Crocs, Inc.
Form 10-Q
November 09, 2015
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 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. 000-51754

CROCS, INC.

(Exact name of registrant as specified in its charter)

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

7477 East Dry Creek Parkway, Niwot, Colorado 80503

(Address, including zip code, of registrant s principal executive offices)

(303) 848-7000

(Registrant s telephone number, including area code)

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 x No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. 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 x	Accelerated filer o
Non-accelerated filer o (do not check if a smaller reporting company)	Smaller reporting company o

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

As of October 30, 2015, Crocs, Inc. had 73,659,154 shares of its $0.001 par value common stock outstanding.

Table of Contents

Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains 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 futu 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 entitled Risk Factors under Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2014 and subsequent filings with the Securities and Exchange Commission. 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.

Table of Contents

Crocs, Inc.

Form 10-Q

For the Quarterly Period Ended September 30, 2015

Table of Contents

Table of Contents

PART I Financial Information

ITEM 1. Financial Statements

CROCS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

($ thousands, except per share data)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Revenues	$ 274,088	$ 302,401	$ 881,952	$ 991,750
Cost of sales	153,267	146,801	443,891	475,323
Restructuring charges (Note 6)		583		2,612
Gross profit	120,821	155,017	438,061	513,815
Selling, general and administrative expenses	135,110	143,719	429,815	434,244
Restructuring charges (Note 6)	981	7,585	7,454	13,895
Asset impairment charges (Note 2)	5,460	2,600	7,535	5,830
Income (loss) from operations	(20,730)	1,113	(6,743)	59,846
Foreign currency transaction loss, net	(2,908)	(1,290)	(2,631)	(4,278)
Interest income	268	424	752	1,304
Interest expense	(171)	(366)	(650)	(685)
Other income (loss), net	405	217	(6)	388
Income (loss) before income taxes	(23,136)	98	(9,278)	56,575
Income tax benefit (expense)	(888)	15,669	(3,745)	(8,407)
Net income (loss)	$ (24,024)	$ 15,767	$ (13,023)	$ 48,168
Dividends on Series A convertible preferred stock (Note 13)	(3,000)	(3,067)	(8,833)	(8,233)
Dividend equivalents on Series A convertible preferred shares related to redemption value accretion and beneficial conversion feature (Note 13)	(752)	(691)	(2,209)	(2,030)
Net income (loss) attributable to common stockholders	$ (27,776)	$ 12,009	$ (24,065)	$ 37,905
Net income (loss) per common share (Note 12):				
Basic	$ (0.37)	$ 0.12	$ (0.32)	$ 0.38
Diluted	$ (0.37)	$ 0.12	$ (0.32)	$ 0.37

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

1

Table of Contents

CROCS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

($ thousands)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Net income (loss)	$ (24,024)	$ 15,767	$ (13,023)	$ 48,168
Other comprehensive income (loss):				
Foreign currency translation loss, net	(11,739)	(18,891)	(29,306)	(19,650)
Total comprehensive income (loss)	$ (35,763)	$ (3,124)	$ (42,329)	$ 28,518

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents

CROCS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

($ thousands, except number of shares)

	September 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 168,466	$ 267,512
Accounts receivable, net of allowances of $55,178 and $32,392, respectively (Note 2)	117,767	101,217
Inventories (Note 3)	190,819	171,012
Deferred tax assets, net	3,855	4,190
Income tax receivable	16,933	9,332
Other receivables	11,508	11,989
Prepaid expenses and other assets	29,782	30,156
Total current assets	539,130	595,408
Property and equipment, net (Note 2, 7)	50,188	68,288
Intangible assets, net	87,420	97,337
Goodwill	2,030	2,044
Deferred tax assets, net	19,570	17,886
Other assets	23,587	25,968
Total assets	$ 721,925	$ 806,931
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 79,160	$ 42,923
Accrued expenses and other liabilities (Note 5)	85,394	80,216
Deferred tax liabilities, net	11,675	11,869
Accrued restructuring (Note 6)	2,420	4,511
Income taxes payable	10,558	9,078
Current portion of long-term borrowings and capital lease obligations	5,383	5,288
Total current liabilities	194,590	153,885
Long-term income tax payable	4,335	8,843
Long-term borrowings and capital lease obligations	2,350	6,381
Long-term accrued restructuring (Note 6)	237	348
Other liabilities	12,430	12,277
Total liabilities	213,942	181,734
Commitments and contingencies (Note 14)		
Series A convertible preferred stock, par value $0.001 per share, 1,000,000 shares authorized, 200,000 shares issued and outstanding, redemption amount and liquidation preference of $203,000 and $203,067 as of September 30, 2015 and December 31, 2014, respectively (Note 13)	174,888	172,679
Stockholders equity:		
Preferred stock, par value $0.001 per share, 4,000,000 shares authorized, none outstanding		
Common stock, par value $0.001 per share, 250,000,000 shares authorized, 92,666,222 and 73,634,604 shares issued and outstanding, respectively, as of September 30, 2015 and 92,325,201 and 78,516,566 shares issued and outstanding, respectively, as of December 31, 2014	93	92
	(273,915)	(200,424)

Treasury stock, at cost, 19,331,618 and 13,808,635 shares as of September 30, 2015 and December 31, 2014, respectively				
Additional paid-in capital		353,174		345,732
Retained earnings		301,401		325,470
Accumulated other comprehensive loss		(47,658)		(18,352)
Total stockholders equity		333,095		452,518
Total liabilities, commitments and contingencies and stockholders equity	$	721,925	$	806,931

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents

CROCS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

($ thousands)

	Nine Months Ended September 30, 2015	2014
Cash flows from operating activities:		
Net income (loss)	$ (13,023)	$ 48,168
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,019	31,344
Unrealized (gain) loss on foreign exchange, net	(99)	(9,019)
Asset impairment charges	7,535	5,830
Provision for doubtful accounts, net	25,258	9,129
Share-based compensation	8,886	10,473
Inventory write-down charges		896
Non-cash restructuring charges		4,064
Other non-cash items	416	(170)
Changes in operating assets and liabilities:		
Accounts receivable, net of allowances	(48,092)	(67,358)
Inventories	(27,713)	(49,544)
Prepaid expenses and other assets	(321)	5,073
Accounts payable	38,864	10,152
Accrued expenses and other liabilities	4,855	8,981
Accrued restructuring	(2,019)	3,745
Income taxes	(15,626)	(17,059)
Cash provided by (used in) operating activities	6,940	(5,295)
Cash flows from investing activities:		
Cash paid for purchases of property and equipment	(4,235)	(13,891)
Proceeds from disposal of property and equipment		174
Cash paid for intangible assets	(7,572)	(29,457)
Change in restricted cash	11	(1,655)
Cash used in investing activities	(11,796)	(44,829)
Cash flows from financing activities:		
Proceeds from preferred stock offering, net of issuance costs of $0.0 million and $15.8 million, respectively		182,220
Dividends - Series A preferred stock	(8,900)	(5,166)
Repayment of bank borrowings and capital lease obligations	(3,957)	(3,872)
Deferred debt issuance costs	(94)	(75)
Issuances of common stock	1,255	1,300
Purchase of treasury stock, net of issuances	(75,928)	(90,093)
Repurchase of common stock for tax withholding	(261)	(787)
Cash provided by (used in) financing activities	(87,885)	83,527
Effect of exchange rate changes on cash	(6,305)	(176)
Net increase (decrease) in cash and cash equivalents	(99,046)	33,227
Cash and cash equivalents - beginning of period	267,512	317,144
Cash and cash equivalents - end of period	$ 168,466	$ 350,371
Supplemental disclosure of cash flow information - cash paid during the period for:		
Interest, net of capitalized interest	$ 688	$ 358
Income taxes	$ 17,668	$ 30,114

Supplemental disclosure of non-cash investing and financing activities:				
Accrued purchases of property and equipment	$	761	$	663
Accrued purchases of intangibles	$		$	6,050
Accrued dividends	$	3,000	$	3,067
Accretion of dividend equivalents	$	2,209	$	2,030

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents

CROCS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. ORGANIZATION & BASIS OF PRESENTATION

Organization

Crocs, Inc. and its subsidiaries (collectively the Company, Crocs, we, our or us) are engaged in the design, development, manufacturing, marketing and distribution of footwear, apparel and accessories for men, women and children.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the rules and regulations of the Securities and Exchange Commission (SEC) for reporting on Form 10-Q. Accordingly, these financial statements do not include all information required for complete financial statements. In the opinion of management, these condensed consolidated financial statements reflect all adjustments (consisting solely of normal recurring matters) considered necessary for a fair statement of the results for the interim periods presented. The accompanying unaudited condensed consolidated financial statements and these notes thereto should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2014. The results of operations for any interim period are not necessarily indicative of results for the full year.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Estimates and assumptions are used in accounting for, among other things, the valuation of acquisition-related assets and liabilities, allowances for uncollectable accounts, taxes and related valuation allowances, loss contingencies, fair value measurements, impairment assessments, useful lives of long-lived assets and share-based compensation. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

Debt Issuance Costs

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03: *Simplifying the Presentation of Debt Issuance Costs,* which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 requires retrospective adoption and will be effective for Crocs beginning in the first quarter of 2016. Early adoption is permitted. Crocs does not expect this pronouncement will have a material impact on the condensed consolidated financial statements.

Share-Based Payments

In June 2014, the FASB issued ASU 2014-12 in response to the EITF consensus on Issue 13-D. The ASU clarifies that entities should treat performance targets that can be met after the requisite service period of a share-based payment award as performance conditions that affect vesting. Therefore, an entity would not record compensation expense related to an award for which transfer to the employee is contingent on the entity s satisfaction of a performance target until it becomes probable that the performance target will be met. The ASU does not contain any new disclosure requirements. This ASU is effective for all entities for reporting periods (including interim periods) beginning after December 15, 2015. The Company is currently evaluating the impact that this pronouncement will have on its condensed consolidated financial statements.

Revenue Recognition

In May 2014, the FASB issued their final standard on revenue from contracts with customers. The standard, issued as ASU No. 2014-09: *Revenue from Contracts with Customers (Topic 606)* by the FASB, outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 becomes effective for reporting periods (including interim periods) beginning after December 15, 2017. Early application is permitted for reporting periods (including interim periods) beginning after December 15, 2016. This new standard permits the use of either the retrospective or cumulative effect transition method. Crocs is currently

Table of Contents

evaluating the impact that this pronouncement will have on the condensed consolidated financial statements. Crocs has not yet selected a transition method or determined the effect of the standard on financial reporting once the standard is effective.

Inventory

In July 2015, the FASB issued ASU No. 2015-11: *Simplifying the Measurement of Inventory*, which modifies existing requirements regarding measuring inventory at the lower of cost or market. Specifically, this standard eliminates the need to determine and consider replacement cost or net realizable value less an approximately normal profit margin when measuring inventory. This standard is effective prospectively beginning January 1, 2017, with early adoption permitted. The Company is currently evaluating the impact that this pronouncement will have on its condensed consolidated financial statements.

Other new pronouncements issued but not effective until after September 30, 2015 are not expected to have a material impact on the Company s financial position, results of operations or cash flows.

Table of Contents

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Earnings per Share

Basic and diluted earnings per common share (EPS) is presented using the two-class method, which is an earnings allocation formula that determines earnings per share for common stock and any participating securities according to dividend rights and participation rights in undistributed earnings. Under the two-class method, EPS is computed by dividing the sum of distributed and undistributed earnings attributable to common stockholders by the weighted average number of shares of common stock outstanding during the period. A participating security is a security that may participate in undistributed earnings with common stock had those earnings been distributed in any form. The Company s Series A convertible preferred stock (Series A preferred stock) issued in 2014 represents participating securities as holders of the Series A preferred stock are entitled to receive any and all dividends declared or paid on common stock on an as-converted basis. In addition, shares of the Company s non-vested restricted stock and restricted stock unit awards are considered participating securities as they represent unvested share-based payment awards containing non-forfeitable rights to dividends. As such, these participating securities must be included in the computation of EPS pursuant to the two-class method on a pro-rata, as-converted basis. Diluted EPS reflects the potential dilution from securities that could share in the Company s earnings. In addition, the dilutive effect of each participating security, if any, is calculated using the more dilutive of the two-class method described above. This method assumes that the securities remain in their current form, or the if-converted method, which assumes conversion to common stock as of the beginning of the reporting date. Anti-dilutive securities are excluded from diluted EPS. See Note 12 Earnings Per Share for further discussion.

Asset Impairments

Crocs periodically evaluates all of its long-lived assets for impairment when events or circumstances would indicate the carrying value of a long-lived asset may not be fully recoverable. The following table summarizes retail asset impairment charges by reportable operating segment for the three and nine months ended September 30, 2015 and 2014 related to certain underperforming stores that were unlikely to generate sufficient cash flows to fully recover the carrying value of the stores assets over the remaining economic life or lease terms of those assets:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015		2014		2015		2014	
	Impairment Charge	Number of Stores	Impairment Charge	Number of Stores	Impairment Charge	Number of Stores	Impairment Charge	Number of Stores
	(in thousands, except store count data)							
Americas	$ 5,024	15	$ 1,994	10	$ 5,710	18	$ 3,238	26
Asia Pacific	103	4	372	2	618	12	817	14
Europe	333	7	234	8	1,207	13	1,775	17
Total asset impairment	$ 5,460	26	$ 2,600	20	$ 7,535	43	$ 5,830	57

Depreciation

During the three months ended September 30, 2015 and 2014, Crocs recorded $4.0 million and $6.4 million, respectively, in depreciation expense of which $0.4 million and $0.5 million, respectively, was recorded in Cost of sales, with the remaining amounts recorded in Selling, general and administrative expenses on the condensed consolidated statements of operations. During the nine months ended September 30, 2015 and 2014, Crocs recorded $13.0 million and $18.1 million, respectively, in depreciation expense of which $1.4 million for both periods was recorded in Cost of sales, with the remaining amounts recorded in Selling, general and administrative expenses on the condensed consolidated statements of operations. As of September 30, 2015 and December 31, 2014, accumulated depreciation was $106.4 million and $99.8 million, respectively.

Accounts Receivable

Accounts receivable represent amounts due from customers. Accounts receivable are recorded at invoiced amounts, net of reserves and allowances, and do not bear interest. We use our best estimate to determine the required allowance for doubtful accounts based on a variety of factors including the length of time receivables are past due, economic trends and conditions affecting our customer base and historical collection experience. Specific provisions are recorded for individual receivables when we become aware of a customer s inability to meet its financial obligations.

In the third quarter of 2015, we had multiple China distributors default on their payment obligations. As a result, we reassessed the collectability of our accounts receivable balances for our China operations, and we concluded a significant increase in our allowance

Table of Contents

for doubtful accounts was required. Accordingly, we have increased our China allowance for doubtful accounts by an additional $18.9 million, resulting in total allowances in China of $40.3 million and $21.1 million as of September 30, 2015 and December 31, 2014, respectively. Our net accounts receivable balance for our China operations as of September 30, 2015 and December 31, 2014 is $4.6 million and $18.6 million, respectively.

The changes in the allowance for doubtful accounts, inclusive of unapplied rebate reserves, and reserves for sale returns and allowances for the three months ended September 30, 2015, and 2014, are as follows:

Consolidated reserves and allowances

	Three Months Ended September 30,							
	2015				2014			
	Allowance for doubtful accounts	Reserve for sales returns and allowances	Reserve for unapplied rebates	Total	Allowance for doubtful accounts	Reserve for sales returns and allowances	Reserve for unapplied rebates	Total
	(in thousands)							
Beginning balance at June 30,	$ (19,020)	$ (12,482)	$ (11,192)	$ (42,694)	$ (6,381)	$ (10,107)	$ (4,349)	$ (20,837)
Reduction in revenue		(17,245)	(2,863)	(20,108)		(18,011)	(2,672)	(20,683)
Expense	(19,747)			(19,747)	(5,436)			(5,436)
Recoveries, applied amounts, and write-offs	1,210	20,018	6,143	27,371	884	22,587	2,484	25,955
Ending balance at September 30,	$ (37,557)	$ (9,709)	$ (7,912)	$ (55,178)	$ (10,933)	$ (5,531)	$ (4,537)	$ (21,001)

The changes in the allowance for doubtful accounts, inclusive of unapplied rebate reserves, and reserves for sale returns and allowances related to our China operations for the three months ended September 30, 2015, and 2014, are as follows:

China reserves and allowances

	Three Months Ended September 30,							
	2015				2014			
	Allowance for doubtful accounts	Reserve for sales returns and allowances	Reserve for unapplied rebates	Total	Allowance for doubtful accounts	Reserve for sales returns and allowances	Reserve for unapplied rebates	Total
	(in thousands)							
Beginning balance at June 30,	$ (12,302)	$ (4,176)	$ (7,481)	$ (23,959)	$ (1,445)	$ (577)	$ (3,762)	$ (5,784)
Reduction in revenue		(632)	(553)	(1,185)		(846)	(1,218)	(2,064)

Expense	(18,931)			(18,931)	(3,263)			(3,263)
Recoveries, applied amounts, and write-offs	297	1,596	1,924	3,817		1,105	2,860	3,965
Ending balance at September 30,	$ (30,936)	$ (3,212)	$ (6,110)	$ (40,258)	$ (4,708)	$ (318)	$ (2,120)	$ (7,146)

Table of Contents

The changes in the allowance for doubtful accounts, inclusive of unapplied rebate reserves, and reserves for sale returns and allowances for the nine months ended September 30, 2015, and 2014, are as follows:

Consolidated reserves and allowances

	Nine Months Ended September 30,							
	2015				2014			
	Allowance for doubtful accounts	Reserve for sales returns and allowances	Reserve for unapplied rebates	Total	Allowance for doubtful accounts	Reserve for sales returns and allowances	Reserve for unapplied rebates	Total
	(in thousands)							
Beginning balance at December 31,	$ (13,609)	$ (7,214)	$ (11,569)	$ (32,392)	$ (3,656)	$ (5,410)	$ (1,447)	$ (10,513)
Reduction in revenue		(52,435)	(10,414)	(62,849)		(50,981)	(13,011)	(63,992)
Expense	(25,495)			(25,495)	(9,276)			(9,276)
Recoveries, applied amounts, and write-offs	1,547	49,940	14,071	65,558	1,999	50,860	9,921	62,780
Ending balance at September 30,	$ (37,557)	$ (9,709)	$ (7,912)	$ (55,178)	$ (10,933)	$ (5,531)	$ (4,537)	$ (21,001)

The changes in the allowance for doubtful accounts, inclusive of unapplied rebate reserves, and reserves for sale returns and allowances related to our China operations for the nine months ended September 30, 2015, and 2014, are as follows:

China reserves and allowances

	Nine Months Ended September 30,							
	2015				2014			
	Allowance for doubtful accounts	Reserve for sales returns and allowances	Reserve for unapplied rebates	Total	Allowance for doubtful accounts	Reserve for sales returns and allowances	Reserve for unapplied rebates	Total
	(in thousands)							
Beginning balance at December 31,	$ (8,440)	$ (4,043)	$ (8,623)	$ (21,106)	$ (24)	$ (225)	$ (1,051)	$ (1,300)
Reduction in revenue		(5,780)	(3,479)	(9,259)		(2,331)	(8,588)	(10,919)
Expense	(22,925)			(22,925)	(4,684)			(4,684)
Recoveries, applied amounts, and write-offs	429	6,611	5,992	13,032		2,238	7,519	9,757
Ending balance at September 30,	$ (30,936)	$ (3,212)	$ (6,110)	$ (40,258)	$ (4,708)	$ (318)	$ (2,120)	$ (7,146)

As of September 30, 2015 and December 31, 2014, our China operations accounted for $ 44.9 million and $39.7 million, respectively, of our total gross accounts receivable balances, of which $41.2 million and $36.9 million, respectively, was past due in China. As of September 30, 2015 and December 31, 2014, our China operations had total accounts receivable reserves of $40.3 million and $21.1 million, respectively, associated with these receivables.

Table of Contents

3. INVENTORIES

The following table summarizes inventories by major classification as of September 30, 2015 and December 31, 2014:

		September 30, 2015		December 31, 2014
		(in thousands)		
Finished goods	$	185,652	$	167,515
Work-in-progress		519		703
Raw materials		4,648		2,794
Total inventories	$	190,819	$	171,012

Table of Contents

4. GOODWILL & INTANGIBLE ASSETS

The following table summarizes the goodwill and identifiable intangible assets as of September 30, 2015, and December 31, 2014:

	September 30, 2015			December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(in thousands)					
Capitalized software	$ 166,774(1)	$ (81,406)(2)	$ 85,368	$ 157,615(1)	$ (62,591)(2)	$ 95,024
Customer relationships	4,846	(4,846)		5,945	(5,798)	147
Patents, copyrights, and trademarks	6,674	(5,054)	1,620	6,702	(4,931)	1,771
Core technology	4,170	(4,170)		4,170	(4,170)	
Other	243	(111)	132	698	(636)	62
Total finite lived intangible assets	182,707	(95,587)	87,120	175,130	(78,126)	97,004
Indefinite lived intangible assets (3)	300		300	333		333
Goodwill (3)	2,030		2,030	2,044		2,044
Goodwill and intangible assets	$ 185,037	$ (95,587)	$ 89,450	$ 177,507	$ (78,126)	$ 99,381

(1) Includes $4.1 million of software held under a capital lease classified as capitalized software as of both September 30, 2015, and December 31, 2014.

(2) Includes $2.9 million and $2.5 million of accumulated amortization of software held under a capital lease as of September 30, 2015, and December 31, 2014, respectively, and is amortized using the straight-line method over the useful life.

(3) Change in goodwill and indefinite lived intangible assets relate entirely to foreign currency translation.

The following table summarizes estimated future annual amortization of intangible assets as of September 30, 2015:

Fiscal years ending December 31,	Amortization (in thousands)
2015 (remainder of year)	$ 5,451
2016	18,620
2017	16,901
2018	14,449

2019		12,524
Thereafter		19,175
Total	$	87,120

During the three months ended September 30, 2015, and 2014, amortization expense recorded for intangible assets with finite lives was $4.9 million and $4.2 million, respectively, of which $1.4 million and $1.6 million, respectively, was recorded in Cost of sales, with the remaining amounts recorded in Selling, general and administrative expenses on the condensed consolidated statements of operations. During the nine months ended September 30, 2015 and 2014, amortization expense recorded for intangible assets with finite lives was $15.0 million and $13.2 million, respectively, of which $4.5 million and $4.7 million, respectively, was recorded in Cost of sales, with the remaining amounts recorded in Selling, general and administrative expenses on the condensed consolidated statements of operations. As of September 30, 2015 and December 31, 2014, accumulated amortization was $95.6 million and $78.1 million, respectively.

Table of Contents

5. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

The following table summarizes accrued expenses and other current liabilities as of September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014
	(in thousands)	
Fulfillment, freight and duties	$ 19,371	$ 12,110
Accrued compensation and benefits	19,008	23,824
Professional services	14,563	16,212
Accrued rent and occupancy	8,935	9,675
Sales/use and VAT tax payable	5,694	5,897
Deferred revenue and royalties payable	4,479	2,005
Customer deposits	3,531	3,075
Dividend payable	3,000	3,067
Accrued legal liabilities	2,935	2,150
Other (1)	3,878	2,201
Total accrued expenses and other current liabilities	$ 85,394	$ 80,216

(1) The amounts in Other consist of various accrued expenses, of which no individual item accounted for more than 5% of the total balance as of September 30, 2015 or December 31, 2014.

Table of Contents

6. RESTRUCTURING ACTIVITIES

Restructuring

On July 21, 2014, Crocs announced strategic plans for long-term improvement and growth of the business. These 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 and enhancing the decision making process, and (4) closing or converting retail locations around the world. The initial effects of these plans were incurred in 2014 and are continuing throughout 2015. Crocs recorded restructuring charges of $1.0 million and $7.5 million during the three and nine month periods ended September 30, 2015, respectively. During 2015, Crocs currently estimates restructuring costs related to store closures and changes in organizational structure of approximately $8.0 million to $12.0 million, but the Company can make no assurance that actual costs will not differ.

The following table summarizes the restructuring activity during the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Severance costs	$ 128	$ 5,358	$ 4,101	$ 9,811
Lease / contract exit and related costs	848	1,034	2,765	2,212
Other (1)	5	1,776	588	4,484
Total restructuring charges	$ 981	$ 8,168	$ 7,454	$ 16,507

(1) The amounts in Other consist of various asset and inventory impairment charges prompted by the aforementioned restructuring plan, legal fees and facility maintenance fees.

The following table summarizes the Company s restructuring activity during the three and nine months ended September 30, 2015 and 2014 by reportable segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Americas	$ 50	$ 2,058	$ 506	$ 3,282
Asia Pacific	100	3,191	3,140	3,584
Europe	831	400	2,356	1,382
Corporate		2,519	1,452	8,259
Total restructuring charges	$ 981	$ 8,168	$ 7,454	$ 16,507

The following table summarizes the Company s accrued restructuring balance and associated activity from December 31, 2014 through September 30, 2015:

	December 31, 2014	Additions	Cash Payments	September 30, 2015
		(in thousands)		
Severance costs	$ 3,154	$ 4,101	$ (6,230)	$ 1,025
Lease/ contract exit and related costs	1,401	2,765	(3,088)	1,078
Other (1)	304	588	(338)	554
Total restructuring charges	$ 4,859	$ 7,454	$ (9,656)	$ 2,657

(1) Includes expenses related to exiting stores and legal fees.

Retail Store Closings

As mentioned above, the Company plans to close additional retail locations around the globe. As such, Crocs expects to incur certain exit costs specific to store closures including operating lease termination costs, rent obligations for leased facilities, net of expected sublease income, and other expenses in association with this plan. During the three and nine month periods ended September 30, 2015,

Table of Contents

Crocs closed 2 and 18 company-operated retail locations that were identified in the initial restructuring plan, respectively. These locations were selected for closure by management based on historical and projected profitability levels, relocation plans, and other factors. As of September 30, 2015 and December 31, 2014, Crocs had a liability of approximately $2.7 million and $4.9 million, respectively, related to locations to be closed and other reductions in workforce in accrued restructuring on the condensed consolidated balance sheets. The calculation of accrued store closing reserves primarily includes future minimum lease payments from the date of closure to the end of the remaining lease term, net of contractual or estimated sublease income. Crocs records the liability at fair value in the period the store is closed.

Table of Contents

7. FAIR VALUE MEASUREMENTS

Recurring Fair Value Measurements

GAAP provides for a fair value hierarchy that prioritizes the inputs to the valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

As of September 30, 2015 and December 31, 2014, our assets subject to fair value measurements consisted solely of cash equivalents of $15.3 million and $23.3 million, respectively, which are Level 1 assets.

Non-Recurring Fair Value Measurements

The majority of the Company s non-financial instruments, which include inventories, property and equipment and intangible assets, are not required to be carried at fair value on a recurring basis. However, if certain triggering events occur such that a non-financial instrument is required to be evaluated for impairment and the carrying value is not recoverable, the carrying value would be adjusted to the lower of its cost or fair value and an impairment charge would be recorded. During the three months ended September 30, 2015 and 2014, Crocs recorded $5.5 million and $2.6 million, respectively, in impairment charges associated with the Company s retail locations. During the nine months ended September 30, 2015 and 2014, Crocs recorded $7.5 million and $5.8 million, respectively, in impairment charges associated with the Company s retail locations.

Table of Contents

8. DERIVATIVE FINANCIAL INSTRUMENTS

Crocs transacts business in various foreign countries and is therefore exposed to foreign currency exchange rate risk inherent in revenues, costs, and monetary assets and liabilities denominated in non-functional currencies. In general, Crocs enters into foreign currency exchange forward contracts and currency swap derivative instruments to selectively protect against volatility in the value of non-functional currency denominated monetary assets and liabilities, and of future cash flows caused by changes in foreign currency exchange rates. As these derivative instruments do not qualify as hedging instruments under the accounting standards for derivatives and hedging, they are recorded at fair value as a derivative asset or liability on the balance sheet with their corresponding change in fair value recognized in Foreign currency transaction loss, net in the condensed consolidated statements of operations. For purposes of the cash flow statement, Crocs classifies the cash flows from derivative instruments at settlement from undesignated instruments in the same category as the cash flows from the related hedged items, generally within Cash provided by (used in) operating activities.

The following table summarizes the notional amounts of the outstanding foreign currency exchange contracts as of September 30, 2015 and December 31, 2014. The notional amounts of the derivative financial instruments shown below are denominated in their U.S. Dollar equivalents and represent the amount of all contracts of the foreign currency specified. These notional values do not necessarily represent amounts exchanged by the parties and, therefore, are not a direct measure of the Company s exposure to the foreign currency exchange risks.

	September 30, 2015	December 31, 2014
	(in thousands)	
Foreign currency exchange forward contracts by currency:		
Japanese Yen	$ 96,015	$ 44,533
Singapore Dollar	62,325	61,887
British Pound Sterling	20,372	17,230
Euro	16,902	134,755
South Korean Won	11,795	14,590
Mexican Peso	9,823	13,180
South African Rand	6,481	4,355
Australian Dollar	5,935	7,913
Indian Rupee	5,144	3,356
New Taiwan Dollar	3,410	3,229
Swedish Krona	2,552	1,918
Brazilian Real	1,910	
Canadian Dollar	1,237	3,005
Russian Ruble	781	1,838
Hong Kong Dollar	676	814
Norwegian Krone	560	917
New Zealand Dollar		743
Chinese Yuan Renminbi		5,376
Total notional value, net	$ 245,918	$ 319,639
Latest maturity date	November 2015	January 2015

Table of Contents

The following table presents the amounts affecting the condensed consolidated statements of operations from derivative instruments and exposure from day-to-day business transactions in various foreign currencies for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
	(in thousands)			
Foreign currency gain (loss)	$ (288)	$ (3,787)	$ 4,332	$ (1,567)
Derivatives not designated as hedging instruments:				
Foreign currency exchange forwards	(2,620)	2,497	(6,963)	(2,711)
Foreign currency transaction loss, net	$ (2,908)	$ (1,290)	$ (2,631)	$ (4,278)

The line Foreign currency transaction loss, net on the condensed consolidated statements of operations includes both realized and unrealized gains/losses from underlying foreign currency activity and derivative contracts. These gains and losses are reported on a net basis.

Table of Contents

9. REVOLVING CREDIT FACILITY & BANK BORROWINGS

Senior Revolving Credit Facility

On September 25, 2009, Crocs entered into a Revolving Credit and Security Agreement (as amended, the Credit Agreement) with the lenders named therein and PNC Bank, National Association (PNC), as a lender and administrative agent for the lenders.

On April 2, 2015, Crocs entered into the Sixth Amendment to Amended and Restated Credit Agreement (the Sixth Amendment) pursuant to which certain terms of the Credit Agreement were amended. The Sixth Amendment primarily amended certain definitions of the financial covenants to be more favorable to Crocs including (i) setting the minimum fixed charge coverage ratio to 1.00 to 1.00 through December 31, 2015, 1.15 to 1.00 through March 31, 2016 and 1.25 to 1.00 for each quarter thereafter, (ii) setting the leverage ratio to 4.00 to 1.00 through March 31, 2016 and 3.75 to 1.00 for each quarter thereafter and (iii) reducing the Company s global cash requirement from $100 million to $50 million.

On September 1, 2015, the Company entered into the Eighth Amendment to Amended and Restated Credit Agreement (the Eighth Amendment) pursuant to which certain terms of the Credit Agreement were amended. The Eighth Amendment primarily amended certain definitions of the financial covenants to become more favorable to the Company including (i) increasing the exclusion of cash and non-cash charges from the EBITDAR calculation to up to $85.0 million, not to exceed $65.0 million with respect to cash charges, (ii) setting the minimum fixed charge coverage ratio to 0.95 to 1.00 for the period ended September 30, 2015, (iii) allowing up to $40.0 million in stock repurchases to be made during the quarter ended September 30, 2015, (iv) suspending stock repurchases if the fixed charge coverage ratio is less than 1.00 to 1.00, and (v) eliminating the administrative agent basket through December 31, 2015.

The Credit Agreement enables Crocs to borrow up to $100.0 million, with the ability to increase commitments to $125.0 million subject to certain conditions, and is currently set to mature in December 2017. The Credit Agreement is available for working capital, capital expenditures, permitted acquisitions, reimbursement of drawings under letters of credit, and permitted dividends, distributions, purchases, redemptions and retirements of equity interests. Borrowings under the Credit Agreement are secured by all of the Company s assets including all receivables, equipment, general intangibles, inventory, investment property, subsidiary stock and intellectual property. Borrowings under the Credit Agreement bear interest at a variable rate. For domestic rate loans, the interest rate is equal to the highest of (i) the daily federal funds open rate as quoted by ICAP North America, Inc. plus 0.5%, (ii) PNC s prime rate and (iii) a daily LIBOR rate plus 1.0%, in each case there is an additional margin ranging from 0.25% to 1.00% based on certain conditions. For LIBOR rate loans, the interest rate is equal to a LIBOR rate plus a margin ranging from 1.25% to 2.00% based on certain conditions. The Credit Agreement requires monthly interest payments with respect to domestic rate loans and at the end of each interest period with respect to LIBOR rate loans. The Credit Agreement further provides for a limit on the issuance of letters of credit to a maximum of $20.0 million. The Credit Agreement contains provisions requiring Crocs to maintain compliance with certain restrictive and financial covenants.

As of September 30, 2015 and December 31, 2014, the Company had no outstanding borrowings under the Credit Agreement. As of September 30, 2015 and December 31, 2014, the Company had outstanding letters of credit of $1.5 million and $1.8 million, respectively, which were reserved against the borrowing base under the terms of the Credit Agreement. As of September 30, 2015, the Company was not in compliance with the fixed charge coverage ratio and the leverage ratio under the Credit Agreement. On November 3, 2015, the Company entered into the Ninth Amendment to Amended and Restated Credit Agreement pursuant to which the Company received a waiver from the lenders of the financial covenant violations as of September 30, 2015 and the Credit Agreement was amended to allow for up to $15.0 million in stock repurchases in the fourth quarter of 2015. The Company anticipates it will be in compliance with its covenants as of December 31, 2015, however, there can be no assurance that the Company will be in compliance at that date.

Asia Pacific Revolving Credit Facility

On August 28, 2015, a Crocs subsidiary entered into a revolving credit facility agreement with HSBC Bank (China) Company Limited, Shanghai Branch (HSBC) as the lender. The revolving credit facility enables Crocs to borrow uncommitted dual currency revolving loan facilities up to RMB 40.0 million, or the USD equivalent, and import facilities up to RMB 60.0 million, or the USD equivalent, however, the total combined facility amount may not exceed an aggregate facility limit of RMB 60.0 million. This revolving credit facility supports possible future net working capital needs in China. For loans denominated in USD, the interest rate is 2.1% per annum plus LIBOR for three months or any other period as may be determined by HSBC at the end of each interest period. For loans denominated in RMB, interest equals the one year benchmark lending rate effective on the loan drawdown date set forth by the People s Bank of China with a 10% mark-up and is payable on the maturity date of the related loan. The revolving credit facility is guaranteed by Crocs, Inc. and certain accounts receivables in China are pledged as security under the revolving credit facility. The revolving credit facility contains provisions requiring Crocs to maintain compliance with certain restrictive covenants and as of September 30, 2015, Crocs was in compliance with all relevant covenants. As of September 30, 2015, Crocs had no outstanding borrowings under the revolving credit facility.

Table of Contents

Long-Term Bank Borrowings

On December 10, 2012, Crocs entered into a Master Installment Payment Agreement (Master IPA) with PNC in which PNC financed the Company s recent implementation of a new enterprise resource planning (ERP) system, which began in October 2012 and was substantially completed in early 2015. The terms of each note payable, under the Master IPA, consist of a fixed interest rate and payment terms based on the amount borrowed and the timing of activity throughout the implementation of the ERP system. The Master IPA is subject to cross-default, cross-termination, and is co-terminous with the Credit Agreement. As discussed above, as of September 30, 2015, the Company was not in compliance with the fixed charge coverage ratio and the leverage ratio under the Credit Agreement. On November 3, 2015, the Company received a waiver from the lenders of the financial covenant violations as of September 30, 2015. The Company anticipates it will be in compliance with its covenants as of December 31, 2015.

As of September 30, 2015 and December 31, 2014, Crocs had $7.7 million and $11.6 million, respectively, of debt outstanding under five separate notes payable, of which $5.4 million and $5.3 million, respectively, represents current installments. As of September 30, 2015, the notes bear interest rates ranging from 2.45% to 2.79% and maturities ranging from September 2016 to September 2017. As this debt arrangement relates solely to the construction and implementation of an ERP system for use by the entity, interest expense was capitalized to the condensed consolidated balance sheets until the assets were placed into service on January 1, 2015. During the three and nine months ended September 30, 2015, no interest was capitalized. During the three and nine months ended September 30, 2014, Crocs capitalized $0.1 million and $0.3 million, respectively, in interest expense related to this debt arrangement. Interest rates and payment terms are subject to change as further financing occurs under the Master IPA.

The components of the Company s consolidated debt and capital lease obligations are as follows:

	September 30, 2015				
		Unused Borrowing Capacity (2)		Carrying Value (3)	
	Weighted Average Interest Rate (1)	Borrowing Currency	U.S. $ Equivalent	September 30, 2015	December 31, 2014
		(in thousands)			
Debt obligations					
Senior revolving credit facility	LIBOR plus 1.25% - 2.00%	$ 100,000	$ 100,000	$	$
Asia Pacific revolving credit facility	LIBOR plus 2.10%	RMB 60,000	9,438		
Long-Term bank borrowings	2.63%			7,705	11,646
Total debt obligations			109,438	7,705	11,646
Capital lease obligations				28	23
Total debt and capital lease obligations				$ 7,733	$ 11,669
Current maturities				$ 5,383	$ 5,288
Long-term debt and capital lease obligations				$ 2,350	$ 6,381

(1) Carrying value represents the weighted average interest rate in effect at September 30, 2015 for all borrowings

outstanding pursuant to each debt instrument, including any applicable margin. The interest rates presented represent stated rates and do not include the impact of the derivative instruments, deferred financing costs, original issue premiums or discounts and commitment fees, all of which affect our overall cost of borrowing.

(2) Unused borrowing capacity represents the maximum available under the applicable facility at September 30, 2015 without regard to covenant compliance calculations or other conditions precedent to borrowing.

(3) As the interest rate of each of our credit agreements is variable, typically based on the daily LIBOR rates plus and additional margin, the estimated fair value of each of our debt instruments approximates its carrying value.

Table of Contents

The maturities of the Company s debt obligations as of September 30, 2015 are presented below:

		September 30, 2015 (in thousands)
Maturities of debt and capital lease obligations		
2015 (remainder of year)	$	1,337
2016		4,774
2017		1,614
Thereafter		8
Total debt maturities	$	7,733
Current portion	$	5,383
Noncurrent portion	$	2,350

As of September 30, 2015 and December 31, 2014, the fair value of the Company s debt instruments approximates their reported carrying amounts.

Table of Contents

10. STOCK-BASED COMPENSATION

Stock-based compensation expense is based on the grant date fair value and is recognized on a straight-line basis over the applicable vesting period. During the three months ended September 30, 2015 and 2014, Crocs recorded $2.4 million and $2.0 million, respectively, of pre-tax stock-based compensation expense, of which $2.3 million and $1.8 million, respectively, is included in selling, general and administrative expense, and $0.1 million and $0.2 million, respectively, is included in cost of sales on the condensed consolidated statements of operations.

During the nine months ended September 30, 2015 and 2014, Crocs recorded $8.9 million and $10.5 million, respectively, of pre-tax stock-based compensation expense, of which $8.5 million and $9.9 million, respectively, is included in selling, general and administrative expense, and $0.4 million and $0.6 million, respectively, is included in cost of sales on the condensed consolidated statements of operations. During the nine months ended September 30, 2015 and 2014, Crocs capitalized $0.0 million and $0.1 million, respectively, as intangible assets on the condensed consolidated balance sheets related to the implementation of the Company s ERP system.

Stock Option Activity

A summary of Crocs stock option activity as of and for the three and nine months ended September 30, 2015 is presented below:

	Stock Options	Weighted Average Exercise Price
Outstanding as of June 30, 2015	1,495,938	$ 13.55
Granted		$
Exercised	(44,337)	$ 6.67
Forfeited or expired	(29,192)	$ 19.79
Outstanding as of September 30, 2015	1,422,409	$ 13.64

	Stock Options	Weighted Average Exercise Price
Outstanding as of December 31, 2014	1,696,130	$ 13.52
Granted	35,000	$ 13.52
Exercised	(190,675)	$ 6.58
Forfeited or expired	(118,046)	$ 23.22
Outstanding as of September 30, 2015	1,422,409	$ 13.64

As of September 30, 2015, there was $0.8 million of unrecognized compensation expense related to stock options. The expense is expected to be amortized over a weighted average period of 2.68 years.

21

Table of Contents

Restricted Stock Awards and Units Activity

A summary of the Company s Restricted Stock Award (RSA) and Restricted Stock Unit (RSU) activity as of and for the three and nine months ended September 30, 2015 is presented below:

	Restricted Stock Awards (RSAs)		Weighted Average Grant Date Fair Value	Restricted Stock Units (RSUs)		Weighted Average Grant Date Fair Value
Unvested at June 30, 2015	15,987	$	15.01	3,387,553	$	11.20
Granted		$		100,650	$	14.74
Vested	(3,996)	$	15.01	(29,500)	$	15.62
Forfeited or expired		$		(190,035)	$	12.76
Unvested at September 30, 2015	11,991	$	15.01	3,268,668	$	11.18

	Restricted Stock Awards (RSAs)		Weighted Average Grant Date Fair Value	Restricted Stock Units (RSUs)		Weighted Average Grant Date Fair Value
Unvested at December 31, 2014	7,488	$	15.61	1,997,471	$	15.78
Granted	15,987	$	15.01	2,644,126	$	10.35
Vested	(11,484)	$	15.40	(463,028)	$	16.39
Forfeited or expired		$		(909,901)	$	14.78
Unvested at September 30, 2015	11,991	$	15.01	3,268,668	$	11.18

The total grant date fair value of RSAs vested during the three months ended September 30, 2015 and 2014 was $0.1 million and $0.0 million, respectively. The total grant date fair value of RSAs vested during the nine months ended September 30, 2015 and 2014 was $0.2 million and $1.0 million, respectively. As of September 30, 2015, Crocs had $0.2 million of total unrecognized stock-based compensation expense related to non-vested restricted stock awards, net of expected forfeitures, all of which was related to time-based awards. As of September 30, 2015, the unvested RSAs are expected to be amortized over the remaining weighted average period of 0.69 years.

The total grant date fair value of RSUs vested during the three months ended September 30, 2015 and 2014 was $0.5 million and $0.3 million, respectively. The total grant date fair value of RSUs vested during the nine months ended September 30, 2015 and 2014 was $7.6 million and $9.0 million, respectively. As of September 30, 2015, Crocs had $17.3 million of total unrecognized stock-based compensation expense related to unvested restricted stock units, net of expected forfeitures, of which $9.7 million is related to time-based awards and $7.6 million is related to performance-based awards. As of September 30, 2015, the unvested RSUs are expected to be amortized over the remaining weighted average period of 1.93 years, which consists of a remaining weighted average period of 1.99 years related to performance-based awards and a remaining weighted average period of 1.85 years related to time-based awards.

Appointment of Interim CFO

On September 7, 2015, Jeffrey J. Lasher resigned as Senior Vice President - Finance and Chief Financial Officer of Crocs. His resignation was effective October 1, 2015 and he will remain employed to provide transition services to the Company through November 7, 2015. On September 7, 2015, the Company appointed Mike Smith as Interim Chief Financial Officer, effective October 1, 2015. In connection with his appointment as Interim Chief Financial Officer, Mr. Smith was granted a RSU award representing the right to receive 10,000 shares of the Company s common stock. The RSUs will vest in three equal annual installments beginning on the first anniversary of the grant date, subject to Mr. Smith s continued employment with the Company through each vesting date.

Table of Contents

Appointment of CFO

On November 4, 2015, the board of directors of the Company (the Board) appointed Carrie Teffner as Executive Vice President and Chief Financial Officer, effective December 16, 2015. In connection with her appointment, Ms. Teffner will resign as a member of the Board prior to her start date with the Company. She will serve as the Company s principal financial officer and principal accounting officer. Mike Smith will no longer serve as Interim Chief Financial Officer on her start date.

Upon the commencement of her employment, Ms. Teffner will be granted a time-vesting RSU award representing the right to receive shares of the Company s common stock equal to $1,000,000, based on a 30-day weighted-average stock price as of the date Ms. Teffner s appointment was publicly announced. The RSUs will vest in three annual installments beginning on the first anniversary of her start date, subject to her continued employment with the Company as of each vesting date.

In addition, Ms. Teffner will be granted a performance-vesting RSU award, representing the right to receive shares of the Company s common stock equal to $1,000,000, based on a 30-day weighted-average stock price as of the date Ms. Teffner s appointment was publicly announced. The RSUs will vest based on the achievement of certain share price levels on or before the fourth anniversary of her start date, subject to continued employment with the Company.

11. INCOME TAXES

During the three months ended September 30, 2015, the Company recognized income tax expense of $0.9 million on a pre-tax loss of $23.1 million. For the same period in 2014, the Company recognized income tax benefit of $15.7 million on pre-tax income of $0.1 million. During the nine months ended September 30, 2015, the Company recognized income tax expense of $3.7 million on a pre-tax loss of $9.3 million. For the same period in 2014, the Company recognized income tax expense of $8.4 million on pre-tax income of $56.6 million.

The change in income tax expense, compared to the same period in 2014, is primarily due to an increase in losses in various jurisdictions for which tax benefits were unable to be recognized as management has determined that it is not more likely than not that we will be able to utilize the tax losses. The Company s effective income tax rate, for all periods presented, differs from the federal U.S. statutory rate due to differences in income tax rates between U.S. and foreign jurisdictions as well as tax amounts recognized discretely during the quarter. As of September 30, 2015 and September 30, 2014, the Company had unrecognized tax benefits of $4.3 million and $12.2 million, respectively.

Table of Contents

12. EARNINGS PER SHARE

The following table illustrates the basic and diluted EPS computations for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015		2014		2015		2014	
			(in thousands)					
Numerator								
Net income (loss) attributable to common stockholders	$	(27,776)	$	12,009	$	(24,065)	$	37,905
Less: adjustment for income allocated to participating securities				(1,684)				(5,229)
Net income (loss) attributable to common stockholders - basic and diluted	$	(27,776)	$	10,325	$	(24,065)	$	32,676
Denominator								
Weighted average common shares outstanding - basic		74,322		84,659		76,318		86,582
Plus: dilutive effect of stock options and unvested restricted stock units				778				1,137
Weighted average common shares outstanding - diluted		74,322		85,437		76,318		87,719
Net loss attributable per common share:								
Basic	$	(0.37)	$	0.12	$	(0.32)	$	0.38
Diluted	$	(0.37)	$	0.12	$	(0.32)	$	0.37

Diluted EPS is calculated using the two-class method for options and RSUs and the if-converted method for series A preferred stock. Approximately 2.2 million and 0.8 million options and RSUs, for the three months ended September 30, 2015 and 2014, respectively, and approximately 2.4 million and 1.1 million options and RSUs for the nine months ended September 30, 2015 and 2014 were excluded in the calculation of diluted EPS under the two-class method because the effect would be anti-dilutive. The Series A preferred shares were excluded in the calculation of diluted EPS under the if-converted method because the effect would be anti-dilutive. If converted, Series A preferred stock would represent approximately 15.8% of the Company s common stock outstanding or 13.8 million additional common shares, as of September 30, 2015. See Note 13 Series A Preferred Stock for further details regarding the preferred share offering.

Stock Repurchase Plan Authorizations

Crocs continues to evaluate options to maximize the returns on its cash and maintain an appropriate capital structure, including, among other alternatives, repurchases of common stock. On December 26, 2013, Crocs board of directors (the Board) approved the repurchase of up to $350.0 million of the Company s common stock. The number, price, structure and timing of the repurchases will be at the Company s sole discretion and future repurchases will be evaluated by the Company 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 obligate Crocs to acquire any particular amount of its common stock. The Board may suspend, modify or terminate the repurchase program at any time without prior notice.

During the three months ended September 30, 2015, Crocs repurchased approximately 2.3 million shares at a weighted average price of $14.50 per share for an aggregate price of approximately $33.1 million, excluding related commission charges, under the publicly-announced repurchase plan. During the nine months ended September 30, 2015, Crocs repurchased approximately 5.6 million shares at a weighted average price of $13.64 per share for an aggregate price of approximately $75.8 million, excluding related commission charges, under the publicly-announced repurchase plan.

During the three months ended September 30, 2014, Crocs repurchased approximately 2.9 million shares at a weighted average price of $14.74 for an aggregate price of approximately $43.0 million, excluding related commission charges, under the publicly-announced repurchase plan. During the nine months ended September 30, 2014, Crocs repurchased approximately 6.1 million shares at a weighted average price of $14.76 for an aggregate price of approximately $89.9 million, excluding related commission charges, under the publicly-announced repurchase plan.

Table of Contents

As of September 30, 2015, subject to certain restrictions on repurchases under the Company s revolving credit facility, Crocs had $128.6 million remaining under the repurchase authorizations.

Table of Contents

13. SERIES A PREFERRED STOCK

On January 27, 2014, Crocs issued 200,000 shares of Series A preferred stock to Blackstone Capital Partners VI L.P. (Blackstone) and certain of its permitted transferees, for an aggregate purchase price of $198.0 million, or $990 per share, pursuant to an Investment Agreement between Crocs and Blackstone, dated December 28, 2013. In connection with the issuance of the Series A preferred stock, Crocs received proceeds of $182.2 million after deducting the issuance discount of $2.0 million and direct and incremental expenses of $15.8 million including financial advisory fees, closing costs, legal expenses and other offering-related expenses. As of September 30, 2015 and December 31, 2014, Crocs had accrued dividends of $3.0 million and $3.1 million, respectively, on the condensed consolidated balance sheets, which were paid in cash to holders of the Series A preferred stock on October 1, 2015 and January 2, 2015, respectively.

14. COMMITMENTS AND CONTINGENCIES

Rental Commitments and Contingencies

Crocs rents space for its retail stores, offices, warehouses, vehicles, and equipment under operating leases expiring at various dates through 2033. Certain leases contain rent escalation clauses (step rents) that require additional rental amounts in the later years of the term. Rent expense for leases with step rents or rent holidays is recognized on a straight-line basis over the lease term beginning on the lease inception date. Deferred rent is included in the condensed consolidated balance sheets in Accrued expenses and other current liabilities.

The following table summarizes the composition of rent expense under operating leases for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
		(in thousands)		
Minimum rentals (1)	$ 23,323	$ 26,629	$ 73,181	$ 82,307
Contingent rentals	4,166	4,952	12,171	14,635
Less: Sublease rentals	(58)	(261)	(176)	(736)
Total rent expense	$ 27,431	$ 31,320	$ 85,176	