for elastomer resins were to cease production of these materials, we may not be able to obtain suitable substitute materials in time to avoid interruption of our production cycle. We are also subject to market issues related to supply and demand for our raw materials. We may have to pay substantially higher prices in the future for the elastomer resins or any substitute materials we use, which would increase our production costs and could have a significantly adverse impact on our profit margins and results of operations. If we are unable to obtain suitable elastomer resins or if we are unable to procure sufficient

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quantities of the Croslite material, we may not be able to meet our production requirements in a timely manner or may need to modify our product characteristics resulting in less favorable market acceptance which could result in lost potential sales, delays in shipments to customers, strained relationships with customers and diminished brand loyalty.

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

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

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

***We have substantial cash requirements in the U.S.; however, a majority of our cash is generated and held outside of the U.S. The consequential risks of holding cash abroad could adversely affect our financial condition and results of operations.***

We have substantial cash requirements in the U.S., but the majority of our cash is generated and held abroad. We generally consider unremitted earnings of subsidiaries operating outside of the U.S. to be indefinitely reinvested and it is not our current intent to change this position. Cash held outside of the U.S. is primarily used for the ongoing operations of the business in the locations in which the cash is held. Most of the cash held outside of the U.S. could be repatriated to the U.S., but under current law, would be subject to U.S. federal and state income taxes, less applicable foreign tax credits. In some countries, repatriation of certain foreign balances is restricted by local laws and could have adverse tax consequences if we were to move the cash to another country. Certain countries, including China, may have monetary laws which may limit our ability to utilize cash resources in those countries for operations in other countries. These limitations may affect our ability to fully utilize our cash resources for needs in the U.S. or

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other countries and may adversely affect our liquidity. Since repatriation of such cash is subject to limitations and may be subject to significant taxation, we cannot be certain that we will be able to repatriate such cash on favorable terms or in a timely manner. If we incur operating losses on a continued basis and require cash that is held in international accounts for use in our U.S. operations, a failure to repatriate such cash in a timely and cost-effective manner could adversely affect our business, financial condition and results of operations.

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

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

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

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

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

We are subject to income taxes in the United States and numerous foreign jurisdictions. Our effective income tax rate in the future could be adversely affected by a number of factors, including changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws, the outcome of income tax audits in various jurisdictions around the world and any repatriation of non-U.S. earnings for which we have not previously provided for U.S. taxes. We regularly assess all of these matters to determine the adequacy of our tax provision, which is subject to significant discretion and we could face significant adverse impact if our assumptions are incorrect and/or face significant cost to defend our practices from international and U.S. tax authorities. We are regularly subject to, and are currently undergoing, audits by tax authorities in the United States and foreign jurisdictions for prior tax years. Please refer to Item 3. *Legal Proceedings* in Part I of this Form 10-K as well as Note 17 *Commitments and Contingencies* in the accompanying notes to the consolidated financial statements for additional details regarding current tax audits. Although we believe our tax estimates are reasonable and we intend to defend our positions through litigation if necessary, the final outcome of tax audits and related litigation is inherently uncertain and could be materially different than that reflected in our historical income tax provisions and accruals. Moreover, we could be subject to assessments of substantial additional taxes and/or fines or penalties relating to ongoing or future audits. The adverse resolution of any audits or litigation could have an adverse effect on our financial position and results of operations. Future changes in domestic or international tax laws and regulations could also adversely affect our income tax liabilities. Recent developments, including the European Commission's investigations of local country tax authority rulings and whether those rulings comply with European

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Union rules on state aid, as well as the Organization for Economic Co-operation and Development's project on Base Erosion and Profit Shifting, may result in changes to long-standing tax principles. Any such changes could adversely affect our effective tax rate or result in higher cash tax liabilities.

***We are required to pay regular dividends on the Series A Convertible Preferred Stock, par value \$0.001 per share ("Series A Preferred Stock") issued to Blackstone Capital Partners VI L.P. ("Blackstone") in 2014, which ranks senior to our common stock, and we may be required under certain circumstances to repurchase the outstanding shares of Series A Preferred Stock; such obligations could adversely affect our liquidity and financial condition.***

The Series A Preferred Stock ranks senior to our common stock with respect to dividend rights, and holders of Series A Preferred Stock are entitled to cumulative dividends payable quarterly in cash at a rate of 6% per annum of the stated value of \$1,000 per share. These regular cash dividends on our Series A Preferred Stock are payable quarterly in arrears on January 1, April 1, July 1 and October 1 of each year. If we fail to make timely dividend payments, the dividend rate will increase to 8% per annum until such time as all accrued but unpaid dividends have been paid in full. In addition, the holders of our Series A Preferred Stock have certain redemption rights, including upon certain change in control events involving us, which, if exercised, could require us to repurchase all of the outstanding shares of Series A Preferred Stock at 100% or more of the stated value of the shares, plus all accrued but unpaid dividends. Our obligations to pay regular dividends to the holders of our Series A Preferred Stock or any required repurchase of the outstanding shares of Series A Preferred Stock could impact our liquidity and reduce the amount of cash flows available for working capital, capital expenditures, growth opportunities, acquisitions, and other general corporate purposes. Our obligations to the holders of Series A Preferred Stock could also limit our ability to obtain additional financing or increase our borrowing costs, which could have an adverse effect on our financial condition.

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

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

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

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

As of December 31, 2015, we identified material weaknesses in our internal control over financial reporting, which led us to conclude that our internal control over financial reporting as of such date was not effective. The material weaknesses identified related to controls over the period end closing procedures and inventory monitoring. These material weaknesses are more fully explained below in Part II Item 9A of this Form 10-K.

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The existence of such material weaknesses preclude management from concluding that our internal control over financial reporting is effective and precludes our independent auditors from issuing an unqualified opinion that our internal controls are effective. In addition, these material weaknesses could cause investors to lose confidence in our financial reporting and may negatively affect the price of our common stock. We also can make no assurances that we will be able to timely and cost effectively remediate these internal control deficiencies. Moreover, effective internal controls are necessary to produce reliable financial reports and to prevent fraud. If we are unable to satisfactorily remediate these deficiencies or if we discover other deficiencies in our internal control over financial reporting, such deficiencies may lead to misstatements in our financial statements or otherwise negatively impact our financial statements, business, results of operations, and reputation.

***Natural disasters could negatively impact our operating results and financial condition.***

Natural disasters such as earthquakes, hurricanes, tsunamis or other adverse weather and climate conditions, whether occurring in the U.S. or abroad, and the consequences and effects thereof, including damage to our supply chain, manufacturing or distribution centers, energy shortages, and public health issues, could disrupt our operations or the operations of our vendors and other suppliers, or result in economic instability that may negatively impact our operating results and financial condition.

***The issuance of 200,000 shares of our Series A Preferred Stock to Blackstone in 2014 and certain of its permitted transferees reduces the relative voting power of holders of our common stock, may dilute the ownership of such holders, and may adversely affect the market price of our common stock.***

On January 27, 2014, we issued 200,000 shares of Series A Preferred Stock to Blackstone and certain of its permitted transferees (collectively, the "Blackstone Purchasers") pursuant to an Investment Agreement between us and Blackstone, dated December 28, 2013 (as amended, the "Investment Agreement"). The Blackstone Purchasers currently own all of the outstanding shares of Series A Preferred Stock, and based on the number of shares of our common stock outstanding as of December 31, 2015, the Blackstone Purchasers collectively own Series A Preferred Stock convertible into approximately 15.9% of our common stock. As holders of our Series A Preferred Stock are entitled to vote, on an as-converted basis, together with holders of our common stock as a single class on all matters submitted to a vote of our common stock holders, the issuance of the Series A Preferred Stock to the Blackstone Purchasers has effectively reduced the relative voting power of the holders of our common stock.

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

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

As of December 31, 2015, the shares of Series A Preferred Stock owned by the Blackstone Purchasers represent approximately 15.9% of the voting rights of our common stock, on an as-converted basis, so the Blackstone Purchasers will have the ability to significantly influence the outcome of any matter submitted for the vote of our stockholders. In addition, the Certificate of Designations of the Series A Preferred Stock grants certain consent rights to the holders of Series A Preferred Stock in respect of certain actions

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by the Company, including the issuance of *pari passu* or senior equity securities of the Company, certain amendments to our certificate of incorporation or bylaws, any increase in the size of our Board of Directors (the "Board") above eight members, the payment of certain distributions to our stockholders, and the incurrence or refinancing of a certain level of indebtedness. The Blackstone Purchasers may have interests that diverge from, or even conflict with, those of our other stockholders. For example, Blackstone and its affiliates may have an interest in directly or indirectly pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their other equity investments, even though such transactions might involve risks to us. Blackstone and its affiliates are in the business of making or advising on investments in companies, including businesses that may directly or indirectly compete with certain portions of our business. They may also pursue acquisition opportunities that may be complementary to our business, and, as a result, those acquisition opportunities may not be available to us.

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

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

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

**ITEM 1B. Unresolved Staff Comments**

None.

**ITEM 2. Properties**

Our principal executive and administrative offices are located at 7477 East Dry Creek Parkway, Niwot, Colorado 80503. We lease, rather than own, all of our domestic and international facilities. We currently enter into short-term and long-term leases for kiosk, manufacturing, office, outlet, retail, and warehouse space. The terms of our leases include fixed monthly rents and/or contingent rents based on percentage of

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revenues for certain of our retail locations, and expire at various dates through the year 2033. The general location, use and approximate size of our principal properties are given below.

Location	Reportable Operating Segment(s) that Use this Property	Use	Approximate Square Feet
Ontario, California	Americas	Warehouse	399,000
Leon, Mexico	Americas, Asia Pacific, Europe	Manufacturing/warehouse/offices	392,000
Shenzen, China	Asia Pacific	Warehouse/offices	263,000
Rotterdam, the Netherlands	Europe	Warehouse	174,000
Niwot, Colorado	Americas	Corporate headquarters and regional offices	158,000
Narita, Japan(1)	Asia Pacific	Warehouse	156,000
Padova, Italy	Americas, Asia Pacific, Europe	Manufacturing/warehouse/offices	45,000
Singapore	Asia Pacific	Regional offices	37,000
Hoofddorf, the Netherlands	Europe	Regional offices	31,000
Bhiwandi, India	Asia	Warehouse	29,000
Gordon's Bay, South Africa	Asia Pacific	Warehouse/offices	28,000
Boston, Massachusetts	Americas	Global Commercial Center	16,000
Tokyo, Japan	Asia Pacific	Regional offices	14,000
Shanghai, China	Asia Pacific	Regional offices	13,000

(1) The warehouse facilities in this location are fully or partially subleased.

In addition to the principal properties listed above, we maintain small branch sales offices in the United States, Canada, South America, Taiwan, Hong Kong, Australia, Korea, China, the United Arab Emirates, India and Europe. We also lease more than 550 retail, outlet and kiosk/store in store locations worldwide. See Item 1 of this Form 10-K for further discussion regarding global company-operated stores.

### **ITEM 3. Legal Proceedings**

We are currently subject to an audit by U.S. Customs & Border Protection ("CBP") in respect of the period from 2006 to 2010. In October 2013, CBP issued the final audit report. In that report CBP projects that unpaid duties totaling approximately \$12.4 million are due for the period under review and recommends collection of the duties due. We responded that these projections are erroneous and provided arguments that demonstrate the amount due in connection with this matter is considerably less than the projection. Additionally, on December 12, 2014, we made an offer to settle CBP's potential claims and tendered \$3.5 million. At this time, it is not possible to determine how long it will take CBP to evaluate our offer or to predict whether our offer will be accepted. Likewise, if a settlement cannot be reached, it is not possible to predict with any certainty whether CBP will seek to assert a claim for penalties in addition to any unpaid duties, but such an assertion is a possibility.

We are currently subject to an audit by the Brazilian Federal Tax Authorities related to imports of footwear from China between 2010 and 2014. On January 13, 2015, we were notified about the issuance of assessments totaling approximately \$3.7 million for the period January 2010 through May 2011. We have disputed these assessments and asserted defenses to the claims. On February 25, 2015, we received additional assessments totaling approximately \$8.4 million related to the remainder of the audit period. We have also disputed these assessments and asserted defenses and filed an appeal to these claims. It is anticipated that this matter will take up to several years to be resolved. It is not possible at this time to predict the outcome of this matter.

On August 8, 2014, a purported class action lawsuit was filed in California State Court against a Crocs subsidiary, Crocs Retail, LLC (Zaydenberg v. Crocs Retail, LLC, Case No. BC554214). The lawsuit alleged various employment law violations related to overtime, meal and break periods, minimum wage, timely payment of wages, wage statements, payroll records and business expenses. We filed an answer on February 6, 2015, denying the allegations and asserting several defenses. On June 3, 2015, a second purported class action lawsuit was filed in California State Court against Crocs Retail, LLC (Christopher S. Duree and Richard Morely v. Crocs, Inc., Case No. BC583875), making substantially the same allegations

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as in the Zaydenberg lawsuit. The parties attended a mediation on June 26, 2015, and reached a settlement for \$1.5 million, which will release the claims in both lawsuits. On September 4, 2015, the California State Court granted preliminary approval of the settlement and set the final approval hearing for December 14, 2015. At the final approval hearing, the California State Court entered its final order approving the settlement and final judgement. We consider this matter closed.

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

**ITEM 4. Mine Safety Disclosures**

None.



Table of Contents**PART II****ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Market Information**

Our common stock, par value \$0.001, is listed on the NASDAQ Global Select Market and trades under the stock symbol "CROX". The following table shows the high and low sales prices of our common stock for the periods indicated.

<b>Fiscal Year 2015</b>	<b>Three Months Ended</b>	<b>High</b>	<b>Low</b>
March 31, 2015		\$ 12.78	\$ 10.25
June 30, 2015		\$ 16.05	\$ 11.55
September 30, 2015		\$ 15.86	\$ 12.52
December 31, 2015		\$ 12.30	\$ 9.26

<b>Fiscal Year 2014</b>	<b>Three Months Ended</b>	<b>High</b>	<b>Low</b>
March 31, 2014		\$ 16.88	\$ 14.41
June 30, 2014		\$ 15.78	\$ 14.15
September 30, 2014		\$ 16.83	\$ 12.25
December 31, 2014		\$ 13.47	\$ 11.33

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**Performance Graph**

The following performance graph illustrates a five-year comparison of cumulative total return of our common stock, the NASDAQ Composite Index and the Dow Jones U.S. Footwear Index from December 31, 2010 through December 31, 2015. The graph assumes an investment of \$100 on December 31, 2010 and assumes the reinvestment of all dividends and other distributions.

**Comparison of Cumulative Total Return on Investment**

	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015
Crocs, Inc.	\$ 86.27	\$ 84.05	\$ 92.99	\$ 72.96	\$ 59.81
Dow Jones US Footwear Index	\$ 111.21	\$ 116.53	\$ 178.83	\$ 208.06	\$ 254.36
Nasdaq Composite Index	\$ 98.2	\$ 113.82	\$ 157.44	\$ 178.53	\$ 188.75

The Dow Jones U.S. Footwear Index is a sector index and includes companies in the major line of business in which we compete. This index does not encompass all of our competitors or all of our product categories and lines of business. The Dow Jones U.S. Footwear Index consists of Crocs, Inc., NIKE, Inc., Deckers Outdoor Corp., Iconix Brand Group, Inc., Skechers U.S.A., Inc. Steven Madden Ltd. and Wolverine World Wide, Inc., among other companies. As Crocs, Inc. is part of the Dow Jones U.S. Footwear Index, the price and returns of our stock have an effect on this index. The Nasdaq Composite Index is a market capitalization-weighted index and consists of more than 3,000 common equities, including Crocs, Inc. The stock performance shown on the performance graph above is not necessarily indicative of future performance. We do not make or endorse any predictions as to future stock performance.

**Holders**

The approximate number of stockholders of record of our common stock was 90 as of February 22, 2016.

**Dividends**

We have never declared or paid cash dividends on our common stock, and we do not anticipate paying any cash dividends on our common stock in the foreseeable future. Our financing arrangements contain certain restrictions on our ability to pay cash dividends on our common stock. In addition, the Certificate of Designations governing the Series A Convertible Preferred Stock that we issued in January 2014 restricts

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us from declaring and paying certain dividends on our common stock if we fail to pay all accumulated and unpaid regular dividends and/or declared and unpaid participating dividends to which the preferred holders are entitled. Any future determination to declare cash dividends on our common stock will be made at the discretion of our Board of Directors (the "Board"), subject to compliance with covenants under any then-existing financing agreements and the terms of the Certificate of Designations.

**Purchases of Equity Securities by the Issuer**

<b>Period</b>	<b>Total Number of Shares (or Units) Purchased</b>	<b>Average Price Paid per Share (or Unit)</b>	<b>Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs(1)</b>	<b>Approximate Dollar Value of Shares or Units That May Yet Be Purchased Under the Plans or Programs (in thousands)</b>
October 1, 2015 to October 31, 2015		\$		\$ 128,647
November 1, 2015 to November 30, 2015		\$		\$ 128,647
December 1, 2015 to December 31, 2015	917,971	\$ 10.86	917,971	\$ 118,676
Total	917,971	\$ 10.86	917,971	\$ 118,676

(1)

On December 26, 2013, our board approved the repurchase of up to \$350.0 million of our common stock, which was announced on December 30, 2013. This authorization replaced our previous stock repurchase authorizations. During the three months ended December 31, 2015, we repurchased approximately 918 thousand shares at a weighted average price of \$10.86 per share for an aggregate price of approximately \$10.0 million excluding related commission charges, under our publicly-announced repurchase plan. As of December 31, 2015, approximately \$118.7 million of shares remained available for repurchase under our share repurchase authorization. The number, price, structure and timing of the repurchases, if any, will be at our sole discretion and future repurchases will be evaluated by us depending on market conditions, liquidity needs and other factors. Share repurchases may be made in the open market or in privately negotiated transactions. The repurchase authorization does not have an expiration date and does not oblige us to acquire any particular amount of our common stock. The Board of Directors may suspend, modify or terminate the repurchase program at any time without prior notice.

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**ITEM 6. Selected Financial Data**

The following table presents selected historical financial data for each of our last five fiscal years. The information in this table should be read in conjunction with the consolidated financial statements and accompanying notes and with Management's Discussion and Analysis of Financial Conditions and Results of Operations included in Item 7 of this Form 10-K.

	Year Ended December 31,				
	2015	2014	2013	2012	2011
	(in thousands, except per share data)				
Revenues	\$ 1,090,630	\$ 1,198,223	\$ 1,192,680	\$ 1,123,301	\$ 1,000,903
Cost of sales	579,825	603,893	569,482	515,324	464,493
Restructuring charges		3,985			
Gross profit	510,805	590,345	623,198	607,977	536,410
Gross margin %	46.8%	49.3%	52.3%	54.1%	53.6%
Selling, general and administrative expenses	559,095	565,712	549,154	460,393	404,803
Selling, general and administrative expenses as a % of revenue	51.3%	47.2%	46.0%	41.0%	40.4%
Restructuring charges	8,728	20,532			
Asset impairment charges	15,306	8,827	10,949	1,410	528
Income (loss) from operations	\$ (72,324)	\$ (4,726)	\$ 63,095	\$ 146,174	\$ 131,079
Income (loss) before income taxes	\$ (74,744)	\$ (8,549)	\$ 59,959	\$ 145,548	\$ 136,690
Income tax benefit (expense)	(8,452)	3,623	(49,539)	(14,205)	(23,902)
Net income (loss)	\$ (83,196)	\$ (4,926)	\$ 10,420	\$ 131,343	\$ 112,788
Dividends on Series A convertible preferred stock:	(11,833)	(11,301)			
Dividend equivalents on Series A convertible preferred shares related to redemption value accretion and beneficial conversion feature	(2,978)	(2,735)			
Net income (loss) attributable to common stockholders	\$ (98,007)	\$ (18,962)	\$ 10,420	\$ 131,343	\$ 112,788
Basic	\$ (1.30)	\$ (0.22)	\$ 0.12	\$ 1.46	\$ 1.27
Diluted	\$ (1.30)	\$ (0.22)	\$ 0.12	\$ 1.44	\$ 1.24
Weighted average common shares					
Basic	75,604	85,140	87,989	89,571	88,318
Diluted	75,604	85,140	89,089	90,588	89,981
Cash provided by (used in) operating activities	\$ 9,698	\$ (11,651)	\$ 83,464	\$ 128,356	\$ 142,376
Cash used in investing activities	\$ (18,627)	\$ (57,992)	\$ (69,758)	\$ (65,943)	\$ (41,664)

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Cash provided by (used in) financing activities	\$	(101,260)	\$	23,431	\$	(1,161)	\$	(16,625)	\$	8,917
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	As of December 31,				
	2015	2014	2013	2012	2011
	(in thousands)				
Cash and cash equivalents	\$ 143,341	\$ 267,512	\$ 317,144	\$ 294,348	\$ 257,587
Inventories	\$ 168,192	\$ 171,012	\$ 162,341	\$ 164,804	\$ 129,627
Working capital	\$ 278,852	\$ 441,523	\$ 453,149	\$ 455,177	\$ 370,040
Total assets	\$ 608,020	\$ 806,931	\$ 875,159	\$ 829,638	\$ 695,453
Long term liabilities	\$ 19,294	\$ 27,849	\$ 63,487	\$ 54,300	\$ 48,370
Total stockholders' equity	\$ 245,972	\$ 452,518	\$ 624,744	\$ 617,400	\$ 491,780

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

**Business Overview**

We are a designer, developer, manufacturer, worldwide marketer, and distributor of casual lifestyle footwear, and accessories for men, women, and children. We strive to be the global leader in the sale of molded footwear featuring fun, comfort, color, and functionality. Our products include footwear and accessories that utilize our proprietary closed-cell resin, called Croslite, as well as casual lifestyle footwear that use a range of materials. Our Croslite material enables us to produce innovative, lightweight, non-marking, and odor-resistant footwear. We currently sell our products in more than 65 countries through domestic and international retailers and distributors, and directly to end-user consumers through our company-operated retail stores, outlets, webstores, and kiosks.

Since the initial introduction of our popular Beach and Crocs Classic designs, we have expanded our classic products to include a variety of new styles. Going forward, we are focusing on our core molded footwear heritage, as well as developing innovative new casual lifestyle footwear. By streamlining the product portfolio and reducing non-core product development, we believe that we can realize our strategy of generating a more powerful consumer connection to our brand and products.

The broad appeal of our footwear has allowed us to market our products to a wide range of distribution channels, including family footwear stores, department stores, sporting goods stores, and traditional footwear retailers, as well as a variety of specialty and independent retail channels and via the internet. We intend to continue to drive cohesive global brand positioning from region to region and year to year to create a clearer and more consistent product portfolio and message. We attempt to implement this strategy through developing powerful product stories supported by effective and consistent global marketing campaigns.

**Use of Non-GAAP Financial Measures**

In addition to financial measures presented on the basis of accounting principles generally accepted in the United States of America ("U.S. GAAP"), we present current period "adjusted selling, general and administrative expenses", which is a non-GAAP financial measure, within this Management's Discussion and Analysis. Adjusted results exclude the impact of items that management believes affect the comparability or underlying business trends in our consolidated financial statements in the periods presented.

We also present certain information related to our current period results of operations in this Item 7 through "constant currency", which is a non-GAAP financial measure and should be viewed as a supplement to our results of operations and presentation of reportable segments under U.S. GAAP. Constant currency represents current period results that have been restated using prior year average foreign exchange rates for the comparative period to enhance the visibility of the underlying business trends excluding the impact of foreign currency exchange rate fluctuations.

Management uses adjusted results to assist in comparing business trends from period to period on a consistent non-GAAP basis in communications with the Board, stockholders, analysts, and investors concerning our financial performance. We believe that these non-GAAP measures are useful to investors and other users of our consolidated financial statements as an additional tool to evaluate operating performance. We believe they also provide a useful baseline for analyzing trends in our operations. Investors should not consider these non-GAAP measures in isolation from, or as a substitute for, financial information prepared in accordance with U.S. GAAP. Please refer to our 'Results of Operations' within this section for a reconciliation of adjusted selling, general and administrative expenses to GAAP selling, general and administrative expenses.

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**2015 Financial Highlights**

During the year ended December 31, 2015, we experienced a revenue decline of 9.0% compared to the year ended December 31, 2014 primarily due to unfavorable exchange rates driven by a stronger U.S. Dollar which reduced revenue by \$85.3 million or 7.1%. Sales volume increased revenue by \$37.8 million, or 3.1%, which was offset by a \$34.4 million, or 2.9%, decrease associated with store closures, and a \$25.7 million, or 2.1%, decrease in lower average sales price.

The following are significant developments in our businesses during the year ended December 31, 2015:

We sold 57.8 million pairs of shoes worldwide, an increase of 3.7% compared to 2014.

Gross profit decreased \$79.5 million, or 13.5%, to \$510.8 million and gross margin percentage decreased 243 basis points to 46.8% compared to 2014. The revenue from higher unit sales during 2015 was offset by a lower price per unit and higher cost per unit compared to prior year. The impact of foreign currency on gross margin was \$41.7 million, or 7.1%, and the impact of store closures was \$34.4 million, or 2.9%.

Selling, general and administrative ("SG&A") expenses decreased \$6.6 million, or 1.2%, to \$559.1 million compared to the same period in 2014. This change was primarily driven by increased marketing and bad debt expense, as well as the impact of foreign exchange currency loss, which was more than offset by decreases in professional services, wages and salaries and building expenses.

We incurred \$8.7 million in restructuring charges as a result of our strategic plans for long-term improvement and growth of the business. These charges primarily related to severance costs and contract termination costs principally associated with the early termination of operating leases.

We incurred \$15.3 million in asset impairment charges during 2015. Of this amount, \$5.7 million related to an impairment of our South Africa asset group, currently, held for sale, and \$9.6 million related to certain underperforming retail locations in our Americas, Europe, and Asia Pacific segments that were unlikely to generate sufficient cash flows to fully recover the carrying value of the stores' assets over their remaining economic life.

Net income (loss) attributable to common stockholders decreased \$79.0 million to a net loss of \$98.0 million compared to net loss of \$19.0 million for 2014. Net loss per share was \$1.30 during the year ended December 31, 2015 compared to net loss per share of \$0.22 during the year ended December 31, 2014. These decreases are primarily the result of decreased gross profit and increased asset impairment charges offset by decreased restructuring charges and SG&A expense.

We continued to slow the expansion of our retail channel and focus on the long-term profitability of current locations. We opened 42 company-operated stores during the year ended December 31, 2015, a quarter of which were outlet or low investment kiosk/store-in-store locations, and closed 68 company-operated stores.

During 2015, we repurchased approximately 6.5 million shares at an average price of \$13.24 per share for a total value of \$85.9 million, including related commission charges. As of December 31, 2015, we have remaining repurchase authorizations of \$118.7 million.

**Future Outlook**

During 2016, we will continue our strategic plans for long-term improvement and growth of the business. Our plans comprise four key initiatives including (1) streamlining the global product and marketing portfolio, (2) reducing direct investment in smaller geographic markets, (3) creating a more efficient organizational structure by reducing excess overhead costs and enhancing the decision making process, and (4) closing or converting Crocs branded retail stores around the world.





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These changes will better position Crocs to adapt to changing customer demands and global economic developments. We are focusing on our core molded footwear heritage, as well as developing innovative new casual lifestyle footwear platforms. By streamlining the product portfolio and reducing non-core product development, we will create a more powerful consumer connection to the brand.

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

We believe declining collections from our China operations is associated with deteriorating macro-economic conditions in China resulting in declining customer demand and deteriorating working capital position of our distributors. We are unable to predict future economic conditions in China, but if economic conditions in China continue to decline, we may experience further reductions in consumer demand in our China markets. As our China operations represent approximately 8% of our total revenue, the net impact of declining sales volumes in China could have a material adverse impact on our financial results in future periods.

Table of Contents**Results of Operations****Comparison of the Years Ended December 31, 2015 to 2014**

	Year Ended December 31,		\$ Change	% Change
	2015	2014 (in thousands, except per share data and average selling price)		
Revenues	\$ 1,090,630	\$ 1,198,223	\$ (107,593)	(9.0)%
Cost of sales	579,825	603,893	(24,068)	(4.0)
Restructuring charges		3,985	(3,985)	(100.0)
Gross profit	510,805	590,345	(79,540)	(13.5)
Selling, general and administrative expenses	559,095	565,712	(6,617)	(1.2)
Restructuring charges	8,728	20,532	(11,804)	(57.5)
Asset impairment charges	15,306	8,827	6,479	73.4
Loss from operations	(72,324)	(4,726)	(67,598)	1,430.3
Foreign currency transaction loss, net	(3,332)	(4,885)	1,553	(31.8)
Interest income	967	1,664	(697)	(41.9)
Interest expense	(969)	(806)	(163)	20.2
Other income, net	914	204	710	348.0
Loss before income taxes	(74,744)	(8,549)	(66,195)	774.3
Income tax benefit (expense)	(8,452)	3,623	(12,075)	(333.3)
Net loss	\$ (83,196)	\$ (4,926)	\$ (78,270)	1,588.9%
Dividends on Series A convertible preferred stock	(11,833)	(11,301)	(532)	4.7
Dividend equivalents on Series A convertible preferred shares related to redemption value accretion and beneficial conversion feature	(2,978)	(2,735)	(243)	8.9
Net loss attributable to common stockholders	\$ (98,007)	\$ (18,962)	\$ (79,045)	416.9%
Net income (loss) per common share:				
Basic	\$ (1.30)	\$ (0.22)	\$ (1.08)	490.9%
Diluted	\$ (1.30)	\$ (0.22)	\$ (1.08)	490.9%
Gross margin	46.8%	49.3%	(250)bps	(5.1)%
Operating margin	(6.6)%	(0.4)%	(620)bps	1,550.0%
Footwear unit sales	57,763	55,700	2,063	3.7%
Average footwear selling price	\$ 18.53	\$ 20.92	\$ (2.39)	(11.4)%

**Revenues.** During the year ended December 31, 2015, revenue declined 9.0% compared to the same period in 2014. The decrease in revenue is due to the net impact of (i) a \$85.3 million, or 7.1%, decrease associated with foreign currency exchange rate adjustments associated with a strong U.S. Dollar, (ii) a \$37.8 million, or 3.1%, increase associated with higher sales volumes, and (iii) a \$34.4 million, or 2.9%, decrease associated with store closures, partially offset by (iv) a \$25.7 million, or 2.1%, decrease associated with a lower average selling price due to

changes in product mix.

During the year ended December 31, 2015, revenues from our wholesale channel decreased \$76.6 million, or 11.5%, compared to the same period in 2014. The decrease in wholesale channel revenue is driven primarily by a \$52.1 million unfavorable impact related to foreign currency translation, primarily in our Europe segment, a \$30.5 million unfavorable impact due to lower average sales prices related to a lower priced product style mix, primarily in our Americas segment, partially offset by higher sales volume in our Americas and Europe segments.

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During the year ended December 31, 2015, revenues from our retail channel decreased \$47.3 million, or 11.1%, compared to the same period in 2014, primarily driven by the Asia Pacific segment, which decreased \$23.1 million primarily as a result of a lower average selling price related to a lower priced product mix, the unfavorable impact of foreign currency translation, and store closures. Additionally we experienced a \$15.4 million decrease in the Europe segment largely associated with the impact of store closures.

During the year ended December 31, 2015, revenues from our e-commerce channel increased \$16.3 million, or 15.6%, compared to the same period in 2014, primarily driven by increased sales volumes in all segments, partially offset by the unfavorable impact of foreign currency translation and lower average sales prices, also in all segments. Our e-commerce sales totaled approximately 11.1% and 8.7% of our consolidated net sales during the year ended December 31, 2015 and 2014, respectively. We continue to benefit from our online presence through web stores worldwide enabling us to have increased access to our customers in a low cost, attractive manner and providing us with an opportunity to educate them about our products and brand.

The following table summarizes our total revenue by channel for the years ended December 31, 2015 and 2014:

	Year Ended December 31,		Change		Constant Currency Change(1)	
	2015	2014	\$	%	\$	%
(in thousands)						
<b>Wholesale:</b>						
Americas	\$ 210,887	\$ 228,615	\$ (17,728)	(7.8)%	\$ (10,241)	(4.5)%
Asia Pacific	255,897	290,610	(34,713)	(11.9)	(16,194)	(5.6)
Europe	123,131	147,561	(24,430)	(16.6)	1,886	1.3
Other businesses	1,096	794	302	38.0	194	24.4
<b>Total wholesale</b>	<b>591,011</b>	<b>667,580</b>	<b>(76,569)</b>	<b>(11.5)</b>	<b>(24,355)</b>	<b>(3.6)</b>
<b>Retail:</b>						
Americas	197,306	206,053	(8,747)	(4.2)	(6,652)	(3.2)
Asia Pacific	136,320	159,464	(23,144)	(14.5)	(11,552)	(7.2)
Europe	44,873	60,309	(15,436)	(25.6)	(3,012)	(5.0)
<b>Total retail</b>	<b>378,499</b>	<b>425,826</b>	<b>(47,327)</b>	<b>(11.1)</b>	<b>(21,216)</b>	<b>(5.0)</b>
<b>E-commerce:</b>						
Americas	68,017	55,247	12,770	23.1	13,434	24.3
Asia Pacific	32,274	23,836	8,438	35.4	10,256	43.0
Europe	20,829	25,734	(4,905)	(19.1)	(380)	(1.5)