Crocs, Inc.
Form 10-Q
May 07, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2009

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.)

6328 Monarch Park Place, Niwot Colorado 80503
(Address 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 ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 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 o 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 ý	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 ý

As of April 30, 2009, Crocs, Inc. had 83,780,065 shares of its $0.001 par value common stock outstanding.

Crocs, Inc.
Form 10-Q
Quarter Ended March 31, 2009

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PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

CROCS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share data)

(Unaudited)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Revenues	$ 134,892	$ 198,540
Cost of sales	85,161	113,305
Gross profit	49,731	85,235
Selling, general and administrative expenses	72,187	76,977
Restructuring charges	38	3,849
Impairment charges	69	10,813
Income (loss) from operations	(22,563)	(6,404)
Interest expense	696	374
Other income	(1,052)	(362)
Income (loss) before income taxes	(22,207)	(6,416)
Income tax expense (benefit)	210	(1,889)
Net income (loss)	$ (22,417)	$ (4,527)
Net Income (loss) per common share:		
Basic	$ (0.27)	$ (0.05)
Diluted	$ (0.27)	$ (0.05)
Weighted average common shares outstanding:		
Basic	84,392,620	82,488,601
Diluted	84,392,620	82,488,601

See notes to condensed consolidated financial statements.

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CROCS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(Unaudited)

	March 31, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 50,895	$ 51,665
Accounts receivable, net	60,605	35,305
Inventories	131,161	143,205
Deferred tax assets, net	10,856	11,364
Income tax receivable	5,391	24,417
Prepaid expenses and other current assets	17,130	13,415
Total current assets	276,038	279,371
Property and equipment, net	91,027	95,892
Restricted cash	1,835	2,922
Intangible assets, net	39,307	40,892
Deferred tax assets, net	22,355	21,231
Other assets	16,370	15,691
Total assets	$ 446,932	$ 455,999
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 63,469	$ 35,137
Accrued expenses and other current liabilities	41,793	50,076
Accrued restructuring charges	499	1,439
Deferred tax liabilities, net	92	30
Income taxes payable	18,520	24,420
Note payable, current portion of long-term debt and capital lease obligations	19,947	22,431
Total current liabilities	144,320	133,533
Deferred tax liabilities, net	4,755	2,917
Long term restructuring	1,024	959
Other liabilities	31,907	31,427
Total liabilities	182,006	168,836
Commitments and contingencies (note 12)		
Stockholders' equity:		
Common shares, par value $0.001 per share; 250,000,000 shares authorized, 84,393,940 and 83,869,940 shares issued and outstanding at March 31, 2009 and 83,543,501 and 83,019,501 shares issued and outstanding at December 31, 2008	84	84
Treasury Stock, 524,000 shares, at cost	(25,022)	(25,022)
Additional paid-in capital	235,955	232,037
Deferred compensation	(54)	(246)
Retained earnings	41,816	64,233
Accumulated other comprehensive income	12,147	16,077

Total stockholders' equity	264,926	287,163
Total liabilities and stockholders' equity	$ 446,932	$ 455,999

See notes to condensed consolidated financial statements.

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CROCS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	For the Three Months Ended March 31, 2009	2008 (as restated)
Cash flows from operating activities:		
Net loss	$ (22,417)	$ (4,527)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	9,504	8,120
(Gain) loss on disposal of fixed assets	(617)	78
Unrealized (gain) loss on foreign exchange rates	(6,487)	(5,572)
Deferred income taxes	450	(5,616)
Asset impairment	66	10,813
Inventory write down	1,641	802
Share based compensation	4,165	5,415
Excess tax benefit on share-based compensation		(2,364)
Bad debt expense	849	527
Changes in operating assets and liabilities:		
Accounts receivable	(27,398)	4,053
Income tax receivable	14,721	
Inventories	6,820	(11,723)
Prepaid expenses and other assets	(1,262)	(11,198)
Accounts payable	26,514	(21,248)
Accrued expenses and other liabilities	(11,830)	303
Cash used in operating activities	(5,281)	(32,137)
Cash flows from investing activities:		
Cash paid for purchases of property and equipment	(2,023)	(9,525)
Proceeds from disposal of property and equipment	710	
Cash paid for intangible assets	(447)	(1,215)
Acquisition of businesses, net of cash acquired		(1,500)
Restricted cash	957	(1,886)
Cash used in investing activities	(803)	(14,126)
Cash flows from financing activities:		
Proceeds from note payable, net		43,700
Repayment of note payable and capital lease obligations	(2,630)	(8,026)
Excess tax benefit on share-based compensation		2,364
Exercise of stock options	60	3,006
Cash (used in) provided by financing activities	(2,570)	41,044
Effect of exchange rate changes on cash	7,884	(1,523)
Net decrease in cash and cash equivalents	(770)	(6,742)

Cash and cash equivalents beginning of period		51,665		36,335
Cash and cash equivalents end of period	$	50,895	$	29,593
Supplemental disclosure of cash flow information cash paid during the period for:				
Interest	$	602	$	324
Income taxes	$	1,758	$	9,197
Accrued purchases of property and equipment	$	2,565	$	8,620
Accrued purchases of intangibles	$	82	$	2,841
Income Tax Refunds Received	$	16,490	$	555

See notes to condensed consolidated financial statements.

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CROCS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

Crocs, Inc. and its subsidiaries (collectively, "we," "us," or the "Company") are engaged in the design, manufacture, worldwide marketing and brand management of footwear made of specialty resins for men, women and children.

These statements should be read in conjunction with the consolidated financial statements and footnotes included in our Annual Report on Form 10-K for the year ended December 31, 2008 (the "2008 Form 10-K"). The accounting policies used in preparing these condensed consolidated financial statements are the same as those described in Note 2 to the consolidated financial statements in the 2008 Form 10-K.

Certain reclassifications have been made to previously reported financial results to conform to current year 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 for reporting on Form 10-Q. Accordingly, these statements do not include all of the information and disclosures required by GAAP or Securities and Exchange Commission ("SEC") rules and regulations for complete financial statements. In the opinion of management, these financial statements reflect all adjustments considered necessary for a fair presentation of the results for the interim periods presented. Operating results for the three months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2009.

The consolidated financial statements are prepared in accordance with GAAP. These accounting principles require our management to make certain estimates, judgments and assumptions. Actual results could materially differ from these estimates.

Going Concern

From our inception through the year ended December 31, 2007, we experienced rapid revenue growth and had difficulty meeting demand for our footwear products. During this period, we significantly increased our production capacity, warehouse space and inventory in an effort to meet demand. This pattern changed in 2008. Due to deteriorating economic conditions, lessened demand for our products and difficulty marketing our expanded product line, our sales moderated in the first half of 2008 and declined during the last half of 2008. We continued to be affected by many of the same issues during the first three months of 2009. The Company's total revenues declined 32.0% during the three months ended March 31, 2009 compared to the same period in the previous year, which was attributable in large part to deteriorating global economic conditions, lessened demand for the Company's products and difficulty marketing the Company's expanded product line. In 2008, the Company incurred various one-time cash and non-cash restructuring and impairment costs as the Company took steps to right-size its production and distribution capacity to be more in line with revenue. The Company incurred losses of $22.4 million in the three months ended March 31, 2009 and may incur additional losses through the remainder of 2009.

Continued declines in revenues could have a material adverse effect on the Company's operating results, cash flow and its ability to raise capital. The Company cannot fully anticipate future conditions given the substantial uncertainties in the credit markets and the economy in general. The Company

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CROCS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

1. BASIS OF PRESENTATION (Continued)

may have unexpected costs and liabilities including costs related to further restructuring and right-sizing should that be necessary; revenue and cash provided by operations may decline; economic conditions may continue to weaken; and competitive pressures may increase, resulting in difficulty maintaining liquidity. Due to recent turmoil in the credit markets and the continued decline in the economy, the Company may not be able to obtain additional financing on terms that are acceptable to the Company or at all.

At March 31, 2009, the Company had $50.9 million in cash and cash equivalents. The Company has $19.8 million in borrowings outstanding under its Revolving Credit Facility, which has no further available borrowings. Under the most recent amendment, the maturity date on this facility is September 30, 2009, at which time the Company will be required to pay all amounts then outstanding.

The Company is currently in discussions for a new borrowing arrangement and is exploring alternatives for other source of capital for ongoing cash needs. The time period required to procure a new credit facility may extend beyond the maturity date of its current Revolving Credit Facility requiring the Company to seek an extension of that maturity date with its current lenders. There can be no assurance that the Company will be able to secure additional debt or equity financing or receive an extension of the current Revolving Credit Facility by or before the date of maturity of the Revolving Credit Facility and, accordingly, the Company's liquidity and ability to timely pay its obligations when due could be adversely affected.

Additionally, the Company continues to re-evaluate its operating plans for the next twelve months and is considering certain restructuring and right-sizing activities to address the potential for continued decreases in revenues. The Company's ability to continue as a going concern is dependent upon achieving a cost structure which supports the levels of revenues the Company is able to achieve. The ability of the Company to return to profitability is dependent on the timely completion of these activities and there can be no assurance that any actions taken by the Company will result in a return to profitability.

The accompanying condensed consolidated financial statements for the three months ended March 31, 2009 were prepared under the assumption that the Company will continue to operate as a going concern, which contemplates the realization of assets and the liquidation of liabilities in the ordinary course of business. As discussed in the previous paragraphs, the Company faces various uncertainties that raise substantial doubt about its ability to continue as a going concern. These financial statements do not include any adjustments that may result from the outcome of these uncertainties.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141(R), *Business Combinations* ("SFAS 141(R)"), which amends SFAS 141 and provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any noncontrolling interest in the acquiree. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for the Company's fiscal year beginning January 1, 2009 and is to be applied

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CROCS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

2. RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

prospectively. The Company adopted SFAS 141(R) effective January 1, 2009. Such adoption did not have a material impact on our condensed consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements- an amendment of ARB No. 51* ("SFAS 160"), which establishes accounting and reporting standards pertaining to ownership interests in subsidiaries held by parties other than the parent, the amount of net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of any retained noncontrolling equity investment when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for the Company's fiscal year beginning January 1, 2009. The Company adopted SFAS 160 effective January 1, 2009. Such adoption did not have a material impact on our condensed consolidated financial statements.

In March 2008, the FASB issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS 161"), which is intended to improve financial reporting regarding derivative instruments