

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2019
or
☐ **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
(State or other jurisdiction of
incorporation or organization)

20-2164234
(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)

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

Title of each class:	Trading symbol:	Name of each exchange on which registered:
Common Stock, par value \$0.001 per share	CROX	The Nasdaq Global Select Market

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
☒	☐	☐	☐	☐

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

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

As of October 23, 2019, Crocs, Inc. had 68,607,426 shares of its common stock, par value \$0.001 per share, outstanding.

Cautionary Note Regarding Forward-Looking Statements

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

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

- our expectations regarding future trends, selling, general and administrative cost savings, expectations, and performance of our business;
- our belief that we have sufficient liquidity to fund our business operations during the next twelve months;
- our expectations about the impact of our strategic plans; and
- our expectations regarding our level of capital expenditures in 2019 and beyond.

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, 2018, and our subsequent filings with the Securities and Exchange Commission. Caution should be taken not to place undue reliance on any such forward-looking statements. Moreover, such forward-looking statements speak only as of the date of this report. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Crocs, Inc.
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For the Quarterly Period Ended September 30, 2019

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PART I — Financial Information

ITEM 1. Financial Statements

CROCS, INC. AND SUBSIDIARIES **CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS** **(UNAUDITED)** **(in thousands, except per share data)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues	\$ 312,766	\$ 261,064	\$ 967,614	\$ 872,216
Cost of sales	148,942	122,005	476,796	411,884
Gross profit	163,824	139,059	490,818	460,332
Selling, general and administrative expenses	123,940	125,164	370,525	383,451
Income from operations	39,884	13,895	120,293	76,881
Foreign currency gains (losses), net	585	233	(893)	1,587
Interest income	167	422	493	847
Interest expense	(2,505)	(126)	(6,743)	(371)
Other income (expense), net	(34)	160	(48)	229
Income before income taxes	38,097	14,584	113,102	79,173
Income tax expense	2,421	4,092	13,518	17,850
Net income	35,676	10,492	99,584	61,323
Dividends on Series A convertible preferred stock	—	(3,000)	—	(9,000)
Dividend equivalents on Series A convertible preferred stock related to redemption value accretion and beneficial conversion feature	—	(972)	—	(2,854)
Net income attributable to common stockholders	\$ 35,676	\$ 6,520	\$ 99,584	\$ 49,469
Net income per common share:				
Basic	\$ 0.52	\$ 0.08	\$ 1.40	\$ 0.60
Diluted	\$ 0.51	\$ 0.07	\$ 1.38	\$ 0.58
Weighted average common shares outstanding:				
Basic	69,097	67,821	71,003	68,223
Diluted	70,176	72,774	72,342	71,104

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

CROCS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	\$ 35,676	\$ 10,492	\$ 99,584	\$ 61,323
Other comprehensive income:				
Foreign currency translation gains (losses), net	(8,730)	3,415	(8,679)	(7,140)
Reclassification of foreign currency translation loss to income ⁽¹⁾	—	(3,572)	—	(4,412)
Total comprehensive income	\$ 26,946	\$ 10,335	\$ 90,905	\$ 49,771

⁽¹⁾ For the three and nine months ended September 30, 2018, represents reclassification of cumulative foreign currency translation adjustment of manufacturing subsidiaries.

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

CROCS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(in thousands, except share and par value amounts)

	September 30, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 87,909	\$ 123,367
Accounts receivable, net of allowances of \$20,921 and \$20,477, respectively	121,716	97,627
Inventories	139,839	124,491
Income taxes receivable	7,380	3,041
Other receivables	9,523	7,703
Restricted cash - current	1,469	1,946
Prepaid expenses and other assets	23,427	22,123
Total current assets	391,263	380,298
Property and equipment, net of accumulated depreciation and amortization of \$83,750 and \$80,956, respectively	42,266	22,211
Intangible assets, net	47,222	45,690
Goodwill	1,534	1,614
Deferred tax assets, net	10,174	8,663
Restricted cash	1,757	2,217
Right-of-use assets	183,040	—
Other assets	8,259	8,208
Total assets	\$ 685,515	\$ 468,901
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 85,938	\$ 77,231
Accrued expenses and other liabilities	88,762	102,171
Income taxes payable	13,266	5,089
Current operating lease liabilities	45,486	—
Total current liabilities	233,452	184,491
Long-term income taxes payable	5,633	4,656
Long-term borrowings	185,000	120,000
Long-term operating lease liabilities	143,632	—
Other liabilities	274	9,446
Total liabilities	567,991	318,593
Stockholders' equity:		
Preferred stock, par value \$0.001 per share, 4.0 million shares authorized, none outstanding	—	—
Common stock, par value \$0.001 per share, 250.0 million shares authorized, 104.0 million and 103.0 million issued, 68.6 million and 73.3 million outstanding, respectively	104	103
Treasury stock, at cost, 35.4 million and 29.7 million shares, respectively	(532,220)	(397,491)
Additional paid-in capital	492,399	481,133
Retained earnings	220,572	121,215
Accumulated other comprehensive loss	(63,331)	(54,652)
Total stockholders' equity	117,524	150,308
Total liabilities and stockholders' equity	\$ 685,515	\$ 468,901

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

CROCS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)
(in thousands)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at June 30, 2019	69,615	\$ 104	34,350	\$ (507,193)	\$ 488,730	\$ 184,896	\$ (54,601)	\$ 111,936
Share-based compensation	—	—	—	—	3,619	—	—	3,619
Exercises of stock options, issuance of restricted stock awards, and vests of restricted stock units	30	—	1	(27)	50	—	—	23
Repurchases of common stock	(1,042)	—	1,042	(25,000)	—	—	—	(25,000)
Net income	—	—	—	—	—	35,676	—	35,676
Other comprehensive income	—	—	—	—	—	—	(8,730)	(8,730)
Balance at September 30, 2019	68,603	\$ 104	35,393	\$ (532,220)	\$ 492,399	\$ 220,572	\$ (63,331)	\$ 117,524

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at June 30, 2018	68,109	\$ 96	27,802	\$ (360,032)	\$ 379,571	\$ 233,380	\$ (54,789)	\$ 198,226
Share-based compensation	—	—	—	—	3,305	—	—	3,305
Exercises of stock options, issuance of restricted stock awards, and vests of restricted stock units	89	—	(1)	25	214	—	—	239
Repurchases of common stock	(604)	—	604	(11,100)	—	—	—	(11,100)
Series A convertible preferred stock dividends	—	—	—	—	—	(3,000)	—	(3,000)
Series A convertible preferred stock accretion	—	—	—	—	—	(972)	—	(972)
Net income	—	—	—	—	—	10,492	—	10,492
Other comprehensive loss	—	—	—	—	—	—	(157)	(157)
Balance at September 30, 2018	67,594	\$ 96	28,405	\$ (371,107)	\$ 383,090	\$ 239,900	\$ (54,946)	\$ 197,033

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

CROCS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)
(in thousands)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at December 31, 2018	73,306	\$ 103	29,656	\$ (397,491)	\$ 481,133	\$ 121,215	\$ (54,652)	\$ 150,308
Adjustments to beginning retained earnings ⁽¹⁾	—	—	—	—	—	(227)	—	(227)
Share-based compensation	—	—	—	—	11,020	—	—	11,020
Exercises of stock options, issuance of restricted stock awards, and vests of restricted stock units	984	1	50	(1,254)	246	—	—	(1,007)
Repurchases of common stock	(5,687)	—	5,687	(133,475)	—	—	—	(133,475)
Net income	—	—	—	—	—	99,584	—	99,584
Other comprehensive income	—	—	—	—	—	—	(8,679)	(8,679)
Balance at September 30, 2019	68,603	\$ 104	35,393	\$ (532,220)	\$ 492,399	\$ 220,572	\$ (63,331)	\$ 117,524

⁽¹⁾ Decrease to beginning retained earnings as a result of the adoption of new lease accounting standards as of January 1, 2019, as discussed in Note 2 — Recent Accounting Pronouncements.

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at December 31, 2017	68,791	\$ 95	25,987	\$ (334,312)	\$ 373,045	\$ 190,431	\$ (43,394)	\$ 185,865
Share-based compensation	—	—	—	—	9,040	—	—	9,040
Exercises of stock options, issuance of restricted stock awards, and vests of restricted stock units	1,184	1	37	251	(221)	—	—	31
Repurchases of common stock	(2,381)	—	2,381	(37,046)	—	—	—	(37,046)
Series A convertible preferred stock dividends	—	—	—	—	—	(9,000)	—	(9,000)
Series A convertible preferred stock accretion	—	—	—	—	—	(2,854)	—	(2,854)
Net income	—	—	—	—	—	61,323	—	61,323
Other comprehensive loss	—	—	—	—	—	—	(11,552)	(11,552)
Other	—	—	—	—	1,226	—	—	1,226
Balance at September 30, 2018	67,594	\$ 96	28,405	\$ (371,107)	\$ 383,090	\$ 239,900	\$ (54,946)	\$ 197,033

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

CROCS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands)

	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities:		
Net income	\$ 99,584	\$ 61,323
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,508	21,535
Operating lease cost	44,776	—
Share-based compensation	11,020	9,320
Other non-cash items	(688)	6,076
Changes in operating assets and liabilities:		
Accounts receivable, net of allowances	(30,619)	(37,394)
Inventories	(17,178)	4,468
Prepaid expenses and other assets	(3,501)	5,271
Accounts payable, accrued expenses and other liabilities	1,955	15,271
Operating lease liabilities	(49,668)	—
Cash provided by operating activities	73,189	85,870
Cash flows from investing activities:		
Purchases of property, equipment, and software	(32,852)	(5,224)
Proceeds from disposal of property and equipment	302	1,325
Cash used in investing activities	(32,550)	(3,899)
Cash flows from financing activities:		
Proceeds from bank borrowings	310,000	—
Repayments of bank borrowings	(245,000)	(680)
Dividends—Series A convertible preferred stock ⁽¹⁾	(2,985)	(9,000)
Repurchases of common stock	(133,475)	(37,046)
Other	(3,275)	31
Cash used in financing activities	(74,735)	(46,695)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(2,299)	(5,133)
Net change in cash, cash equivalents, and restricted cash	(36,395)	30,143
Cash, cash equivalents, and restricted cash—beginning of period	127,530	177,055
Cash, cash equivalents, and restricted cash—end of period	\$ 91,135	\$ 207,198

⁽¹⁾ Represents \$3.0 million paid to induce conversion of Series A Convertible Preferred Stock to common stock for the nine months ended September 30, 2019 and \$9.0 million paid in Series A Convertible Preferred Stock cash dividends for the nine months ended September 30, 2018.

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

CROCS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unless otherwise noted in this report, any description of the “Company,” “Crocs,” “we,” “us,” or “our” includes Crocs, Inc. and its consolidated subsidiaries within our reportable operating segments and corporate operations. The Company is engaged in the design, development, worldwide marketing, distribution, and sale of casual lifestyle footwear and accessories for men, women, and children. We strive to be the global leader in the sale of molded footwear characterized by functionality, comfort, color, and lightweight design.

Our reportable operating segments include: the Americas, operating in North and South America; Asia Pacific, operating throughout Asia, Australia, and New Zealand; and Europe, Middle East, and Africa (“EMEA”), operating throughout Europe, Russia, the Middle East, and Africa. See Note 14 — Operating Segments and Geographic Information for additional information.

The accompanying unaudited condensed consolidated interim financial statements include the Company’s accounts and those of its wholly-owned subsidiaries, and reflect all adjustments which are necessary for a fair statement of the financial position, results of operations, and cash flows for the periods presented in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Such unaudited condensed consolidated interim financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. The year-end condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by U.S. GAAP.

These unaudited condensed consolidated interim financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2018 (“Annual Report”), and have been prepared on a consistent basis with the accounting policies described in Note 1 of the Notes to the Audited Consolidated Financial Statements included in our Annual Report. Our accounting policies did not change during the nine months ended September 30, 2019, other than for the new accounting pronouncements adopted as described in Note 2 — Recent Accounting Pronouncements and “Critical Accounting Policies and Estimates” within Part I - Item 2. *Management’s Discussion and Analysis of Financial Condition and Results of Operations* of this Quarterly Report on Form 10-Q.

Reclassifications

The Company has reclassified certain amounts on the condensed consolidated statements of cash flows to conform to current period presentation.

Seasonality of Business

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, when the northern hemisphere is experiencing cooler weather, are typically less than revenues generated during our first three quarters. 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, general economic conditions, and consumer confidence. Accordingly, results of operations and cash flows for any one quarter are not necessarily indicative of expected results for any other quarter or for any other year.

Transactions with Affiliates

The Company receives services from three affiliates of Blackstone Capital Partners VI L.P. (“Blackstone”). Blackstone and certain of its permitted transferees beneficially owned 6,896,548 shares of the Company’s common stock as of September 30, 2019. Blackstone also has the future right to designate for nomination one director to our Board, and currently has two designees serving on the Board.

Certain Blackstone affiliates provide various services to the Company, including inventory count services, cybersecurity and consulting, and workforce management services. The Company incurred expenses for services from these affiliates of \$0.3 million and \$0.1 million for the three months ended September 30, 2019 and 2018, respectively, and \$1.3 million and \$0.5 million for the nine months ended September 30, 2019 and 2018, respectively. Expenses related to these services are reported in ‘Selling, general and administrative expenses’ in the condensed consolidated statements of operations.

2. RECENT ACCOUNTING PRONOUNCEMENTS

New Accounting Pronouncement Adopted

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the Financial Accounting Standards Board (“FASB”) issued authoritative guidance that permits reclassification of the income tax effects of the U.S. Tax Cuts and Job Act (“Tax Act”) on accumulated other comprehensive income (“AOCI”) to retained earnings. This guidance may be adopted retrospectively to each period (or periods) in which the income tax effects of the Tax Act related to items remaining in AOCI are recognized, or at the beginning of the period of adoption. The guidance became effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods, with early adoption permitted. This guidance became effective during the first quarter of 2019; however, the Company did not elect to make the optional reclassification. Our policy is to release stranded tax effects from AOCI using either a specific identification approach or portfolio approach based on the nature of the underlying item.

Leases

In February 2016, the FASB issued authoritative guidance related to accounting for leases. On January 1, 2019, the Company adopted the guidance using the modified retrospective method applied as of the date of adoption. The comparative information presented in the condensed consolidated financial statements was not restated and is reported under the accounting standards in effect for the periods presented.

The Company has elected all of the available transition practical expedients, including the ‘package of practical expedients’, which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. The Company has elected not to apply ‘hindsight’ when adopting the standard for determining the reasonably certain lease term and in assessing impairments. The Company has elected the short-term lease exemption, which means the Company has not and will not recognize a right-of-use asset or liability for leases that qualify for the short-term exemption and will recognize those lease expenses on a straight-line basis over the lease term in its condensed consolidated statements of operations. Further, the Company has elected to combine lease and non-lease components for all of its leases.

Adoption of the new standard resulted in the recognition of right-of-use assets and liabilities of approximately \$176.1 million and \$187.4 million, respectively, as of January 1, 2019, with additional adjustments to ‘Prepaid expenses and other assets’, ‘Accrued expenses and other liabilities’, and ‘Retained earnings’. As a result of the adoption of new lease accounting standards, the Company assessed the initial right-of-use assets for impairment and recorded non-cash impairments of \$0.2 million within ‘Retained earnings’ in the Company’s condensed consolidated balance sheet. The adoption of this guidance did not have a significant impact on the condensed consolidated statements of operations or cash flows.

New Accounting Pronouncements Not Yet Adopted

Implementation Costs Incurred in Cloud Computing Arrangements

In August 2018, the FASB issued authoritative guidance related to the treatment of implementation costs incurred in a hosting arrangement that is considered a service contract. This guidance becomes effective for annual reporting periods beginning after December 15, 2019, including interim periods within those periods, with early adoption permitted, and will be applied prospectively to all implementation costs incurred after the date of adoption. The Company does not expect this standard to have a material impact on its condensed consolidated financial statements.

Other Pronouncements

Other new pronouncements issued but not effective until after September 30, 2019 are not expected to have a material impact on the Company’s condensed consolidated financial statements.

3. ACCRUED EXPENSES AND OTHER LIABILITIES

Amounts reported in ‘Accrued expenses and other liabilities’ in the condensed consolidated balance sheets were:

	September 30, 2019	December 31, 2018
	(in thousands)	
Accrued compensation and benefits	\$ 33,081	\$ 43,970
Fulfillment, freight, and duties	9,731	12,234
Professional services	14,498	11,124
Accrued rent and occupancy ⁽¹⁾	4,219	6,956
Return liabilities	8,523	6,429
Sales/use and value added taxes payable	5,605	5,601
Royalties payable and deferred revenue	2,365	3,356
Other ⁽²⁾	10,740	12,501
Total accrued expenses and other liabilities	\$ 88,762	\$ 102,171

⁽¹⁾ At September 30, 2019, includes accrued rent and occupancy costs for leases with original terms of one year or less, which are excluded from recognition under the new lease accounting standards adopted as of January 1, 2019. See Note 2 — Recent Accounting Pronouncements for more information.

⁽²⁾ At December 31, 2018, includes accrued payments of \$3.0 million to induce the conversion of Series A Convertible Preferred Stock into shares of common stock.

4. LEASES

The Company adopted authoritative guidance related to leases effective January 1, 2019 using the modified retrospective method. The comparative information presented in the condensed consolidated financial statements was not restated and is reported under the accounting standards in effect for the periods presented. See ‘Leases’ in Note 2 — Recent Accounting Pronouncements for a discussion of the significant changes resulting from adoption of the guidance.

The Company’s lease portfolio consists primarily of real estate assets, which includes retail, warehouse, distribution center, and office spaces, under operating leases expiring at various dates through 2033. Leases with an original term of twelve months or less are not reported in the condensed consolidated balance sheet; expense for these short-term leases is recognized on a straight-line basis over the lease term.

Many leases include one or more options to renew, with renewal terms that, if exercised by us, may extend the lease term. The exercise of these renewal options is at the Company’s discretion. When assessing the likelihood of a renewal or termination, the Company considers the significance of leasehold improvements, availability of alternative locations, and the cost of relocation or replacement, among other considerations. The depreciable lives of leasehold improvements are the shorter of the useful lives of the improvements or the expected lease term. The Company determines the lease term for each lease based on the terms of each contract and factors in renewal and early termination options if such options are reasonably certain to be exercised.

Due to the Company’s centralized treasury function, the Company utilizes a portfolio approach to discount its lease obligations. The Company assesses the expected lease term at lease inception and discounts the lease using a fully-secured annual incremental borrowing rate, adjusted for time value corresponding with the expected lease term.

Certain of our retail store leases include rental payments based upon a percentage of retail sales in excess of a minimum fixed rental. In some cases, there is no fixed minimum rental and the entire rental payment is based upon a percentage of sales. Certain of our warehouse leases have rental payments that vary based upon the volume of product placed in storage. In addition, certain leases include rental payments adjusted periodically for changes in price level indexes. We recognize expense for these types of payments as incurred and report them as variable lease expense.

Right-of-Use Assets and Operating Lease Liabilities

Amounts reported in the condensed consolidated balance sheet were:

	September 30, 2019
	(in thousands)
Assets:	
Right-of-use assets	\$ 183,040
Liabilities:	
Current operating lease liabilities	\$ 45,486
Long-term operating lease liabilities	143,632
Total operating lease liabilities	\$ 189,118

Lease Costs and Other Information

Lease-related costs reported in the Company's condensed consolidated statement of operations were:

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
	(in thousands)	
Operating lease cost	\$ 15,097	\$ 44,776
Short-term lease cost	982	2,729
Variable lease cost	6,643	13,932
Total lease costs	\$ 22,722	\$ 61,437

Other information related to leases, including supplemental cash flow information, consists of:

	Nine Months Ended September 30, 2019
	(in thousands)
Cash paid for operating leases	\$ 48,569
Right-of-use assets obtained in exchange for operating lease liabilities ⁽¹⁾	222,401

⁽¹⁾ Includes \$176.1 million for operating leases existing on January 1, 2019 and \$46.3 million for operating leases that commenced in the nine months ended September 30, 2019.

	As of September 30, 2019
Weighted average remaining lease term (in years)	6.1
Weighted average discount rate	4.8%

Maturities

The maturities of the Company's operating lease liabilities were:

	As of September 30, 2019
	(in thousands)
2019 (remainder of year)	\$ 9,628
2020	52,107
2021	44,573
2022	31,423
2023	22,591
Thereafter	61,881
Total future minimum lease payments	222,203
Less: imputed interest	(33,085)
Total operating lease liabilities	\$ 189,118

Lease Commencements

In the third quarter of 2019, the Company began recognition of its lease for a new distribution center in Dayton, Ohio, the impact of which is included in the above lease disclosures.

Leases That Have Not Yet Commenced

As of September 30, 2019, the Company had significant obligations for a lease that has not yet commenced related to our office relocation project. In the first quarter of 2019, the Company entered into a lease for its new corporate headquarters and regional office in Broomfield, Colorado. The contractual commitment related to this lease, with payments beginning in March 2020 and continuing through August 2030, is approximately \$20.4 million, with expected net capital investments totaling \$7.0 million.

Comparative Information as Reported Under Previous Accounting Standards

The following comparative information is reported based upon previous accounting standards in effect for the periods presented.

Future minimum lease payments under operating leases were:

	As of December 31, 2018
	(in thousands)
2019	\$ 42,455
2020	36,299
2021	29,714
2022	20,721
2023	15,334
Thereafter	54,149
Total minimum lease payments ⁽¹⁾	\$ 198,672

⁽¹⁾ Includes future minimum lease payments of \$25.4 million related to the new distribution center in Dayton, Ohio.

Rent expense for operating leases was:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	(in thousands)			
Minimum rentals ⁽¹⁾	\$	15,070	\$	50,841
Contingent rentals		4,175		11,870
Total rent expense	\$	19,245	\$	62,711

⁽¹⁾ Minimum rentals include all lease payments as well as fixed and variable common area maintenance, parking, and storage fees, which were approximately \$2.3 million and \$7.1 million in the three and nine months ended September 30, 2018, respectively.

5. FAIR VALUE MEASUREMENTS

Recurring Fair Value Measurements

All of the Company's derivative instruments are classified as Level 2 of the fair value hierarchy and are reported in the condensed consolidated balance sheets within 'Accrued expenses and other liabilities' at September 30, 2019 and December 31, 2018. The fair values of the Company's derivative instruments were liabilities of \$0.9 million and \$1.3 million at September 30, 2019 and December 31, 2018, respectively. See Note 6 — Derivative Financial Instruments for more information.

The carrying amounts of the Company's cash, cash equivalents, and restricted cash, accounts receivable, accounts payable, and current accrued expenses and other liabilities approximate their fair value as recorded due to the short-term maturity of these instruments.

The Company's borrowing instruments are recorded at their carrying values in the condensed consolidated balance sheets, which may differ from their respective fair values. The fair values of the Company's outstanding borrowings approximate their carrying values at September 30, 2019 and December 31, 2018, based on interest rates currently available to the Company for similar borrowings and were:

	September 30, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in thousands)			
Borrowings	\$ 185,000	\$ 185,000	\$ 120,000	\$ 120,000

Non-Financial Assets and Liabilities

The Company's non-financial assets, which primarily consist of property and equipment, goodwill, and other intangible assets, are not required to be carried at fair value on a recurring basis and are reported at carrying value. The fair values of these assets are determined based on Level 3 measurements, including estimates of the amount and timing of future cash flows based upon historical experience, expected market conditions, and management's plans. Impairment expense is reported in 'Selling, general and administrative expenses' in the Company's condensed consolidated statements of operations. The Company did not record impairment expense in the three and nine months ended September 30, 2019. During the three and nine months ended September 30, 2018, the Company recorded non-cash impairment expenses of \$0.2 million and \$0.9 million, respectively, to reduce the carrying values of certain retail store assets. During the three and nine months ended September 30, 2018, the Company recorded non-cash impairment expenses of \$0.1 million and \$1.3 million, respectively, to reduce the carrying values of certain supply chain assets, included in 'Other businesses,' to their estimated fair values.

6. DERIVATIVE FINANCIAL INSTRUMENTS

The Company transacts business in various foreign countries and is therefore exposed to foreign currency exchange rate risk that impacts the reported U.S. Dollar amounts of revenues, expenses, and certain foreign currency monetary assets and liabilities. In order to manage exposure to fluctuations in foreign currency and to reduce the volatility in earnings caused by fluctuations in foreign exchange rates, the Company enters into forward contracts to buy and sell foreign currency. By policy, the Company does not enter into these contracts for trading purposes or speculation.

Counterparty default risk is considered low because the forward contracts that the Company enters into are over-the-counter instruments transacted with highly-rated financial institutions. The Company was not required to and did not post collateral as of September 30, 2019 or December 31, 2018.

The Company's derivative instruments are recorded at fair value as a derivative asset or liability in the condensed consolidated balance sheets. The Company reports derivative instruments with the same counterparty on a net basis when a master netting arrangement is in place. Changes in fair value are recognized within 'Foreign currency gains (losses), net' in the condensed consolidated statements of operations. For the condensed consolidated statements of cash flows, the Company classifies cash flows from derivative instruments at settlement in the same category as the cash flows from the related hedged items within 'Cash provided by operating activities.'

Results of Derivative Activities

The fair values of derivative assets and liabilities, net, all of which are classified as Level 2, reported within 'Accrued expenses and other liabilities' in the condensed consolidated balance sheets were:

	September 30, 2019		December 31, 2018	
	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
	(in thousands)			
Forward foreign currency exchange contracts	\$ 771	\$ (1,704)	\$ 943	\$ (2,256)
Netting of counterparty contracts	(771)	771	(943)	943
Foreign currency forward contract derivatives	\$ —	\$ (933)	\$ —	\$ (1,313)

The notional amounts of outstanding foreign currency forward exchange contracts presented below report the total U.S. Dollar equivalent position and the net contract fair values for each foreign currency position.

	September 30, 2019		December 31, 2018	
	Notional	Fair Value	Notional	Fair Value
	(in thousands)			
Euro	\$ 45,086	\$ (532)	\$ 34,959	\$ (92)
Singapore Dollar	36,023	(489)	34,584	254
Japanese Yen	22,337	75	25,561	(178)
British Pound Sterling	10,377	(54)	22,185	183
South Korean Won	13,297	128	9,408	63
Other currencies	38,762	(61)	67,885	(1,543)
Total	\$ 165,882	\$ (933)	\$ 194,582	\$ (1,313)

Latest maturity date	October 2019	January 2019
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Amounts reported in 'Foreign currency gains (losses), net' in the condensed consolidated statements of operations include both realized and unrealized gains (losses) from foreign currency transactions and derivative contracts, and were:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Foreign currency transaction gains (losses)	\$ 1,743	\$ (1,382)	\$ 835	\$ (894)
Foreign currency forward exchange contracts gains (losses)	(1,158)	1,615	(1,728)	2,481
Foreign currency gains (losses), net	\$ 585	\$ 233	\$ (893)	\$ 1,587

7. REVOLVING CREDIT FACILITIES AND BANK BORROWINGS

The Company's borrowings were as follows:

	September 30, 2019	December 31, 2018
	(in thousands)	
Revolving credit facilities	\$ 185,000	\$ 120,000
Less: Current portion of borrowings	—	—
Total long-term borrowings	<u>\$ 185,000</u>	<u>\$ 120,000</u>

Senior Revolving Credit Facility

In July 2019, the Company and certain of its subsidiaries (the "Borrowers") entered into a Second Amended and Restated Credit Agreement (as amended, the "Credit Agreement"), with the lenders named therein and PNC Bank, National Association, as a lender and administrative agent for the lenders, which provides for a revolving credit facility of \$450.0 million, which can be increased by an additional \$150.0 million subject to certain conditions (the "Facility"). Borrowings under the Credit Agreement bear interest at a variable rate based on a domestic base rate or a LIBOR rate, plus an applicable margin ranging from 0.00% to 1.875% based on the Company's leverage ratio. Borrowings under the Credit Agreement are secured by all of the assets of the Borrowers, and guaranteed by certain other subsidiaries of the Borrowers.

The Credit Agreement requires the Company to maintain a minimum interest coverage ratio of 4.00 to 1.00, and a maximum leverage ratio of (i) 3.50 to 1.00 from September 30, 2019 to September 30, 2020, and (ii) 3.25 to 1.00 from December 31, 2020 and thereafter (subject to an increase to 4.00 to 1.00 in the event of certain permitted acquisitions or stock repurchases). The Credit Agreement permits (i) stock repurchases so long as after giving effect to such stock repurchases, the maximum leverage ratio does not exceed the applicable maximum leverage ratio, less 0.25; and (ii) certain acquisitions so long as there is borrowing availability under the Credit Agreement of at least \$40.0 million. As of September 30, 2019, the Company was in compliance with all financial covenants under the Credit Agreement.

As of September 30, 2019, the total commitments available from the lenders under the Facility were \$450.0 million. At September 30, 2019, the Company had \$185.0 million in outstanding borrowings, which are due when the Facility matures in July 2024, and \$4.6 million in outstanding letters of credit under the Facility, which reduces amounts available for borrowing under the Facility. As of September 30, 2019 and December 31, 2018, the Company had \$260.4 million and \$129.4 million, respectively, of available borrowing capacity under the Facility.

The Company also has a suspended revolving credit facility in Asia, under which the Company had no borrowings during the nine months ended September 30, 2019 and year ended December 31, 2018 or borrowings outstanding at September 30, 2019 and December 31, 2018.

8. COMMON STOCK REPURCHASE PROGRAM

During the three and nine months ended September 30, 2019, the Company repurchased 1.0 million and 5.7 million shares of its common stock at a cost of \$25.0 million and \$133.5 million, including commissions, respectively. During the three and nine months ended September 30, 2018, the Company repurchased 0.6 million and 2.4 million shares of its common stock at a cost of \$11.1 million and \$37.0 million, including commissions, respectively. As of September 30, 2019, the Company had remaining authorization to repurchase approximately \$522.3 million of its common stock, subject to restrictions under its Credit Agreement.

9. REVENUES

Revenues by reportable operating segment and by channel were:

Fiscal Year 2019

Three Months Ended September 30, 2019					
	Americas	Asia Pacific	EMEA	Other Businesses	Total
	(in thousands)				
Channel:					
Wholesale	\$ 75,660	\$ 36,655	\$ 34,058	\$ 49	\$ 146,422
Retail	78,141	20,133	9,347	—	107,621
E-commerce	31,391	17,463	9,869	—	58,723
Total revenues	<u>\$ 185,192</u>	<u>\$ 74,251</u>	<u>\$ 53,274</u>	<u>\$ 49</u>	<u>\$ 312,766</u>

Nine Months Ended September 30, 2019					
	Americas	Asia Pacific	EMEA	Other Businesses	Total
	(in thousands)				
Channel:					
Wholesale	\$ 216,846	\$ 169,468	\$ 144,685	\$ 175	\$ 531,174
Retail	182,116	60,901	25,453	—	268,470
E-commerce	85,796	53,353	28,821	—	167,970
Total revenues	<u>\$ 484,758</u>	<u>\$ 283,722</u>	<u>\$ 198,959</u>	<u>\$ 175</u>	<u>\$ 967,614</u>

Fiscal Year 2018

Three Months Ended September 30, 2018					
	Americas	Asia Pacific	EMEA	Other Businesses	Total
	(in thousands)				
Channel:					
Wholesale	\$ 44,883	\$ 40,938	\$ 29,373	\$ 1,525	\$ 116,719
Retail	65,247	22,942	10,345	—	98,534
E-commerce	26,827	11,283	7,701	—	45,811
Total revenues	<u>\$ 136,957</u>	<u>\$ 75,163</u>	<u>\$ 47,419</u>	<u>\$ 1,525</u>	<u>\$ 261,064</u>

Nine Months Ended September 30, 2018					
	Americas	Asia Pacific	EMEA	Other Businesses	Total
	(in thousands)				
Channel:					
Wholesale	\$ 171,477	\$ 172,152	\$ 130,150	\$ 2,133	\$ 475,912
Retail	156,557	71,359	29,601	—	257,517
E-commerce	70,515	45,134	23,138	—	138,787
Total revenues	<u>\$ 398,549</u>	<u>\$ 288,645</u>	<u>\$ 182,889</u>	<u>\$ 2,133</u>	<u>\$ 872,216</u>

During the three and nine months ended September 30, 2019, the Company recognized decreases of \$0.3 million and \$0.2 million, respectively, to wholesale revenues and \$0.1 million to e-commerce revenues, due to changes in estimates related to products transferred to customers in prior periods. During the three and nine months ended September 30, 2018, the Company recognized increases of \$0.1 million and \$1.1 million, respectively, to wholesale revenues and no changes to e-commerce revenues, due to

changes in estimates related to products transferred to customers in prior periods. There were no changes to estimates for retail channel revenues during the three and nine months ended September 30, 2019 or 2018.

Contract Liabilities

At September 30, 2019 and December 31, 2018, \$1.0 million and \$1.6 million, respectively, of deferred revenues associated with advance customer deposits were reported in 'Accrued expenses and other liabilities' in the condensed consolidated balance sheets. Deferred revenues of \$0.3 million and \$1.8 million, respectively, were recognized in revenues during the three and nine months ended September 30, 2019. The remainder of deferred revenues at September 30, 2019 are expected to be recognized in revenues during the fourth quarter of 2019 as products are shipped or delivered. Deferred revenues of \$0.2 million and \$2.4 million, respectively, were recognized in revenues during the three and nine months ended September 30, 2018.

Refund Liabilities

At September 30, 2019 and December 31, 2018, \$8.5 million and \$6.4 million, respectively, of refund liabilities, primarily associated with product returns, were reported in 'Accrued expenses and other liabilities' in the condensed consolidated balance sheets.

10. SHARE-BASED COMPENSATION

The Company's share-based compensation awards are issued under the 2015 Equity Incentive Plan ("2015 Plan") and predecessor plan, the 2007 Equity Incentive Plan (the "2007 Plan"). Any awards that expire or are forfeited under the 2007 Plan become available for issuance under the 2015 Plan. As of September 30, 2019, 2.2 million shares of common stock remained available for future issuance under the 2015 Plan, subject to adjustment for future stock splits, stock dividends, and similar changes in capitalization.

Share-Based Compensation Expense

Pre-tax share-based compensation expense reported in the Company's condensed consolidated statements of operations was:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)			
Cost of sales	\$ 218	\$ 91	\$ 398	\$ 268
Selling, general and administrative expenses	3,401	3,214	10,622	9,052
Total share-based compensation expense	<u>\$ 3,619</u>	<u>\$ 3,305</u>	<u>\$ 11,020</u>	<u>\$ 9,320</u>

Stock Option Activity

Stock option activity during the nine months ended September 30, 2019 was:

	Number of Options (in thousands)
Outstanding as of December 31, 2018	362
Granted	—
Exercised	(19)
Forfeited or expired	(20)
Outstanding as of September 30, 2019	<u>323</u>

As of September 30, 2019, the Company had \$0.1 million of total unrecognized share-based compensation expense related to unvested options, which is expected to be amortized over the remaining weighted average period of 0.7 years.

Restricted Stock Awards and Restricted Stock Units Activity

The Company grants service-condition restricted stock awards (“RSAs”) as well as service-condition, performance-condition, and market-condition restricted stock units (“RSUs”). RSA and RSU activity during the nine months ended September 30, 2019 was:

	Restricted Stock Awards		Restricted Stock Units	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
(in thousands, except fair value data)				
Unvested at December 31, 2018	6	\$ 18.61	2,752	\$ 11.58
Granted	12	20.53	813	25.33
Vested	(10)	20.14	(974)	9.71
Forfeited	—	—	(588)	11.27
Unvested at September 30, 2019	8	\$ 19.39	2,003	\$ 17.73

As of September 30, 2019, unrecognized share-based compensation expense for RSAs was \$0.1 million, which is expected to amortize over a remaining weighted average period of 0.7 years.

RSUs vested during the nine months ended September 30, 2019 consisted of 0.6 million service-condition awards and 0.4 million performance- and market-condition awards. As of September 30, 2019, unrecognized share-based compensation expenses for service-condition awards were \$10.3 million and for performance- and market-condition awards were \$7.3 million, and are expected to amortize over remaining weighted average periods of 1.6 years and 1.9 years, respectively.

11. INCOME TAXES

Income tax expense and effective tax rates were:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
(in thousands, except effective tax rate)				
Income before income taxes	\$ 38,097	\$ 14,584	\$ 113,102	\$ 79,173
Income tax expense	2,421	4,092	13,518	17,850
Effective tax rate	6.4%	28.1%	12.0%	22.5%

During the three months ended September 30, 2019, income tax expense decreased \$1.7 million compared to the same period in 2018. The effective tax rate for the three months ended September 30, 2019 was 6.4% compared to an effective tax rate of 28.1% for the same period in 2018, a 21.7% decrease. The decrease in the effective rate was driven primarily by the utilization of deferred tax assets which were subject to a valuation allowance, partially offset by operating losses in certain jurisdictions where the Company has determined that it is not more likely than not to realize the associated tax benefits, and the release of valuation allowances in certain jurisdictions. The Company’s effective income tax rate, for each period presented, also differs from the federal U.S. statutory rate primarily due to differences in income tax rates between U.S. and foreign jurisdictions, as well as utilization of deferred tax assets which were subject to a valuation allowance. There were no significant or unusual discrete tax items during the nine months ended September 30, 2019. The Company had unrecognized tax benefits of \$5.7 million and \$4.5 million at September 30, 2019 and December 31, 2018, respectively, and the Company does not expect any significant changes in tax benefits in the next twelve months.

During the nine months ended September 30, 2019, income tax expense decreased \$4.3 million compared to the same period in 2018. The effective tax rate for the nine months ended September 30, 2019 was 12.0% compared to an effective tax rate of 22.5% for the same period in 2018, a 10.5% decrease. The decrease in the effective rate was driven primarily by the utilization of deferred tax assets which were subject to a valuation allowance, partially offset by operating losses in certain jurisdictions where the Company has determined that it is not more likely than not to realize the associated tax benefits, and the release of valuation allowances in certain jurisdictions. Our effective tax rate of 12.0% for the nine months ended September 30, 2019 primarily differs from the federal U.S. statutory rate due to differences in income tax rates between U.S. and foreign jurisdictions, as well as utilization of deferred tax assets which were subject to a valuation allowance.

Our tax rate is volatile and may increase or decrease with changes in, among other things, the amount of income or loss by jurisdiction, our ability to utilize net operating losses and foreign tax credits, changes in tax laws, and the movement of liabilities established pursuant to accounting guidance for uncertain tax positions as statutes of limitations expire, positions are effectively settled, or when additional information becomes available. There are proposed or pending tax law changes in various jurisdictions and other changes to regulatory environments in countries in which we do business that, if enacted, may have an impact on our effective tax rate.

We evaluate our ability to realize the tax benefits associated with deferred tax assets by analyzing our forecasted taxable income by considering both historical and projected future operating results, the reversal of existing temporary differences, taxable income in prior carry back years (if permitted) and the availability of tax planning strategies. As of September 30, 2019 valuation allowances remain in certain jurisdictions where the Company believes it is necessary to see further positive evidence, such as sustained achievement of cumulative profits, before these valuation allowances can be released. Given the current earnings trend, sufficient positive evidence may become available for the Company to release all or a portion of the valuation allowance within twelve months. However, the exact timing and amount of the valuation allowance releases are subject to change based on the level of profitability achieved in future periods. The Company will continue to assess the realizability of its deferred tax assets.

12. EARNINGS PER SHARE

Basic and diluted earnings per common share (“EPS”) for the three and nine months ended September 30, 2019 and 2018 were:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands, except per share data)			
Numerator:				
Net income attributable to common stockholders	\$ 35,676	\$ 6,520	\$ 99,584	\$ 49,469
Less: Net income allocable to Series A Convertible Preferred stockholders ⁽¹⁾	—	(1,114)	—	(8,319)
Remaining net income available to common stockholders - basic and diluted	<u>\$ 35,676</u>	<u>\$ 5,406</u>	<u>\$ 99,584</u>	<u>\$ 41,150</u>
Denominator:				
Weighted average common shares outstanding - basic	69,097	67,821	71,003	68,223
Plus: dilutive effect of stock options and unvested restricted stock units for both periods and Series A Convertible Preferred Stock in 2018	1,079	4,953	1,339	2,881
Weighted average common shares outstanding - diluted	<u>70,176</u>	<u>72,774</u>	<u>72,342</u>	<u>71,104</u>
Net income per common share:				
Basic	\$ 0.52	\$ 0.08	\$ 1.40	\$ 0.60
Diluted	\$ 0.51	\$ 0.07	\$ 1.38	\$ 0.58

⁽¹⁾ Represents the amount which would have been paid to Series A Convertible Preferred stockholders in the event the Company had declared a dividend on its common stock.

For the three and nine months ended September 30, 2019, less than 0.1 million options and RSUs were excluded from the calculation of diluted EPS because the effect was anti-dilutive. For the three and nine months ended September 30, 2018, less than 0.1 million and 0.1 million options and RSUs were excluded from the calculation of diluted EPS under the two-class method because the effect was anti-dilutive.

13. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

As of September 30, 2019, the Company had purchase commitments to third-party manufacturers, primarily for materials and supplies used in the manufacture of the Company’s products, for an aggregate of \$205.9 million. The Company expects to fulfill its commitments under these agreements in the normal course of business, and as such, no liability has been recorded.

Other

The Company is regularly subject to, and is currently undergoing, audits by various tax authorities in the United States and several foreign jurisdictions, including customs duties, import, and other taxes for prior tax years.

During its normal course of business, the Company may make certain indemnities, commitments, and guarantees under which it may be required to make payments. The Company cannot determine a range of estimated future payments and has not recorded any liability for indemnities, commitments, and guarantees in the accompanying condensed consolidated balance sheets.

See Note 15 — Legal Proceedings for further details regarding potential loss contingencies related to government tax audits and other current legal proceedings.

14. OPERATING SEGMENTS AND GEOGRAPHIC INFORMATION

The Company has three reportable operating segments based on the geographic nature of its operations: Americas, Asia Pacific, and EMEA. In addition, the ‘Other businesses’ category aggregates insignificant operating segments that do not meet the reportable segment threshold, including corporate operations and company-operated manufacturing facilities, which substantially ceased operations in the third quarter of 2018.

Each of the reportable operating segments derives its revenues from the sale of footwear and accessories to external customers. Revenues for ‘Other businesses’ include non-footwear and accessories product sales to external customers that are excluded from the measurement of segment operating revenues and income.

Segment performance is evaluated based on segment results without allocating corporate expenses, or indirect general, administrative, and other expenses. Segment profits or losses include adjustments to eliminate inter-segment sales. Reconciling items between segment income from operations and income from operations consist of other businesses and unallocated corporate and other expenses, as well as inter-segment eliminations. The following tables set forth information related to reportable operating segments:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
(in thousands)				
Revenues:				
Americas	\$ 185,192	\$ 136,957	\$ 484,758	\$ 398,549
Asia Pacific	74,251	75,163	283,722	288,645
EMEA	53,274	47,419	198,959	182,889
Total segment revenues	312,717	259,539	967,439	870,083
Other businesses	49	1,525	175	2,133
Total consolidated revenues	\$ 312,766	\$ 261,064	\$ 967,614	\$ 872,216
Income from operations:				
Americas	\$ 66,760	\$ 42,586	\$ 157,314	\$ 110,814
Asia Pacific	13,124	16,861	67,888	74,640
EMEA	13,623	12,064	61,200	53,819
Total segment income from operations	93,507	71,511	286,402	239,273
Reconciliation of total segment income from operations to income before income taxes:				
Other businesses	(11,958)	(14,092)	(38,428)	(41,557)
Unallocated corporate and other ⁽¹⁾	(41,665)	(43,524)	(127,681)	(120,835)
Income from operations	39,884	13,895	120,293	76,881
Foreign currency gains (losses), net	585	233	(893)	1,587
Interest income	167	422	493	847
Interest expense	(2,505)	(126)	(6,743)	(371)
Other income (expense), net	(34)	160	(48)	229
Income before income taxes	\$ 38,097	\$ 14,584	\$ 113,102	\$ 79,173
Depreciation and amortization:				
Americas	\$ 849	\$ 1,098	\$ 2,627	\$ 3,613
Asia Pacific	254	422	686	1,655
EMEA	191	301	606	980
Total segment depreciation and amortization	1,294	1,821	3,919	6,248
Other businesses	965	1,213	3,346	4,168
Unallocated corporate and other ⁽¹⁾	3,384	3,627	10,243	11,119
Total consolidated depreciation and amortization	\$ 5,643	\$ 6,661	\$ 17,508	\$ 21,535

⁽¹⁾ Unallocated corporate and other includes corporate support and administrative functions, costs associated with share-based compensation, research and development, brand marketing, legal, and depreciation and amortization of corporate and other assets not allocated to operating segments.

The following table sets forth asset information related to reportable operating segments as of the dates shown:

	September 30, 2019	December 31, 2018
	(in thousands)	
Long-lived assets ⁽¹⁾ :		
Americas	\$ 133,352	\$ 12,977
Asia Pacific	23,123	1,831
EMEA	14,657	3,125
Total segment long-lived assets	171,132	17,933
Supply Chain	57,194	11,996
Corporate and other	45,736	39,586
Total long-lived assets	\$ 274,062	\$ 69,515
Total consolidated assets:		
Americas	\$ 331,539	\$ 157,016
Asia Pacific	105,866	139,679
EMEA	78,527	66,021
Total segment assets	515,932	362,716
Supply Chain	70,585	31,108
Corporate and other	98,998	75,077
Total consolidated assets	\$ 685,515	\$ 468,901

⁽¹⁾ Long-lived assets includes “Property and equipment, net”, “Intangible assets, net”, “Goodwill”, and “Right-of-use assets” in the Company’s condensed consolidated balance sheet.

15. LEGAL PROCEEDINGS

The Company was subjected to an audit by the Brazilian Federal Tax Authorities related to imports of footwear from China between 2010 and 2014. On January 13, 2015, the Company was notified about the issuance of assessments totaling 14.4 million Brazilian Real (“BRL”), or approximately \$3.5 million, plus interest and penalties, for the period January 2010 through May 2011. The Company disputed these assessments and asserted defenses to the claims. On February 25, 2015, the Company received additional assessments totaling 33.3 million BRL, or approximately \$8.0 million, plus interest and penalties, related to the remainder of the audit period. The Company also disputed these assessments and asserted defenses to these claims in administrative appeals. On August 29, 2017, the Company received a favorable ruling on its appeal of the first assessment, which dismissed all fines, penalties, and interest. The tax authorities have appealed that decision and the Company challenged the appeal on both the merits and procedure. Additionally, the second appeal for the remaining assessments was heard on March 22, 2018. That decision was partially favorable for the Company and resulted in an approximately 38% reduction in principal, penalties, and interest, leaving approximately \$5.0 million, plus interest and penalties, at risk for those assessments. The tax authorities have appealed that decision and the Company filed a response to the tax authorities’ appeal as well as a separate appeal against the unfavorable portion of the ruling. Should the Brazilian Tax Authority prevail in this final administrative appeal, the Company may challenge the assessments through the court system, which would likely require the posting of a bond. The Company has not recorded these items within the condensed consolidated financial statements as it is not possible at this time to predict the timing or outcome of this matter or to estimate a potential amount of loss, if any.

For all other claims and disputes, where the Company is able to estimate reasonably possible losses or a range of reasonably possible losses, the Company estimates that as of September 30, 2019, reasonably possible losses associated with these claims and other disputes could potentially exceed amounts accrued by up to \$1.4 million.

Although the Company is subject to other litigation from time to time in the ordinary course of business, including employment, intellectual property and product liability claims, other than as set forth above, the Company is not party to any other pending

legal proceedings that it believes would reasonably have a material adverse impact on its business, financial results, and cash flows.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Business Overview

Crocs, Inc. and its consolidated subsidiaries (collectively the "Company," "Crocs," "we," "our," or "us") are engaged in the design, development, worldwide marketing, distribution, and sale of casual lifestyle footwear and accessories for men, women, and children. We strive to be the world leader in innovative casual footwear for women, men, and children, combining comfort and style with a value that consumers want. The vast majority of shoes within Crocs' collection contain Croslite™ material, a proprietary, molded footwear technology, delivering extraordinary comfort with each step.

Known or Anticipated Trends

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

- Consumer spending preferences continue to shift toward e-commerce and away from brick and mortar stores. This has resulted in continued sales growth in our e-commerce channel, as well as with various e-tail partners in the wholesale channel.
- We continue to place greater priority on outlet stores, so that they now represent 52.7% of our store base.
- A cautious purchasing environment may negatively affect customer purchasing trends.
- Foreign exchange rate volatility impacts our reported U.S. Dollar results from our foreign operations.
- In 2018, we successfully completed our SG&A reduction plan, eliminating approximately \$75 million of annualized expenses from our cost structure. We are on track to realize approximately \$10 million in additional cost reductions in 2019. We intend to reinvest some of those savings in marketing and our e-commerce business, to further strengthen our brand and drive incremental sales growth, as well as to enhance our distribution infrastructure.
- As a result of the repurchase and conversion of our Series A Convertible Preferred Stock on December 5, 2018, we are no longer required to pay \$12 million annually in preferred stock dividends.
- Non-recurring charges relating to the Company's new distribution center in Dayton, Ohio are expected to reduce gross margin by approximately 100 basis points in 2019. In 2020 and beyond, when the new distribution center is fully operational, we expect a benefit to gross margin of approximately 100 basis points in addition to the 100 basis point benefit associated with the 2019 non-recurring charges not being repeated.
- Capital expenditures to support our growth are expected to be approximately \$60 million in 2019.

Use of Non-GAAP Financial Measures

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

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

Third Quarter 2019 Financial and Operational Highlights

Revenues were \$312.8 million for the third quarter of 2019, a 19.8% increase compared to the third quarter of 2018. The increase was due to the net effects of: (i) higher unit sales volumes, which increased revenues by \$41.7 million, or 16.0%; (ii) higher average selling prices as we increased pricing and reduced promotional discounting, which increased revenues by \$13.1 million, or 5.0%; and (iii) unfavorable changes in exchange rates, which decreased revenues by \$3.1 million, or 1.2%

The following were significant developments affecting our businesses and capital structure during the three months ended September 30, 2019:

- We sold 15.9 million pairs of shoes worldwide, an increase of 19.3% from 13.3 million pairs in the three months ended September 30, 2018.
- Gross margin was 52.4%, a decline of 90 basis points from last year's third quarter. The decline was driven by 130 basis points of reduced purchasing power associated with the strength of the U.S. Dollar, the 120 basis point impact of non-recurring expenditures related to the relocation of our U.S. distribution center, channel mix, and higher distribution costs. These impacts were partially offset by lower promotions and higher unit sales in the Americas, as well as savings from exiting our company-operated manufacturing facilities last year.
- SG&A was \$123.9 million compared to \$125.2 million in the third quarter of 2018. As a percent of revenues, SG&A improved 830 basis points to 39.6% of revenues compared to 47.9% of revenues in the third quarter of 2018. Third quarter 2019 results included \$0.8 million in non-recurring charges related to various cost reduction activities compared to \$5.7 million of non-recurring charges in last year's third quarter associated with the closure of our company-operated manufacturing and distribution facilities in Mexico and Italy and our SG&A reduction plan.
- Income from operations of \$39.9 million increased 187.0% compared to \$13.9 million in last year's third quarter. Net income attributable to common stockholders was \$35.7 million, or \$0.51 per diluted share, compared to \$6.5 million, or \$0.07 per diluted share, in last year's third quarter. As a result of the repurchase and conversion of our Series A Convertible Preferred Stock on December 5, 2018, net income attributable to common stockholders in the third quarter of 2019 benefits from the absence of dividends and dividend equivalents adjustments. We had 70.2 million and 72.8 million weighted average diluted common shares outstanding on September 30, 2019 and 2018, respectively.
- To continue improving the efficiency and profitability of our retail business, we closed 8 stores during the three months ended September 30, 2019 and opened 6 stores, to end the quarter with 368 stores, 21 fewer than at September 30, 2018.
- We repurchased 1.0 million shares of common stock at an aggregate cost of \$25.0 million.

Results of Operations

	Three Months Ended September 30,		Nine Months Ended September 30,		% Change	
	2019	2018	2019	2018	Q3 2019-2018	YTD 2019-2018
(in thousands, except per share, margin, and average selling price data)						
Revenues	\$ 312,766	\$ 261,064	\$ 967,614	\$ 872,216	19.8 %	10.9 %
Cost of sales	148,942	122,005	476,796	411,884	(22.1)%	(15.8)%
Gross profit	163,824	139,059	490,818	460,332	17.8 %	6.6 %
Selling, general and administrative expenses	123,940	125,164	370,525	383,451	1.0 %	3.4 %
Income from operations	39,884	13,895	120,293	76,881	187.0 %	56.5 %
Foreign currency gains (losses), net	585	233	(893)	1,587	151.1 %	(156.3)%
Interest income	167	422	493	847	(60.4)%	(41.8)%
Interest expense	(2,505)	(126)	(6,743)	(371)	(1,888.1)%	(1,717.5)%
Other income (expense), net	(34)	160	(48)	229	(121.3)%	(121.0)%
Income before income taxes	38,097	14,584	113,102	79,173	161.2 %	42.9 %
Income tax expense	2,421	4,092	13,518	17,850	40.8 %	24.3 %
Net income	35,676	10,492	99,584	61,323	240.0 %	62.4 %
Dividends on Series A convertible preferred stock	—	(3,000)	—	(9,000)	100.0 %	100.0 %
Dividend equivalents on Series A convertible preferred stock related to redemption value accretion and beneficial conversion feature	—	(972)	—	(2,854)	100.0 %	100.0 %
Net income attributable to common stockholders	\$ 35,676	\$ 6,520	\$ 99,584	\$ 49,469	447.2 %	101.3 %
Net income per common share:						
Basic	\$ 0.52	\$ 0.08	\$ 1.40	\$ 0.60	550.0 %	133.3 %
Diluted	\$ 0.51	\$ 0.07	\$ 1.38	\$ 0.58	628.6 %	137.9 %
Gross margin ⁽¹⁾	52.4%	53.3%	50.7%	52.8%	(90)bp	(210)bp
Operating margin ⁽¹⁾	12.8%	5.3%	12.4%	8.8%	750bp	360bp
Footwear unit sales	15,883	13,309	53,361	48,188	19.3 %	10.7 %
Average footwear selling price - nominal basis	\$ 18.99	\$ 18.90	\$ 17.65	\$ 17.66	0.5 %	(0.1)%

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

Revenues. Revenues increased \$51.7 million, or 19.8%, during the three months ended September 30, 2019 compared to the same period in 2018, reflecting growth in all channels. Higher unit sales volume increased revenues by \$41.7 million, or 16.0%. Higher average selling price on a constant currency basis (“ASP”) increased revenues by approximately \$13.1 million, or 5.0%, as we reduced promotional activities and increased prices on certain product. A decrease of \$3.1 million, or 1.2%, resulted from unfavorable foreign currency translation. Our wholesale channel grew by 25.4%, with especially strong performance in the Americas during the third quarter. Our e-commerce channel grew by 28.2% due to increased traffic as a result of increased interest in the brand, investments in digital marketing, and global marketplaces. Our retail channel increased by 9.2% in the third quarter of 2019 compared to the same period of 2018, even as we operated 21 fewer retail stores compared to September 30, 2018. Our retail comparable store sales growth was 12.5% on a global basis.

Revenues increased \$95.4 million, or 10.9%, in the nine months ended September 30, 2019, compared to the same period in 2018. Higher unit sales volume resulted in an increase in revenues of approximately \$74.0 million, or 8.5%, and an increase of \$47.2 million, or 5.4%, was attributable to a higher ASP, the result of price increases on certain product and less discounting. A decrease

of \$25.8 million, or 3.0%, resulted from unfavorable foreign currency translation. The increase in revenues was led by 11.6% growth in our wholesale channel and 21.0% growth in our e-commerce channel. Our retail channel revenues increased by 4.3% in the nine months ended September 30, 2019 compared to the same period in 2018, even as we operated 21 fewer retail stores compared to September 30, 2018. Our retail comparable store sales growth of 11.4% reflected increased traffic and higher ASP in our remaining company-operated retail stores.

Cost of sales. Cost of sales increased \$26.9 million, or 22.1%, during the three months ended September 30, 2019 compared to the same period in 2018. Higher unit sales volume resulted in an increase in cost of sales of \$23.6 million, or 19.3%. Increases in distribution expenses, the unfavorable impacts of non-recurring expenses associated with the relocation of our U.S. distribution center and operating our U.S. distribution center above capacity, and the negative impacts on our purchasing power of a stronger U.S. Dollar contributed to a higher average cost per unit on a constant currency basis ("AUC"). Higher AUC accounted for a \$4.9 million, or 4.0%, increase in cost of sales. The impact of foreign currency translation was a decrease of \$1.6 million, or 1.2%.

During the nine months ended September 30, 2019, cost of sales increased \$64.9 million, or 15.8%, compared to the same period in 2018. Higher unit sales volume resulted in an increase of \$44.2 million, or 10.7%, in cost of sales. Increases in product costs, the unfavorable impacts of higher freight costs associated with inflation and the use of air shipments, costs associated with operating our U.S. distribution center above capacity, and the negative impacts on our purchasing power of a stronger U.S. Dollar contributed to a higher AUC. Higher AUC accounted for a \$33.2 million, or 8.1%, increase in cost of sales. The impact of foreign currency translation was a decrease of \$12.5 million, or 3.0%, in cost of sales.

Gross profit. Gross profit increased \$24.8 million, or 17.8%, during the three months ended September 30, 2019 compared to the same period in 2018. Gross margin declined 90 basis points to 52.4% compared to the same period in 2018, driven primarily by the 120 basis point impact of non-recurring charges associated with the move to the company's new distribution center and the unfavorable impacts of currency on purchasing power as well as increased distribution costs, and strong growth in lower margin wholesale revenues, partially offset by savings related to the closure of our company-operated manufacturing facilities in 2018 and higher ASPs. An increase of \$26.9 million, or 19.3%, resulted from higher unit sales volume, while a decrease of \$0.6 million, or 0.4%, resulted from increases in AUC that exceeded increases in ASP. The impact of unfavorable foreign currency translation was a decrease of \$1.5 million, or 1.1%.

During the nine months ended September 30, 2019, gross profit increased \$30.5 million, or 6.6%, and gross margin decreased 210 basis points to 50.7% compared to the same period in 2018, driven by the unfavorable impact of currency on our purchasing power and increased freight and distribution center expenses, partially offset by savings related to the closure of our company-operated manufacturing facilities in 2018. Higher unit sales volume drove an increase of approximately \$44.9 million, or 9.8%. A decrease of \$5.6 million, or 1.2%, resulted from increases in AUC that exceeded increases in ASP. The impact of unfavorable foreign currency translation was a decrease of \$8.8 million, or 2.0%.

Selling, general and administrative expenses. SG&A decreased \$1.2 million, or 1.0%, during the three months ended September 30, 2019 compared to the same period in 2018. The decrease was primarily due to \$0.8 million of non-recurring expenses during the three months ended September 30, 2019 compared to \$5.7 million in the same period in 2018. The 2018 non-recurring expenses were due primarily to the closure of our company-operated Mexico and Italy manufacturing and distribution facilities and our SG&A reduction plan. Net decreases in compensation and other expenses of \$0.5 million were offset by increased marketing expense of \$4.2 million. As a percent of sales, SG&A improved by 830 basis points to 39.6%.

SG&A decreased \$12.9 million, or 3.4%, for the nine months ended September 30, 2019, compared to the same period in 2018. As a percent of sales, SG&A improved by 570 basis points to 38.3%. The decrease was primarily due to non-recurring expenses of \$1.7 million compared to \$16.5 million for the same period in 2018. The decrease in these expenses is due primarily to the closure of our company-operated manufacturing and distribution facilities in 2018 and our SG&A reduction plan, completed in 2018. Additionally, a decrease of \$7.4 million in facilities expense resulted from the reduction in company-operated retail stores and closure of our company-operated manufacturing and distribution facilities. Additionally, a net decrease in other expenses of \$0.5 million were partially offset by higher marketing expense of \$9.8 million.

Foreign currency gains (losses), net. Foreign currency gains (losses), net, consists of realized and unrealized foreign currency gains and losses from the remeasurement and settlement of monetary assets and liabilities denominated in non-functional currencies as well as realized and unrealized gains and losses on foreign currency derivative instruments. During the three months ended September 30, 2019, we recognized realized and unrealized net foreign currency gains of \$0.6 million compared to gains of \$0.2 million during the three months ended September 30, 2018. During the nine months ended September 30, 2019, we recognized realized and unrealized net foreign currency losses of \$0.9 million, compared to gains of \$1.6 million during the nine months ended September 30, 2018.

Income tax expense. During the three months ended September 30, 2019, income tax expense decreased \$1.7 million compared to the same period in 2018. The effective tax rate for the three months ended September 30, 2019 was 6.4% compared to an effective tax rate of 28.1% for the same period in 2018, a 21.7% decrease. The decrease in the effective rate was driven primarily by the utilization of deferred tax assets which were subject to a valuation allowance, partially offset by operating losses in certain jurisdictions where we have determined that it is not more likely than not to realize the associated tax benefits, and the release of valuation allowances in certain jurisdictions. Our effective income tax rate, for each period presented, also differs from the federal U.S. statutory rate primarily due to differences in income tax rates between U.S. and foreign jurisdictions, as well as utilization of deferred tax assets which were subject to a valuation allowance. There were no significant or unusual discrete tax items during the nine months ended September 30, 2019. We had unrecognized tax benefits of \$5.7 million and \$4.5 million at September 30, 2019 and December 31, 2018, respectively, and we do not expect any significant changes in tax benefits in the next twelve months.

During the nine months ended September 30, 2019, income tax expense decreased \$4.3 million compared to the same period in 2018. The effective tax rate for the nine months ended September 30, 2019 was 12.0% compared to an effective tax rate of 22.5% for the same period in 2018, a 10.5% decrease. The decrease in the effective rate was driven primarily by the utilization of deferred tax assets which were subject to a valuation allowance, partially offset by operating losses in certain jurisdictions where we have determined that it is not more likely than not to realize the associated tax benefits, and the release of valuation allowances in certain jurisdictions. Our effective tax rate of 12.0% for the nine months ended September 30, 2019 differs from the federal U.S. statutory rate primarily due to differences in income tax rates between U.S. and foreign jurisdictions, as well as utilization of deferred tax assets which were subject to a valuation allowance.

Our tax rate is volatile and may increase or decrease with changes in, among other things, the amount of income or loss by jurisdiction, our ability to utilize net operating losses and foreign tax credits, changes in tax laws, and the movement of liabilities established pursuant to accounting guidance for uncertain tax positions as statutes of limitations expire, positions are effectively settled, or when additional information becomes available. There are proposed or pending tax law changes in various jurisdictions and other changes to regulatory environments in countries in which we do business that, if enacted, may have an impact on our effective tax rate.

We evaluate our ability to realize the tax benefits associated with deferred tax assets by analyzing our forecasted taxable income by considering both historical and projected future operating results, the reversal of existing temporary differences, taxable income in prior carry back years (if permitted) and the availability of tax planning strategies. As of September 30, 2019 valuation allowances remain in certain jurisdictions where the Company believes it is necessary to see further positive evidence, such as sustained achievement of cumulative profits, before these valuation allowances can be released. Given the current earnings trend, sufficient positive evidence may become available for the Company to release all or a portion of the valuation allowance within twelve months. However, the exact timing and amount of the valuation allowance releases are subject to change based on the level of profitability achieved in future periods. The Company will continue to assess the realizability of its deferred tax assets.

Revenues By Channel

	Three Months Ended September 30,		Nine Months Ended September 30,		% Change		Constant Currency % Change ⁽¹⁾	
	2019	2018	2019	2018	Q3 2019-2018	YTD 2019- 2018	Q3 2019-2018	YTD 2019- 2018
(in thousands)								
Wholesale:								
Americas	\$ 75,660	\$ 44,883	\$ 216,846	\$ 171,477	68.6 %	26.5 %	69.0 %	27.6 %
Asia Pacific	36,655	40,938	169,468	172,152	(10.5)%	(1.6)%	(10.0)%	1.9 %
EMEA	34,058	29,373	144,685	130,150	16.0 %	11.2 %	19.9 %	18.7 %
Other businesses	49	1,525	175	2,133	(96.8)%	(91.8)%	(96.9)%	(91.8)%
Total wholesale	146,422	116,719	531,174	475,912	25.4 %	11.6 %	26.8 %	15.3 %
Retail:								
Americas	78,141	65,247	182,116	156,557	19.8 %	16.3 %	19.8 %	16.4 %
Asia Pacific	20,133	22,942	60,901	71,359	(12.2)%	(14.7)%	(9.6)%	(10.7)%
EMEA	9,347	10,345	25,453	29,601	(9.6)%	(14.0)%	(7.4)%	(9.4)%
Total retail	107,621	98,534	268,470	257,517	9.2 %	4.3 %	10.1 %	5.9 %
E-commerce:								
Americas	31,391	26,827	85,796	70,515	17.0 %	21.7 %	17.1 %	21.9 %
Asia Pacific	17,463	11,283	53,353	45,134	54.8 %	18.2 %	56.9 %	22.9 %
EMEA	9,869	7,701	28,821	23,138	28.2 %	24.6 %	33.2 %	31.5 %
Total e-commerce	58,723	45,811	167,970	138,787	28.2 %	21.0 %	29.6 %	23.8 %
Total revenues	\$ 312,766	\$ 261,064	\$ 967,614	\$ 872,216	19.8 %	10.9 %	21.0 %	13.9 %

⁽¹⁾ Reflects year over year change as if the current period results were in constant currency, which is a non-GAAP financial measure. Constant currency represents current period results that have been retranslated using exchange rates in effect in the prior comparative period.

Wholesale channel revenues. Revenues from our wholesale channel increased \$29.7 million, or 25.4%, during the three months ended September 30, 2019 compared to the same period in 2018. An increase of \$27.4 million, or 23.5%, resulted from higher unit sales volume due to increased customer demand, led by especially strong performance in the Americas. An increase of \$3.8 million, or 3.2%, was driven by a higher ASP. The impact of unfavorable foreign currency translation was a decrease of \$1.5 million, or 1.3%.

During the nine months ended September 30, 2019, revenues from our wholesale channel increased \$55.3 million, or 11.6%, compared to the same period in 2018. An increase of \$61.4 million, or 12.9%, resulted from higher unit sales volume due to increased customer demand. An increase of \$11.5 million, or 2.4%, was driven by a higher ASP. The impact of unfavorable foreign currency translation was a decrease of \$17.6 million, or 3.7%.

Retail channel revenues. Revenues from our retail channel increased \$9.1 million, or 9.2%, during the three months ended September 30, 2019 compared to the same period in 2018. Due to targeted reductions in our company-operated retail store fleet, we operated 21 fewer stores as of September 30, 2019 compared to the end of last year's third quarter. Our comparable retail store sales grew 12.5% on a global basis, reflecting a higher ASP and increased traffic. An increase of \$11.3 million, or 11.4%, was driven by a higher ASP, reflecting favorable product mix and improved quality of revenues, the results of less promotional discounting and improved inventory composition. A decrease of \$1.3 million, or 1.3%, was due to lower unit sales volume related to store count reduction. The impact of foreign currency translation was a decrease of \$0.9 million, or 0.9%.

During the nine months ended September 30, 2019, revenues from our retail channel increased \$11.0 million, or 4.3%, compared to the same period in 2018. Due to targeted reductions in our company-operated retail store fleet, we operated 21 fewer stores as of September 30, 2019 compared to the end of last year's third quarter. Our comparable retail store sales grew 11.4% on a global basis, reflecting a higher ASP and increased traffic. Favorable product mix and improved quality of revenues, the results of less promotional discounting and improved inventory composition, resulted in a higher ASP impact of \$23.3 million, or 9.1%. A decrease of \$8.0 million, or 3.1%, was due to lower unit sales volume related to store count reduction. The impact of foreign currency translation was a decrease of \$4.3 million, or 1.7%.

E-commerce channel revenues. Revenues from our e-commerce channel, which includes our own e-commerce sites as well as sales through third-party marketplaces, increased \$12.9 million, or 28.2%, during the three months ended September 30, 2019

compared to the same period in 2018, as this channel continued to grow in each region. Higher unit sales volume resulted in an increase of \$15.6 million, or 34.0%, reflecting higher traffic, global marketplaces, and a continuing shift toward online purchasing. Revenues decreased by \$2.0 million, or 4.4%, due to a lower ASP. The impact of foreign currency translation was a decrease of \$0.7 million, or 1.4%.

During the nine months ended September 30, 2019, revenues from our e-commerce channel increased \$29.2 million, or 21.0%, compared to the same period in 2018. Higher sales volume drove an increase of \$20.7 million, or 14.9%. Revenues increased by \$12.4 million, or 9.0%, as a result of higher ASP. The impact of foreign currency translation was a decrease of \$3.9 million, or 2.9%.

Reportable Operating Segments

The following table sets forth information related to our reportable operating segments, including a comparison of revenues and operating income by segment:

	Three Months Ended September 30,		Nine Months Ended September 30,		% Change		Constant Currency % Change ⁽¹⁾	
	2019	2018	2019	2018	Q3 2019-2018	YTD 2019-2018	Q3 2019-2018	YTD 2019-2018
(in thousands)								
Revenues:								
Americas	\$ 185,192	\$ 136,957	\$ 484,758	\$ 398,549	35.2 %	21.6 %	35.4 %	22.2 %
Asia Pacific	74,251	75,163	283,722	288,645	(1.2)%	(1.7)%	0.2 %	2.0 %
EMEA	53,274	47,419	198,959	182,889	12.3 %	8.8 %	16.1 %	15.7 %
Total segment revenues	312,717	259,539	967,439	870,083	20.5 %	11.2 %	21.7 %	14.2 %
Other businesses	49	1,525	175	2,133	(96.8)%	(91.8)%	(96.9)%	(91.8)%
Total consolidated revenues	\$ 312,766	\$ 261,064	\$ 967,614	\$ 872,216	19.8 %	10.9 %	21.0 %	13.9 %
Income from operations:								
Americas	\$ 66,760	\$ 42,586	\$ 157,314	\$ 110,814	56.8 %	42.0 %	57.0 %	42.3 %
Asia Pacific	13,124	16,861	67,888	74,640	(22.2)%	(9.0)%	(22.0)%	(5.7)%
EMEA	13,623	12,064	61,200	53,819	12.9 %	13.7 %	16.0 %	21.1 %
Total segment income from operations	93,507	71,511	286,402	239,273	30.8 %	19.7 %	31.5 %	22.6 %
Other businesses	(11,958)	(14,092)	(38,428)	(41,557)	15.1 %	7.5 %	18.5 %	5.9 %
Unallocated corporate and other ⁽²⁾	(41,665)	(43,524)	(127,681)	(120,835)	4.3 %	(5.7)%	(15.4)%	(6.4)%
Total consolidated income from operations	\$ 39,884	\$ 13,895	\$ 120,293	\$ 76,881	187.0 %	56.5 %	191.5 %	63.4 %

⁽¹⁾ Reflects year over year change as if the current period results were in constant currency, which is a non-GAAP financial measure. Constant currency represents current period results that have been retranslated using exchange rates in effect in the prior comparative period.

⁽²⁾ Unallocated corporate and other includes corporate support and administrative functions, costs associated with share-based compensation, research and development, brand marketing, legal, and depreciation and amortization of corporate and other assets not allocated to operating segments.

Americas Operating Segment

Revenues. Revenues for our Americas segment increased \$48.2 million, or 35.2%, during the three months ended September 30, 2019 compared to the same period in 2018. The increase in revenues was primarily driven by a 68.6% increase in wholesale revenues, resulting from greater customer demand in North America. Retail revenues increased by 19.8%, despite operating 4 fewer retail stores compared to the same period last year due to comparable store sales growth of 19.1%. E-commerce revenues increased 17.0% due to increased traffic. Higher unit sales volume resulted in an increase of \$30.2 million, or 22.1%, and an increase in ASP generated \$18.3 million, or 13.3%. The impact of unfavorable foreign currency translation was a decrease of \$0.3 million, or 0.2%.

During the nine months ended September 30, 2019, revenues for our Americas segment increased by \$86.2 million, or 21.6%, compared to the same period in 2018. The increase in revenues resulted from a 26.5% increase in wholesale revenues, a 16.3% increase in retail revenues, and a 21.7% increase in e-commerce revenues. For all channels combined, higher unit sales volume resulted in an increase of \$45.1 million, or 11.3%, while a higher ASP resulted in an increase of \$43.4 million, or 10.9%. The impact of unfavorable foreign currency translation was a decrease of \$2.3 million, or 0.6%.

Income from Operations. Income from operations for the Americas segment was \$66.8 million for the three months ended September 30, 2019, an increase of \$24.2 million, or 56.8%, compared to the same period in 2018. Gross profit increased \$26.9 million, or 33.7%, and gross margin decreased 70 basis points to 57.7%, compared to the same period in 2018. The increase in gross profit was primarily due to an increase of \$27.0 million, or 33.8%, from higher unit sales volume, with minimal impacts from ASP and foreign currency translation.

SG&A for our Americas segment increased \$2.7 million, or 7.3%, during the three months ended September 30, 2019 compared to the same period in 2018 due to increases in compensation expense of \$1.3 million, facilities expense of \$0.8 million, and net professional services and other expense of \$0.6 million.

Income from operations for the Americas segment was \$157.3 million for the nine months ended September 30, 2019, an increase of \$46.5 million, or 42.0%, compared to the same period in 2018. Gross profit increased \$48.8 million, or 22.1%, and gross margin increased 20 basis points to 55.7%, compared to the same period in 2018. The increase in gross profit is due to an increase of \$33.4 million, or 15.1%, from higher unit sales volume and an increase of \$16.5 million, or 7.5%, in our ASP. The impact of unfavorable foreign currency translation was a decrease of \$1.1 million, or 0.5%.

During the nine months ended September 30, 2019, SG&A for our Americas segment increased \$2.3 million, or 2.1%, compared to the same period in 2018. The increase in SG&A was due to increases of \$2.6 million in compensation expense, \$1.2 million in professional services expense, and \$1.0 million in marketing expense, partially offset by decreases in depreciation, information technology, and other net expenses of \$2.5 million.

Asia Pacific Operating Segment

Revenues. Revenues for our Asia Pacific segment decreased \$0.9 million, or 1.2%, during the three months ended September 30, 2019 compared to the same period in 2018. Wholesale revenues decreased by 10.5%. Retail revenues decreased by 12.2% as we operated 9 fewer stores in the region compared to the same period last year, with a comparable store sales decline of 4.2%. E-commerce revenues increased by 54.8% as consumers continue to shift towards online purchasing and we entered new marketplaces. Higher unit sales volume resulted in an increase of \$4.4 million, or 5.8%, partially offset by the impact of a lower ASP of \$4.2 million, or 5.6%. The impact of unfavorable foreign currency translation was a decrease of \$1.1 million, or 1.4%.

During the nine months ended September 30, 2019, revenues for our Asia Pacific segment decreased \$4.9 million, or 1.7%, compared to the same period in 2018. Retail revenues decreased by 14.7% as a result of 9 fewer company-operated retail stores compared to September 30, 2018, with a comparable store sales decline of 1.2%. E-commerce revenues increased by 18.2% and wholesale revenues decreased by 1.6%. For all channels combined, an increase in volume resulted in an increase of \$3.1 million, or 1.1%, and a higher ASP resulted in an increase of \$2.8 million, or 1.0%. The impact of unfavorable foreign currency translation was a decrease of \$10.8 million, or 3.8%.

Income from Operations. Income from operations for the Asia Pacific segment was \$13.1 million for the three months ended September 30, 2019, a decrease of \$3.7 million, or 22.2%, compared to the same period in 2018. Gross profit decreased \$2.0 million, or 4.8%, and gross margin decreased 210 basis points to 54.2% compared to the same period in 2018. The decrease in gross profit was due to the \$1.1 million, or 2.6%, impact of increases in AUC that exceeded ASP gains, driven by the unfavorable impact of a strong U.S. Dollar on our purchasing power, and lower unit sales volume of \$0.3 million, or 0.8%. The impact of unfavorable foreign currency translation was a decrease of \$0.6 million, or 1.4%.

SG&A for our Asia Pacific segment increased \$1.5 million, or 5.8%, during the three months ended September 30, 2019 compared to the same period in 2018. The increase in SG&A was primarily due to increases in marketing expense of \$1.7 million and bad debt expense of \$0.9 million, partially offset by net decreases in facilities and other expenses of \$1.1 million, primarily the result of the reduction in the number of company-operated retail stores in 2018.

Income from operations for the Asia Pacific segment was \$67.9 million for the nine months ended September 30, 2019, a decrease of \$6.8 million, or 9.0%, compared to the same period in 2018. Gross profit decreased \$12.3 million, or 7.5%, and gross margin decreased 330 basis points to 53.5% compared to the same period in 2018. The decrease in gross profit was due to a decrease of \$8.8 million, or 5.4%, resulting from increases in AUC that exceeded ASP gains, driven by the unfavorable impact of a strong

U.S. Dollar on our purchasing power, partially offset by an increase in unit sales volume of \$2.4 million, or 1.5%. The impact of unfavorable foreign currency translation was a decrease of \$5.9 million, or 3.6%.

During the nine months ended September 30, 2019, SG&A for our Asia Pacific segment decreased \$5.6 million, or 6.2%, compared to the same period in 2018. The decrease in SG&A was primarily due to decreases in facilities expense, compensation expense, depreciation expense, and other expenses totaling \$7.0 million as a result of the reduction in the number of company-operated retail stores in 2018 and impairment and other expenses of \$3.3 million, partially offset by increases in marketing expense of \$4.7 million.

EMEA Operating Segment

Revenues. Revenues for our EMEA segment increased \$5.9 million, or 12.3%, during the three months ended September 30, 2019 compared to the same period in 2018. Wholesale revenue grew 16.0% and e-commerce revenue grew 28.2%, more than offsetting a decline of 9.6% in retail results as we operated 8 fewer stores in the region compared to the same period last year. Our retail comparable store sales growth was 2.4%. Higher unit sales volume resulted in an increase of \$8.6 million, or 18.2%, partially offset by a decrease of \$1.0 million, or 2.1%, due to a lower ASP. The impact of unfavorable foreign currency translation was a decrease of \$1.7 million, or 3.8%.

During the nine months ended September 30, 2019, revenues for our EMEA segment increased \$16.1 million, or 8.8%, compared to the same period in 2018. Wholesale revenue grew 11.2% and e-commerce revenue grew 24.6%, more than offsetting a 14.0% decline in retail results as we operated 8 fewer stores in the region compared to the same period last year. Higher unit sales volume resulted in an increase of \$27.8 million, or 15.2%, and an increase of \$1.0 million, or 0.6%, resulted from a higher ASP. The impact of unfavorable foreign currency translation was a decrease of \$12.7 million, or 7.0%.

Income from Operations. Income from operations for the EMEA segment was \$13.6 million for the three months ended September 30, 2019, an increase of \$1.6 million, or 12.9%, compared to the same period in 2018. Gross profit for the EMEA segment increased \$1.4 million, or 5.6%, and gross margin decreased 320 basis points to 50.4% compared to the same period in 2018. The increase in gross profit was primarily due to the net impact of an increase of \$3.9 million, or 15.4%, from higher unit sales volume, partially offset by a decrease of \$1.7 million, or 6.7%, due to a lower ASP, driven by the unfavorable impact of a strong U.S. Dollar on our purchasing power. The impact of foreign currency translation was a decrease of \$0.8 million, or 3.1%.

SG&A for our EMEA segment was flat during the three months ended September 30, 2019 compared to the same period in 2018.

Income from operations for the EMEA segment was \$61.2 million for the nine months ended September 30, 2019, an increase of \$7.4 million, or 13.7%, compared to the same period in 2018. During the nine months ended September 30, 2019, gross profit increased \$2.9 million, or 3.0%, and gross margin decreased by 290 basis points to 50.5% compared to the same period in 2018. The increase in gross profit is due to the net impact of an increase of \$15.3 million, or 15.7%, due to the favorable impact of unit sales volume, a decrease of \$6.1 million, or 6.3%, due to a lower ASP, driven by the unfavorable impact of a strong U.S. Dollar on our purchasing power. The impact of foreign currency translation was a decrease of \$6.3 million, or 6.4%.

During the nine months ended September 30, 2019, SG&A for our EMEA segment increased \$4.5 million, or 10.2%, compared to the same period in 2018. The decrease in SG&A was primarily due to decreases of \$2.7 million in compensation expense and \$2.2 million in facilities expense as a result of the reduction in company-operated retail stores, partially offset by increases in sales and other expenses of \$0.4 million.

Other Businesses and Unallocated Corporate

During the three months ended September 30, 2019, total net costs within 'Other Businesses' and 'Unallocated Corporate and Other' decreased \$4.0 million compared to the same period in 2018. The decrease was due primarily to lower compensation expense of \$4.6 million and net professional service and other expenses of \$1.5 million, partially offset by increases in marketing of \$2.1 million.

During the nine months ended September 30, 2019, total net costs within 'Other Businesses and Unallocated Corporate' increased by \$3.7 million compared to the same period in 2018. The increase was due primarily to increases in marketing expense of \$3.9 million and professional service expense of \$1.7 million, partially offset by decreases in compensation and net other expenses of \$1.9 million.

Store Locations and Comparable Store Sales

The tables below illustrate the overall change in the number of our company-operated retail locations by type of store and reportable operating segment for the three and nine months ended September 30, 2019:

	June 30, 2019	Opened	Closed	September 30, 2019
Company-operated retail locations:				
Type:				
Outlet stores	192	6	4	194
Retail stores	112	—	3	109
Kiosk/store in store	66	—	1	65
Total	370	6	8	368
Operating segment:				
Americas	165	1	1	165
Asia Pacific	146	4	4	146
EMEA	59	1	3	57
Total	370	6	8	368

	December 31, 2018	Opened	Closed/Transferred	September 30, 2019
Type:				
Outlet stores	195	10	11	194
Retail stores	120	1	12	109
Kiosk/store-in-store	68	1	4	65
Total	383	12	27	368
Operating segment:				
Americas	168	1	4	165
Asia Pacific	153	10	17	146
EMEA	62	1	6	57
Total	383	12	27	368

Comparable retail store sales and direct-to-consumer store sales by operating segment were:

	Constant Currency ⁽¹⁾			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Comparable retail store sales: ⁽²⁾				
Americas	19.1 %	19.9%	17.1 %	13.0%
Asia Pacific	(4.2)%	3.2%	(1.2)%	3.4%
EMEA	2.4 %	15.1%	6.3 %	11.4%
Global	12.5 %	15.0%	11.4 %	10.1%

	Constant Currency ⁽¹⁾			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Direct-to-consumer comparable store sales (includes retail and e-commerce): ⁽²⁾				
Americas	18.5%	21.6%	18.6%	15.2%
Asia Pacific	11.7%	8.4%	5.6%	10.4%
EMEA	9.5%	19.3%	13.8%	15.4%
Global	15.9%	17.9%	14.4%	13.8%

⁽¹⁾ Reflects period over period change on a constant currency basis, which is a non-GAAP financial measure. Constant currency represents current period results that have been retranslated using exchange rates used in the prior comparative period.

⁽²⁾ Comparable store status is determined on a monthly basis. Comparable store sales includes the revenues of stores that have been in operation for more than twelve months. Stores in which selling square footage has changed more than 15% as a result of a remodel, expansion, or reduction are excluded until the thirteenth month in which they have comparable prior year sales. Temporarily closed stores are excluded from the comparable store sales calculation during the month of closure. Location closures in excess of three months are excluded until the thirteenth month post re-opening. E-commerce revenues are based on same site sales period over period.

Financial Condition, Capital Resources, and Liquidity

Liquidity

Our liquidity position as of September 30, 2019 was:

	September 30, 2019 (in thousands)
Cash and cash equivalents	\$ 87,909
Available borrowings	260,400

As of September 30, 2019, we had \$87.9 million in cash and cash equivalents and up to \$260.4 million of remaining borrowing availability under our revolving credit facilities. We believe that cash flows from operations, our cash and cash equivalents on hand, and available borrowings under our Senior Revolving Credit Facility and other financing instruments will be sufficient to meet our liquidity needs and capital expenditure requirements for at least the next twelve months. Additional future financing may be necessary to fund our operations and there can be no assurance that, if needed, we will be able to secure additional debt or equity financing on terms acceptable to us or at all. Although we believe we have adequate sources of liquidity over the long term, the success of our operations, the global economic outlook, and the pace of sustainable growth in our markets, among other factors, could impact our business and liquidity.

Due to the seasonal nature of our footwear, which is more heavily focused on styles suitable for warm weather, cash flows from operating activities during our first quarter are typically lower as customer receivables and inventories rise in preparation for the Spring/Summer season. Cash flows from operating activities generated during our second and third quarters are generally higher, when the northern hemisphere is experiencing warmer weather. 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.

Repatriation of Cash

As a global business, we have cash balances in various countries and amounts are denominated in various currencies. Fluctuations in foreign currency exchange rates impact our results of operations and cash positions. Future fluctuations in foreign currencies may have a material impact on our cash flows and capital resources. Cash balances held in foreign countries may have additional restrictions and covenants associated with them which could adversely impact our liquidity and our ability to timely access and transfer cash balances between entities.

Most of the cash held outside of the U.S. could be repatriated to the U.S. without incurring additional U.S. federal income taxes. 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. As of September 30, 2019, we held \$75.3 million of our total \$87.9 million in cash in international locations. This cash is primarily used for the ongoing operations of the business in the locations in which the cash

is held. None of the \$75.3 million held in international locations could potentially be limited by local regulations. If the remaining \$75.3 million were to be immediately repatriated to the U.S., no additional U.S. federal income tax expense would be incurred.

Senior Revolving Credit Facility

In July 2019, the Company and certain of its subsidiaries (the “Borrowers”) entered into a Second Amended and Restated Credit Agreement (as amended, the “Credit Agreement”), with the lenders named therein and PNC Bank, National Association, as a lender and administrative agent for the lenders, which provides for a revolving credit facility of \$450.0 million, which can be increased by an additional \$150.0 million subject to certain conditions (the “Facility”). Borrowings under the Credit Agreement bear interest at a variable rate based on a domestic base rate or a LIBOR rate, plus an applicable margin ranging from 0.00% to 1.875% based on the Company’s leverage ratio. Borrowings under the Credit Agreement are secured by all of the assets of the Borrowers, and guaranteed by certain other subsidiaries of the Borrowers.

The Credit Agreement requires the Company to maintain a minimum interest coverage ratio of 4.00 to 1.00, and a maximum leverage ratio of (i) 3.50 to 1.00 from September 30, 2019 to September 30, 2020, and (ii) 3.25 to 1.00 from December 31, 2020 and thereafter (subject to an increase to 4.00 to 1.00 in the event of certain permitted acquisitions or stock repurchases). The Credit Agreement permits (i) stock repurchases so long as after giving effect to such stock repurchases, the maximum leverage ratio does not exceed the applicable maximum leverage ratio, less 0.25; and (ii) certain acquisitions so long as there is borrowing availability under the Credit Agreement of at least \$40.0 million. As of September 30, 2019, the Company was in compliance with all financial covenants under the Credit Agreement.

As of September 30, 2019, the total commitments available from the lenders under the Facility were \$450.0 million. At September 30, 2019, the Company had \$185.0 million in outstanding borrowings, which are due when the Facility matures in July 2024, and \$4.6 million in outstanding letters of credit under the Facility, which reduces amounts available for borrowing under the Facility. As of September 30, 2019 and December 31, 2018, the Company had \$260.4 million and \$129.4 million, respectively, of available borrowing capacity under the Facility.

The Company also has a suspended revolving credit facility in Asia, under which the Company had no borrowings during the nine months ended September 30, 2019 and year ended December 31, 2018 or borrowings outstanding at September 30, 2019 and December 31, 2018.

Cash Flows

	Nine Months Ended September 30,		\$ Change	% Change
	2019	2018		
	(in thousands)			
Cash provided by operating activities	\$ 73,189	\$ 85,870	\$ (12,681)	(14.8)%
Cash used in investing activities	(32,550)	(3,899)	(28,651)	(734.8)%
Cash used in financing activities	(74,735)	(46,695)	(28,040)	(60.0)%
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(2,299)	(5,133)	2,834	55.2 %
Net change in cash, cash equivalents, and restricted cash	\$ (36,395)	\$ 30,143	\$ (66,538)	(220.7)%

Operating Activities. Our primary source of liquidity is cash provided by operating activities, consisting of net income adjusted for noncash items and changes in working capital. Cash provided by operating activities decreased \$12.7 million for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The decrease in cash provided by operating activities resulted primarily from higher inventory purchases to meet higher customer demand, higher variable compensation payments, and changes in income tax liabilities. These changes were partially offset by a source of cash from higher net income as adjusted for non-cash items, which resulted in an increase of \$73.9 million.

Investing Activities. The \$28.7 million increase in cash used in investing activities for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 primarily reflects expenditures on the relocation of the Company’s U.S. distribution center from California to Ohio and information technology investments.

Financing Activities. The \$28.0 million increase in cash used in financing activities for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 resulted primarily from increased repurchases of shares of our

common stock of \$96.4 million, partially offset by sources of cash from increased net borrowings of \$65.7 million and less payments related to Series A Convertible Preferred Stock of \$6.0 million, due to the conversion of these shares in 2018. There were other uses of cash in financing activities of \$3.3 million, which in part related to costs associated with amending the Credit Agreement and other fees.

Contractual Obligations

There have been no significant changes to the contractual obligations reported in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, other than borrowings on the Facility, as described in Note 7 — Revolving Credit Facilities and Bank Borrowings in the accompanying notes to the condensed consolidated financial statements included in Part I - Item 1. *Financial Statements and Supplementary Data* of this Quarterly Report on Form 10-Q.

Off-Balance Sheet Arrangements

We had no material off-balance sheet arrangements as of September 30, 2019, other than lease obligations for leases that have not yet commenced, which are described in Note 4 — Leases, and certain purchase commitments, which are described in Note 13 — Commitments and Contingencies, both of which are in the accompanying notes to the condensed consolidated financial statements included in Part I - Item 1. *Financial Statements and Supplementary Data* of this Quarterly Report on Form 10-Q.

Critical Accounting Policies and Estimates

The preparation of these condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, sales, and expenses, and related disclosure of contingent assets and liabilities. We evaluate our assumptions and estimates on an on-going basis. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

As of January 1, 2019, we adopted authoritative guidance related to accounting for lease agreements using the modified retrospective method of adoption with the cumulative effect recognized through retained earnings upon adoption. The comparative information presented in the condensed consolidated financial statements was not restated and is reported under the accounting standards in effect for the periods presented. The Company elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed it to carry forward existing lease classification and to exclude leases with original terms of one year or less. Further, the Company elected to combine lease and non-lease components, and did not elect to use hindsight in applying the new standard. Due to the Company's centralized treasury function, the Company utilizes a portfolio approach to discount its lease obligations. The Company assesses the expected lease term at lease inception and discounts the lease using a fully-secured annual incremental borrowing rate provided by the Company's lender, adjusted for time value corresponding with the expected lease term. The adoption of this guidance did not have, and is not expected to have, a significant impact on our reported revenues, gross margins, income from operations, or cash flows. The adoption of this guidance resulted in recognition of significant new right-of-use assets and operating lease liabilities in our condensed consolidated balance sheet.

For a complete discussion of our critical accounting policies, please refer to our Annual Report on Form 10-K for the year ended December 31, 2018, and Note 2 — Recent Accounting Pronouncements in the accompanying notes to the condensed consolidated financial statements included in Part I - Item 1. *Financial Statements and Supplementary Data* of this Quarterly Report on Form 10-Q. There have been no other significant changes in our critical accounting policies or their application since December 31, 2018.

Recent Accounting Pronouncements

See Note 2 — Recent Accounting Pronouncements in the accompanying notes to the condensed consolidated financial statements included in Part I - Item 1. *Financial Statements and Supplementary Data* of this Quarterly Report on Form 10-Q for a description of recently adopted accounting pronouncements, and issued accounting pronouncements that we believe may have an impact on our consolidated financial statements when adopted.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We centrally manage our debt and investment portfolios considering investment opportunities and risks, tax consequences and overall financing strategies. Our exposure to market risk includes interest rate fluctuations in connection with our Facility and certain financial instruments.

Borrowings under our Facility bear interest at a variable rate and are therefore subject to risk based upon prevailing market interest rates. Interest rates fluctuate as a result of many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors that are beyond our control. As of September 30, 2019, we had \$185.0 million in outstanding borrowings and \$4.6 million in outstanding letters of credit under our Facility. As of December 31, 2018, we had \$120.0 million in outstanding borrowings and \$0.6 million in outstanding letters of credit under our Facility.

A hypothetical increase of 1% in the interest rate on these borrowings would have increased interest expense by \$0.5 million and \$1.6 million for the three and nine months ended September 30, 2019, respectively.

Foreign Currency Exchange Risk

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

We have experienced and will continue to experience changes in international currency rates, impacting both results of operations and the value of assets and liabilities denominated in foreign currencies. We enter into forward foreign exchange contracts to buy or sell various foreign currencies to selectively protect against volatility in the value of non-functional currency denominated monetary assets and liabilities. Changes in the fair value of these forward contracts are recognized in earnings in the period that the changes occur. As of September 30, 2019, the U.S. Dollar notional value of our outstanding foreign currency forward exchange contracts was approximately \$165.9 million. The net fair value of these contracts at September 30, 2019 was a liability of \$0.9 million.

We perform a sensitivity analysis to determine the effects that market risk exposures may have on the fair values of our foreign currency forward exchange contracts. To perform the sensitivity analysis, we assess the risk of changes in fair values from the effect of hypothetical changes in foreign currency exchange rates. This analysis assumes a like movement by the foreign currencies in our hedge portfolio against the U.S. Dollar. As of September 30, 2019, a 10% appreciation in the value of the U.S. Dollar would result in a net increase in the fair value of our derivative portfolio of approximately \$1.3 million.

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

Changes in exchange rates have a direct effect on our reported U.S. Dollar consolidated financial statements because we translate the operating results and financial position of our international subsidiaries to U.S. Dollars using current period exchange rates. Specifically, we translate the statements of operations of our foreign subsidiaries into the U.S. Dollar reporting currency using exchange rates in effect during each reporting period. As a result, comparisons of reported results between reporting periods may be impacted significantly due to differences in the exchange rates in effect at the time such exchange rates are used to translate the operating results of our international subsidiaries. For example, in our EMEA operating segment, when the U.S. Dollar strengthens relative to the Euro, our reported U.S. Dollar results are lower than if there had been no change in the exchange rate, because more Euros are required to generate the same U.S. Dollar translated amount. Conversely, when the U.S. Dollar weakens relative to the Euro, the reported U.S. Dollar results of our EMEA operating segment are higher compared to a period with a stronger U.S. Dollar relative to the Euro. Similarly, the reported U.S. Dollar results of our Asia Pacific operating segment, where the functional currencies are primarily the Japanese Yen, Chinese Yuan, Korean Won and the Singapore Dollar, are comparatively lower or higher when the U.S. Dollar strengthens or weakens, respectively, relative to these currencies.

An increase of 1% of the value of the U.S. Dollar relative to foreign currencies would have decreased our income before taxes during the three and nine months ended September 30, 2019 by approximately \$0.1 million and \$0.9 million, respectively, excluding the impact on our purchasing power. The volatility of the exchange rates is dependent on many factors that cannot be forecasted with reliable accuracy. See Part I - Item 2. *Management's Discussion and Analysis of Financial Condition and Results of*

Operations of this Quarterly Report on Form 10-Q for a discussion of the impact of the change in foreign exchange rates on our U.S. Dollar condensed consolidated statements of operations for the nine months ended September 30, 2019 and 2018.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures as such item is defined under Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (“Exchange Act”). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2019, to provide reasonable assurance that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management necessarily applies its judgment in assessing the costs and benefits of such controls and procedures that, by their nature, can only provide reasonable assurance regarding management’s control objectives.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the three months ended September 30, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — Other Information

ITEM 1. Legal Proceedings

A discussion of legal matters is found in Note 15 — Legal Proceedings in the accompanying notes to the condensed consolidated financial statements included in Part I - Item 1. *Financial Statements and Supplementary Data* of this Quarterly Report on Form 10-Q.

ITEM 1A. Risk Factors

There have been no material changes to the risk factors contained in our Annual Report on Form 10-K for the year ended December 31, 2018.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	Maximum Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs ⁽¹⁾
July 1 - 31, 2019	—	\$ —	—	\$ 547,317,966
August 1 - 31, 2019	1,042,127	23.99	1,042,127	522,333,622
September 1 - 30, 2019	—	—	—	522,333,622
Total	1,042,127	\$ 23.99	1,042,127	\$ 522,333,622

⁽¹⁾ On February 20, 2018, the Board of Directors approved and authorized a program to repurchase up to \$500.0 million of the Company's common stock. On May 5, 2019, the Board approved an increase to the repurchase authorization of up to an additional \$500.0 million of the Company's common stock. As of September 30, 2019, approximately \$522.3 million 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, restrictions under our debt arrangements, and other factors. Share repurchases may be made in the open market or in privately negotiated transactions. The repurchase authorization does not have an expiration date and does not oblige us to acquire any particular amount of our common stock. The Board may suspend, modify, or terminate the repurchase program at any time without prior notice.

ITEM 6. Exhibits

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of Crocs, Inc. (incorporated herein by reference to Exhibit 4.1 to Crocs, Inc.'s Registration Statement on Form S-8, filed on March 9, 2006).
3.2	Certificate of Amendment to Restated Certificate of Incorporation of Crocs, Inc. (incorporated herein by reference to Exhibit 3.1 to Crocs, Inc.'s Current Report on Form 8-K, filed on July 12, 2007).
3.3	Amended and Restated Bylaws of Crocs, Inc. (incorporated herein by reference to Exhibit 4.2 to Crocs, Inc.'s Registration Statement on Form S-8, filed on March 9, 2006).
3.4	Certificate of Designations of Series A Convertible Preferred Stock of Crocs, Inc. (incorporated herein by reference to Exhibit 3.1 to Crocs, Inc.'s Current Report on Form 8-K, filed on January 27, 2014).
4.1	Specimen Common Stock Certificate (incorporated herein by reference to Exhibit 4.2 to Crocs, Inc.'s Registration Statement on Form S-1/A, filed on January 19, 2006).
10.1#	Second Amended and Restated Credit Agreement, dated July 26, 2019, by and among Crocs, Inc., Crocs Retail, LLC, Jibbitz, LLC, Colorado Footwear C.V., Crocs Europe B.V., the lenders named therein, PNC Capital Markets LLC, as sole book runner, co-syndication agent and joint lead arranger, Citibank, N.A., Bank of America, N.A. and KeyBank National Association, each as joint lead arranger and co-syndication agents, and PNC Bank, National Association, as a lender and administrative agent.
31.1†	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act.
31.2†	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act.
32+	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act.
101.INS†	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH†	XBRL Taxonomy Extension Schema Document.
101.CAL†	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF†	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB†	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE†	XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document and contained in Exhibit 101).

† Filed herewith.

+ Furnished herewith.

Certain schedules and exhibits have been omitted pursuant to Item 601(a)(5) of Regulation S-K under the Securities Exchange Act of 1934, as amended. The Company hereby undertakes to supplementally furnish copies of any omitted schedules to the Securities and Exchange Commission upon request.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CROCS, INC.

Date: October 30, 2019

By: /s/ Anne Mehlman

Name: Anne Mehlman

Title: *Executive Vice President and Chief Financial Officer*

SECTION 302 CERTIFICATION

I, Andrew Rees, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Crocs, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 30, 2019

/s/ Andrew Rees

Andrew Rees

President and Chief Executive Officer

SECTION 302 CERTIFICATION

I, Anne Mehlman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Crocs, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 30, 2019

/s/ Anne Mehlman

Anne Mehlman

Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, President and Chief Executive Officer and Executive Vice President and Chief Financial Officer of Crocs, Inc. (the “Company”), hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of their knowledge:

- (1) The Quarterly Report on Form 10-Q of the Company for the three months ended September 30, 2019 (“Form 10-Q”) fully complies with the requirements of Section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)), and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company for the period covered by this Form 10-Q.

Date: October 30, 2019

/s/ Andrew Rees

Andrew Rees

President and Chief Executive Officer

/s/ Anne Mehlman

Anne Mehlman

Executive Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Crocs, Inc. and will be retained by Crocs, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.