

**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 **June 30, 2023**
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.)

13601 Via Varra, Broomfield, Colorado 80020
(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, a 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 July 20, 2023, Crocs, Inc. had 61,644,258 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, expectations, and performance of our business;
- our expectations regarding the impact on our business of economic trends;
- our belief that we have sufficient liquidity to fund our business operations during the next twelve months;
- the amount and timing of our capital expenditures; and
- our expectations about the impact of our strategic plans.

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, 2022 and our subsequent filings with the Securities and Exchange Commission, including those described in the section entitled “Risk Factors” under Item 1A in this report. 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, except as required by applicable law.

Crocs, Inc.
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For the Quarterly Period Ended June 30, 2023

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PART I — Financial Information

ITEM 1. Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenues	\$ 1,072,367	\$ 964,581	\$ 1,956,533	\$ 1,624,729
Cost of sales	451,060	466,848	858,856	802,072
Gross profit	621,307	497,733	1,097,677	822,657
Selling, general and administrative expenses	302,818	249,769	544,260	456,016
Income from operations	318,489	247,964	553,417	366,641
Foreign currency gains (losses), net	551	(1,202)	148	(722)
Interest income	548	86	719	188
Interest expense	(43,063)	(32,963)	(85,700)	(52,215)
Other income (expense), net	717	419	424	(528)
Income before income taxes	277,242	214,304	469,008	313,364
Income tax expense	64,830	53,989	107,053	80,289
Net income	\$ 212,412	\$ 160,315	\$ 361,955	\$ 233,075
Net income per common share:				
Basic	\$ 3.42	\$ 2.60	\$ 5.84	\$ 3.84
Diluted	\$ 3.39	\$ 2.58	\$ 5.78	\$ 3.79
Weighted average common shares outstanding:				
Basic	62,037	61,590	61,937	60,712
Diluted	62,603	62,236	62,616	61,571

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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net income	\$ 212,412	\$ 160,315	\$ 361,955	\$ 233,075
Other comprehensive income (loss), net of tax:				
Derivatives designated as hedging instruments:				
Unrealized gains (losses) on derivative instruments	223	—	(156)	—
Reclassification adjustment for realized (gains) losses on derivative instruments	217	—	600	—
Net increase (decrease) from derivatives designated as hedging instruments	440	—	444	—
Foreign currency translation gains (losses), net	1,190	(26,352)	5,143	(36,503)
Total comprehensive income, net of tax	\$ 214,042	\$ 133,963	\$ 367,542	\$ 196,572

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)

	June 30, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 166,235	\$ 191,629
Restricted cash - current	2	2
Accounts receivable, net of allowances of \$34,385 and \$24,493, respectively	409,594	295,594
Inventories	436,269	471,551
Income taxes receivable	2,331	14,752
Other receivables	27,991	18,842
Prepaid expenses and other assets	58,794	33,605
Total current assets	1,101,216	1,025,975
Property and equipment, net of accumulated depreciation and amortization of \$110,510 and \$97,136, respectively	213,844	181,529
Intangible assets, net of accumulated amortization of \$136,490 and \$125,014, respectively	1,795,876	1,800,167
Goodwill	711,570	714,814
Deferred tax assets, net	539,545	528,278
Restricted cash	3,348	3,254
Right-of-use assets	228,076	239,905
Other assets	9,650	7,875
Total assets	\$ 4,603,125	\$ 4,501,797
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 261,909	\$ 230,821
Accrued expenses and other liabilities	241,530	239,424
Income taxes payable	84,845	89,211
Current borrowings	20,000	24,362
Current operating lease liabilities	57,656	57,456
Total current liabilities	665,940	641,274
Deferred tax liabilities, net	301,902	302,030
Long-term income taxes payable	231,577	224,837
Long-term borrowings	2,007,485	2,298,027
Long-term operating lease liabilities	204,088	215,119
Other liabilities	2,443	2,579
Total liabilities	3,413,435	3,683,866
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value \$0.001 per share, 250.0 million shares authorized, 109.9 million and 109.5 million issued, 62.1 million and 61.7 million outstanding, respectively	110	110
Treasury stock, at cost, 47.8 million and 47.7 million shares, respectively	(1,707,136)	(1,695,501)
Additional paid-in capital	813,466	797,614
Retained earnings	2,181,154	1,819,199
Accumulated other comprehensive loss	(97,904)	(103,491)
Total stockholders' equity	1,189,690	817,931
Total liabilities and stockholders' equity	\$ 4,603,125	\$ 4,501,797

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 March 31, 2023	62,023	\$ 110	47,813	\$ (1,705,896)	\$ 805,078	\$ 1,968,742	\$ (99,534)	\$ 968,500
Share-based compensation	—	—	—	—	8,388	—	—	8,388
Exercises of stock options, issuance of restricted stock awards, and vests of restricted stock units, net of shares withheld for taxes	44	—	12	(1,240)	—	—	—	(1,240)
Net income	—	—	—	—	—	212,412	—	212,412
Other comprehensive income	—	—	—	—	—	—	1,630	1,630
Balance at June 30, 2023	62,067	\$ 110	47,825	\$ (1,707,136)	\$ 813,466	\$ 2,181,154	\$ (97,904)	\$ 1,189,690

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at March 31, 2022	61,572	\$ 109	47,658	\$ (1,690,312)	\$ 774,562	\$ 1,351,800	\$ (86,989)	\$ 349,170
Share-based compensation	—	—	—	—	9,300	—	—	9,300
Exercises of stock options, issuance of restricted stock awards, and vests of restricted stock units, net of shares withheld for taxes	55	—	9	(468)	—	—	—	(468)
Net income	—	—	—	—	—	160,315	—	160,315
Other comprehensive loss	—	—	—	—	—	—	(26,352)	(26,352)
Balance at June 30, 2022	61,627	\$ 109	47,667	\$ (1,690,780)	\$ 783,862	\$ 1,512,115	\$ (113,341)	\$ 491,965

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, 2022	61,749	\$ 110	47,730	\$ (1,695,501)	\$ 797,614	\$ 1,819,199	\$ (103,491)	\$ 817,931
Share-based compensation	—	—	—	—	15,852	—	—	15,852
Exercises of stock options, issuance of restricted stock awards, and vests of restricted stock units, net of shares withheld for taxes	318	—	95	(11,635)	—	—	—	(11,635)
Net income	—	—	—	—	—	361,955	—	361,955
Other comprehensive income	—	—	—	—	—	—	5,587	5,587
Balance at June 30, 2023	62,067	\$ 110	47,825	\$ (1,707,136)	\$ 813,466	\$ 2,181,154	\$ (97,904)	\$ 1,189,690

	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, 2021	58,330	\$ 106	47,583	\$ (1,684,262)	\$ 496,036	\$ 1,279,040	\$ (76,838)	\$ 14,082
Share-based compensation	—	—	—	—	17,575	—	—	17,575
Exercises of stock options, issuance of restricted stock awards, and vests of restricted stock units, net of shares withheld for taxes	445	—	84	(6,518)	(142)	—	—	(6,660)
Share issuance at Acquisition	2,852	3	—	—	270,393	—	—	270,396
Net income	—	—	—	—	—	233,075	—	233,075
Other comprehensive loss	—	—	—	—	—	—	(36,503)	(36,503)
Balance at June 30, 2022	61,627	\$ 109	47,667	\$ (1,690,780)	\$ 783,862	\$ 1,512,115	\$ (113,341)	\$ 491,965

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)

	Six Months Ended June 30,	
	2023	2022
Cash flows from operating activities:		
Net income	\$ 361,955	\$ 233,075
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25,780	16,754
Operating lease cost	36,592	30,887
Share-based compensation	15,852	17,575
Other non-cash items ⁽¹⁾	769	7,077
Changes in operating assets and liabilities, net of acquired assets and assumed liabilities:		
Accounts receivable	(113,838)	(181,154)
Inventories	34,884	(121,452)
Prepaid expenses and other assets	(32,413)	(9,309)
Accounts payable, accrued expenses and other liabilities	27,819	85,091
Right-of-use assets and operating lease liabilities	(35,176)	(29,927)
Income taxes	8,389	36,127
Cash provided by operating activities	<u>330,613</u>	<u>84,744</u>
Cash flows from investing activities:		
Purchases of property, equipment, and software	(51,645)	(56,744)
Acquisition of HEYDUDE, net of cash acquired	—	(2,040,265)
Other	—	(20)
Cash used in investing activities	<u>(51,645)</u>	<u>(2,097,029)</u>
Cash flows from financing activities:		
Proceeds from borrowings	214,634	2,240,677
Repayments of borrowings	(513,703)	(195,000)
Deferred debt issuance costs	(612)	(51,395)
Repurchases of common stock for tax withholding	(11,636)	(6,756)
Other	—	95
Cash provided by (used in) financing activities	<u>(311,317)</u>	<u>1,987,621</u>
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	<u>7,049</u>	<u>(1,690)</u>
Net change in cash, cash equivalents, and restricted cash	<u>(25,300)</u>	<u>(26,354)</u>
Cash, cash equivalents, and restricted cash—beginning of period	194,885	216,925
Cash, cash equivalents, and restricted cash—end of period	<u><u>\$ 169,585</u></u>	<u><u>\$ 190,571</u></u>

⁽¹⁾ Amounts for the six months ended June 30, 2022 have been reclassified to conform to current period presentation.

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,” “we,” “us,” or “our” includes Crocs, Inc. and our consolidated subsidiaries within our reportable operating segments and corporate operations. We are engaged in the design, development, worldwide marketing, distribution, and sale of casual lifestyle footwear and accessories for women, men, and children. We strive to be the global leader in the sale of casual footwear characterized by functionality, comfort, color, and lightweight design.

Our reportable operating segments include: (i) North America for the Crocs Brand, operating throughout the United States and Canada; (ii) Asia Pacific for the Crocs Brand, operating throughout Asia, Australia, and New Zealand; (iii) Europe, Middle East, Africa, and Latin America (“EMEALA”) for the Crocs Brand; and (iv) the HEYDUDE Brand. See Note 13 — Operating Segments and Geographic Information for additional information.

The accompanying unaudited condensed consolidated interim financial statements include our accounts and those of our 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, 2022 (“Annual Report”) and have been prepared on a consistent basis with the accounting policies described in Note 1 of the Notes to Consolidated Financial Statements included in our Annual Report. Our accounting policies did not change during the six months ended June 30, 2023, other than with respect to the new accounting pronouncements adopted as described in Note 2 — Recent Accounting Pronouncements.

Reclassifications

We have reclassified certain amounts on the condensed consolidated statements of cash flows and Note 3 — Accrued Expenses and Other Liabilities to conform to current period presentation.

Use of Estimates

U.S. GAAP requires us to make certain estimates, judgments, and assumptions. We believe that the estimates, judgments, and assumptions used to determine certain amounts that affect the financial statements are reasonable, based on information available at the time they are made. Management believes that the estimates, judgments, and assumptions made when accounting for items and matters such as, but not limited to, the allowance for doubtful accounts, customer rebates, sales returns, impairment assessments and charges, recoverability of long-lived assets, deferred tax assets, valuation allowances, uncertain tax positions, income tax expense, share-based compensation expense, the assessment of lower of cost or net realizable value on inventory, useful lives assigned to long-lived assets, depreciation and amortization are reasonable based on information available at the time they are made. To the extent there are differences between these estimates and actual results, our condensed consolidated financial statements may be materially affected.

Condensed Consolidated Statements of Cash Flows - Supplemental Disclosures

	Six Months Ended June 30,	
	2023	2022
	(in thousands)	
Cash paid for interest	\$ 81,354	\$ 50,314
Cash paid for income taxes	102,107	45,186
Cash paid for operating leases	35,259	29,411
Non-Cash Investing and Financing Activities:		
Right-of-use assets obtained in exchange for operating lease liabilities, net of terminations	\$ 19,062	\$ 52,837
Accrued purchases of property, equipment, and software	20,657	5,038
Share issuance at Acquisition ⁽¹⁾	—	270,396
Accrued additional consideration for Acquisition	—	6,616

⁽¹⁾ On February 17, 2022 (the “Acquisition Date”), we acquired (the “Acquisition”) 100% of the equity of a privately-owned casual footwear brand business (“HEYDUDE”), pursuant to a securities purchase agreement (the “SPA”) entered into on December 22, 2021.

2. RECENT ACCOUNTING PRONOUNCEMENTS

New Accounting Pronouncement Adopted

Income Taxes

The CHIPS and Science Act of 2022 (“CHIPS”) and the Inflation Reduction Act of 2022 (“IRA”) were signed into law on August 9, 2022 and August 16, 2022, respectively. The legislation introduces new options for monetizing certain credits, a corporate alternative minimum tax, and a stock repurchase excise tax. The corporate alternative minimum tax and stock repurchase excise tax were effective as of January 1, 2023 and are the main provisions that are applicable to us. The Company is currently monitoring the impact of both the CHIPS and IRA but does not expect that any of the provisions included in these acts would result in a material impact to our deferred tax assets, liabilities, or income taxes payable.

New Accounting Pronouncement Not Yet Adopted

Pillar Two Global Minimum Tax

On October 8, 2021, the Organization for Economic Co-operation and Development (“OECD”) released a statement on the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting, which agreed to a two-pillar solution to address tax challenges of the digital economy. On December 20, 2021, the OECD released Pillar Two model rules defining a 15% global minimum tax rate for large multinational corporations. The OECD continues to release additional guidance and countries are implementing legislation with widespread adoption of the Pillar Two Framework expected by 2024. We are continuing to evaluate the Pillar Two Framework and its potential impact on future periods.

Other new pronouncements issued but not effective until after June 30, 2023 are not expected to have a material impact on our 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:

	June 30, 2023	December 31, 2022
	(in thousands)	
Accrued compensation and benefits	\$ 44,718	\$ 55,474
Professional services	50,101	45,351
Fulfillment, freight, and duties	27,754	41,646
Return liabilities	32,503	27,651
Sales/use and value added taxes payable	32,247	27,249
Royalties payable and deferred revenue	9,892	10,528
Accrued rent and occupancy	9,830	8,972
Accrued legal fees ⁽¹⁾	4,381	2,602
Other ^{(1) (2)}	30,104	19,951
Total accrued expenses and other liabilities	<u>\$ 241,530</u>	<u>\$ 239,424</u>

⁽¹⁾ Amounts as of December 31, 2022 have been reclassified to conform to current period presentation.

⁽²⁾ At June 30, 2023, includes \$12.5 million in accrued capital expenditures, primarily for distribution and logistics projects.

4. LEASES

Right-of-Use Assets and Operating Lease Liabilities

Amounts reported in the condensed consolidated balance sheets were:

	June 30, 2023	December 31, 2022
	(in thousands)	
Assets:		
Right-of-use assets	<u>\$ 228,076</u>	<u>\$ 239,905</u>
Liabilities:		
Current operating lease liabilities	\$ 57,656	\$ 57,456
Long-term operating lease liabilities	<u>204,088</u>	<u>215,119</u>
Total operating lease liabilities	<u>\$ 261,744</u>	<u>\$ 272,575</u>

Lease Costs and Other Information

Lease-related costs reported within ‘Cost of sales’ and ‘Selling, general and administrative expenses’ in our condensed consolidated statements of income were:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(in thousands)			
Operating lease cost	\$ 18,393	\$ 16,656	\$ 36,592	\$ 30,887
Short-term lease cost	4,192	2,371	7,234	5,003
Variable lease cost	<u>14,570</u>	<u>12,013</u>	<u>20,118</u>	<u>16,565</u>
Total lease costs	<u>\$ 37,155</u>	<u>\$ 31,040</u>	<u>\$ 63,944</u>	<u>\$ 52,455</u>

The weighted average remaining lease term and discount rate related to our lease liabilities as of June 30, 2023 were 6.6 years and 4.1%, respectively. As of June 30, 2022, the weighted average remaining lease term and discount rate related to our lease liabilities were 7.5 years and 3.6%, respectively.

Maturities

The maturities of our operating lease liabilities were:

	As of June 30, 2023
	(in thousands)
2023 (remainder of year)	\$ 30,083
2024	58,398
2025	43,463
2026	36,006
2027	30,639
Thereafter	100,593
Total future minimum lease payments	299,182
Less: imputed interest	(37,438)
Total operating lease liabilities	\$ 261,744

Leases That Have Not Yet Commenced

As of June 30, 2023, we had significant obligations for a lease not yet commenced related to a new HEYDUDE distribution center in Las Vegas, Nevada. The total contractual commitment related to the lease, with payments expected to begin in the third quarter of 2023 and continue through December 2033, is approximately \$111 million.

5. FAIR VALUE MEASUREMENTS

Recurring Fair Value Measurements

All of our derivative instruments are classified as Level 2 of the fair value hierarchy and are reported in the condensed consolidated balance sheets within either 'Prepaid expenses and other assets' or 'Accrued expenses and other liabilities' at June 30, 2023 and December 31, 2022. The fair values of our derivative instruments were an insignificant asset and an insignificant liability at both June 30, 2023 and December 31, 2022. See Note 6 — Derivative Financial Instruments for more information.

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

Our borrowing instruments are recorded at their carrying values in the condensed consolidated balance sheets, which may differ from their respective fair values. The Term Loan B Facility (as defined below) and the Notes (as defined below) are classified as Level 1 of the fair value hierarchy and are reported in our condensed consolidated balance sheet at face value, less unamortized issuance costs. The fair value of our Revolving Facility (as defined below) approximates its carrying value at June 30, 2023 and December 31, 2022 based on interest rates currently available to us for similar borrowings. The carrying value and fair value of our borrowing instruments as of June 30, 2023 and December 31, 2022 were:

	June 30, 2023		December 31, 2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in thousands)			
Term Loan B Facility	\$ 1,180,000	\$ 1,184,425	\$ 1,675,000	\$ 1,642,547
2029 Notes	350,000	298,190	350,000	297,596
2031 Notes	350,000	280,900	350,000	284,240
Revolving Facility	200,000	200,000	—	—

Non-Financial Assets and Liabilities

Our non-financial assets, which primarily consist of property and equipment, right-of-use assets, 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, as required, 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.

6. DERIVATIVE FINANCIAL INSTRUMENTS

We transact business in various foreign entities and are therefore exposed to foreign currency exchange rate risk that impacts the reported U.S. Dollar ("USD") 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, we may enter into forward contracts to buy and sell foreign currency. By policy, we do not enter into these contracts for trading purposes or speculation.

Counterparty default risk is considered low because the forward contracts we enter into are over-the-counter instruments transacted with highly-rated financial institutions. We were not required to and did not post collateral as of June 30, 2023 or December 31, 2022.

Our derivative instruments are recorded at fair value as a derivative asset or liability in the condensed consolidated balance sheets within either 'Prepaid expenses and other assets' or 'Accrued expenses and other liabilities' at June 30, 2023 and December 31, 2022. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether we have elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged transactions in a cash flow hedge. We may enter into derivative contracts that are intended to economically hedge certain components of its risk, even though hedge accounting does not apply, or we elect not to apply hedge accounting.

We report derivative instruments with the same counterparty on a net basis when a master netting arrangement is in place. For the condensed consolidated statements of cash flows, we classify 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.'

As of June 30, 2023, we have derivatives not designated as hedging instruments ("non-hedged derivatives"), which consist of foreign currency forward contracts primarily used to hedge monetary assets and liabilities denominated in non-functional currencies. For our non-hedged derivatives, changes in fair value are recognized within 'Foreign currency gains (losses), net' in the condensed consolidated statements of income.

We also have cash flow hedges ("hedged derivatives") as of June 30, 2023. We are exposed to fluctuations in various foreign currencies against our functional currency, the U.S. Dollar. Specifically, we have subsidiaries that transact in currencies other than their functional currency. We use cash flow hedges to minimize the variability in cash flows caused by fluctuations in foreign currency exchange rates related to our external sales and external purchases of inventory. Currency forward agreements involve fixing the exchange rates for delivery of a specified amount of foreign currency on a specified date. The currency forward agreements are typically cash settled in USD for their fair value at or close to their settlement date. We may also use currency option contracts under which we will pay a premium for the right to sell a specified amount of a foreign currency prior to the maturity date of the option.

For derivatives designated and that qualify as cash flow hedges of foreign exchange risk, the gain or loss on the derivative is recorded in 'Accumulated other comprehensive loss' in the condensed consolidated balance sheets. In the period during which the hedged transaction affects earnings, the related gain or loss is subsequently reclassified to 'Revenues' or 'Cost of sales' in the condensed consolidated statement of income, which is consistent with the nature of the hedged transaction. During the three and six months ended June 30, 2023, there was a loss of \$0.3 million and \$0.8 million, respectively, recognized due to reclassification from 'Accumulated other comprehensive loss' to 'Revenues' or 'Cost of sales' related to our hedged derivatives. During the next twelve months, we estimate that a gain of approximately \$0.1 million will be reclassified to our condensed consolidated statement of income.

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

	June 30, 2023		December 31, 2022	
	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
	(in thousands)			
Non-hedged derivatives:				
Forward foreign currency exchange contracts	\$ 940	\$ (1,114)	\$ 345	\$ (360)
Hedged derivatives:				
Cash flow foreign currency contracts	212	(85)	348	(1,116)
Total derivatives	1,152	(1,199)	693	(1,476)
Netting of counterparty contracts	(1,101)	1,101	(345)	345
Total derivatives, net of counterparty contracts	\$ 51	\$ (98)	\$ 348	\$ (1,131)

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.

	June 30, 2023		December 31, 2022	
	Notional	Fair Value	Notional	Fair Value
	(in thousands)			
Non-hedged derivatives:				
Singapore Dollar	\$ 38,192	\$ (675)	\$ 26,760	\$ 207
Indian Rupee	9,656	(44)	24,945	(10)
South Korean Won	21,693	51	18,403	(320)
British Pound Sterling	9,285	(283)	14,509	128
Japanese Yen	10,966	889	8,953	9
Euro	8,059	(112)	5,068	(29)
Total non-hedged derivatives	97,851	(174)	98,638	(15)
Hedged derivatives:				
Euro	26,011	211	51,914	(360)
British Pound Sterling	12,652	(74)	23,025	235
South Korean Won	6,047	1	12,285	(756)
Indian Rupee	6,195	(11)	7,203	113
Total hedged derivatives	50,905	127	94,427	(768)
Total derivatives	\$ 148,756	\$ (47)	\$ 193,065	\$ (783)

Latest maturity date, non-hedged derivatives	July 2023	April 2023
Latest maturity date, hedged derivatives	September 2023	June 2023

Amounts reported in ‘Foreign currency gains (losses), net’ in the condensed consolidated statements of income include both realized and unrealized gains (losses) from foreign currency transactions and derivative contracts and were:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
(in thousands)				
Non-hedged derivatives:				
Foreign currency transaction gains (losses) \$	402	\$ (3,135)	\$ (369)	\$ (4,052)
Foreign currency forward exchange contracts gains	149	1,933	517	3,330
Foreign currency gains (losses), net	<u>\$ 551</u>	<u>\$ (1,202)</u>	<u>\$ 148</u>	<u>\$ (722)</u>

7. BORROWINGS

Our long-term borrowings were as follows:

	Maturity	Stated Interest Rate	Effective Interest Rate	June 30, 2023	December 31, 2022
(in thousands)					
Notes issuance of \$350.0 million	2029	4.250 %	4.64 %	\$ 350,000	\$ 350,000
Notes issuance of \$350.0 million	2031	4.125 %	4.35 %	350,000	350,000
Term Loan B Facility	2029			1,180,000	1,675,000
Revolving Facility				200,000	—
Total face value of long-term borrowings				<u>2,080,000</u>	<u>2,375,000</u>
Less:					
Unamortized issuance costs				52,515	56,973
Current portion of long-term borrowings ⁽¹⁾				20,000	20,000
Total long-term borrowings				<u>\$ 2,007,485</u>	<u>\$ 2,298,027</u>

⁽¹⁾ Represents the current portion of the borrowings under the Term Loan B facility.

At June 30, 2023 and December 31, 2022, \$10.3 million and \$10.8 million, respectively, of accrued interest related to our borrowings was reported in ‘Accounts payable’ in the condensed consolidated balance sheets.

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. Since that time, we have amended the Credit Agreement, which, as amended to date, provides for a revolving credit facility of \$750.0 million, which can be increased by an additional \$250.0 million subject to certain conditions (the “Revolving Facility”). Borrowings under the Credit Agreement bear interest at a variable interest rate based on (A) a Base Rate (defined as the highest of (i) the Overnight Bank Funding Rate (as defined in the Credit Agreement), plus 0.25%, (ii) the Prime Rate (as defined in the Credit Agreement), and (iii) the Daily Simple SOFR (as defined in the Credit Agreement), plus 1.00%), plus an applicable margin ranging from 0.25% to 0.875% based on our leverage ratio or 1.35% to 1.975% for the Daily Simple SOFR based on the leverage ratio, or (B) the Term SOFR Rate (as defined in the Credit Agreement), plus an applicable margin ranging from 1.35% to 1.975% based on our leverage ratio for one-month interest periods and 1.40% to 2.025% based on our leverage ratio for three month interest periods. 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 us to maintain a minimum interest coverage ratio of 3.00 to 1.00, and a maximum leverage ratio of (i) 4.00 to 1.00 from the quarter ended March 31, 2022 through, and including, the quarter ending December 31, 2023, (ii) 3.75 to 1.00 for the quarter ending March 31, 2024, (iii) 3.50 to 1.00 for the quarter ending June 30, 2024, and (iv) 3.25 to 1.00 for the quarter ending September 30, 2024 and thereafter (subject to adjustment in certain circumstances). The Credit Agreement permits, among other things, (i) stock repurchases subject to certain restrictions, including after giving effect to such

stock repurchases, the maximum leverage ratio does not exceed certain levels; and (ii) certain acquisitions so long as there is borrowing availability under the Credit Agreement of at least \$40.0 million. As of June 30, 2023, we were in compliance with all financial covenants under the Credit Agreement.

As of June 30, 2023, the total commitments available from the lenders under the Revolving Facility were \$750.0 million. At June 30, 2023, we had \$200.0 million in outstanding borrowings and \$1.3 million in outstanding letters of credit under the Revolving Facility, which reduces amounts available for borrowing under the Revolving Facility. As of June 30, 2023 and December 31, 2022, we had \$548.7 million and \$748.7 million, respectively, of available borrowing capacity under the Revolving Facility, which matures November 2027.

Term Loan B Facility

On February 17, 2022, the Company entered into a credit agreement (the “Term Loan B Credit Agreement”) with Citibank, N.A., as administrative agent and lender, to among other things, finance a portion of the cash consideration for the Acquisition.

The Term Loan B Credit Agreement provides for an aggregate term loan B facility in the principal amount of \$2.0 billion (the “Term Loan B Facility”), which is secured by substantially all of the Company’s and each subsidiary guarantor’s assets on a pari passu basis with their obligations arising from the Credit Agreement and is scheduled to mature on February 17, 2029, subject to certain exceptions set forth in the Term Loan B Credit Agreement. Additionally, subject to certain conditions, including, without limitation, satisfying certain leverage ratios, the Company may, at any time, on one or more occasions, add one or more new classes of term facilities and/or increase the principal amount of the loans of any existing class by requesting one or more incremental term facilities.

Each term loan borrowing which is an alternate base rate borrowing bears interest at a rate per annum equal to the Alternate Base Rate (as defined in the Term Loan B Credit Agreement), plus 2.50%. Each term loan borrowing which is a term benchmark borrowing bears interest at a rate per annum equal to the Adjusted Term SOFR Rate (as defined in the Term Loan B Credit Agreement) plus 3.50%.

Outstanding principal under the Term Loan B Facility is payable on the last business day of each March, June, September and December, in a quarterly aggregate principal amount of \$5.0 million. Quarterly aggregate principal payments began on June 30, 2022, with the remaining principal amount due on February 17, 2029, the maturity date. As of June 30, 2023, we had \$1,180.0 million in outstanding principal and the Term Loan B Facility was fully drawn with no remaining borrowing capacity.

The Term Loan B Credit Agreement also contains customary affirmative and negative covenants, incurrence financial covenants, representations and warranties, events of default and other provisions. As of June 30, 2023, we were in compliance with all financial covenants under the Term Loan B Credit Agreement.

Asia Revolving Credit Facilities

During the six months ended June 30, 2023, we had two revolving credit facilities in Asia, the revolving credit facility with China Merchants Bank Company Limited, Shanghai Branch (the “CMBC Facility”), which matured in January 2023 and provided up to 10.0 million RMB, or \$1.5 million using current exchange rates as of January 2023, and the revolving credit facility with Citibank (China) Company Limited, Shanghai Branch (the “Citibank Facility”), which, as amended, provides up to an equivalent of \$15.0 million.

As of June 30, 2023, we had no borrowings outstanding on the Citibank Facility. As of December 31, 2022, we had no outstanding borrowings on the CMBC Facility, and we had borrowings outstanding of \$4.3 million on the Citibank Facility.

Senior Notes Issuances

In March 2021, the Company completed the issuance and sale of \$350.0 million aggregate principal amount of 4.250% Senior Notes due March 15, 2029 (the “2029 Notes”), pursuant to the indenture related thereto (as amended and/or supplemented to date, the “2029 Notes Indenture”). Additionally, in August 2021, the Company completed the issuance and sale of \$350.0 million aggregate principal amount of 4.125% Senior Notes due August 15, 2031 (the “2031 Notes”), pursuant to the indenture related thereto (as amended and/or supplemented to date, “the 2031 Notes Indenture” and, together with the 2029 Notes Indenture, the “Indentures” and, each, an “Indenture”). Interest on each of the 2029 Notes and the 2031 Notes (collectively, the “Notes”) is payable semi-annually.

The Company will have the option to redeem all or any portion of the 2029 Notes, at once or over time, at any time on or after March 15, 2024, at a redemption price equal to 100% of the principal amount thereof, plus a premium declining ratably on an annual basis to par and accrued and unpaid interest, if any, to, but excluding, the date of redemption. The Company will also have the option to redeem some or all of the 2029 Notes at any time before March 15, 2024 at a redemption price of 100% of the principal amount to be redeemed, plus a “make-whole” premium and accrued and unpaid interest, if any, to, but excluding, the date of redemption. In addition, at any time before March 15, 2024, the Company may redeem up to 40% of the aggregate principal amount of the 2029 Notes at a redemption price of 104.250% of the principal amount with the proceeds from certain equity issuances, plus accrued and unpaid interest, if any, to, but excluding, the date of redemption.

The Company will have the option to redeem all or any portion of the 2031 Notes, at once or over time, at any time on or after August 15, 2026, at a redemption price equal to 100% of the principal amount thereof, plus a premium declining ratably on an annual basis to par and accrued and unpaid interest, if any, to, but excluding, the date of redemption. The Company will also have the option to redeem some or all of the 2031 Notes at any time before August 15, 2026 at a redemption price of 100% of the principal amount to be redeemed, plus a “make-whole” premium and accrued and unpaid interest, if any, to, but excluding, the date of redemption. In addition, at any time before August 15, 2024, the Company may redeem up to 40% of the aggregate principal amount of the 2031 Notes at a redemption price of 104.125% of the principal amount with the proceeds from certain equity issuances, plus accrued and unpaid interest, if any, to, but excluding, the date of redemption.

The Notes rank pari passu in right of payment with all of the Company’s existing and future senior debt, including the Credit Agreement, and are senior in right of payment to any of the Company’s future debt that is, by its term, expressly subordinated in right of payment to the Notes. The Notes are unconditionally guaranteed by each of the Company’s restricted subsidiaries that is a borrower or guarantor under the Credit Agreement and by each of the Company’s wholly-owned restricted subsidiaries that guarantees any debt of the Company or any guarantor under any syndicated credit facility or capital markets debt in an aggregate principal amount in excess of \$25.0 million.

The Indentures contain covenants that, among other things, limit the ability of the Company and its restricted subsidiaries to incur additional debt or issue certain preferred stock; pay dividends or repurchase or redeem capital stock or make other restricted payments; declare or pay dividends or other payments; incur liens; enter into certain types of transactions with the Company’s affiliates; and consolidate or merge with or into other companies. As of June 30, 2023, we were in compliance with all financial covenants under the Notes.

8. COMMON STOCK REPURCHASE PROGRAM

During the three and six months ended June 30, 2023 and 2022, we did not repurchase any shares of our common stock.

As of June 30, 2023, we had remaining authorization to repurchase approximately \$1,050.0 million of our common stock, subject to restrictions under our Indentures, Credit Agreement, and Term Loan B Credit Agreement.

In July 2023, we repurchased 0.4 million shares of our common stock at a cost of \$50.0 million, including commissions.

9. REVENUES

Revenues by channel and brand were:

	Three Months Ended June 30, 2023					
	Crocs Brand	HEYDUDE Brand	Total			
	(in thousands)					
Channel:						
Wholesale	\$	407,342	\$	148,825	\$	556,167
Direct-to-consumer		425,608		90,592		516,200
Total revenues	\$	832,950	\$	239,417	\$	1,072,367

		Three Months Ended June 30, 2022				
		Crocs Brand	HEYDUDE Brand	Total		
		(in thousands)				
Channel:						
Wholesale	\$	392,511	\$	162,499	\$	555,010
Direct-to-consumer		339,705		69,866		409,571
Total revenues	\$	732,216	\$	232,365	\$	964,581

Year to Date

	Six Months Ended June 30, 2023				
	Crocs Brand		HEYDUDE Brand		Total
	(in thousands)				
Channel:					
Wholesale	\$	817,905	\$	316,688	\$ 1,134,593
Direct-to-consumer		663,823		158,117	821,940
Total revenues	\$	1,481,728	\$	474,805	\$ 1,956,533

	Six Months Ended June 30, 2022				
	Crocs Brand		HEYDUDE Brand		Total
	(in thousands)				
Channel:					
Wholesale	\$	736,768	\$	249,418	\$ 986,186
Direct-to-consumer		540,673		97,870	638,543
Total revenues	\$	1,277,441	\$	347,288	\$ 1,624,729

For information on revenues by reportable operating segment, see Note 13 — Operating Segments and Geographic Information.

10. INCOME TAXES

Income tax expense and effective tax rates were:

	Three Months Ended June 30,		Six Months Ended June 30,					
	2023	2022	2023	2022				
	(in thousands, except effective tax rate)							
Income before income taxes	\$	277,242	\$	214,304	\$	469,008	\$	313,364
Income tax expense		64,830		53,989		107,053		80,289
Effective tax rate		23.4 %		25.2 %		22.8 %		25.6 %

The decrease in the effective tax rate for the three months ended June 30, 2023, compared to the same period in 2022, was primarily driven by a shift in the mix of the Company's domestic and foreign earnings. Our effective income tax rate, for each period presented, also differs from the federal U.S. statutory rate due to differences in income tax rates between U.S. and foreign jurisdictions. We had unrecognized tax benefits of \$224.7 million and \$219.4 million at June 30, 2023 and December 31, 2022, respectively, and we do not expect any significant changes in tax benefits in the next twelve months.

During the six months ended June 30, 2023, income tax expense increased \$26.8 million compared to the same period in 2022. The effective tax rate for the six months ended June 30, 2023 was 22.8% compared to an effective tax rate of 25.6% for the same period in 2022, a 2.8% decrease. This decrease in the effective tax rate was primarily driven by a shift in the mix of the Company's domestic and foreign earnings. Our effective income tax rate, for each period presented, also differs from the federal U.S. statutory rate due to differences in income tax rates between U.S. and foreign jurisdictions.

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.

11. EARNINGS PER SHARE

Basic and diluted earnings per common share ("EPS") for the six months ended June 30, 2023 and 2022 were:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
(in thousands, except per share data)				
Numerator:				
Net income	\$ 212,412	\$ 160,315	\$ 361,955	\$ 233,075
Denominator:				
Weighted average common shares outstanding - basic	62,037	61,590	61,937	60,712
Plus: Dilutive effect of stock options and unvested restricted stock units	566	646	679	859
Weighted average common shares outstanding - diluted	62,603	62,236	62,616	61,571
Net income per common share:				
Basic	\$ 3.42	\$ 2.60	\$ 5.84	\$ 3.84
Diluted	\$ 3.39	\$ 2.58	\$ 5.78	\$ 3.79

In the three and six months ended June 30, 2023 and 2022, an insignificant number of outstanding shares issued under share-based compensation awards were anti-dilutive and, therefore, excluded from the calculation of diluted EPS.

12. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

As of June 30, 2023, we had purchase commitments to third-party manufacturers, primarily for materials and supplies used in the manufacture of our products, for an aggregate of \$279.4 million. We expect to fulfill our commitments under these agreements in the normal course of business, and as such, no liability has been recorded.

Other

We are regularly subject to, and are 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 our normal course of business, we may make certain indemnities, commitments, and guarantees under which we may be required to make payments. We cannot determine a range of estimated future payments and have not recorded any liability for indemnities, commitments, and guarantees in the accompanying condensed consolidated balance sheets.

We are also subject to litigation from time to time in the ordinary course of business, including employment, intellectual property, and product liability claims. Other than as set forth below, we are not party to any other pending legal proceedings that we believe would reasonably have a material adverse impact on our business, financial results, and cash flows.

For all claims and disputes, we have accrued estimated losses of \$2.5 million within 'Accrued expenses and other liabilities' in the condensed consolidated balance sheet as of June 30, 2023. As we are able, we estimate reasonably possible losses or a range of reasonably possible losses. As of June 30, 2023, we estimated that reasonably possible losses associated with these claims and other disputes could potentially exceed amounts accrued by an insignificant amount.

13. OPERATING SEGMENTS AND GEOGRAPHIC INFORMATION

We have four reportable operating segments. For the Crocs Brand, we have three reportable operating segments based on the geographic nature of our operations: North America, Asia Pacific, and EMEALA. Our HEYDUDE Brand is also a reportable operating segment. Each of the reportable operating segments derives its revenues from the sale of footwear and accessories to external customers.

Additionally, Crocs 'Brand corporate' costs represent operating expense that includes product creation, design, and marketing expenses centrally managed for the Crocs Brand, as well as certain royalty income. Crocs Brand corporate costs are included within the Crocs Brand for presentation purposes to align with the way management views the Company. 'Enterprise corporate' costs include global corporate costs associated with both brands, including legal, information technology, human resources, and finance, as well as costs associated with global digital operations.

Each segment's performance is evaluated based on segment results without allocating Brand corporate or Enterprise corporate 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 unallocated brand and enterprise corporate and other expenses, as well as inter-segment eliminations.

We do not report asset information by segment because that information is not used to evaluate performance or allocate resources between segments.

The following tables set forth information related to reportable operating segments:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
(in thousands)				
Revenues:				
North America	\$ 474,558	\$ 422,936	\$ 825,866	\$ 742,386
Asia Pacific	198,257	148,889	338,259	244,737
EMEALA	160,135	160,377	317,602	290,297
Brand corporate	—	14	1	21
Total Crocs Brand	832,950	732,216	1,481,728	1,277,441
HEYDUDE Brand ⁽¹⁾	239,417	232,365	474,805	347,288
Total consolidated revenues	\$ 1,072,367	\$ 964,581	\$ 1,956,533	\$ 1,624,729
Income from operations:				
North America	\$ 214,557	\$ 177,363	\$ 342,340	\$ 306,974
Asia Pacific	76,837	51,432	133,442	81,537
EMEALA	61,129	53,385	126,905	88,314
Brand corporate	(34,839)	(28,259)	(66,996)	(58,968)
Total Crocs Brand	317,684	253,921	535,691	417,857
HEYDUDE Brand ⁽¹⁾	65,509	41,666	142,129	57,324
Reconciliation of total segment income from operations to income before income taxes:				
Enterprise corporate	(64,704)	(47,623)	(124,403)	(108,540)
Income from operations	318,489	247,964	553,417	366,641
Foreign currency gains (losses), net	551	(1,202)	148	(722)
Interest income	548	86	719	188
Interest expense	(43,063)	(32,963)	(85,700)	(52,215)
Other income (expense), net	717	419	424	(528)
Income before income taxes	\$ 277,242	\$ 214,304	\$ 469,008	\$ 313,364
Depreciation and amortization:				
North America	\$ 4,418	\$ 2,589	\$ 8,785	\$ 4,809
Asia Pacific	669	497	1,299	1,020
EMEALA	1,351	696	2,581	1,420
Brand corporate	661	179	1,871	365
Total Crocs Brand	7,099	3,961	14,536	7,614
HEYDUDE Brand ⁽¹⁾	3,562	2,806	7,068	5,250
Enterprise corporate	1,983	2,092	4,176	3,890
Total consolidated depreciation and amortization	\$ 12,644	\$ 8,859	\$ 25,780	\$ 16,754

⁽¹⁾ We acquired HEYDUDE on February 17, 2022 and in connection therewith added the HEYDUDE Brand as a new operating segment. Therefore, the amounts shown above for the six months ended June 30, 2022 represent results during the partial period beginning February 17, 2022 through June 30, 2022.

14. ACQUISITION OF HEYDUDE

On February 17, 2022, we acquired 100% of the equity of HEYDUDE, pursuant to the SPA. HEYDUDE is engaged in the business of distributing and selling casual footwear under the brand name “HEYDUDE.” The Acquisition has allowed us to diversify and expand our business by adding a second brand to the Crocs, Inc. portfolio.

The aggregate preliminary purchase price at the closing of the Acquisition was \$2.3 billion. We paid aggregate consideration of \$2.05 billion in cash (the “Cash Consideration”), subject to adjustment based on, among other things, the cash, indebtedness, transaction expenses, and working capital of the companies comprising HEYDUDE and their respective subsidiaries as of the Acquisition Date, and issued 2,852,280 shares of the Company’s common stock to one of the sellers (the “Equity Consideration Shares”). The Equity Consideration Shares were subject to a lock-up period beginning on the Acquisition Date, which has since expired so all of the Equity Consideration Shares have been released from the lock-up. The purchase price paid to the sellers is final.

The Cash Consideration was financed via the Company’s entry into the \$2.0 billion Term Loan B Facility and \$50.0 million of borrowings under the Revolving Facility. As a result of the Acquisition, HEYDUDE became wholly owned by Crocs, Inc. Accordingly, the results of HEYDUDE are included in our condensed consolidated financial statements from the Acquisition Date and are reported in the HEYDUDE Brand operating segment. HEYDUDE contributed revenue of \$347.3 million and income from operations of \$57.3 million from the Acquisition Date through June 30, 2022.

Purchase Price Allocation

The Acquisition was accounted for in accordance with the ASC Topic 805 *Business Combinations*. As a result, we applied acquisition accounting, which requires, among other things, that the assets acquired and liabilities assumed be recognized at their estimated fair values as of the Acquisition Date. For certain assets and liabilities, those fair values were consistent with historical carrying values. The fair value of inventory was determined using both a market approach and a cost approach. With respect to intangible assets, the estimated fair value was based on the Multi Period Excess Earnings approach for the trademark and the distributor method for the customer relationships. These models used primarily Level 2 and Level 3 inputs, including an estimate of future revenues, future cash flows, and discount rates.

The following table summarizes the final allocation of the purchase price to the estimated fair values of the assets acquired and liabilities assumed on the Acquisition Date:

	February 17, 2022
	(in thousands)
Cash and cash equivalents	\$ 6,232
Accounts receivable, net	68,698
Inventories	155,773
Prepaid expenses and other assets	7,880
Intangible assets	1,780,000
Goodwill	710,034
Right-of-use assets	2,844
Accounts payable	(30,017)
Accrued expenses and other liabilities	(18,860)
Income taxes payable	(30,572)
Long-term deferred tax liability	(312,656)
Long-term income taxes payable	(13,004)
Operating lease liabilities	(2,843)
Net assets acquired	<u>\$ 2,323,509</u>

Intangible Assets

The components of intangible assets acquired in connection with the Acquisition were as follows:

	Weighted-Average Useful Life	Amortization Method	Estimated Fair Value (in thousands)
Customer relationships	15	Straight-line	\$ 210,000
Trademark	Indefinite	—	1,570,000
Total intangible assets			<u>\$ 1,780,000</u>

Goodwill

The excess of the purchase price over the fair value of the acquired business's net assets represents goodwill. The goodwill amount of \$710.0 million at June 30, 2023 includes an aggregate adjustment of \$3.3 million recorded in the three months ended March 31, 2023 as a result of changes to preliminary valuation estimates. The purchase price allocation was finalized during the three months ended March 31, 2023.

Goodwill largely consists of the acquired workforce and economies of scale resulting from the Acquisition. The total goodwill amount acquired was assigned to the HEYDUDE operating segment. None of the goodwill will be deductible for income tax purposes.

Escrow and Holdback Amounts

Additionally, \$125.0 million of the Cash Consideration (the “Escrow Amount”) was placed in an escrow account to partially secure the indemnification obligations of the sellers. The Escrow Amount will be released to the sellers after the date that is 18 months after the Acquisition Date, less any amounts that have been released to compensate the Company and any amounts for claims that were noticed prior to the date that is 18 months after the Acquisition Date but not yet resolved by that date, as provided in the SPA. As of June 30, 2023, certain receivables had been recorded related to the Escrow Amount. Further, \$8.5 million of the Cash Consideration (the “Adjustment Holdback Amount”) was held back and retained as security (but not as the sole source of recovery) for any downward adjustments to the purchase price made in accordance with the SPA. During the year ended December 31, 2022, the Adjustment Holdback Amount was paid to the sellers.

Acquisition-related Costs

Costs incurred to complete the Acquisition are expensed as incurred and included in ‘Selling, general, and administrative expenses’ in our condensed consolidated statement of income. During the six months ended June 30, 2023, no Acquisition-related costs were recognized. During the six months ended June 30, 2022, \$20.6 million of Acquisition-related costs were recognized.

Unaudited Pro Forma Information

The following unaudited pro forma financial information for the three and six months ended June 30, 2022 combines the historical results of Crocs and HEYDUDE, assuming that the companies were combined as of January 1, 2021 and include business combination accounting effects from the Acquisition, including amortization charges from acquired intangible assets, adjustments to the fair value of inventory, interest expense on the financing transactions used to fund the Acquisition, and Acquisition-related transaction costs and tax-related effects. The pro forma information as presented below is for informational purposes only and is not indicative of the results of operations that would have been achieved if the Acquisition had taken place on January 1, 2021.

	Three Months Ended June 30, 2022	Six Months Ended June 30, 2022
	(in thousands)	
Revenues	\$ 964,558	\$ 1,715,035
Net income	187,630	302,722

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

Business Overview

Crocs, Inc. and our consolidated subsidiaries (collectively the “Company,” “we,” “us,” or “our”) are engaged in the design, development, worldwide marketing, distribution, and sale of casual lifestyle footwear and accessories for women, men, 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.

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:

- We acquired HEYDUDE in February 2022. Since the closing of the acquisition, we have acquired new customers and gained share in strategic wholesale accounts. We have also expanded the HEYDUDE Brand internationally, specifically in Europe, where we have begun testing in a few direct markets, including the United Kingdom, Germany, and the Netherlands, as well as a few distributor markets. Additionally, we continue to make progress towards our two main integration efforts for HEYDUDE in 2023, the construction of a new distribution center in Las Vegas, Nevada and the implementation of a new Enterprise Resource Planning (“ERP”) system. While we still anticipate annual revenue growth for the brand compared to the prior year, we are seeing some headwinds from non-comparable sales due to rapid expansion to U.S. strategic customers in 2022 and the discontinuation of relationships with smaller customers, a more cautious wholesale partner based on the overall market outlook, and constrained distribution capabilities as a result of our ERP and warehouse transition.
- While overall we have seen evidence as to the underlying strength and growth potential of both the Crocs and HEYDUDE brands, we remain cautious relative to consumer confidence. However, amidst a more challenging economic landscape, we believe we are well positioned to gain market share.
- Foreign currency fluctuations resulting in a stronger U.S. Dollar (“USD”) have impacted, and we expect will continue to impact, our business, contributing to, among other things, increased cost of sales. A stronger USD also results in costs for foreign goods purchased in USD but recognized in foreign currencies (“purchasing power”) that are unfavorable.
- Our liquidity position remains strong with \$166.2 million in cash and cash equivalents and \$563.7 million in available borrowing capacity as of June 30, 2023. In the six months ended June 30, 2023, we paid down \$299.1 million of net borrowings, reducing total borrowings to \$2.03 billion as of June 30, 2023. We also resumed our share repurchase program in July 2023, repurchasing \$50.0 million of our common stock.

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 condensed 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.

Second Quarter 2023 Financial and Operational Highlights

Revenues were \$1,072.4 million for the second quarter of 2023, an 11.2% increase compared to the second quarter of 2022. The increase was due to the net effects of: (i) higher unit sales volume in both brands, which increased revenues by \$92.1 million, or 9.5%; (ii) higher average selling price on a constant currency basis (“ASP”), which increased revenues by \$23.7 million, or 2.5%, driven primarily by increased pricing and favorable channel mix for the Crocs Brand, partially offset by increased promotions for the HEYDUDE Brand; and (iii) unfavorable changes in exchange rates, which decreased revenues by \$8.0 million, or 0.8%.

The following were significant developments affecting our businesses and capital structure during the three months ended June 30, 2023:

- We grew revenues in both brands, with the largest gains over prior year in our direct-to-consumer (“DTC”) channel. For the Crocs Brand, the increase in revenues was led by our Asia Pacific segment, which grew revenues by 33.2%, or 39.0% on a constant currency basis, and our North America segment, which grew revenues by 12.2%, or 12.5% on a constant currency basis, compared to the second quarter of 2022. Revenues for our EMEALA segment slightly decreased by 0.2%, or 1.4% on a constant currency basis. HEYDUDE Brand revenues increased 3.0%.
- We sold 33.0 million pairs of shoes for the Crocs Brand in the second quarter of 2023, an increase of 1.8% from the second quarter of 2022. We sold 8.3 million pairs of shoes for the HEYDUDE Brand in the second quarter of 2023, an increase of 3.6% compared to the second quarter of 2022.
- Gross margin was 57.9%, an increase of 630 basis points from last year’s second quarter. This was in part due to higher air freight incurred in the prior year due to supply chain disruptions, as well as 360 basis points from adjustments in the prior year to the fair value of inventory costs upon the close of the acquisition of HEYDUDE.
- Selling, general and administrative expenses (“SG&A”) was \$302.8 million compared to \$249.8 million in the second quarter of 2022, as a result of investments in talent in both brands and an increase in marketing expense. As a percent of revenues, SG&A increased to 28.2% of revenues compared to 25.9% of revenues in the second quarter of 2022.
- Income from operations increased to \$318.5 million from \$248.0 million in last year’s second quarter. Net income was \$212.4 million, or \$3.39 per diluted share, compared to \$160.3 million, or \$2.58 per diluted share, in last year’s second quarter.

Results of Operations

	Three Months Ended June 30,		Six Months Ended June 30,		% Change Favorable (Unfavorable)	
	2023	2022	2023	2022	Q2 2023-2022	YTD 2023-2022
(in thousands, except per share, margin, and average selling price data)						
Revenues	\$ 1,072,367	\$ 964,581	\$ 1,956,533	\$ 1,624,729	11.2 %	20.4 %
Cost of sales	451,060	466,848	858,856	802,072	3.4 %	(7.1) %
Gross profit	621,307	497,733	1,097,677	822,657	24.8 %	33.4 %
Selling, general and administrative expenses	302,818	249,769	544,260	456,016	(21.2) %	(19.4) %
Income from operations	318,489	247,964	553,417	366,641	28.4 %	50.9 %
Foreign currency gains (losses), net	551	(1,202)	148	(722)	145.8 %	120.5 %
Interest income	548	86	719	188	537.2 %	282.4 %
Interest expense	(43,063)	(32,963)	(85,700)	(52,215)	(30.6) %	(64.1) %
Other income (expense), net	717	419	424	(528)	71.1 %	180.3 %
Income before income taxes	277,242	214,304	469,008	313,364	29.4 %	49.7 %
Income tax expense	64,830	53,989	107,053	80,289	(20.1) %	(33.3) %
Net income	\$ 212,412	\$ 160,315	\$ 361,955	\$ 233,075	32.5 %	55.3 %
Net income per common share:						
Basic	\$ 3.42	\$ 2.60	\$ 5.84	\$ 3.84	31.5 %	52.1 %
Diluted	\$ 3.39	\$ 2.58	\$ 5.78	\$ 3.79	31.4 %	52.5 %
Gross margin ⁽¹⁾	57.9 %	51.6 %	56.1 %	50.6 %	630 bp	550 bp
Operating margin ⁽¹⁾	29.7 %	25.7 %	28.3 %	22.6 %	400 bp	570 bp
Footwear unit sales:						
Crocs Brand	32,975	32,396	63,627	58,011	1.8 %	9.7 %
HEYDUDE Brand ⁽³⁾	8,290	8,002	17,220	12,106	3.6 %	42.2 %
Average footwear selling price - nominal basis ⁽²⁾ :						
Crocs Brand	\$ 25.01	\$ 22.39	\$ 23.08	\$ 21.82	11.7 %	5.8 %
HEYDUDE Brand ⁽³⁾	\$ 28.88	\$ 29.04	\$ 27.57	\$ 28.69	(0.6) %	(3.9) %

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

⁽²⁾ Average footwear selling price is calculated as footwear and charms revenues divided by footwear units, as applicable.

⁽³⁾ We acquired HEYDUDE on February 17, 2022 and, as a result, added the HEYDUDE Brand as a new operating segment. Therefore, the amounts shown above for the six months ended June 30, 2022 represent results during the Partial Period, as defined below. Additionally, ‘Footwear unit sales’ and ‘Average footwear selling price - nominal basis’ for the HEYDUDE Brand have been revised by an immaterial amount in the three and six months ended June 30, 2022 as a result of a calculation update.

Revenues By Channel

	Three Months Ended June 30,				% Change		Constant Currency % Change ⁽¹⁾		
			Six Months Ended June 30,		Favorable (Unfavorable)				
	2023	2022	2023	2022	Q2 2023-2022	YTD 2023-2022	Q2 2023-2022	YTD 2023-2022	YTD 2023-2022
	(in thousands)								
Crocs Brand:									
Wholesale	\$ 407,342	\$ 392,511	\$ 817,905	\$ 736,768	3.8 %	11.0 %	4.6 %	12.9 %	
Direct-to-consumer	425,608	339,705	663,823	540,673	25.3 %	22.8 %	26.8 %	24.4 %	
Total Crocs Brand	832,950	732,216	1,481,728	1,277,441	13.8 %	16.0 %	14.9 %	17.8 %	
HEYDUDE Brand ⁽²⁾ :									
Wholesale	148,825	162,499	316,688	249,418	(8.4)%	27.0 %	(8.5)%	27.4 %	
Direct-to-consumer	90,592	69,866	158,117	97,870	29.7 %	61.6 %	29.7 %	61.6 %	
Total HEYDUDE Brand	239,417	232,365	474,805	347,288	3.0 %	36.7 %	2.9 %	36.9 %	
Total consolidated revenues ⁽²⁾	\$ 1,072,367	\$ 964,581	\$ 1,956,533	\$ 1,624,729	11.2 %	20.4 %	12.0 %	21.8 %	

(1) Reflects year over year change as if the current period results were in constant currency, which is a non-GAAP financial measure. See “Use of Non-GAAP Financial Measures” above for more information.

(2) We acquired HEYDUDE on February 17, 2022 and, as a result, added the HEYDUDE Brand as a new operating segment. Therefore, the amounts shown above for the six months ended June 30, 2022 represent results during the Partial Period.

The primary drivers of changes in revenue were:

	Three Months Ended June 30, 2023 vs. 2022							
	Volume		Price ⁽¹⁾		Foreign Exchange		Total	
	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change
	(in thousands)							
Total revenues	\$ 92,142	9.5 %	\$ 23,672	2.5 %	\$ (8,028)	(0.8)%	\$ 107,786	11.2 %

⁽¹⁾ The change due to price is based on the change in ASP, as defined earlier in this section.

	Six Months Ended June 30, 2023 vs. 2022 ⁽¹⁾							
	Volume		Price ⁽²⁾		Foreign Exchange		Total	
	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change
	(in thousands)							
Total revenues	\$ 340,413	21.0 %	\$ 14,768	0.9 %	\$ (23,377)	(1.5)%	\$ 331,804	20.4 %

(1) We acquired HEYDUDE on February 17, 2022 and, as a result, added the HEYDUDE Brand as a new operating segment. Therefore, the amounts shown above for total revenues include a comparison of HEYDUDE results for the six months ended June 30, 2023 to results during the Partial Period in 2022.

(2) The change due to price is based on the change in ASP.

Revenues. In the three months ended June 30, 2023, revenues increased compared to the same period in 2022. This was primarily due to higher volume in both brands. Higher ASP in the Crocs Brand, primarily due to increased pricing and favorable channel mix, was partially offset by lower ASP in the HEYDUDE Brand as a result of increased promotions. Unfavorable foreign currency fluctuations, most significantly in the Chinese Yuan and South Korean Won, slightly decreased revenues.

Revenues also increased in the six months ended June 30, 2023, driven by higher volume, driven in part by greater demand for both brands and driven in part by operating HEYDUDE for a full six months in 2023 compared to the partial period from the acquisition date of February 17, 2022 through June 30, 2022 (the “Partial Period”). Higher ASP in the Crocs Brand, primarily due to increased pricing, offset in part by higher promotions, was partially offset by lower ASP in the HEYDUDE Brand as a

result of increased promotions. Unfavorable foreign currency fluctuations, most significantly the South Korean Won, Chinese Yuan, and Japanese Yen, decreased revenues.

Cost of sales. In the three months ended June 30, 2023, compared to the same period in 2022, cost of sales decreased \$15.8 million, or 3.4%. This was primarily driven by lower average cost per unit on a constant currency basis (“AUC”) of \$39.6 million, or 8.5%, primarily due to prior year adjustments of \$34.3 million to the fair value of inventory costs upon close of the acquisition of HEYDUDE, and favorable foreign currency fluctuations of \$8.2 million, or 1.8%. Higher volume increased cost of sales by \$32.0 million, or 6.9%. In the three months ended June 30, 2023 and 2022, respectively, cost of sales includes \$122.8 million and \$125.6 million of distribution expenses primarily related to receiving, inspecting, warehousing, and packaging product in owned and third-party warehouses, combined with transportation costs associated with delivering products from distribution centers to wholesale partners, retail stores and end customers.

In the six months ended June 30, 2023, compared to the same period in 2022, cost of sales increased \$56.8 million, or 7.1%, due to higher volume of \$173.3 million, or 21.6%, offset in part by lower AUC of \$99.8 million, or 12.4%, primarily due to prior year adjustments of \$62.3 million to the fair value of inventory costs upon close of the acquisition of HEYDUDE. Favorable foreign currency fluctuations decreased cost of sales by \$16.7 million, or 2.1%. In the six months ended June 30, 2023 and 2022, respectively, cost of sales includes \$228.0 million and \$222.6 million of distribution expenses primarily related to receiving, inspecting, warehousing, and packaging product in owned and third-party warehouses, combined with transportation costs associated with delivering products from distribution centers to wholesale partners, retail stores and end customers.

Gross profit. Gross margin increased in the three months ended June 30, 2023 to 57.9% compared to 51.6% in the same period in 2022. This was in part due to higher air freight incurred in the prior year, as well as 360 basis points from adjustments in the prior year to the fair value of inventory costs upon close of the acquisition of HEYDUDE.

Gross profit increased \$123.6 million, or 24.8%, in the three months ended June 30, 2023 compared to the same period in 2022, due to higher volumes of \$60.2 million, or 12.1%, and the net impact of lower AUC and higher ASP, as described above, of \$63.2 million, or 12.7%. This was partially offset by insignificant unfavorable foreign currency changes.

Gross margin in the six months ended June 30, 2023 was 56.1% compared to 50.6% in 2022. This was due in part to 380 basis points from adjustments in the prior year to the fair value of inventory costs upon close of the acquisition of HEYDUDE, as well as higher air freight incurred in the prior year.

Gross profit increased \$275.0 million, or 33.4%, in the six months ended June 30, 2023 compared to the same period in 2022, primarily as a result of higher volume of \$167.1 million, or 20.3%, and the net impact of lower AUC and higher ASP, as described above, of \$114.6 million, or 13.9%. This was partially offset by unfavorable foreign currency changes of \$6.7 million, or 0.8%.

Selling, general and administrative expenses. SG&A increased \$53.0 million, or 21.2%, in the three months ended June 30, 2023 compared to the same period in 2022. This is in part due to higher compensation expense of \$13.9 million primarily associated with an investment in talent. There was also an increase in marketing expenses of \$12.5 million and an increase in bad debt expense of \$7.3 million, primarily related to prior year collections on previously reserved receivables in Russia that did not recur in the current year. Additionally, there was an increase of \$19.3 million in other costs, including variable costs associated with higher revenues, information technology costs, and professional services fees.

SG&A expenses increased \$88.2 million, or 19.4%, during the six months ended June 30, 2023 compared to the same period in 2022. We have continued to invest in marketing to fuel growth, with an increase of \$32.6 million to SG&A, mostly associated with investments in marketing in the HEYDUDE Brand. Additionally, there were higher compensation costs of \$30.7 million associated with variable expenses related to higher revenues in the DTC channel and an investment in talent. Various other costs, including legal, information technology costs, and variable costs associated with higher revenues, also increased SG&A by \$50.0 million. These increases were offset in part by \$25.1 million of lower costs in 2023 associated with the prior year HEYDUDE acquisition and integration.

Foreign currency gains (losses), net. Foreign currency gains (losses), net, consist 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 June 30, 2023, we recognized realized and unrealized net foreign currency gains of \$0.6 million compared to losses of \$1.2 million during the three months ended June 30, 2022.

During the six months ended June 30, 2023, we recognized realized and unrealized net foreign currency gains of \$0.1 million compared to losses of \$0.7 million during the six months ended June 30, 2022.

Income tax expense. During the three months ended June 30, 2023, income tax expense increased \$10.8 million compared to the same period in 2022. The effective tax rate for the three months ended June 30, 2023 was 23.4% compared to an effective tax rate of 25.2% for the same period in 2022, a 1.8% decrease. This decrease in the effective tax rate was primarily driven by a shift in the mix of the Company's domestic and foreign earnings. Our effective income tax rate, for each period presented, also differs from the federal U.S. statutory rate due to differences in income tax rates between U.S. and foreign jurisdictions.

During the six months ended June 30, 2023, income tax expense increased \$26.8 million compared to the same period in 2022. The effective tax rate for the six months ended June 30, 2023 was 22.8% compared to an effective tax rate of 25.6% for the same period in 2022, a 2.8% decrease. This decrease in the effective tax rate was primarily driven by a shift in the mix of the Company's domestic and foreign earnings. Our effective income tax rate, for each period presented, also differs from the federal U.S. statutory rate due differences in income tax rates between U.S. and foreign jurisdictions.

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 June 30,		Six Months Ended June 30,		% Change		Constant Currency % Change ⁽¹⁾	
					Favorable (Unfavorable)			
	2023	2022	2023	2022	Q2 2023-2022	YTD 2023-2022	Q2 2023-2022	YTD 2023-2022
(in thousands)								
Revenues:								
North America	\$ 474,558	\$ 422,936	\$ 825,866	\$ 742,386	12.2 %	11.2 %	12.5 %	11.5 %
Asia Pacific	198,257	148,889	338,259	244,737	33.2 %	38.2 %	39.0 %	45.1 %
EMEALA	160,135	160,377	317,602	290,297	(0.2)%	9.4 %	(1.4)%	10.5 %
Brand corporate	—	14	1	21	(100.0)%	(95.2)%	(100.0)%	(95.2)%
Crocs Brand revenues	832,950	732,216	1,481,728	1,277,441	13.8 %	16.0 %	14.9 %	17.8 %
HEYDUDE Brand revenues ⁽²⁾	239,417	232,365	474,805	347,288	3.0 %	36.7 %	2.9 %	36.9 %
Total consolidated revenues	<u>\$ 1,072,367</u>	<u>\$ 964,581</u>	<u>\$ 1,956,533</u>	<u>\$ 1,624,729</u>	11.2 %	20.4 %	12.0 %	21.8 %
Income from operations:								
North America	\$ 214,557	\$ 177,363	\$ 342,340	\$ 306,974	21.0 %	11.5 %	21.3 %	11.7 %
Asia Pacific	76,837	51,432	133,442	81,537	49.4 %	63.7 %	50.3 %	67.4 %
EMEALA	61,129	53,385	126,905	88,314	14.5 %	43.7 %	8.5 %	40.8 %
Brand corporate	(34,839)	(28,259)	(66,996)	(58,968)	(23.3)%	(13.6)%	(23.0)%	(13.8)%
Crocs Brand income from operations	317,684	253,921	535,691	417,857	25.1 %	28.2 %	24.2 %	28.4 %
HEYDUDE Brand income from operations ⁽²⁾	65,509	41,666	142,129	57,324	57.2 %	147.9 %	57.0 %	148.6 %
Enterprise corporate	(64,704)	(47,623)	(124,403)	(108,540)	(35.9)%	(14.6)%	(35.9)%	(14.6)%
Total consolidated income from operations	<u>\$ 318,489</u>	<u>\$ 247,964</u>	<u>\$ 553,417</u>	<u>\$ 366,641</u>	28.4 %	50.9 %	27.5 %	51.3 %

⁽¹⁾ Reflects year over year change as if the current period results were in constant currency, which is a non-GAAP financial measure. See "Use of Non-GAAP Financial Measures" for more information.

⁽²⁾ We acquired HEYDUDE on February 17, 2022 and, as a result, added the HEYDUDE Brand as a new operating segment. Therefore, the amounts shown above for the six months ended June 30, 2022 represent results during the Partial Period.

The primary drivers of changes in revenues by operating segment were:

Three Months Ended June 30, 2023 vs. 2022								
Volume			Price ⁽¹⁾		Foreign Exchange		Total	
\$ Change	% Change	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change	
(in thousands)								
Segment Revenues:								
Crocs Brand:								
North America	\$ 72,765	17.2 %	\$ (19,696)	(4.7)%	\$ (1,447)	(0.3)%	\$ 51,622	12.2 %
Asia Pacific	22,015	14.8 %	35,975	24.2 %	(8,622)	(5.8)%	49,368	33.2 %
EMEALA	(34,093)	(21.3)%	31,951	19.9 %	1,900	1.2 %	(242)	(0.2)%
HEYDUDE Brand	31,469	13.5 %	(24,558)	(10.6)%	141	0.1 %	7,052	3.0 %
Total segment revenues	\$ 92,156	9.5 %	\$ 23,672	2.5 %	\$ (8,028)	(0.8)%	\$ 107,800	11.2 %

⁽¹⁾ The change due to price for revenues is based on ASP, as defined earlier in this section.

Six Months Ended June 30, 2023 vs. 2022								
Volume			Price ⁽¹⁾		Foreign Exchange		Total	
\$ Change	% Change	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change	
(in thousands)								
Segment Revenues:								
Crocs Brand:								
North America	\$ 116,820	15.7 %	\$ (30,927)	(4.2)%	\$ (2,413)	(0.3)%	\$ 83,480	11.2 %
Asia Pacific	53,046	21.7 %	57,433	23.5 %	(16,957)	(7.0)%	93,522	38.2 %
EMEALA	(11,309)	(3.9)%	41,753	14.4 %	(3,139)	(1.1)%	27,305	9.4 %
HEYDUDE Brand ⁽²⁾	181,876	52.4 %	(53,491)	(15.4)%	(868)	(0.3)%	127,517	36.7 %
Total segment revenues	\$ 340,433	21.0 %	\$ 14,768	0.9 %	\$ (23,377)	(1.5)%	\$ 331,824	20.4 %

⁽¹⁾ The change due to price for revenues is based on ASP, as defined earlier in this section.

⁽²⁾ We acquired HEYDUDE on February 17, 2022 and, as a result, added the HEYDUDE Brand as a new operating segment. Therefore, the amounts shown above for the six months ended June 30, 2022 represent results during the Partial Period.

Crocs Brand

North America Operating Segment

Revenues. North America revenues increased in the three months ended June 30, 2023 compared to the same period in 2022, due primarily to higher volumes, driven by both channels, as we gained market share in a declining U.S. footwear market. This increase was offset in part by lower ASP as a result of an increase in promotions and unfavorable product mix.

The increase in North America revenues in the six months ended June 30, 2023 compared to the same period in 2022 is primarily due to an increase in volumes, driven by both channels, partially offset by lower ASP primarily as a result of an increase in promotions.

Income from Operations. Income from operations for our North America segment was \$214.6 million for the three months ended June 30, 2023, an increase of \$37.2 million, or 21.0%, compared to the same period in 2022. Gross profit increased by \$44.7 million, or 17.4%, compared to prior year, mostly as a result of higher volume. Lower AUC also contributed to higher gross profit as a result of prior year air freight costs that did not recur in the current year, somewhat offset by product mix.

SG&A for our North America segment increased \$7.5 million, or 9.5%, during the three months ended June 30, 2023 compared to the same period in 2022. This increase was primarily due to higher variable expenses, including compensation costs, related to higher revenues in the DTC channel.

During the six months ended June 30, 2023, income from operations for our North America segment was \$342.3 million, an increase of \$35.4 million, or 11.5%, compared to the same period in 2022. Gross profit increased \$52.1 million, or 11.8%, primarily due to higher volumes. This was partially offset by a decrease due to lower ASP, due to increased promotions and product mix, that outpaced air freight cost savings in the current year.

SG&A for our North America segment increased \$16.7 million, or 12.3%, during the six months ended June 30, 2023 compared to the same period in 2022, primarily due to an increase in variable expenses, including compensation costs, related to higher revenues in the DTC channel.

Asia Pacific Operating Segment

Revenues. Revenues in our Asia Pacific segment increased 33.2% in the three months ended June 30, 2023 compared to the same period in 2022, and was up in most countries in the region, driven by growth in China, in part as a result of the relaxation of COVID-19 restrictions, and Australia, as well as growth in Southeast Asia, Japan, and South Korea. Higher ASP also contributed to higher revenues, primarily as a result of less discounting in the current quarter. These increases were partially offset by unfavorable foreign currency changes, most significantly in the Chinese Yuan and Korean Won.

Revenues in our Asia Pacific segment increased in the six months ended June 30, 2023 compared to the same period in 2022, as a result of ASP increases, as a result of less discounting, and volume increases. Unfavorable foreign currency fluctuations in most currencies, but most significantly the Korean Won, partially offset ASP and volume increases.

Income from Operations. Income from operations for the Asia Pacific segment was \$76.8 million for the three months ended June 30, 2023, an increase of \$25.4 million, or 49.4%, compared to the same period in 2022. Gross profit increased by \$38.3 million, or 40.5%, as a result of higher ASP, as described above, and higher volumes, partially offset by unfavorable purchasing power impacting inventory costs and foreign currency translation changes.

SG&A for our Asia Pacific segment increased \$12.9 million, or 29.8%, during the three months ended June 30, 2023 compared to the same period in 2022, primarily due to increased variable expenses associated with higher revenues.

Income from operations for the Asia Pacific segment was \$133.4 million for the six months ended June 30, 2023, an increase of \$51.9 million, or 63.7%, compared to the same period in 2022. Gross profit increased by \$70.0 million, or 46.6%, primarily due to higher ASP, as described above, offset partially by higher AUC. Higher volume also increased gross profit, but changes in foreign currency partially offset these increases.

SG&A for our Asia Pacific segment increased \$18.1 million, or 26.3%, in the six months ended June 30, 2023 compared to the same period in 2022, mostly due to increased variable expenses associated with higher revenues and investments in marketing.

EMEALA Operating Segment

Revenues. Revenues slightly decreased in the EMEALA segment in the three months ended June 30, 2023 compared to the same period in 2022, primarily as a result of decreased volume in our distributor markets due in part to the termination of our relationship with a significant distributor in Africa after finding evidence of product diversion to the gray market outside of its approved territories. This decrease was partially offset by higher ASPs, primarily due to increased pricing and fewer promotions, as well as favorable channel mix associated with lower distributor revenue, as described above. Favorable changes in foreign currency, primarily in the Euro, also increased revenues.

During the six months ended June 30, 2023, EMEALA revenues increased compared to the same period in 2022, due to higher ASP, offset in part by decreased volume, both of which are in part related to the termination of a relationship with a significant distributor in Africa, as described above. ASPs were also higher due to increased pricing and fewer promotions. Unfavorable foreign currency fluctuations in the Euro and Argentine Peso decreased revenues.

Income from Operations. Income from operations for the EMEALA segment was \$61.1 million for the three months ended June 30, 2023, an increase of \$7.7 million, or 14.5%, compared to the same period in 2022. Gross profit increased \$13.0 million, or 17.2%, mostly as a result of higher ASP, as described above. Favorable foreign currency fluctuations, mainly in the Euro, also increased gross profit. These increases were offset in part by decreased volume.

SG&A for our EMEALA segment increased \$5.3 million, or 23.6%, during the three months ended June 30, 2023 compared to the same period in 2022, primarily due to prior year collections on previously reserved receivables in Russia that did not recur in the current year.

Income from operations for the EMEALA segment was \$126.9 million for the six months ended June 30, 2023, an increase of \$38.6 million, or 43.7%, compared to the same period in 2022. Gross profit increased \$41.1 million, or 30.6%, primarily due to higher ASPs.

SG&A for our EMEALA segment increased \$2.5 million, or 5.4%, during the six months ended June 30, 2023 compared to the same period in 2022. This was primarily due to an increase in marketing costs, offset by decreases due to various costs associated with the prior year shutdown of our direct operations in Russia that did not recur in the current year.

Crocs Brand Corporate

During the three months ended June 30, 2023, total net costs within 'Brand corporate' increased \$6.6 million, or 23.3%, compared to the same period in 2022, due primarily to investments in brand marketing.

During the six months ended June 30, 2023, total net costs within 'Brand corporate' increased \$8.0 million, or 13.6%, compared to the same period in 2022, due primarily to investments in brand marketing.

HEYDUDE Brand

Revenues. For the three months ended June 30, 2023, revenues increased compared to 2022. The majority of this increase was due to higher volume, partially offset by lower ASP driven by increased promotions, primarily in our DTC channel, and gray market pressures from sales by unauthorized resellers, particularly in online marketplaces.

During the six months ended June 30, 2023, revenues increased compared to the Partial Period in 2022, primarily due to higher volume, driven in part by operating HEYDUDE for a full six months in 2023 compared to 2022, but also due to higher demand. Partially offsetting this increase was lower ASP driven by increased promotions, primarily in our DTC channel.

Income from Operations. Income from operations for the HEYDUDE segment was \$65.5 million for the three months ended June 30, 2023, an increase of \$23.8 million, or 57.2%, compared to 2022. Gross profit increased \$37.4 million, or 49.6%, due in part to prior year adjustments of \$34.3 million to the fair value of inventory costs upon close of the acquisition and in part due to higher volume, partially offset by lower ASP, as described above.

SG&A for the HEYDUDE Brand segment increased \$13.6 million, or 40.2%, during the three months ended June 30, 2023 compared to the same period in 2022. This is primarily due to investments in marketing and talent made over the past year since the acquisition in February 2022.

Income from operations for the HEYDUDE segment was \$142.1 million for the six months ended June 30, 2023, an increase of \$84.8 million, or 147.9%, compared to the Partial Period in 2022. Gross profit increased \$124.5 million, or 118.8%, in part due to higher volume, as described above, and in part due to prior year adjustments of \$62.3 million to the fair value of inventory costs upon close of the acquisition. These increases were offset partially by lower ASP, as described above.

SG&A for the HEYDUDE Brand segment increased \$39.7 million, or 83.7%, during the six months ended June 30, 2023 compared to the Partial Period in 2022. This is primarily due to investments in marketing and talent made over the past year since the acquisition in February 2022.

Enterprise Corporate

During the three months ended June 30, 2023, total net costs within 'Enterprise corporate' increased \$17.1 million, or 35.9%, compared to the same period in 2022. This increase was primarily due to increases in compensation costs from a larger investment in talent and increased professional services costs, offset in part by lower costs in 2023 associated with the prior year HEYDUDE acquisition and integration.

During the six months ended June 30, 2023, total net costs within 'Enterprise corporate' increased \$15.9 million, or 14.6%, compared to the same period in 2022. This was primarily due to increases in compensation costs, professional services costs, information technology costs, and costs associated with the discontinuation of an information technology project. These increases were offset in part by lower costs in 2023 associated with the prior year HEYDUDE acquisition and integration.

Store Locations and Digital Sales Percentage

The tables below illustrate the overall change in the number of our company-operated retail locations by reportable operating segment for the three and six months ended June 30, 2023:

	March 31, 2023	Opened	Closed	June 30, 2023
Company-operated retail locations:				
North America	172	3	—	175
Asia Pacific	152	6	2	156
EMEALA	15	—	—	15
Total Crocs Brand	339	9	2	346
HEYDUDE Brand	8	1	—	9
Total	347	10	2	355

	December 31, 2022	Opened	Closed	June 30, 2023
Company-operated retail locations:				
North America	171	4	—	175
Asia Pacific	151	8	3	156
EMEALA	18	—	3	15
Total Crocs Brand	340	12	6	346
HEYDUDE Brand	5	4	—	9
Total	345	16	6	355

Digital sales, which includes sales through our company-owned websites, third party marketplaces, and e-tailers (which are reported in our wholesale channel), as a percent of total revenues, by operating segment were:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Digital sales as a percent of total revenues:				
Crocs Brand	37.7 %	37.2 %	34.4 %	35.3 %
HEYDUDE Brand ⁽¹⁾	41.8 %	31.5 %	36.0 %	29.6 %
Total	38.6 %	35.8 %	34.8 %	34.1 %

⁽¹⁾ We acquired HEYDUDE on February 17, 2022 and, as a result, added the HEYDUDE Brand as a new operating segment. Therefore, the amounts shown above for the six months ended June 30, 2022 represent results during the Partial Period.

Direct-to-consumer (“DTC”) comparable sales were as follows:

	Constant Currency ⁽¹⁾			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Direct-to-consumer comparable sales: ⁽²⁾				
Crocs Brand	19.5 %	7.5 %	20.5 %	10.7 %
HEYDUDE Brand ⁽³⁾	20.2 %	N/A	24.7 %	N/A

⁽¹⁾ Reflects period over period change on a constant currency basis, which is a non-GAAP financial measure. See “Use of Non-GAAP Financial Measures” for more information.

⁽²⁾ Comparable store status, as included in the DTC comparable sales figures above, is determined on a monthly basis. Comparable store sales include 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 and in the same month in the following year. Location closures in excess of three months are excluded until the thirteenth month post re-opening. E-commerce comparable revenues are based on same site sales period over period. E-commerce sites that are temporarily offline or unable to transact or fulfill orders (“site disruption”) are excluded from the comparable sales calculation during the month of site disruption and in the same month in the following year. E-commerce site disruptions in excess of three months are excluded until the thirteenth month after the site has re-opened.

⁽³⁾ We acquired HEYDUDE on February 17, 2022 and, as a result, added the HEYDUDE Brand as a new operating segment. As such, in the three and six months ended June 30, 2022, we did not disclose DTC comparable sales for the HEYDUDE Brand.

Financial Condition, Capital Resources, and Liquidity

Liquidity

Our liquidity position as of June 30, 2023 was:

	June 30, 2023 (in thousands)
Cash and cash equivalents	\$ 166,235
Available borrowings	563,689

As of June 30, 2023, we had \$166.2 million in cash and cash equivalents and up to \$563.7 million of available borrowings, including \$548.7 million of remaining borrowing availability under the Revolving Facility (as defined below) and \$15.0 million of remaining borrowing availability under the Asia revolving facilities. As of June 30, 2023, the Term Loan B Facility (as defined below) was fully drawn and there was no available borrowing capacity. We believe that cash flows from operations, our cash and cash equivalents on hand, and available borrowings under our Revolving Facility will be sufficient to meet our ongoing liquidity needs and capital expenditure requirements for at least the next twelve months.

In July 2023, we resumed our share repurchase program. We continue to plan to methodically balance debt repayment and share repurchases as we approach our long-term net leverage targets.

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, global economic conditions, and the pace of sustainable growth in our markets, among other things, could each impact our business and liquidity.

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.

All of the cash held outside of the U.S. could be repatriated to the U.S. as of June 30, 2023 without incurring additional U.S. federal income taxes. In some countries, repatriation of certain foreign balances is restricted by local laws. These limitations may affect our ability to fully utilize our cash resources for needs in the U.S. or other countries and could adversely affect our

liquidity. As of June 30, 2023, we held \$101.6 million of our total \$166.2 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. Of the \$101.6 million, \$3.2 million could potentially be restricted by local laws.

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. Since that time, we have amended the Credit Agreement, which, as amended to date, provides for a revolving credit facility of \$750.0 million, which can be increased by an additional \$250.0 million subject to certain conditions (the “Revolving Facility”). Borrowings under the Credit Agreement bear interest at a variable interest rate based on (A) a Base Rate (defined as the highest of (i) the Overnight Bank Funding Rate (as defined in the Credit Agreement), plus 0.25%, (ii) the Prime Rate (as defined in the Credit Agreement), and (iii) the Daily Simple SOFR (as defined in the Credit Agreement), plus 1.00%), plus an applicable margin ranging from 0.25% to 0.875% based on our leverage ratio or 1.35% to 1.975% for the Daily Simple SOFR based on the leverage ratio, or (B) the Term SOFR Rate (as defined in the Credit Agreement), plus an applicable margin ranging from 1.35% to 1.975% based on our leverage ratio for one-month interest periods and 1.40% to 2.025% based on our leverage ratio for three month interest periods. 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 us to maintain a minimum interest coverage ratio of 3.00 to 1.00, and a maximum leverage ratio of (i) 4.00 to 1.00 from the quarter ended March 31, 2022 through, and including, the quarter ending December 31, 2023, (ii) 3.75 to 1.00 for the quarter ending March 31, 2024, (iii) 3.50 to 1.00 for the quarter ending June 30, 2024, and (iv) 3.25 to 1.00 for the quarter ending September 30, 2024 and thereafter (subject to adjustment in certain circumstances). The Credit Agreement permits, among other things, (i) stock repurchases subject to certain restrictions, including after giving effect to such stock repurchases, the maximum leverage ratio does not exceed certain levels; and (ii) certain acquisitions so long as there is borrowing availability under the Credit Agreement of at least \$40.0 million. As of June 30, 2023, we were in compliance with all financial covenants under the Credit Agreement.

As of June 30, 2023, the total commitments available from the lenders under the Revolving Facility were \$750.0 million. At June 30, 2023, we had \$200.0 million in outstanding borrowings and \$1.3 million in outstanding letters of credit under the Revolving Facility, which reduces amounts available for borrowing under the Revolving Facility. As of June 30, 2023 and December 31, 2022, we had \$548.7 million and \$748.7 million, respectively, of available borrowing capacity under the Revolving Facility, which matures November 2027.

Term Loan B Facility

On February 17, 2022, the Company entered into a credit agreement (the “Term Loan B Credit Agreement”) with Citibank, N.A., as administrative agent and lender, to among other things, finance a portion of the cash consideration for the Acquisition.

The Term Loan B Credit Agreement provides for an aggregate term loan B facility in the principal amount of \$2.0 billion (the “Term Loan B Facility”), which is secured by substantially all of the Company’s and each subsidiary guarantor’s assets on a pari passu basis with their obligations arising from the Credit Agreement and is scheduled to mature on February 17, 2029, subject to certain exceptions set forth in the Term Loan B Credit Agreement. Additionally, subject to certain conditions, including, without limitation, satisfying certain leverage ratios, the Company may, at any time, on one or more occasions, add one or more new classes of term facilities and/or increase the principal amount of the loans of any existing class by requesting one or more incremental term facilities.

Each term loan borrowing which is an alternate base rate borrowing bears interest at a rate per annum equal to the Alternate Base Rate (as defined in the Term Loan B Credit Agreement), plus 2.50%. Each term loan borrowing which is a term benchmark borrowing bears interest at a rate per annum equal to the Adjusted Term SOFR Rate (as defined in the Term Loan B Credit Agreement) plus 3.50%.

Outstanding principal under the Term Loan B Facility is payable on the last business day of each March, June, September and December, in a quarterly aggregate principal amount of \$5.0 million. Quarterly aggregate principal payments began on June 30, 2022, with the remaining principal amount due on February 17, 2029, the maturity date. As of June 30, 2023, we had \$1,180.0 million in outstanding principal and the Term Loan B Facility was fully drawn with no remaining borrowing capacity.

The Term Loan B Credit Agreement also contains customary affirmative and negative covenants, incurrence financial covenants, representations and warranties, events of default and other provisions. As of June 30, 2023, we were in compliance with all financial covenants under the Term Loan B Credit Agreement.

Asia Revolving Credit Facilities

During the six months ended June 30, 2023, we had two revolving credit facilities in Asia, the revolving credit facility with China Merchants Bank Company Limited, Shanghai Branch (the “CMBC Facility”), which matured in January 2023 and provided up to 10.0 million RMB, or \$1.5 million using current exchange rates as of January 2023, and the revolving credit facility with Citibank (China) Company Limited, Shanghai Branch (the “Citibank Facility”), which, as amended, provides up to an equivalent of \$15.0 million.

As of June 30, 2023, we had no borrowings outstanding on the Citibank Facility. As of December 31, 2022, we had no outstanding borrowings on the CMBC Facility, and we had borrowings outstanding of \$4.3 million on the Citibank Facility.

Senior Notes Issuances

In March 2021, the Company completed the issuance and sale of \$350.0 million aggregate principal amount of 4.250% Senior Notes due March 15, 2029 (the “2029 Notes”), pursuant to the indenture related thereto (as amended and/or supplemented to date, the “2029 Notes Indenture”). Additionally, in August 2021, the Company completed the issuance and sale of \$350.0 million aggregate principal amount of 4.125% Senior Notes due August 15, 2031 (the “2031 Notes”), pursuant to the indenture related thereto (as amended and/or supplemented to date, “the 2031 Notes Indenture” and, together with the 2029 Notes Indenture, the “Indentures” and, each, an “Indenture”). Interest on each of the 2029 Notes and the 2031 Notes (collectively, the “Notes”) is payable semi-annually.

The Company will have the option to redeem all or any portion of the 2029 Notes, at once or over time, at any time on or after March 15, 2024, at a redemption price equal to 100% of the principal amount thereof, plus a premium declining ratably on an annual basis to par and accrued and unpaid interest, if any, to, but excluding, the date of redemption. The Company will also have the option to redeem some or all of the 2029 Notes at any time before March 15, 2024 at a redemption price of 100% of the principal amount to be redeemed, plus a “make-whole” premium and accrued and unpaid interest, if any, to, but excluding, the date of redemption. In addition, at any time before March 15, 2024, the Company may redeem up to 40% of the aggregate principal amount of the 2029 Notes at a redemption price of 104.250% of the principal amount with the proceeds from certain equity issuances, plus accrued and unpaid interest, if any, to, but excluding, the date of redemption.

The Company will have the option to redeem all or any portion of the 2031 Notes, at once or over time, at any time on or after August 15, 2026, at a redemption price equal to 100% of the principal amount thereof, plus a premium declining ratably on an annual basis to par and accrued and unpaid interest, if any, to, but excluding, the date of redemption. The Company will also have the option to redeem some or all of the 2031 Notes at any time before August 15, 2026 at a redemption price of 100% of the principal amount to be redeemed, plus a “make-whole” premium and accrued and unpaid interest, if any, to, but excluding, the date of redemption. In addition, at any time before August 15, 2024, the Company may redeem up to 40% of the aggregate principal amount of the 2031 Notes at a redemption price of 104.125% of the principal amount with the proceeds from certain equity issuances, plus accrued and unpaid interest, if any, to, but excluding, the date of redemption.

The Notes rank pari passu in right of payment with all of the Company’s existing and future senior debt, including the Credit Agreement, and are senior in right of payment to any of the Company’s future debt that is, by its term, expressly subordinated in right of payment to the Notes. The Notes are unconditionally guaranteed by each of the Company’s restricted subsidiaries that is a borrower or guarantor under the Credit Agreement and by each of the Company’s wholly-owned restricted subsidiaries that guarantees any debt of the Company or any guarantor under any syndicated credit facility or capital markets debt in an aggregate principal amount in excess of \$25.0 million.

The Indentures contain covenants that, among other things, limit the ability of the Company and its restricted subsidiaries to incur additional debt or issue certain preferred stock; pay dividends or repurchase or redeem capital stock or make other restricted payments; declare or pay dividends or other payments; incur liens; enter into certain types of transactions with the Company’s affiliates; and consolidate or merge with or into other companies. As of June 30, 2023, we were in compliance with all financial covenants under the Notes.

Cash Flows

	Six Months Ended June 30,		\$ Change	% Change
	2023	2022	Favorable (Unfavorable)	
	(in thousands)			
Cash provided by operating activities	\$ 330,613	\$ 84,744	\$ 245,869	290.1 %
Cash used in investing activities	(51,645)	(2,097,029)	2,045,384	97.5 %
Cash provided by (used in) financing activities	(311,317)	1,987,621	(2,298,938)	(115.7)%
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	7,049	(1,690)	8,739	517.1 %
Net change in cash, cash equivalents, and restricted cash	\$ (25,300)	\$ (26,354)	\$ 1,054	4.0 %

Operating Activities. Cash provided by operating activities consists of net income adjusted for noncash items and changes in working capital. Cash provided by operating activities increased \$245.9 million for the six months ended June 30, 2023 compared to the six months ended June 30, 2022, driven by higher net income, adjusted for non-cash items, of \$135.6 million and increases in operating assets and liabilities of \$110.3 million, primarily due to inventory.

Investing Activities. There was a \$2,045.4 million decrease in cash used in investing activities for the six months ended June 30, 2023 compared to the six months ended June 30, 2022. The decrease is primarily due to the cash paid for the acquisition, net of cash acquired, in the six months ended June 30, 2022 that did not recur in the current year. Refer to Note 14 — Acquisition of HEYDUDE in the accompanying notes to the condensed consolidated financial statements included in Part I - Item 1. *Financial Statements* of this Quarterly Report on Form 10-Q.

Financing Activities. Cash provided by financing activities decreased by \$2,298.9 million in the six months ended June 30, 2023 compared to the six months ended June 30, 2022. The decrease was primarily due to a decrease of \$2,026.0 million in proceeds from borrowings, which includes borrowings under the Term Loan B Facility of \$2.0 billion used to fund the acquisition of HEYDUDE in part during the six months ended June 30, 2022 that did not recur in the current year. Additionally, there was an increase of \$318.7 million in repayments of borrowings, an increase of \$4.9 million in repurchases of common stock for tax withholding, and a decrease in cash provided by financing activities of \$0.1 million. The overall decrease was offset by a \$50.8 million decrease in deferred debt issuance costs.

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, 2022, other than (i) borrowings and repayments on the Term Loan B Facility, Revolving Facility, and Asia revolving credit facilities and (ii) future lease payments of approximately \$111 million through 2033, as described in Note 4 — Leases in the accompanying notes to the condensed consolidated financial statements included in Part I - Item 1. *Financial Statements* of this Quarterly Report on Form 10-Q.

Off-Balance Sheet Arrangements

We had no material off-balance sheet arrangements as of June 30, 2023, other than certain purchase commitments, which are described in Note 12 — Commitments and Contingencies in the accompanying notes to the condensed consolidated financial statements included in Part I - Item 1. *Financial Statements* 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.

For a complete discussion of our critical accounting policies and estimates, please refer to our Annual Report on Form 10-K for the year ended December 31, 2022 and Note 2 — Recent Accounting Pronouncements in the accompanying notes to the condensed consolidated financial statements included in Part I - Item 1. *Financial Statements* 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, 2022.

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* 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 condensed 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 Revolving Facility and certain financial instruments.

Borrowings under our Term Loan B Facility and Revolving 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 June 30, 2023, we had borrowings with a face value of \$2,080.0 million, comprised of the Notes, which carry a fixed rate, the Term Loan B Facility, and borrowings under our Revolving Facility. We also had \$1.3 million in outstanding letters of credit under our Revolving Facility as of June 30, 2023. As of December 31, 2022, we had long-term borrowings with a face value of \$2,379.3 million and \$1.3 million in outstanding letters of credit under our Revolving Facility.

A hypothetical increase of 1% in the interest rate on the variable rate borrowings under our Term Loan B Facility and Revolving Facility would have increased interest expense by \$4.0 million and \$8.2 million for the three and six months ended June 30, 2023, respectively.

Foreign Currency Exchange Risk

Changes in exchange rates have a direct effect on our reported U.S. Dollar condensed 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 income 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.

An increase of 1% of the value of the U.S. Dollar relative to foreign currencies when translating our financial results would have decreased our revenues and income before taxes during the three months ended June 30, 2023 by \$6.3 million and \$0.8 million, respectively. During the six months ended June 30, 2023, an increase of 1% of the value of the U.S. Dollar relative to foreign currencies would have decreased our revenues and income before taxes by \$11.7 million and \$2.8 million, respectively. This analysis does not account for transactional fluctuations in accounts, such as those driven by purchasing power, as defined in “Known or Anticipated Trends” in Part I - Item 2. *Management’s Discussion and Analysis of Financial Condition and Results of Operations* of this Quarterly Report on Form 10-Q. The volatility of the exchange rates is dependent on many factors that cannot be forecasted with reliable accuracy.

In order to manage exposure to fluctuations in foreign currency and to reduce the volatility in earnings caused by fluctuations in foreign exchange rates, we may enter into forward foreign exchange contracts to buy or sell various foreign currencies. Changes in the fair value of these forward contracts are recognized in earnings in the period that the changes occur or in the period in which the hedged transaction affects earnings for derivatives classified as non-hedged or hedged, respectively, as defined in Note 6 — Derivative Financial Instruments in the accompanying notes to the condensed consolidated financial statements included in Part I - Item 1. *Financial Statements* of this Quarterly Report on Form 10-Q. As of June 30, 2023, the U.S. Dollar notional value of our outstanding foreign currency forward exchange contracts was approximately \$148.8 million. The fair value of these contracts at June 30, 2023 was an insignificant asset and liability.

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 June 30, 2023, 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 \$0.2 million.

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 income for the six months ended June 30, 2023 and 2022.

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”) as of June 30, 2023. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2023, 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 SEC’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

In the three months ended March 31, 2022, we closed the Acquisition, as discussed in Note 14 — Acquisition of HEYDUDE, and as such, we are in the process of integrating HEYDUDE into our overall internal control over financial reporting and will include HEYDUDE in Management’s Evaluation of Disclosure Controls and Procedures for the year ending December 31, 2023. This process may result in changes to our 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 June 30, 2023 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 12 — Commitments and Contingencies in the accompanying notes to the condensed consolidated financial statements included in Part I - Item 1. *Financial Statements* 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, 2022.

ITEM 5. Other Information

In the three months ended June 30, 2023, no directors or officers adopted or terminated a “Rule 10b5-1 trading arrangement” or a “non-Rule 10b5-1 trading arrangement,” as each term is defined in Item 408(a) of Regulation S-K.

ITEM 6. Exhibits

Exhibit Number	Description
3.1	<u>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).</u>
3.2	<u>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).</u>
3.3	<u>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).</u>
3.4	<u>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).</u>
4.1	<u>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).</u>
31.1†	<u>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.</u>
31.2†	<u>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.</u>
32+	<u>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.</u>
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.

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: July 27, 2023

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: July 27, 2023

/s/ Andrew Rees

Andrew Rees

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: July 27, 2023

/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, 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 June 30, 2023 (“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: July 27, 2023

/s/ Andrew Rees

Andrew Rees

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.