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Crocs insiders dump a whole lot of croc on the public.

On February 9, 2006 Crocs Inc. (NASDAQ: CROX, \$23.85) sold 11,385,000 shares to the public in an initial public offering ("IPO"). The story was that CROX's growth is just beginning, and the company needed the money. Well, if that's the case why did insiders dump 6,435,000 of the 11,385,000 that were sold to the public? After all, none of the money from the insider stock sales went to the company and who better than the insiders, who relatively recently bought their shares anyway, to know what the future is likely to bring? This is a very tricky question, particularly in the case of CROX with its next to nil track record and a future that could easily entirely disappear in a whiff.

According to the IPO prospectus CROX "began marketing and distributing in the U.S., under the Crocs brand, a footwear model that was manufactured by Foam Creations" in November 2002 and then purchased Foam Creations in June 2004 for \$5.2 million and the assumption of \$1.7 million in debt. In order to raise the money to buy Foam Creations and fund operations before the IPO, CROX sold 33,322,247 shares of its stock for an average price of \$0.11 per share from November 2002 to December 2005. It is no wonder that about 120 investors who bought CROX stock before the IPO sold 6,435,000 of their shares in the IPO. CROX actually sold less shares than the insiders. In the IPO CROX only sold 4,950,000 shares. Many of the same shares sold to the public at \$21.00 per share by insiders were only recently purchased by insiders at \$0.11 per share.

This funky IPO, and CROX's highly questionable market valuation of approximately \$899 million, is only part of what makes CROX a croc of a stock.

CROX calls the plastic that it uses to manufacture its shoes "croslite" and calls croslite "proprietary." CROX claims that protecting the croslite manufacturing process is important to their business value and states in the IPO prospectus that they "consider the formulation of croslite used to produce our products to be a valuable trade secret." Yet, even though croslite is consistently referred to as proprietary, CROX admits in the IPO prospectus that "Neither we nor Foam Creations have attempted to seek patent protection for the formula."

Contrary to CROX's double speak, Crocs are not manufactured out of any proprietary materials, the style is not new or unique, and identical shoes are widely available at much cheaper price points and enjoy much larger distribution channels than CROX. In fact, Target, Payless, Shoeline.com, OldFriendSlipper.com, and Nordstrom's all carry shoes identical to Crocs, most at \$9.99 a pair, which is a substantial discount to CROX's \$29.99-\$39.99 price range. So similar is a version that sells at Nordstrom's for \$9.99, that the shoes are marketed under the brand name "Gators."

Footwear News named CROX the brand of the year in 2005 but recently began questioning whether CROX "will beat back the spate of knockoffs swamping the market." Investors who are buying CROX stock at \$23.85, and therefore paying almost \$900 million for CROX's fad business, can not afford even the slightest hiccup much less a swamping of the market.

CROX filed a lawsuit in January 2005 against Holey Soles Holdings Ltd. in the Federal Court of Canada. CROX states that "the complaint alleges trademark and copyright infringement relating to the design of some of their shoe

models. We believe that we own all copyrights associated with our Beach footwear model." It is interesting that CROX chose to qualify its claim to have rights with the word "believe." CROX can believe anything it wants, but its Holey Soles adventure boomeranged.

In August 2005, CROX disclosed that "Holey Soles filed a lawsuit against us in the United States District Court for the Southern District of New York. Holey Soles seeks a declaratory judgment that we (CROX) do not have any valid copyright or trade dress rights with respect to the design of our footwear." So, now it is CROX and all of its ludicrous ownership claims that are on the defense.

It is interesting to note that CROX chose to sue Holey Soles when they could have just as easily sued Target, Payless, ShoeLine.com, OldFriendSlippers.com, or Nordstrom's as they all carry shoes identical to the CROX brand of products and have much larger profiles, and distribution than the Holey Soles products.

We have to wonder how many investors that are willing to pay \$23.85 per share

for CROX have actually seen a pair of [Crocs](http://www.crocs.com/home.jsp) and those available at [www.oldfriendslipper.com](http://www.nothingz.com/www.oldfriendslipper.com), [www.target.com](http://www.target.com/gp/detail.html/ref=sc_pgb_r_7_0_1041816/601-8018326-5176127?%5Fencoding=UTF8&from), [www.payless.com](http://www.payless.com/Catalog/ProductDetail.aspx?&TLC=Womens&SLC=WomensCasuals&BLC=WomensCasuals) and [www.Shoeline.com](http://www.shoeline.com/asp/dcpItem.asp?style=Q576304). It may well be that the Crocs fad will last a little longer, and perhaps even grow a lot more this year. But what is certain is that CROX's stock is grossly overvalued even if CROX's operating management, which has no prior experience with shoe ventures, fashion or branding, is successful beyond their wildest dreams. In fact, insiders eagerness to sell at the IPO is indicative that their wildest dreams about the company have been fulfilled.

As a point of comparison, it is also interesting to note that CROX's market capitalization is only slightly less than that of K-Swiss, Inc.(NASDAQ: KSWS, \$29.71) and Skechers, U.S.A. Inc.(NYSE: SKX, \$23.60), even though KSWS and SKX have diversified product lines and KSWS had sales of approximately \$508 million in 2005 and SKX had just over \$1 Billion in sales in 2005. CROX had sales of \$108.6 million in 2005.

CROX also has a larger market value than Deckers Outdoor Corporation (NASDAQ: DECK, \$38.38), which manufactures and markets the highly-successful UGG boots that retail from about \$80 to \$220 and have been hot for two years, as well as the Teva outdoor lifestyle line which includes running shoes and sandals that retail between \$50-\$90. CROX's market value is almost twice that of DECK's market capitalization, which approaches \$500 million. DECK had sales of about \$264 million in 2005.

After a thorough analysis of the CROX brand name and product, investors may want to sidestep buying in to the stock hype this shoe manufacturer has created and profited from by selling insider stock to the public while telling investors its stock isn't ugly.

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