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The following is a transcript of remarks made during an analyst question and answer session with with Sir Fred Goodwin of Royal Bank of Scotland, Alfredo Saenz of Santander and Jean-Paul Votron of Fortis on May 29, 2007. A webcast of the session was posted on Royal Bank of Scotland s website, www.rbs.com/thebanks, on May 29, 2007.

Royal Bank of Scotland

Presenters: Sir Fred Goodwin, Johnny Cameron, Guy Whittaker, Mark Fisher

Tuesday 29th May 2007

16h00 BST

Operator: Good day ladies and gentlemen and welcome to the Royal Bank of Scotland Conference Call. For your information the call will be recorded. I would now like to hand the call over to your host today, Sir Fred. Please go ahead.

Sir Fred Goodwin: Good afternoon and thanks everyone for taking the trouble to call in, I hope you have had the opportunity, I m sure you will have had the opportunity to at least glance at the press release, I know some of you may have had the opportunity to be at our presentation this morning or to have seen it on the webcast. Whatever the case we are very happy now to try and answer any questions that you might have. I m conscious there was in some respects quite a lot to absorb and in some respects maybe not quite so much but in any event as I say we are happy to answer questions today or indeed over the coming days and weeks because I don t think this is about to end suddenly, so there will be plenty of opportunity to ask questions but I thought it would be useful and we all thought that it would be useful today just towards the end of the day to try and pick up anything which might be on your mind, anything you wanted to air or get further information on. I have got all of my immediately involved colleagues with me so I know they will be happy to try and provide any further granularity on any areas you d like. So without further ado can we throw it open for questions?

Operator: Thank you Sir Fred. Ladies and gentlemen, the question and answer session will be conducted electronically. If you would like to ask a question, please press the * or asterisk key followed by the digit 1 on your telephone keypad. We will pause for just a moment to allow everyone to signal for questions. Our first question comes from Mark Thomas of KBW. Please go ahead.

Mark Thomas: Afternoon everybody, nice to get in first in the morning and in the afternoon. I m afraid it s actually the same question because the more that we have dug around and the more we have thought about it I really think it would be helpful to have a more detailed review of the wholesale synergies obviously in relation to where Barclays sits but also in relation to the timing because when we look at where the Royal Bank synergies and the timing of the Royal Bank synergies given that not a lot comes from the wholesale which one might have anticipated to be rapid, the group earnings enhancement seems to be back end weighted, so can you give us any more in terms of where those synergies are, why we should have confidence you will deliver so much more than any competitor as compared to Barclays and can you put some hard numbers to back up the synergies please?

Sir Fred Goodwin: Let s try and I m glad you ve asked that Mark because I didn t think we acquitted ourselves as well as we might have this morning on that either, I know Johnny didn t think so either so I will hand the floor straight over to Johnny because there is a very good story here and it needs to get out.

Johnny Cameron: I want to be sure first of all that we are comparing like with like, the number for the GBM business is 1.1, there is another 200 in that section but that basically comes out of the mid-market businesses which are not in the equivalent Barcap analysis, so it s 1.1 plays 850 I think is the right comparison. What we have got is 58 separate initiatives, I have got the list in front of me and I have got the details in front of me which were done bottom up. We have got a lot of knowledge in the organisation, quite a few people have been through ABN AMRO for example and joined us or know ABN AMRO well, it s remarkable how much you can gain from external analysis around the world, gossiping in the Hong Kong bars or whatever it might be, so we did a bottom up work to get to 58 separate initiatives that adds up to that. We then and I will come back to it in a minute we then had the one meeting in the Netherlands when I and some colleagues met with Piero Overmars and had some conversations with him about it and I have to say the one reaction I came away with and I did say this to Fred at the time was that if anything our bottom up looks like an underestimate, I came away from that due diligence session with a great deal more confidence that the big number 1.1 is achievable, there is an awful lot of things that we can and will do in that organisation to improve its efficiency and to de-duplicate and so if I could just expand on those two points really, one about de-duplication. The obvious part of de-duplication is the back office where we proved in NatWest how quickly we can move things on to one IT system, one operations, put the finance function together, these things those are straightforward, we know how to do it, we know what we can save and it s the obvious thing to do. So we will put all of the markets businesses on to one IT platform. On the other hand we will use their IT platform almost certainly for international cash management, trade finance and the rest so there will be quick and easy de-duplication there in terms of the IT systems and the operations and systems that support the two IT systems. The front office, there will be de-duplication although actually there I think there s an interesting sub-story which is I am well aware that ABN AMRO s staff are much more looking forward to us being their new colleagues than Barcap. I think that while there is de-duplication of opportunities in the front office, actually there is also a great deal of complementarity so in terms of the staff impact in the front office we are probably a little bit more friendly than they are, although I obviously haven t got access to how Barcap split their savings into front and back office. Then thirdly coming on to efficiency again, the point that Fred quite rightly made this morning and needs a lot more emphasis is that we have a cost income ratio in GBM of sub 40% and this is seriously industry leading, I mean we are the top-top end of the right quartile here in terms of cost efficiency and that has come, we sustained that through a period of 5-6 years of growth post NatWest, we have grown have GBM at 17% per annum for 5-6 years but we have kept the costs under very good control and yet managed to grow the revenue aggressively and I think that really is probably the single most important point that if our objective is to get a cost income ratio in 2010 of around 50%, that will be industry leading but it s still 10 percentage points above where we are now so I don t think that that feels like a particularly ambitious target. In fact Fred had already told me the it is not a particularly ambitious target but we can definitely I think back up what we are saying by the experience of what we did at NatWest and on that last point I have just made there is it s the same team. If you look at the senior management of GBM we have been together now for 8 years, 10 years nearly, we did the NatWest integration on time and we achieved cost savings in excess of what we promised then and I am every bit as confident that we can do that again now.

Sir Fred Goodwin: On the timing point Mark, I think to be candid as Johnny describes we have built this up bottom up and you sort of come up with a bottom up vision of what the end state looks like, an end state in this instance being 2010 and then you make some assumptions about how quickly you are going to get there. Actually one of the better ways to give yourself breathing space is the rate of development rather than in quantum so I would much sooner push for more saving but take longer about getting it, I suppose I m going a long way about saying we are reasonably conservative about the time, the rate at which these savings are achieved in preference for getting the better optimum savings. I don t believe the savings are all that challenging for Johnny and the guys to get and I have made that view known internally. I think the integration costs we have got are quite high and I think the pace this year is relatively modest. All of which we believe make these a fairly prudent set of numbers to be airing with you today.

Mark Thomas: So in summary then would it be saying that you feel there is a duplication in terms of cost and overlap on the costs in the processing areas but that that there is actually an opportunity where you don t overlap in the front office, because to claim more cost savings around de-duplication but then say we have got revenue opportunities because we are not duplicated would suggest that s a different bias between front and back office in RBS and ABN and therefore in some areas you can take out the cost but it doesn t actually impact that much on the front line. Or have I completely confused everybody?

Johnny Cameron: It s a bit of an oversimplification. There are savings in the front office, I don t want to mislead you, there will be savings in the front office, but broadly speaking the thrust of what you said is absolutely correct, we haven t talked about the revenue side, I assume that s because that s more self evident but the fact is that we have achieved global product leadership in things like foreign exchange, in derivatives, in bond underwriting and loan underwriting on what is a narrower client base than ABN AMRO has already got. They have not achieved that global leadership, so applying our product skills and in particular our skills at getting the product in front of the customer to that broader customer base should bring very significant revenue benefits and to do that we ll need some people, we will need to continue to have good people.

Mark Thomas: Thanks so much.

Sir Fred Goodwin: Thanks Mark.

Guy Whittaker: I think it s just worth remembering Mark we run I think 20 percentage points more efficient in global banking and markets than Barcap. 24 percentage points or more, so we are generally applying the hard productivity matrix to the ABN customer base and product suite will deliver a materially better return from day one.

Mark Thomas: Great, thank you.

Sir Fred Goodwin: Ok, who is ready for the next question?

Operator: Thank you. Fred Rizzo from F&C has our next question. Please go ahead.

Fred Rizzo: Hi it s Fred Rizzo from F&C. I have got two questions for you, the first one is if you could if possible give a little bit more detail on the numbers side, specifically the risk weighted assets and the assets associated with the rump of things that you will be taking over; and then the second questions is with regards going back to the wholesale area if you made any assumptions for revenue disruption and sort of dis-synergies coming through on the revenue side, if you could discuss how you are going to make those large cost cuts with regards to not having any revenue disruptions?

Guy Whittaker: The RWAs Fred are we account for a little less than half of the total, it s about 140 billion of the 280 billion in risk rated assets in ABN out at the end of 2006 and then you probably recall they sold a mortgage business in early 2007 which took a further 6 out of business unit North America so we would expect to consolidate something like 134 billion plus the growth that has occurred organically so far this year. The residual assets that we talked about are really down to the two equity stakes in Saudi Hollandi and Capitalia, Prime Bank, none of which are of any great material size and then the residual private equity portfolio which I m just trying to recall the size of that, I think it is around 3 billion, something of that order of magnitude, so relatively small RWAs that go with the residual assets.

Fred Rizzo: How about just the underlying assets that you are acquiring, the wholesale bank and presumable if you could split the difference between wholesale and LaSalle?

Guy Whittaker: In terms of nominal assets? Or just the RWAs?

Fred Rizzo: Nominal assets

Guy Whittaker: The nominal assets for LaSalle Larry it s 125?

Larry Fish: 125 plus the synergies, so

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Guy Whittaker: About $100 billion of the LaSalle side and the nominal number, I can t remember the size of the financing book. Fred, I think let me come back to you on that, we have got it, I just don t have the number in my head for the nominal asset piece on that.

Sir Fred Goodwin: Dis-synergies Johnny?

Johnny Cameron: Dis-synergies, we have looked at the pretty carefully. You implied two sorts of dis-synergies, one is effectively client overlap. There is certainly a bit of client overlap in the UK where frankly we have every client worth having and they don t bring a lot in terms of clients so there s a certain amount of overlap there but that is pretty small in terms of the value amount but elsewhere in the world I m pretty happy that the client overlap is really very limited and we put something in for overlap and dis-synergies as a consequence of overlap but it is not huge number outside the UK and even there it is not a big number. The UK obviously is balanced by the fact that and it is something we haven t mentioned and it gives me the opportunity to mention it is that their international cash management trade finance products will be sold to our existing UK customer base and it is something that will bring us some additional revenue that will be very helpful and part of our revenue synergies.

Guy Whittaker: Just coming back on the total asset piece Fred we will account for a little over 700 billion of the almost 1 trillion assets of consolidated ABN which represents about 74% of the nominal assets and a little less than 50% of the risk weighted assets.

Fred Rizzo: Thank you. Just on the revenue assumptions, so in the near term as you are cutting the back office, the process to extrapolate the synergies over the next few years, you don t anticipate an initial year one revenue disruption or lost revenues?

Johnny Cameron: Keeping our clients happy is absolutely first and foremost in our mind as we said and we won t doing anything that upsets the clients and that will mean that we won t be doing things which disrupt the revenues. This I remember vividly in NatWest, this was the dog that didn t bark, it just doesn t, it will be fine.

Sir Fred Goodwin: It s not worth doing, it s not worth disturbing the customers to get a revenue synergy so it is better to do it at the right pace and that was the comments I was making this morning around just stabilising the ship before we start making the changes is very important.

Guy Whittaker: We won t take the cost side of it, costs and revenue, that clearly that doesn t make sense.

Fred Rizzo: Ok, thank you.

Operator: Thank you. Ladies and gentlemen as a reminder if you wish to ask a question, please press *1. Our next question comes from Tania Gold of Dresdner Bank. Please go head.

Tania Gold: Hi, just a very quick question, apologies if I missed this somewhere in the presentation earlier but I was just wondering of your 27.2 billion consideration how that was split between each of the divisions you were buying please?

Sir Fred Goodwin: No, you didn t miss it Tania because we didn t disclose it and we wouldn t be disclosing that at this point. If you think about the sensitivities at stake around LaSalle for instance we wouldn t be doing that at this point.

Tania Gold: So you won t say whether the 24 odd billion that was mentioned previously is what you are looking at for LaSalle then?

Sir Fred Goodwin: I ll get Guy to address the reservation for you, the 24 billion was in a very specific context of the go shop and that was conditional on that price would only ever have been paid in the context of us having successfully acquired the rest of ABN AMRO so we would have been paying it to ourselves. That was not a price that we would consider in an open market context.

Tania Gold: Thank you.

Operator: Thank you. Our next question comes from Brian Mbrosio of Suttonbrook. Please go ahead.

Brian Mbrosio: Hi, good afternoon. I just had a question on how you guys came up with the 1 to withhold and it seems that the 2 billion would be a pretty substantial number?

Sir Fred Goodwin: Exactly, not overly scientifically we are going to pay 38.40, the consortium will pay 38.40 in all circumstances, it s just a question of who it pays it to. We wanted to pick a number which would be pretty clear to our own shareholders that we don t plan importing any litigation issues into our shareholder base. So it was a number which we felt would give reasonable comfort, that we could stand and defend the situation with Bank of America if necessary, if that s the outcome we reached or alternatively we could do a deal with Bank of America and if there were incremental costs just trying to think like tax or something like that that it could be allocated out of that figure. But there is no science to it, it was number that we in the context that we are talking about a round number. We supplied that comfort to our shareholders. We do not wish to import a litigation issue into RBS or any other consortium member.

Brian Mbrosio: Ok, thank you.

Operator: Thank you. Our next question comes from Nigel Myer of Dresdner Kleinwort. Please go ahead.

Nigel Myer: Thanks gentlemen. In the press release both in April and the more recent one there s some interesting phraseology in terms of Merrill and others undertaking to underwrite and I just wonder whether there are any circumstances in which Merrill can walk away from this undertaking or whether they really are on the hook?

Guy Whittaker: No, they are on the hook, all of the equity issuance is fully, fully underwritten and I think we made perfectly clear in a number of the statements today there is plenty of sub underwriting capacity interested in supporting them with a wide range of institutions involved, so it s all done.

Nigel Myer: So does if equity markets globally fall by 25% they still have to cough up the same amount of cash as they do today, is that correct?

Guy Whittaker: Thinking through if you listened to the presentation earlier, there s this equities issuance from Fortis was a 15 billion rights issue which is obviously going to their own shareholders so there s a smaller single digit number I think around 5-6 million in Santander. For ourselves we are exchanging 0.844 of an RBS share to every ABN AMRO shareholders so there is no underwriting required for that and I run the Tier I issuance is the 6.2 billion of preference shares which have been underwritten by Merrill Lynch and others.

Nigel Myer: Ok, thank you and may I ask one further question? In this morning s presentation you suggest in response to one question that the debt obligations of ABN would be transferred or would be assumed by RFS and I just sort of wanted a bit more clarity on that because the vast majority of ABN s debt obligations are issued by ABN AMRO Bank. Does that mean any kind of guarantee from RFS or were you just talking about subordinated debt and Tier 1 debt? Perhaps you could comment on that please.

Guy Whittaker: I think just looking at the ratings obviously the three consortium banks are rated AAA, AA1 and AA2 respectively for ourselves, Santander and Fortis. ABN itself is AA2, I think not finalised yet as to whether we are specifically going to guarantee those obligations given that eventually some of those liabilities will flow to the intended recipients of each part of the ABN business as they move with the assets that they are funding, but in as much as each of the three consortium members is at or higher rated than the existing bond holders we are certainly not expecting any concerns or push backs from the debt markets.

Nigel Myer: No, it was really just whether because the obligations are legally from ABN AMRO Bank where the legal entity, the bank was going to end up or where you expected it to end up and therefore who was responsible and whether you would then start expo shuffling those obligations around.

Guy Whittaker: Again I think it s the sort of thing on day one as Fred said we will come in, run the bank, the liability of the bank will be supported by the equity and assets of ABN Bank and then once we have secured control we will go for an orderly redistribution of both the assets and liabilities ensuring there is no dislocation along the way.

Sir Fred Goodwin: It doesn t feel like a day one issue Nigel and it doesn t feel like an issue full stop given the credit quality of the

Nigel Myer: I do not doubt the credit quality at all, no, I was just intrigued by your comment that the RFS would assume those obligations which

Sir Fred Goodwin: It owns all of, de facto owns all of ABN AMRO, the holdings bank, the whole lot.

Nigel Myer: Absolutely, but it was just the choice of words that intrigued me, that s all.

Sir Fred Goodwin: I wasn t trying to be clever, self evidently as it turns out!

Nigel Myer: Thank you.

Sir Fred Goodwin: Thanks.

Operator: Thank you. Our next question comes from Drew Figdor of Tiedemann. Please go ahead.

Drew Figdor: Yes, I just wanted to ask you just so I understand under what circumstances would the $1 not be paid out, in particular

Sir Fred Goodwin: There are no circumstances under which it won t be paid out. If this offer stands it will always be paid out, so it either goes to ABN AMRO shareholders or to Bank of America, I think that s the long and the short of it.

Drew Figdor: So if you settle the

Sir Fred Goodwin: Any balance between what might say for instance for the sake of argument settle with Bank of America hypothetically the difference between the settlement and the euro rather would be paid to ABN AMRO shareholders. The consortium will always pay 38.40 either to ABN AMRO shareholders or to I think basically Bank of America.

Drew Figdor: Just so I understand that though. So if you agree to settle with Bank of America and you come back and say we settle but we feel that we lost a billion dollars of value , one how would you determine that and two if you came to that conclusion would you then take out that value from that essentially $2.5 billion dollar pool of money.

Sir Fred Goodwin: I think we would need to get to that place first. We are well into the realms of the hypothetical at this juncture but say for the sake of argument we were to reach a settlement and say it was to share a bit of LaSalle and just thinking out loud you could have a bit of tax that might have to be paid that we wouldn t otherwise had to have paid had we brought the whole, now that I can see that would be a case in point. There s nothing smart intended about it but it s most obviously there to cover any litigation outcome.

Drew Figdor: What do you think, why didn t this settlement happen? I would have expected you to have been able to agree with Bank of America. Can you shed a little light on why there wasn t a settlement when there probably should have been one?

Sir Fred Goodwin: I think with all situations it is difficult for one party to conclude why there wasn t a settlement but I think looking at the positives there was a discussion, it was amicable and professional but ultimately we reached a point where there was a gap and the gap wasn t bridged at that point in time. I don t know and Bank of America didn t say why they didn t want to bridge the gap, from our point of view the gap felt too big but maybe it was because we hadn t bid at that time, I don t know but now that we have bid maybe that will alter things, I really don t know, the Bank of America didn t shed any light on it but the attractions of a negotiated settlement remain every bit as strong, probably stronger now after we have bid than they did before. If there is a will on both sides then maybe it could come again and if there isn t, there won t be.

Drew Figdor: Can you tell me whether the gap was in terms of value or assets? In other words

Sir Fred Goodwin: I don t think that it would be proper for me to get into a discussion like that.

Drew Figdor: Do you feel that the gulf or difference between the two of you was very large or would you say?

Sir Fred Goodwin: I can keep this going all afternoon.

Drew Figdor: I can try all afternoon.

Sir Fred Goodwin: I know you would and I sense that s where we are heading so let me try and give the best answer I can to it. The gap was big enough to stop either of us reaching a deal. I think the fact that we were talking is a material positive, it would be nice to think we could get back to the table again. We are certainly ready to get back and carry on taking but Bank of America might not want to and that is their prerogative. We can only talk when there s two people willing to talk. We will see where we go from there, but it was an amicable discussion conducted in good faith and professionally and there s no ongoing discussion so it s hard to predict what might happen.

Drew Figdor: Is there anything that prevents you structurally or legally from negotiating with them in the next couple of weeks now that your offer and the legal process has taken a few steps forward or are you good to go?

Sir Fred Goodwin: No, we were cleared to speak with them and we remain able to speak with them. That is our understanding unless they want something we are not aware of but that is our understanding.

Drew Figdor: Just to reiterate, the $1 fee so if it cost you $100 million to litigate this that comes out of if, what else would come out of that money? How would it work please give me a little better understanding?

Sir Fred Goodwin: Supposing for the sake of argument it cost us 100 million to litigate, supposing we ended up Bank of America sued us and we defended and they were awarded 50 million let s say and certainly all of our legal advice points to it being de minimis at best if they have a claim at all, but supposing we paid 50 million to settle the litigation that would come out of it, so we are not trying to be cute with ABN shareholders. If we wanted to make money off ABN shareholders we could just reduce the bid. But we launched a bid at 38.40 for the whole group we tried to buy LaSalle through the go shop process and ABN turned our offer of 24.5 billion down. We are now faced with a situation where we may have incur, it looks almost certain that we are going to have to incur further costs to try and get the whole of ABN and all we did, all we are doing with the 1 deferral is highlighting that if that eventuality arises, that cost must fall to the ABN AMRO shareholders. We could just have cut the bid, I suppose that was another way to do it but this felt fairer because we don t know what s going to happen and if nothing happens then they get the whole euro so we are not really trying to alter the deal, we are just trying to reflect the reality of that uncertainty that has been created by the actions of other people, not us.

Drew Figdor: I guess the one thing that I don t understand is the Bank America deal if it happens, then your offer goes away because your offer is conditioned upon that, so it s almost like a double condition, you have the 1 which says if we settle our costs etc or were sued, so why have both?

Sir Fred Goodwin: I don t think you have understood the conditionality properly. If the court decides to uphold the existing ruling, it then goes to a shareholder vote which if the AGM was anything to go by it s likely that we would win that vote and we then end up the proud owners of LaSalle and we d be very happy at that, but Bank of America may or they have indicated that they have a legal action and they are currently progressing that legal action against ABN. We then become as owners of ABN we become the proud owners of that legal action and we fully intend to defend it. But the cost of doing so if indeed there is a settlement is not something we feel that our shareholders in the circumstances should bear. Now one way would have been just to cut the offer but that s a bit harsh on ABN s shareholders if it turns out that the lawyers are right and this is not a substantial action so this felt like a more elegant mechanism to allow the ABN AMRO shareholders to get whatever part of the 38.40 they can and it will be impacted only by any action by Bank of America so Bank of America pursue the action, it s against ABN s shareholders, not against ours.

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Drew Figdor: Ok, thank you.

Operator: Thank you, ladies and gentlemen as a reminder if you wish to ask a question, please press *1. Michael Gladstone of Magnetar Investments has our next question. Please go ahead.

Michael Gladstone: Hi there, you have addressed a number of the questions that I had and some of those I didn t have in regards to the negotiations with Bank of America on LaSalle, but one of the things that you mentioned and perhaps you could elaborate just a little bit more on it is that in light of the fact that you have got a proposal now on the table, that might change the dynamic of the negotiations with Bank of America. Can you just enlighten us a little bit more on that?

Sir Fred Goodwin: I honestly don t know Michael what might influence Bank of America. I guess when you re negotiating with someone you always try and put yourself in the other person s shoes and if I would have been in Ken s shoes it would have certainly gone through my mind, I wonder if these guys are really, really going to bid if I don t settle with them. Now I don t know if that was in Ken s mind or not but it would have been in my mind if I was in his shoes so maybe that influenced him, I really don t know, pure surmise, but we have now bid so I guess that removes that uncertainly.

Michael Gladstone: Do you think that the fact that you have bid for the entirety of the ABN as opposed to the ABN ex LaSalle changes that dynamic?

Sir Fred Goodwin: No, I think it has been completely crystal clear from the outset and the other thing not to lose sight of was that there is also litigation against the ABN AMRO board and ABN from their own shareholders because we couldn t bid so had we not bid for the whole thing they would kept that action going, so bidding for the whole thing is what we have said all along. Bear in mind that we write to ABN and indicated a desire to bid for the whole group and to talk to them about that before they did the deal with Barclays, before they did the deal with Bank of America. They agreed to see us, they invited us to come to Amsterdam to see them about buying the whole group and then announced the deal with Bank of America in the interim. So we have not changed our desire to buy the whole of the group, it has been there from the outset and has been crystal clear.

Michael Gladstone: Another point that was just raised is your ability to walk should the Supreme Court not uphold the enterprise chambers decisions and if the EGM doesn t go your way but the ability to walk is a waivable condition. Can you give us any feel for under what conditions you would or wouldn t walk?

Sir Fred Goodwin: I think we the short answer is no but let me try and be more helpful than that. We are trying to be reasonable here and to me this is a situation that has taken a number of twists and turns already and we have always been trying to do something quite simple and in short we are bidding for the whole group and in weighing up the proposition that s available we have produced a bid which we think is very attractive for ABN s shareholders, its employees and customers and for our own shareholders. If events are going to conspire in such a way that LaSalle is not there, this bid goes away and I think in all candour that that s a perfectly reasonable situation. There s a lot of work involved, although the numbers look very attractive it would be a lot of work to realise these and without LaSalle it would be less attractive for us so this bid goes away in that circumstance. What happens thereafter, let s see what happens, let s see what the circumstances are. People can rest assured that this bid goes away if LaSalle is not included in it.

Michael Gladstone: Sure, and by less attractive, there s a price for everything but we will see how it goes?

Sir Fred Goodwin: I m not sure I quite said that just that this bid is for the whole group including LaSalle, if we don t get LaSalle this goes away. There is no commitment or undertaking to do anything else in that situation.

Michael Gladstone: Ok, thanks very much.

Operator: Thank you, Mike Trippett of Oriel has our next question. Please go ahead.

Mike Trippett: Good afternoon. I think my first LaSalle question has been done to death so I am going to move on to the second but it s a slightly more general one but it s I guess to do with the risk. You have talked about organisational complexity in ABN AMRO and the presentation this morning came across as if this is really in terms of delivering cost synergies is going to be sort of like a hot knife through butter in terms of delivering the synergies yet it just strikes me that this is an organisation which is complex and is going to take longer to get those synergies and I just wondered how you would measure that and how going back to Johnny s comments how you would see that compares with the NatWest transaction?

Sir Fred Goodwin: I ll make a few comments on it Mike and then I ll pass it over to Mark Fisher and Johnny to talk about a little bit, but I don t want to overlabour the NatWest comparisons incidentally. NatWest was NatWest and we were all very happy with the way it went and remain so but this is different organisation at a different time with different complexities. The relevance of the NatWest comparisons are simply that the process we applied of working though, getting the people who are actually going to run the business to work through ground up analysis and building up synergies is the same process that we have used and because it was so successful in NatWest it gives us confidence, not that we are saying that NatWest worked so everything else we even touch has to work. It s an approach that we have deployed a lot with Ulster Bank and First Active and Churchill and all of our acquisitions in the United States so it s a kind of tried and tested approach and it does give us confidence, but it is a complex organisation but one of the things in looking at that complexity, the fact that we are actually breaking the organisation apart means you have got three teams working on it. You have got three organisations working on it rather than one and what s going to happen to Banco Real is going to be off stage left, Santander

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will go and do that, we are not having to apply any brain power or horse power to that, they will be doing it, Fortis will be doing their bit and we will be doing our bit. There is a bit where we overlap in the Netherlands and Mark will speak to that in a minute but that really is a relatively finite part of the whole organisation and so it s not one that I think we should get over bogged down with.

The other important lesson though that came from NatWest and having said that I wasn t going to harp back on it here I am harping back in it was the regime. NatWest would never have worked if it have been a merger or it had been a friendly deal, why? Because some tough decisions had to get taken and quickly and irrevocably and implemented and if we had been in there with sort of half the management team being from NatWest and half being from RBS, with the best will in the world and it is not to say the NatWest people would have been the two of them are sitting round the table with me today but you just needed one singer and one song, you don t tend to get that where you have got mergers or split management teams. So the work the heavy lifting that has to be done in ABN AMRO is heavy lifting and that is why I think we the consortium have an advantage because we have got three skilled and capable organisations breaking the task down and we are not having to do what Barclays are trying to do which is a merger with the very team that got them into this mess in Amsterdam still being the headquarters. Can you picture it? So the two things you would learn from NatWest are process, process, process to arrive at your synergies and regime. You need a regime to bring about the change and I tell you a merger involving the same management team and they are good guys in the ABN management team by the way, it s just that if the regime doesn t get changed, you don t get regime change. That was rather longer than I intended but Mark, did you want to add anything?

Mark Fisher: You used the comment like a hot knife through butter, what we are trying to convey is we are confident in the Quantum but we are certainly not and in the phasing of the benefits that we have put in we are certainly not assuming that this thing can happen with the same speed that it could in what was a relatively simple, large but simple acquisition like NatWest where you had immediate control, so the number of factors we mention this morning, obviously we have got a

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number of regulatory hurdles to go over. We have got particularly in Holland a very strong ethos of workers consultation and workers rights and we have got the relative complexities here particularly of carving out in Holland the corporate entity which is ABN Bank into its BU Netherlands, assets and everything else so those things put a timeline onto this which is probably a little slower than it would have been on the equivalent NatWest, Churchill or other acquisitions. Having said that of course the workers regime in Holland is particularly focused on Holland, a lot of other things around LaSalle in America, a lot of the activities of markets in London which we think will be open to more rapid movement, so very confident in the quantum of costs and very confident that we will get through these procedural steps but we are trying to put into the plan appropriate time to deal with the procedural steps without having to rush our fences and that s crucial in terms of making sure that as we said at the outset the organisation runs stably from day one focusing on customers and focusing on meeting its regulatory commitments.

Sir Fred Goodwin: Also I think Mike while that is going on here in parallel in the United States Larry and his guys will be running on LaSalle. Larry, I don t know if you want to talk about the process?

Larry Fish: We obviously have done this before and with a strong record over the last 15 years over 30 different acquisitions. In the case of LaSalle, Citizens has roughly a 50 cost income ratio LaSalle has a 66 cost income ratio. Their manufacturing costs are $50 million a year more than ours and with only 60% of our asset base. They have 15,000 employees, we have 25,000, they employ more people in their human resources department than we do. On the revenue side there s just opportunities everywhere beginning with corporate banking, we have to opportunity to bring all of the suite of global products of the Royal Group to one of the largest commercial customer bases in the Mid West and specifically to the Chicago market which is the third largest in the country. On the retail side you can go on and on but they outsource their credit cards, their merchant processing we have those products. Things you outsource generally don t get sold the same as things you own. We originate 8-9 mortgages a month in every one of our branches, that number for them is 4-5 so we could go on and on, we have 24 revenue initiatives and 32 cost initiatives they are very detailed, as in Johnny s case they were developed bottom up. We do have a pretty good transparency into their numbers because they have to file their regulatory reports and those are public record in the United States, so I think the integration opportunity with LaSalle is a very significant one and we are very excited about the opportunity.

Johnny Cameron I just want to pick up on one more thing and going back to Mark s question in a way which is I talked about comparing 1.1 to 850 being us to Barcap, GBM to Barcap. Another comparison you could do is say it is 1.3 including the other 200 in the commercial mid-market businesses to the 1.65 plus 850 that Barclays got in there, they got 1.65 in the international retail and commercial businesses which we have got frankly just a little 200 in against, so I don t think that there s any dispute out here in the market place that there are costs to be cut, it is not knife through butter and it will take the sort of effort that Mark has talked about but I don t think that there s any argument about the ability to find costs to cut.

Mike Trippett: That has been very helpful. Can I just ask a follow up if that is possible? It s clear the way you have laid it out in terms of the from the consortium perspective how each of the asset bases divides up. Each of the asset bases within ABN divides up amongst the consortium, the question I have got is just on the other side of the balance sheet really when you start to look at things like hedging contracts, derivative contracts, cross border effects contracts, how does that this is more a lesson in how do you divide up a bank, but how is that handled and what happens in terms of the run off of some of those contracts that probably would be required to actually finally separate ABN into each of the businesses?

Sir Fred Goodwin: You re in luck Mike because we have on the world s three greatest living experts on the subject of how to break up these items on ABN s balance sheet at the table in the form of Guy Whittaker. The subject has a lot of attention from the consortium and Guy will outline the protocols we have in place to deal with it, because at this point protocols are all you can have until you get in and see the actual numbers and actual contracts.

Guy Whittaker: I think that s the operative word until you can get in and actually see the actual numbers and the actual contracts it s fairly difficult, the outline this morning was a 45 day plan from taking control to go in and verify and validate the assumptions and within that obviously identify each of the assets and liabilities associated with each of the business units that we have acquired. Within that I think there will be some very obvious assignments of derivatives which are attached to specific assets or liabilities for that matter and the intention would be upon separation that the derivative contracts or the hedge and its underlying instrument moved together to the extent that that was recognised in the earning streams of each of those business units. The second group of derivates and will really the principle trading books that are there for the various market related activities in currencies and rates and equity derivatives, and obviously those are businesses that which will come in from wholesale client activities into our own global banking and markets businesses and I think they are sort of well tried and tested assignment and innovation techniques that can be used to migrate those portfolios or replace those portfolios with new contracts as they turn over obviously at that point under presumably the RBS name into the market place. Then the sort of third group of things really was back to this whole issue of how do you split up the liability base and some of the securitisation programmes that are in the balance sheet again to the extend that they are specifically assigned to one of the business units then the programme is to migrate those to their eventual owner, but as part of an orderly transition process will take place.

Sir Fred Goodwin: Ok, thanks Guy.

Mike Trippett: Thanks very much.

Royal Bank of Scotland

Presenters: Sir F Goodwin, J Cameron, G Whittaker, M Fisher

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Operator: Thank you. As we have no further questions I would like to turn the call back over to Sir Fred for any additional or closing remarks.

Sir Fred Goodwin: Ok, thank you very much. Thanks everyone again for calling in, I hope that the answers to those questions were helpful and in giving you a better sense of the overall bid. We are very happy in the coming days to answer any more questions that you might have and feel free to contact Richard or contact us and we will try and get answers to you, but thank you very much again for taking the time again this afternoon. Bye bye.

Operator: Thank you. Ladies and gentlemen, that will conclude today s conference, you may now disconnect.

Loss on disposal of fixed assets 78 1 Deferred income taxes (5,616) (179) Asset impairment 10,813 Share-based compensation 5,415 4,503 Excess tax benefit on share-based compensation (2,364) (8,192) Foreign exchange (gain)/loss (5,572) Changes in operating assets and liabilities: Accounts receivable 4,580 (31,557) Inventories (10,921) (7,387) Prepaid expenses and other assets (11,198) 3,337 Accounts payable (21,248) 869 Accrued expenses and other liabilities 303 (973)

Cash used in operating activities (32,137) (11,128)

Cash flows from investing activities: Cash paid for purchases of property and equipment (9,525) (10,625) Cash paid for intangible assets (1,215) (3,101) Purchases of short-term investments (1,000)Sales of short-term investments 13,935Acquisition of businesses, net of cash acquired (1,500) (1,853) Restricted cash (1,886) (669)

Cash used in investing activities (14,126) (3,313)

Cash flows from financing activities: Proceeds from note payable, net 43,700 299 Payments on long-term debt and capital lease obligations (8,026) (122) Exercise of stock options 3,006 2,059 Excess tax benefit on share-based compensation 2,364 8,192

Cash provided by financing activities 41,044 10,428

Effect of exchange rate changes on cash and cash equivalents (1,523) (66)

Net decrease in cash and cash equivalents (6,742) (4,079)Cash and cash equivalents beginning of period 36,335 42,656

Cash and cash equivalents end of period $29,593 $38,577

Supplemental disclosure of cash flow information cash paid during the period for: Interest $324 $13 Income taxes $9,197 $5,696 Supplemental disclosure of non-cash, investing, and financing activities: Fair value of assets acquired $ $2,167Cash paid for capital stock 1,853

Liabilities assumed $ $314

Accrued purchases of property and equipment $8,620 $455

Accrued purchases of intangibles $2,841 $

See notes to condensed consolidated financial statements.

CROCS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements of Crocs, Inc. and its subsidiaries (collectively, "Crocs" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the rules and regulations for reporting on Form 10-Q/A. Accordingly, they do not include certain information and disclosures required for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature. Operating results for the three months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2008.

These statements should be read in conjunction with the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007 (the "2007 Form 10-K"). The accounting policies used in preparing these condensed consolidated financial statements are the same as those described in Note 2 to the consolidated financial statements in the 2007 Form 10-K.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 141(R), *Business Combinations* ("SFAS 141(R)"), which amends SFAS 141 and provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any noncontrolling interest in the acquiree. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for the Company's fiscal year beginning January 1, 2009 and is to be applied prospectively. The Company is currently evaluating the potential impact of adopting this statement on its consolidated financial position, results of operations and cash flows but does not expect that the adoption will have a material impact on its consolidated financial position or results of operations.

In December 2007, the FASB issued FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements- an amendment of ARB No. 51*("SFAS 160"), which establishes accounting and reporting standards pertaining to ownership interests in subsidiaries held by parties other than the parent, the amount of net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of any retained noncontrolling equity investment when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for the Company's fiscal year beginning January 1, 2009. The Company is currently evaluating the impact this new standard will have on its consolidated financial position, results of operations and cash flows but does not expect that the adoption will have a material impact on its consolidated financial position or results of operations.

In March 2008, the FASB issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS 161"), which is intended to improve financial reporting regarding derivative instruments and hedging activities by requiring enhanced disclosures to provide transparency to these activities and their effects on an entity's financial position, financial performance and cash flows. The provisions of SFAS 161 are effective for the Company's fiscal year beginning January 1, 2009. The Company is currently evaluating the impact this new standard will have on its consolidated financial position, results of operations and cash flows but does not expect that the adoption will have a material impact on its consolidated financial position or results of operations.

CROCS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

3. INCOME TAXES

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxe*s ("FIN 48"). FIN 48 requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return and disclosures regarding uncertainties in income tax positions. FIN 48 was effective as of January 1, 2007. Only tax positions that meet the more likely than not recognition threshold at the effective date may be recognized on adoption of FIN 48. The adoption of FIN 48 did not have a material impact on the Company's condensed consolidated balance sheet, statement of operations or cash flows. The Company had unrecognized tax benefits of $11.7 million at January 1, 2008 and $16.1 million as of March 31, 2008. The increase in the FIN 48 reserve results principally from U.S. and Canada income taxes, penalties and interest related primarily to transfer pricing issues in prior years.

Interest and penalties related to income tax liabilities are included in income tax expense. The balance of accrued interest and penalties recorded in the consolidated statement of operations at January 1, 2008 was $452,000 related to the adoption of FIN 48 and an additional $623,000 accrued during the three months ended March 31, 2008 for a total of $1.1 million.

As of March 31, 2008, the Company is being audited in Canada for tax years 2004 through 2006.

As of March 31, 2008, the following tax years remain subject to examination for the major jurisdictions in which the Company conducts business:

United States	2005 to 2007
Canada	2003 and 2007
Netherlands	2005 to 2007
Singapore	2004 to 2007
Japan	2005 to 2007

State income tax returns are generally subject to examination for a period of 3 to 5 years after filing of the respective return. The state impact of any federal changes remains subject to examination by various state jurisdictions for a period up to 2 years after formal notification to the states.

The Company is potentially subject to U.S. federal, state and local or non-U.S. income tax audits by taxing authorities for the 2005 and 2006 tax years.

4. STOCK-BASED COMPENSATION

During the three months ended March 31, 2008, the Company issued 985,900 options to purchase shares of its common stock to eligible employees and non-employee directors with a weighted average grant date fair value of $14.55. During the three months ended March 31, 2007, the Company issued in January and February 2007, 1,030,000 and 20,000 options, adjusted for the stock split that occurred on June 14, 2007, to purchase shares of its common stock to executive officers, with grant date fair values of $11.22 and $11.90 per share, respectively, and exercise prices of $22.92 and $24.36 per share, respectively, as adjusted. The Company also granted in the three months ended March 31, 2007 an aggregate of 807,100 options, split adjusted, to purchase shares of its common stock to eligible employees with grant date fair values of $11.78 and $11.90 and exercise prices of $23.93 and $24.36 per share. All options granted to employees will vest ratably over four years with the first year vesting on a "cliff" basis followed by monthly vesting for the remaining three years. Compensation expense is recognized equally over the four-year vesting period.

4. STOCK-BASED COMPENSATION (Continued)

Stock-based compensation, including options and non-vested shares, was $5.4 million and $4.5 million for the three months ended March 31, 2008 and 2007, respectively. For the three months ended March 31, 2008 and 2007, $486,000 and $776,000, respectively, of the stock-based compensation was capitalized in inventory as part of the overhead allocation in the consolidated balance sheet. During the three months ended March 31, 2008 and 2007, 438,948 and 1,119,976 options to purchase common stock were exercised, 89,704 and 143,616 options to purchase common stock were forfeited, and 29,208 and 29,208 shares of restricted stock vested, respectively.

5. EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution from securities that could share in the earnings of the Company. Anti-dilutive securities are excluded from diluted EPS.

	Three months ended March 31,	
	2008	2007
	(in thousands, except share and per share data)	
Reconciliation of net income (loss) for dilutive computation:		
Net income (loss) for dilutive computation	$ (4,527)	$ 24,945
Basic income (loss) per common share:		
Weighted average common shares outstanding	82,488,601	79,263,962
Basic income (loss) per common share	$ (0.05)	$ 0.31
Diluted income per common share:		
Weighted average common shares outstanding	82,488,601	79,263,962
Dilutive effect of stock options		2,661,404
Dilutive effect of unvested stock		514,282
Weighted average diluted common shares outstanding	82,488,601	82,439,648
Diluted income (loss) per common share	$ (0.05)	$ 0.30

Since the Company reported a net loss for the quarter ended March 31, 2008, the dilutive effect of stock options and awards were not included in the computation of diluted earnings per share because their inclusion would have been anti-dilutive. As of March 31, 2008 and 2007, there were options outstanding to purchase 8.7 million and 2.6 million shares of the Company's common stock with a weighted average exercise price of $18.91 and $22.52, respectively, which could potentially dilute basic earnings per share in the future, but were not included in diluted earnings per share as their effect was anti-dilutive.

CROCS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

6. INVENTORIES

Inventories by major classification are as follows (in thousands):

	March 31, 2008	December 31, 2007
Finished goods	$ 238,447	$ 224,658
Work-in-progress	3,275	3,346
Raw materials	23,793	20,387
	$ 265,515	$ 248,391

7. PROPERTY AND EQUIPMENT

Property and equipment includes the following (in thousands):

	March 31, 2008	December 31, 2007
Machinery and equipment	$ 107,507	$ 103,049
Leasehold improvements	16,074	12,322
Subtotal	123,581	115,371
Less: Accumulated depreciation and amortization	(32,683)	(27,187)
	$ 90,898	$ 88,184

8. GOODWILL AND INTANGIBLE ASSETS

The following table summarizes the Company's identifiable intangible assets (in thousands):

	March 31, 2008			December 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Finite lived intangible assets:						
Patents, copyrights, trademarks	$ 7,653	$ 346	$ 7,307	$ 4,344	$ 201	$ 4,143
Customer relationships	5,143	2,868	2,275	5,437	2,437	3,000
Core technology	4,970	3,629	1,341	4,931	3,455	1,476
Non-competition agreement	637	339	298	636	339	297
Capitalized software	24,850	2,208	22,642	24,177	1,612	22,565
Total finite lived assets	$ 43,253	$ 9,390	$ 33,863	$ 39,525	$ 8,044	$ 31,481
Indefinite lived intangible assets:						

	March 31, 2008			December 31, 2007		
Jibbitz trade name	$ 150	$	$ 150	$ 153	$	$ 153
Total intangible assets	$ 43,403	$ 9,390	$ 34,013	$ 39,678	$ 8,044	$ 31,634

On January 31, 2007, the Company acquired substantially all of the assets of Ocean Minded, LLC ("Ocean Minded") for $1.75 million in cash, plus a potential earn-out of up to $3.75 million based on

8. GOODWILL AND INTANGIBLE ASSETS (Continued)

Ocean Minded attaining certain earnings targets over a three year period. Ocean Minded is a designer and manufacturer of high quality leather and EVA based sandals primarily for the beach, adventure and action sports markets. The Company recorded $600,000 in customer relationships and $953,000 in goodwill on the date of acquisition for Ocean Minded.

On July 27, 2007, we acquired all of the assets of Bite, LLC ("Bite") for $1.75 million in cash and the assumption of $1.3 million in debt, plus a potential earn out of up to $1.75 million based on Bite achieving certain earnings targets over a three year period. Bite is a designer and manufacturer of comfortable and supportive performance shoes and sports sandals sold worldwide in five categories including, golf, adventure, healthy lifestyle, travel and watersports. We recorded $512,000 in customer relationships and $530,000 in goodwill on the date of acquisition for Bite.

The Company's goodwill balance of $23.0 million and $23.8 million as of March 31, 2008 and December 31, 2007, respectively, relates to the acquisitions of Ocean Minded and Bite in 2007, Jibbitz, LLC ("Jibbitz") in 2006 and Foam Creations, Inc. ("Foam Creations"), in 2004.

In March 2008, the Company decided to sell Fury Hockey in connection with the restructuring of its Canadian operations. As a result, the Company wrote-off the goodwill balance of $1.0 million. See Notes 10 and 12 below concerning assets held for sale and restructuring activities, respectively.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company adopted SFAS 157 effective January 1, 2008 for financial assets and liabilities measured on a recurring basis. SFAS 157 applies to all financial assets and financial liabilities that are being measured and reported on a fair value basis. There was no impact for adoption of SFAS No. 157 to the condensed consolidated financial statements as of March 31, 2008. SFAS 157 requires disclosure that establishes a framework for measuring fair value and expands disclosure about fair value measurements. SFAS 157 requires fair value measurement to be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The Company has entered into forward exchange contracts in Mexican Pesos, which are measured based on the foreign currency spot and forward rates quoted by the banks, which fall into the Level 2 category under the guidance of SFAS 157. The fair market value of these contracts as of March 31, 2008 was $32,500. The Company did not enter into forward exchange contracts in the quarter ending March 31, 2007, but did hold short-term investments consisting exclusively of auction rate securities, which were classified as available-for-sale and were reported at fair value. There were no gains or losses (realized or unrealized) during the three months ended March 31, 2007 related to these investments.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The Company recorded a gain of $32,500 and $0 for the three months ended March 31, 2008 and March 31, 2007, respectively, under "Other income (expense)" in the condensed consolidated statement of operations for the changes in the fair value of its financial instruments.

The Company monitors its investments for impairment by considering current factors, including the economic environment, market conditions, operational performance and other specific factors relating to the business underlying the investment, and records reductions in carrying values when necessary. Any impairment loss is reported under "Other income (expense)" in the condensed consolidated statement of operations.

10. ASSETS HELD FOR SALE

Assets held for sale totaled $927,000 as of March 31, 2008 and consisted of fixed assets we have determined to sell as part of our restructuring activities. The $927,000 total is comprised of $98,000 of molds and $829,000 of industrial and footwear production equipment used in the Company's Canadian manufacturing facilities. The Company had $14,000 of liabilities remaining on the assets held for sale as of March 31, 2008, which are wholly attributable to the molds.

There were no assets held for sale as of December 31, 2007, because the amounts disclosed above are directly attributable to the restructuring activities in the three months ended March 31, 2008.

11. ACCRUED EXPENSES AND CURRENT OTHER LIABILITIES

Accrued expenses and other liabilities include the following (in thousands):

	March 31, 2008	December 31, 2007
Accrued compensation and benefits	$ 16,897	$ 22,416
Professional services	6,171	5,625
Fulfillment and freight and duties	3,617	4,065
Sales/Use tax payable	5,672	2,573
Accrued purchase price related to Jibbitz	1,962	3,429
Other	19,843	19,138
	$ 54,162	$ 57,246

12. RESTRUCTURING ACTIVITIES

On April 14, 2008, the Company announced its intent to restructure its North American Operations. Incident to these actions, the Company has made the decision to cease Canadian manufacturing activities and consolidate Canadian manufacturing and distribution into existing North American operations. The Company has established reserves covering future known obligations of closed manufacturing and distribution operations at its Canada location. These reserves are included in the line item "Accrued restructuring charges" in the Company's condensed consolidated balance sheet and are recorded under the line item "Restructuring charges" on the Company's condensed consolidated statement of operations. Reserves at March 31, 2008 were $3.8 million, which consists entirely of termination benefits and are accounted for in accordance with SFAS 112, *Employers' Accounting for Post employment Benefits an amendment of FASB Statements No. 5 and 43*. In addition

12. RESTRUCTURING ACTIVITIES (Continued)

to this amount, the Company recognized $2.6 million related to the write down of inventory, included within the line item "Cost of sales" on the Company's condensed consolidated statement of operations, and $10.8 million in asset impairment charges. The asset impairments are comprised of $9.8 million related to the write down of equipment for molds and the write off of Fury goodwill of $1.0 million. The Company continues to evaluate the early termination or subletting of the relevant lease contracts. Accordingly, no additional accrual has been made at this time due to the uncertainty in how the Company will proceed on these contracts.

13. NOTES PAYABLE

Notes payable includes the following (in thousands):

	March 31, 2008	December 31, 2007
Revolving credit facility	42,700	7,000
	$ 42,700	$ 7,000

On May 14, 2007, the Company entered into a credit agreement with Union Bank of California, N.A. ("Revolving Credit Facility"). The Revolving Credit Facility consists of a $15.0 million revolving loan facility. Included within the Revolving Credit Facility is $10.0 million available for the issuance of letters of credit. On November 21, 2007, the Company amended the Revolving Credit Facility, increasing the available borrowing amount to $25.0 million.

The Revolving Credit Facility matures on May 1, 2009. Borrowings under the Revolving Credit Facility are unsecured and bear an interest rate based, at the option of the Company, on (i) a base rate defined as the higher of the Fed Funds rate less 0.50%, or the rate of interest most recently announced by the lender, or (ii) the Libor rate plus 0.875%. The Prime rate as of March 31, 2008 was 5.25% less 0.50%.

On March 6, 2008, the Company entered into a third amendment of the Revolving Credit Facility, to increase the borrowing amount to $60.0 million. No financing fees were incurred as part of the amendment. Under the amended Revolving Credit Facility, the Company must satisfy specified financial covenants, such as a minimum level of consolidated EBITDA and a minimum adjusted quick ratio. As of March 31, 2008, the Company was not in compliance with the financial covenants of the Revolving Credit Facility related to the minimum quarterly EBITDA test. The Company has obtained a waiver of such covenants, effective as of March 31, 2008, which required a fee payable to Union Bank in the amount of $30,000.

14. COMMITMENTS AND CONTINGENCIES

On July 26, 2005, the Company entered into an amended and restated four-year supply agreement with Finproject S.P.A., the former majority owner of Crocs Canada, in which the Company has the exclusive right to purchase the material for the manufacture of finished shoe products, except for certain current customer dealings (including boot manufacturers). Based on the supply agreement, the Company has contractual purchase requirements to maintain exclusivity throughout the term of the agreement. The pricing is to be agreed upon each quarter and fluctuates based on order volume, currency fluctuations, and raw material prices.

14. COMMITMENTS AND CONTINGENCIES (Continued)

The Company guarantees the payment of its third-party manufacturer in China for purchases of material for the manufacture of finished shoe products. The maximum potential amount of future payments the Company could be required to make under the guarantee is €2.1 million (approximately $3.3 million at March 31, 2008). The Company evaluates the estimated loss for the guarantee under SFAS No. 5, *Accounting for Contingencies* ("SFAS 5"), as interpreted by FIN No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* ("FIN 45"). The Company considers such factors as the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. The Company has recourse as a matter of common law. To date, the Company has not made any payments under the guarantee and, as of March 31, 2008, has not recorded a liability related to the guarantee in its financial statements as the Company does not believe the potential obligation under this guarantee is material.

The Company leases space for certain of its offices, warehouses, vehicles and equipment under leases expiring at various dates through 2026. Certain leases also contain rent escalation clauses (step rents) that require additional rental amounts in the later years of the term. Rent expense for leases with step rents is recognized on a straight-line basis over the minimum lease term. These items are factored into the minimum lease payment and recognized on a straight-line basis over the minimum lease term. Deferred rent is included in the balance sheet in accrued expenses.

The Company indemnifies certain of its vendors and its directors and executive officers for specified claims. To date, the Company has not paid or been required to defend any indemnification claims, and accordingly, has not accrued any amounts for its indemnification obligations.

15. OPERATING SEGMENTS AND RELATED INFORMATION

The Company operates in the consumer products industry in which the Company designs, manufactures, markets and distributes footwear, apparel and accessories. Operating results are assessed on an aggregate basis to make decisions about necessary resources and in assessing performance. Consequently, under the provisions of SFAS No. 131, *Disclosure About Segments of an Enterprise and Related Information* ("SFAS 131"), and based on the nature of the financial information that is received by the chief executive officer as chief operating decision maker, the Company has one reportable segment for financial statement purposes.

The Company's sales by product line are as follows (in thousands):

	Three months ended March 31,	
	2008	**2007**
Footwear	$ 184,197	$ 129,614
Other	14,343	12,388
	$ 198,540	$ 142,002

CROCS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

15. OPERATING SEGMENTS AND RELATED INFORMATION (Continued)

Geographic information about the United States and international territories is presented below: The Company has allocated revenues to the geographic locations based on the location of the customer (in thousands):

	Three months ended March 31,	
	2008	2007
Revenue		
United States	$ 92,650	$ 82,992
Canada	6,444	8,693
Mexico	2,076	1,586
North America Total	101,170	93,271
Asia-Pacific	37,042	19,246
Europe	55,270	26,421
All Other	5,058	3,064
	$ 198,540	$ 142,002
Total for countries outside the United States	$ 105,890	$ 59,010

	March 31, 2008	December 31, 2007
Long-lived assets		
United States	$ 53,417	$ 47,144
Canada	2,759	14,111
Mexico	3,479	2,988
North America Total	59,655	64,243
Asia-Pacific	10,020	7,793
Europe	16,596	12,379
Other	4,627	3,769
	$ 90,898	$ 88,184
Total for countries outside the United States	$ 37,481	$ 41,040

There were no customers that comprised greater than 10% of the consolidated revenues of the Company for the three months ended March 31, 2008 and 2007.

16. COMPREHENSIVE INCOME

Comprehensive income/(loss) consists of the following (in thousands):

	Three months ended March 31,	
	2008	**2007**
Net income (loss)	$ (4,527)	$ 24,945
Translation adjustment	3,035	461
Comprehensive income (loss)	$ (1,492)	$ 25,406

17. LEGAL PROCEEDINGS

On March 31, 2006, Crocs filed a complaint with the ITC against Acme Ex-Im, Inc., Australia Unlimited, Inc., Cheng's Enterprises, Inc., Collective Licensing International, LLC, D. Myers & Sons, Inc., Double Diamond Distribution, Ltd., Effervescent, Inc., Gen-X Sports, Inc., Holey Soles Holdings, Ltd., Inter-Pacific Trading Corporation, and Shaka Holdings, Inc., alleging patent and trade dress infringement and seeking an exclusion order banning the importation and sale of infringing products. On August 10, 2006, Crocs filed a motion to voluntarily remove its trade dress claim from the investigation to focus on the patent claims. Crocs' motion was granted by Order No. 20 on August 24, 2006. The utility and design patents asserted in the complaint were issued to Crocs, Inc. on February 7, 2006 and March 28, 2006, respectively, by the United States Patent and Trademark Office. The ITC has issued final determinations terminating Shaka Holdings, Inc., Inter-Pacific Trading Corporation, Acme Ex-Im, Inc., D. Myers & Sons, Inc. and Australia Unlimited, Inc. from the ITC investigation No. 337-TA-567 on the basis of settlement and Cheng's Enterprises, Inc. upon its suspension of the alleged activities. The ITC Administrative Law Judge ("ALJ") issued an Initial Determination of non-infringement related to one of the patents at issue. Crocs filed a petition with the Commission to review this determination. The Commission granted Crocs' petition and on February 15, 2007, after briefing by the parties, the Commission vacated the ALJ's determination of non-infringement with respect to the remaining respondents and remanded it to the ALJ for further proceedings consistent with the Commission's order. In light of the Commission's Order, the procedural schedule and hearing date were reset pursuant to Order No. 38. A trial was held before the ALJ from September 7-14, 2007. The ALJ issued an Initial Determination on April 11, 2008 with a finding of no violation, finding infringement of the utility patent by certain of the defendant's products, but also finding that the utility patent was invalid as obvious. The ALJ also found that the design patent was valid, but not infringed by the defendant's products. Crocs has filed a petition to have the initial determination reviewed by the Commission, at which time Crocs would seek to have the initial determination overturned.

On April 3, 2006, Crocs filed a complaint in the U.S. District Court for the District of Colorado alleging patent and trade dress infringement and seeking injunctive relief against Acme EX-IM, Inc., Australia Unlimited, Inc., Cheng's Enterprises, Inc., Collective Licensing International, LLC, D. Myers & Sons, Inc., Double Diamond Distribution, Ltd., Effervescent, Inc., Gen-X Sports, Inc., Holey Soles Holdings, Ltd, Inter-Pacific Trading Corporation, Shaka Holdings, Inc., and Does 1-10 based upon certain utility and design patents that were issued to Crocs, Inc. on February 7, 2006 and March 28, 2006, respectively, by the United States Patent and Trademark Office. Consent judgments have been entered against Shaka Holdings, Inc., Interpacific Trading Corporation and Acme Ex-Im, Inc. Crocs entered into a settlement with Australia Unlimited, and filed a stipulation for

17. LEGAL PROCEEDINGS (Continued)

dismissal of all claims and counterclaims on January 25, 2007. Crocs has entered into a settlement agreement with D. Myers & Sons, Inc. and has filed such settlement agreement with the court. This consent judgment was entered by the court on May 23, 2007. This action has been stayed pending resolution in the ITC proceeding, above. The Company does not expect the ultimate resolution of this matter will have a material adverse impact on its business.

The Company and two of its executive officers have been named as defendants in a complaint filed by an investor in the United States District Court for the District of Colorado on November 8, 2007. The complaint purports to be brought on behalf of a class of all persons who purchased the Company's stock in the market between July 27, 2007 and October 31, 2007 (the "Class Period"). The complaint alleges that defendants made false and misleading public statements about the Company and its business and prospects in press releases and at investor conferences during the Class Period, and that the market price of the Company's stock was artificially inflated as a result. The complaint alleges claims under Section 10(b) and Section 20(a) of the Exchange Act. It seeks compensatory damages on behalf of the alleged class in an unspecified amount, interest, and an award of attorneys' fees and costs of litigation. These actions were subsequently consolidated. The Court is currently considering motions for the appointment of lead plaintiff and lead counsel. After the Court appoints lead plaintiff and lead counsel, an amended consolidated complaint will be filed. Thereafter, we will respond. We are not able to predict the ultimate outcome of the action.

In January 2008, plaintiffs filed a shareholder derivative action in the Colorado District Court for the City and County of Boulder alleging that certain officers and directors of the Company breached their fiduciary duties, wasted corporate assets, and were unjustly enriched. This derivative action purports to state a claim on behalf of the Company. The complaint alleges that the claims arise from the same conduct as is alleged in the federal shareholder class action discussed above. The Company is in the process of responding.

Although the Company is subject to other litigation from time to time in the ordinary course of business, including employment, intellectual property and product liability claims, the Company is not party to any other pending legal proceedings the Company believes will have a material adverse impact on its business.

As of March 31, 2008, the Company has not accrued any amounts related to estimated losses for legal contingencies. While there is a reasonable possibility that certain legal matters may result in an unfavorable outcome and loss, the Company's estimated potential losses, or range of losses, when aggregated, would be immaterial to the financial statements.

18. RESTATEMENT

The Company has restated its Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2008 to reflect in operating activities asset impairment charges related primarily to the closure of the Company's Canadian manufacturing operations and to reflect an appropriate foreign exchange rate. The asset impairment charges were previously included as a reduction of capitalized expenditures in investing cash flows in error.

In addition, the Company has corrected presentation errors in the proceeds from notes payable and payments on long-term debt and capital leases in the cash flows from financing activities section and the exchange rates used to compute certain foreign currency cash flows and the effect of exchange rates on cash and cash equivalents which primarily impacted the amount of the impairment previously recorded as a reduction of capitalized expenditures. This restatement does not impact the Company's previously reported net decrease in cash and cash equivalents.

The following table presents the effect of the restatement on the Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2008.

	Three months Ended March 31, 2008		
	As Reported	**Adjustment**	**As Restated**
Cash flows from operating activities:			
Asset Impairment	$	$ 10,813	$ 10,813
Accounts Payable	(20,991)	(257)	(21,248)
Cash used in operating activities	(42,693)	10,556	(32,137)
Cash flows from investing activities:			
Cash paid for purchases of property and equipment	(130)	(9,395)	(9,525)
Cash paid for intangible assets	(439)	(776)	(1,215)
Restricted cash	(1,918)	32	(1,886)
Cash used in investing activities	(3,987)	(10,139)	(14,126)
Cash flows from financing activities:			
Proceeds from note payable, net	44,698	(998)	43,700
Payments on long-term debt and capital lease obligations	(9,000)	974	(8,026)
Cash provided by financing activities	41,068	(24)	41,044
Effect of exchange rate changes on cash	(1,130)	(393)	(1,523)
Net increase in cash and cash equivalents	(6,742)		(6,742)
Cash and cash equivalents beginning of period	36,335		36,335
Cash and cash equivalents end of period	$ 29,593	$	$ 29,593
Supplemental disclosure of non-cash, investing and financing activities:			
Accrued purchases of property and equipment and intangibles	$ 11,204	$ (11,204)	$
Accrued purchase of property and equipment	$	$ 8,620	$ 8,620
Accrued purchases of intangibles	$	$ 2,841	$ 2,841

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q/A contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, we may make other written and oral communications from time to time that contain such statements. Forward-looking statements include statements as to industry trends and our future expectations and other matters that do not relate strictly to historical facts and are based on certain assumptions by management. These statements are often identified by the use of words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "estimate," or "continue," and similar expressions or variations. These statements are based on the beliefs and assumptions of our management based on information currently available to us. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. These forward-looking statements include statements in this Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations." Important factors that could cause actual results to differ materially from the forward-looking statements include, among others, the risks described in the section entitled "Risk Factors" under Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2007. We caution the reader to carefully consider such factors. Furthermore, 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.

Restatement

The following Management's Discussion and Analysis of Financial Condition and Results of Operations gives effect to the restatement as discussed in Note 18, Restatement, of the Notes to Condensed Consolidated Financial Statements.

Overview

We are a designer, manufacturer, distributor, worldwide marketer and brand manager of footwear and accessories for men, women, and children. We design and sell a broad offering of products that use our proprietary closed-cell resin, called Croslite. In the past several years, we realized high demand for our Croslite products, specifically, our classic Beach and Cayman models. Croslite is a unique material that enables us to produce an innovative, soft, lightweight, non-marking, slip and odor-resistant shoe. Crocs shoes combine fun colors and innovative designs to provide a new level of comfort, functionality and style in the casual lifestyle footwear category.

Since the initial introduction and popularity of our Beach and Cayman models, we have expanded our Croslite products to include a variety of new styles and products and have extended our product reach and appeal through acquisitions of companies with complementary accessories and other footwear. We continue to actively promote brand recognition through various licensing agreements.

We currently sell our Crocs-branded products throughout the U.S. and in 95 countries worldwide. We sell our products through domestic and international retailers and distributors and directly to end-user consumers through our web stores, Company-operated retail stores, kiosks and outlets. The broad appeal of our footwear has allowed us to market our products to a wide range of distribution channels, including department stores and traditional footwear retailers as well as a variety of specialty channels. As of March 31, 2008, our customer base domestically expanded to over 13,500 retail locations, and our customer base internationally expanded to over 21,000 retail locations.

General

Revenues are recorded when products are shipped and the customer takes title and assumes risk of loss, collection of related receivables are probable, persuasive evidence of an arrangement exists, and the sales price is fixed or determinable. Title passes on shipment or on receipt by the customer depending on the country of the sale and the agreement with the customer. Allowances for estimated returns and discounts are recognized when related revenue is recorded. Because we use both internal manufacturing and contract with third parties to manufacture our products, our cost of sales represents our costs to manufacture products in our Company-operated facilities, including raw materials costs and all overhead expenses related to production, as well as the cost to purchase finished products from our third-party manufacturers. Cost of sales also includes the cost to transport these products to our facilities and all warehouse and outbound freight expenses. Our selling, general and administrative expense consists primarily of selling, marketing, wages and related payroll and employee benefit costs for selling, marketing and administrative employees, travel and insurance expenses, depreciation, amortization, professional fees, facility expenses, bank charges and non-cash charges for share-based compensation.

Results of Operations

Three Months Ended March 31, 2008 Compared to Three Months Ended March 31, 2007

Revenues. Revenues increased 39.8%, or $56.5 million, to $198.5 million, in the three months ended March 31, 2008, from $142.0 million in the three months ended March 31, 2007. Of these amounts, our revenues from sales outside of the U.S. were $105.9 million in the three months ended March 31, 2008 compared to $59.0 million in the three months ended March 31, 2007, an increase of 79.5%, while our domestic revenues increased by 11.6%, or $9.6 million to $92.7 million in the three months ended March 31, 2008, from $83.0 million in the three months ended March 31, 2007. Our overall increase in revenue was primarily a result of higher unit sales of our footwear products, continued growth outside of the United States, primarily in Europe and Asia, and the favorable impact of foreign currency exchange rate differences. The higher unit sales resulted from an increased demand in both new and existing markets, additional sales resulting from new product offerings and stronger sales to our existing wholesale customers and increased sales at retail locations owned by us and through our web stores. The continued growth outside of the U.S. contributed to a favorable exchange rate variance, which is due to the weakening of the dollar when comparing the average exchange rate for the three months ended March 31, 2008 to the same period a year ago. The exchange rate variance period over period contributed $11.5 million to our revenue growth. We expect our sales to continue to grow and our revenues to increase as we introduce new products, broaden our product mix in certain markets and enter new markets globally.

Our Company-owned retail locations, including retail stores, kiosks and outlets, increased to 214 locations at March 31, 2008, which is up from 126 at March 31, 2007. Domestic and international company-owned retail stores totaled 145 and 69, respectively, at March 31, 2008 compared to over 97 and 29, respectively, in the three months ended March 31, 2007. We expect revenues from our Company-owned retail stores to increase in the future as we continue to expand the number of Company-owned retail locations. Global retail operations yielded $17.2 million in net revenues at March 31, 2008, or 8.7%, compared to $8.5 million in net revenues in the three months ended March 31, 2007, or 6.0%. This increase is attributable to the 69.8% growth in the number of Company-owned retail locations period over period.

Sales of our classic models during the three months ended March 31, 2008 represented 28.5% of total revenues, while sales of new 2008 footwear product lines represented approximately 7.8% of our overall revenues during the quarter ended March 31, 2008. The majority of our revenues during the three months ended March 31, 2008 were attributable to footwear models outside of our classics, which evidences our diversification strategy to ensure our success, and that of the brand, so that our future growth is not contingent on a handful of footwear models.

Gross profit. Gross profit remained relatively flat period over period with an increase of $0.7 million, or 0.8%, to $85.2 million, in the three months ended March 31, 2008, from $84.5 million in the three months ended March 31, 2007. Our gross profit margin was 42.9% in the three months ended March 31, 2008, compared to 59.5% in the three months ended March 31, 2007. This decrease in our gross profit margin was primarily attributable to underutilized factory capacity in our Company-owned manufacturing facilities. In addition, during the three months ended March 31, 2008, we experienced an increase in import duties for non-molded products, a change in our sales mix to include products with lower profit margins, and charges of $2.6 million due to the write-down of certain raw materials and work-in-process inventory at our Canadian manufacturing facility that we determined were obsolete as the result of the shutdown of that facility. Our core classic shoes, Beach and Cayman, have a higher profit margin compared to our newer products, due to more complex skilled labor requirements and higher material costs associated with the newer models. Furthermore, as we have benefited from higher revenues due to a favorable exchange rate differences, gross profit has been affected due to the higher costs experienced in some countries in which we do business, specifically in Europe and certain countries in Asia. The total impact to our gross margin due to functional currency differences period over period was $4.9 million in the three months ended March 31, 2008, which is comprised of the $11.5 million revenue increase offset by an increase in cost of sales of $6.6 million. We believe that disclosure is necessary because the weakening of the dollar, combined with our ongoing global expansion, is causing greater variances over time.

Selling, general and administrative expense. Selling, general and administrative expense increased 62.8%, or $29.7 million, to $77.0 million, or 38.8% of revenues, in the three months ended March 31, 2008, from $47.3 million, or 33.3% of revenues, in the three months ended March 31, 2007. This increase was primarily attributable to higher costs required to support increased sales volumes and Company-owned locations. The aggregate increase is comprised of selling and marketing expenses for global brand building of $14.0 million, which includes sponsorships in fiscal year 2008 of $3.2 million, higher salary and hourly labor costs of $7.3 million related to increased personnel due to global expansion, increases in rent expenses of $4.4 million related to more retail and operating locations and increases in professional fees of $4.6 million, primarily as a result of increased accounting, consulting and legal fees necessary to comply with regulations present in each country in which we operate. In addition, depreciation and amortization expense increased $1.5 million in the three months ended March 31, 2008, due to the increased investment in fixed assets and information technology related to our distribution centers to allow continued growth, increased efficiency and operating capacity. These increased expenses are offset by a decrease in bonus expense of $2.2 million due to the loss experienced in the three months ended March 31, 2008. The total impact to our selling, general and administrative expenses due to functional currency differences period over period was an increase of $2.4 million. We are reviewing expenses in this category to reduce selling, general and administrative costs as a percentage of revenue. With this in mind, however, we will continue to maintain spending in advertising and marketing to ensure the long-term potential of our brand.

Restructuring and impairment charges. Restructuring and impairment charges increased 100% and were $3.8 million and $10.8 million, respectively, in the three months ended March 31, 2008 compared to no charges in the same period a year ago. On April 14, 2008, we announced our decision to restructure our North American operations. Incident to these actions, we have made the decision to cease Canadian manufacturing activities and consolidate Canadian manufacturing and distribution into existing North American operations. We established reserves covering future known obligations of closed manufacturing and distribution operations in our Canada location. These reserves are included in the line item "Accrued restructuring charges" in our condensed consolidated balance sheets and are recorded under the line item "Restructuring charges" on our condensed consolidated statement of operations. Reserves at March 31, 2008 were $3.8 million, which consists entirely of termination benefits and are accounted for in accordance with SFAS 112, *Employers' Accounting for Post Employment Benefits an amendment of FASB Statements No. 5 and 43*. In addition to this amount, we recognized $2.6 million related to the write down of inventory, included within the line item "Cost of sales", and $10.8 million in asset impairment charges. The asset impairments taken are comprised of $9.8 million related to the write down of equipment for molds as well as the write off of Fury goodwill for $1.0 million. We continue to evaluate the early termination or subletting of the relevant lease contracts. Accordingly, no additional accrual has been made at this time due to the uncertainty in how we will proceed on these contracts.

We believe that the potential savings in cost of goods sold achieved through lower depreciation and reduced employee expenses as a result of our restructuring plan will be offset by a marginal increase in cost as these activities are transitioned to other North American operations. The quantification of actual savings will depend on this offset, which we can not reliably estimate at this time.

Interest expense. Interest expense was $0.4 million in the three months ended March 31, 2008, compared to $0.1 million in the three months ended March 31, 2007. The increase in interest expense relates to the increase in average borrowings outstanding on our line of credit and long term debt of $42.8 million as of the three months ended March 31, 2008, compared to average borrowings outstanding under those arrangements of $0.7 million during the three months ended March 31, 2007.

Other income/expense, net. Other income was $0.4 million in the three months ended March 31, 2008, compared to income of $0.5 million in the three months ended March 31, 2007, which resulted from a decrease in interest income due to the decrease in cash and cash equivalents held in interest bearing accounts during the three months ended March 31, 2008.

Income tax expense (benefit). During the three months ended March 31, 2008, income tax benefit was $1.9 million, representing an effective income tax rate of 29.4%, compared to income tax expense of $12.7 million, representing an effective income tax rate of 33.7% in the three months ended March 31, 2007. The decrease in the rate relates to the recognition of net tax benefits resulting from the expenses related to the shutdown of our Canadian operations, the change in pre-tax earnings in jurisdictions with lower income tax rates as a percentage of total pre-tax earnings, and the realization of certain tax return benefits in the Netherlands.

Liquidity and Capital Resources

As of March 31, 2008, we had $29.6 million in cash and cash equivalents, compared to $36.3 million as of December 31, 2007. The significant components of our working capital are cash, accounts receivable and inventory, reduced by accounts payable and accrued expenses. Capital requirements related to manufacturing include compounding and injection molding equipment for facilities that we operate, and footwear molds used in facilities operated by us or purchased for our third-party manufacturers. We have experienced rapid growth in our revenues and earnings over the past three years, and as a result, we have made substantial investments in our inventory, global infrastructure and property plant and equipment, such as molds, tooling and manufacturing equipment in order to continue broadening our product offering in footwear and accessories. Our election to invest in these areas, combined with a challenging economy domestically, has contributed to the decline in cash and cash equivalents available.

Cash used in operating activities consists primarily of net income or net loss adjusted for certain non-cash items including restructuring expense, asset impairment, depreciation, amortization, deferred income taxes, provision for bad debts, stock compensation expense and the effect of changes in working capital and other activities. Cash used in operating activities for the three months ended March 31, 2008 was $32.1 million, which resulted from a net loss of $4.5 million, less non-cash items related to the restructuring of our Canadian manufacturing operations of $10.8 million in asset impairment charges. Additional non-cash items include, depreciation and amortization of $8.1 million, share-based compensation expense of $5.4 million, and $2.4 million in excess tax benefit on share-based compensation, and changes in working capital resulting from increases in accounts receivable of $4.6 million, increase in inventory of $10.9 million, and a decrease in accounts payable and accrued expenses and other liabilities of $20.9 million. Cash used in operating activities for the three months ended March 31, 2007 was $11.1 million, resulting from net income of $24.9 million plus non-cash items of depreciation and amortization of $3.5 million and share-based compensation expense of $4.5 million less $8.2 million in excess tax benefit on share-based compensation, which was offset by increases in working capital resulting from decreases in accounts receivable of $31.6 million, decrease in inventory of $7.4 million, and a decrease in accounts payable and accrued expenses and other liabilities of $0.1 million, all related to our sales growth and expanded operations.

Our inventories increased to $265.5 million at March 31, 2008 from $94.4 million as of March 31, 2007. During the three months ended March 31, 2008, we continued to increase our inventory positions in order to meet anticipated demand for the quarter ending June 30, 2008 and, at the same time, made available production capacity for new fall and winter product lines for delivery in the remaining quarters of fiscal year 2008. We intend to continue to expand our footwear and accessories product lines by adding innovative products that keep pace with or set fashion trends. We expect that new product introductions, limitations on production capacities and seasonal variations may cause our inventory to increase or decrease materially in the future as we adjust to meet changing conditions resulting from our expansion and economic conditions. We believe that our inventory levels will decrease over the remaining quarters of 2008 due to projected sales for the remainder of the fiscal year.

Our accounts payable and accrued expenses and other liabilities increased to $130.2 million at March 31, 2008 from $74.1 million as of March 31, 2007. This increase of $56.1 million is due to our sales growth and expanded operations, including increase in inventory levels and related operational expenses.

We anticipate that operating activities will provide sufficient cash for operations in future periods. However, seasonal variations in product demand and the associated changes in operating assets and liabilities in response to such seasonal variations may directly affect our cash flows from operating activities. Accordingly, cash flows from operating activities for any period are not necessarily indicative of cash flows from operating activities to be expected for any other period. We may seek an additional increase to our line of credit or enter into new borrowing arrangements to meet our liquidity needs, if deemed necessary.

Cash used in investing activities for the three months ended March 31, 2008 was $14.1 million, which consisted of purchases of property and equipment of $9.5 million, purchases of intangible assets of $1.2 million, changes in restricted cash of $1.9 million, and acquisition of businesses of $1.5 million. The change in restricted cash is principally due to funds being set aside to pay customs charges in China, while the change in acquisition of businesses is entirely due to earn-out payments made to Jibbitz during the period. Cash used in investing activities for the three months ended March 31, 2007 was $3.3 million, which was primarily related to the net sales of investments of $12.9 million, offset by capital expenditures for molds, machinery and equipment of $10.6 million, acquisitions of $1.9 million and $3.1 million related to the upgrade and expansion of our information technology systems.

We intend to grow our business by continuing to expand our footwear and accessories product offerings as well as expanding our company-owned retail locations. Expansion will require us to make ongoing capital investments in molds and other tooling equipment related to manufacturing new products as well as those related to opening additional retail stores. The rapid growth of our sales in both domestic and international markets has, in the past, placed substantial demands on our warehousing and distribution operations, and we expect that these demands will continue. In December 2007, we entered into an agreement with Manhattan Associates to provide warehouse management systems within all of our company-operated distribution centers. We plan to continue to invest in information technology systems that will support our growth, increase efficiencies as well as increase the operating effectiveness of our manufacturing, warehousing, and distribution operations. Additionally, we expect to continue to invest in our global information systems infrastructure to further strengthen our management information and financial reporting capabilities.

Over the past two years we have developed or acquired key businesses, such as Jibbitz, Bite, Ocean Minded and EXO, an Italian producer of EVA based finished products, and we may acquire other businesses in the future that we believe are complementary to our own. On June 26, 2007, we amended the terms of the membership interest purchase agreement ("Purchase Agreement") with Jibbitz for the potential earn-out consideration included in the Purchase Agreement. The amendment removed the earnings targets for payment of the earn-out with $3.5 million payable on the effective date of the amended Purchase Agreement and the remaining $6.5 million payable over the following thirteen months, for a total payment of $10.0 million. We have $2.0 million, net of discounting on future payments, in remaining accrued additional purchase price for Jibbitz as of March 31, 2008, which is to be paid out in monthly payment installments ending July 2008. The agreements for the acquisitions of Ocean Minded and Bite contain contingent earn-out amounts of up to $3.75 million and $1.75 million, respectively, which are required to be paid as an additional cost of the acquisition if the business units achieve certain specified earnings targets in future periods.

We have entered into various sponsorship agreements and operating leases that require cash payments on a specified schedule. We plan to continue to enter into operating leases related to our retail stores, kiosks, distribution, warehouse and manufacturing facilities in order to support the growth of our business. We also plan to continue to enter into corporate sponsorship agreements that we believe will help promote our brand awareness.

Cash provided by financing activities was $41.0 million for the three months ended March 31, 2008 compared to cash provided by financing activities of $10.4 million for the three months ended March 31, 2007. This increase is primarily due to increased borrowing on our credit facility.

As of March 31, 2008, we had a $60.0 million credit facility which expires on May 1, 2009. As of March 31, 2008, we have $42.7 million outstanding under the facility. At our option, unpaid principal balance of the loan bears interest at either a base interest rate of LIBOR plus 0.875% or a variable interest rate of the lender's applicable reference rate minus 0.50%. The line of credit contains financial and other covenants as well as customary events of default.

On March 6, 2008, we entered into a third amendment on our credit facility that provides for an increase in our credit facility from $50.0 million to $60.0 million. As of March 31, 2008, we were not in compliance with the financial covenants of the credit facility related to the minimum quarterly EBITDA test. We have obtained a waiver of such covenants effective at March 31, 2008, which required a fee payable to the lender in the amount of $30,000.

We anticipate that cash flows from operations and our credit facility will be sufficient to meet the ongoing needs of our existing business during the next 12 months. However, we may enter into additional borrowing arrangements, or modify existing borrowing arrangements, should additional liquidity be required to fund working capital requirements, to make additional investments in capital assets and our global infrastructure, or to fund business acquisitions. We are currently considering a larger credit facility in order to assist in our future cash needs.

There is a degree of uncertainty in forecasting our future cash requirements due to our rapid growth since inception. Substantial increases in accounts receivable and inventory are commonly associated with rapid growth and could unexpectedly strain our cash resources in the future. There can be no assurance that any such capital will be available to us on acceptable terms or at all. Our ability to fund working capital needs, planned capital expenditures and scheduled debt payments, depends on our future operating performance and cash flow, which in turn are subject to prevailing economic conditions and to financial, business and other factors, some of which are beyond our control.

Seasonality

Due to our significant sales growth since our inception, coupled with our limited operating history, there is still uncertainty in the degree to which sales of our footwear products will be subject to seasonality. We expect that our business, similar to other vendors of footwear and related merchandise, will be subject to seasonal variations. We believe many vendors that market footwear products suited for warm weather normally experience their highest sales activity during the second and third quarters of the calendar year. However, our introduction of footwear models that are more suitable for cold weather uses, such as the Mammoth, Endeavor, Georgie, All Terrain, Snowmini, and YOU by Crocs^{tm} styles help to offset our risk for seasonality, as we experienced 30% of revenues due to cold weather models in the year ended December 31, 2007. Sales during the first calendar quarter are principally geared towards meeting the demand for the summer and fall months. Accordingly, 94.6% of our revenues during the three months ended March 31, 2008 were attributable to our footwear styles more suitable for fair weather. As we broaden our product offering and establish a strong presence globally, we hope to limit the effects of seasonality on our business. Our quarterly results of operations may, however, fluctuate as a result of a variety of other factors, including the timing of new model introductions and availability or general economic and consumer conditions. Accordingly, results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for any year, and revenues for any particular period may fluctuate.

Recently Adopted Accounting Standards

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for the first annual or interim reporting period beginning after November 15, 2007. We have adopted SFAS 157 effective January 1, 2008. We have evaluated the impact of this new standard and the adoption did not have a material impact on our consolidated financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. We have adopted SFAS 159 effective January 1, 2008. We have evaluated the impact of this new standard and the adoption did not have a material impact on our consolidated financial position or results of operations.

Recently Issued Accounting Standards

In December 2007, the FASB issued FASB Statement No. 141(R), *Business Combinations* ("SFAS 141(R)"), which amends SFAS 141 and provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any noncontrolling interest in the acquiree. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for our fiscal year beginning January 1, 2009 and is to be applied prospectively. We are currently evaluating the potential impact of adopting this statement on our consolidated financial position, results of operations and cash flows and we do not expect that the adoption will have a material impact on our consolidated financial position or results of operations.

In December 2007, the FASB issued FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* ("SFAS 160"), which establishes accounting and reporting standards pertaining to ownership interests in subsidiaries held by parties other than the parent, the amount of net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of any retained noncontrolling equity investment when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for our fiscal year beginning January 1, 2009. We are currently evaluating the impact this new standard will have on our consolidated financial position, results of operations and cash flows, and we do not expect that the adoption will have a material impact on our consolidated financial position or results of operations.

In March 2008, the FASB issued FASB Statement No. 161, "*Disclosures about Derivative Instruments and Hedging Activities*" ("SFAS 161"), which is intended to improve financial reporting regarding derivative instruments and hedging activities by requiring enhanced disclosures to provide transparency to these activities and their effects on an entity's financial position, financial performance and cash flows. The provisions of SFAS 161 are effective for our fiscal year beginning January 1, 2009. We are currently evaluating the impact this new standard will have on our consolidated financial position, results of operations and cash flows and we do not expect that the adoption will have a material impact on our consolidated financial position or results of operations.

Critical Accounting Policies and Estimates

Our accounting policies and accounting estimates critical to our financial condition and results of operations are set forth in our Annual Report on Form 10-K for the year ended December 31, 2007. We have not modified the policies and estimates set forth in our Annual Report on Form 10-K for the year ended December 31, 2007 except for the adoption of SFAS 157, 159, 112, 144, 146 and EITF 96-9, as identified within this report.

Restructuring Charges. We recognize restructuring charges related to our plans to close manufacturing and distribution facilities according to SFAS No. 112, *Employers' Accounting for Postemployment Benefits an amendment of FASB Statements No. 5 and 43*; SFAS No. 142, *Goodwill and Other Intangible Assets*; SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*; SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*; and EITF 96-9, *Classification of Inventory Markdowns and Other Costs Associated with a Restructuring*. In connection with these activities, we recognized restructuring charges for employee termination costs, long-lived asset impairment and other restructuring-related costs.

The recognition of these restructuring charges require that we make certain judgments and estimates regarding the nature, timing and amount of costs associated with the planned exit activity. To the extent our actual results in exiting these facilities differ from our estimates and assumptions, we may be required to revise the estimates of future liabilities, requiring the recognition of additional restructuring charges or the reduction of liabilities already recognized. At the end of each reporting period, we will evaluate the remaining accrued balances to ensure that no excess accruals are retained and the utilization of the provisions are for their intended purpose in accordance with developed exit plans.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Credit and Interest Rate Risk

We are exposed to interest rate risk to the extent that United States interest rates change due to inflation or other factors. This exposure is directly related to our normal operating and funding activities. The interest payable on our line of credit is determined based on either a base interest rate of LIBOR plus 0.875% or a variable interest rate of the lender's applicable reference rate minus 0.5%, and, therefore, is affected by changes in market interest rates. Interest rates on our capital leases are dependent on interest rates in effect at the time the lease is drawn upon. Total liabilities outstanding at March 31, 2008 under the line of credit and capital leases were approximately $42.8 million. Based on amounts borrowed as of March 31, 2008, we would have a resulting decline in future quarterly earnings and cash flows of approximately $0.1 million, net of tax, for every 1% increase in prime lending rates.

We earn interest income on our cash and cash equivalents. We have performed a sensitivity analysis to estimate our exposure to market risk of interest rates, and if the weighted average rate of return on cash and cash equivalents, and restricted cash, were to increase or decrease by 1%, the impact on interest income would be $0.1 million, net of tax, during the three months ended March 31, 2008.

Foreign Currency Exchange Risk

We pay the majority of our overseas third-party manufacturers in U.S. dollars and have had significant revenues from foreign sales in recent periods. Our ability to sell our products in foreign markets and the U.S. dollar value of the sales made in foreign currencies can be significantly influenced by foreign currency fluctuations. A decrease in the value of foreign currencies relative to the U.S. dollar could result in downward price pressure for our products or losses from currency exchange rates. We have performed a sensitivity analysis to estimate our exposure to market risk of foreign exchange rates. If the U.S. dollar were to increase or decrease in value by 1%, the impact on international sales of $105.9 million during the three months ended March 31, 2008 would have been an increase or decrease in consolidated revenues by $0.7 million, net of tax. The volatility of the applicable rates and prices are dependent on many factors that cannot be forecast with reliable accuracy. In the event our foreign sales and purchases increase and are denominated in currencies other than the U.S. dollar, our operating results may be affected by fluctuations in the exchange rate of currencies we receive for such sales. Please see the revenue section above in "Item 2. Management, Discussion and Analysis" for a discussion of the favorable foreign exchange rate variances experienced in the three months ended March 31, 2008.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision of and with the participation of our senior management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this quarterly report (the "Evaluation Date"). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of the Evaluation Date, our disclosure controls and procedures were not effective, due to the material weaknesses in our internal controls over financial reporting described below, such that the information relating to us, including our consolidated subsidiaries, required to be disclosed in our Securities and Exchange Commission ("SEC") reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) 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.

As part of our evaluation of the effectiveness of the design and operation of disclosure controls and procedures for the three months ended March 31, 2008, we identified internal control deficiencies that constituted "material weaknesses." A material weakness is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Specifically, we identified the following material weaknesses:

Our controls over the timely and complete review of the tax provision, including timely consultation with tax experts, did not operate effectively which resulted in a material adjustment to our income tax provision.

Our controls over the timely and thorough review of the Statement of Cash Flows did not operate effectively which resulted in a material reclassification between cash flows from operating activities and cash flows from investing activities.

Changes in Internal Control over Financial Reporting

During the three months ended March 31, 2008, the following changes to our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting were identified:

As indicated above, we identified a material weakness related to the timely and complete review of the income tax provision, including timely consultation with tax experts.

As indicated above, we identified a material weakness related to the timely and thorough review of the Statement of Cash Flows.

In January 2008, we implemented a new inventory management system in our subsidiary in Europe. Certain processes and controls were changed to accommodate the needs and requirements of our growth and our financial reporting system.

Future Remediation Efforts

We have an on-going process of analyzing and improving our internal controls, including those related to the material weaknesses identified by management. We have developed and are implementing a plan to remediate the material weaknesses described above.

With regard to the controls around accounting for income taxes, our remediation plan includes: (a) the addition of qualified personnel to allow for a more thorough and timely review of tax positions and (b) consultation with tax experts in a timely manner. Additional measures may be forthcoming as we evaluate the effectiveness of these efforts. As a result of the material weakness identified for the preparation and review of the consolidated statements of cash flows, management has performed an internal review of its processes and our remediation plan includes: (a) additional training of personnel to enhance the preparation phase and (b) a more specific allocation of responsibility to allow for a more thorough and timely review of the consolidated statement of cash flows.

We cannot assure you that these remediation efforts will be successful or that our internal control over financial reporting will be effective in accomplishing all control objectives all of the time.

PART II OTHER INFORMATION

ITEM 1. Legal Proceedings

On March 31, 2006, we filed a complaint with the ITC against Acme Ex-Im, Inc., Australia Unlimited, Inc., Cheng's Enterprises, Inc., Collective Licensing International, LLC, D. Myers & Sons, Inc., Double Diamond Distribution, Ltd., Effervescent, Inc., Gen-X Sports, Inc., Holey Soles Holdings, Ltd., Inter-Pacific Trading Corporation, and Shaka Holdings, Inc., alleging patent and trade dress infringement and seeking an exclusion order banning the importation and sale of infringing products. On August 10, 2006, we filed a motion to voluntarily remove our trade dress claim from the investigation to focus on the patent claims. Our motion was granted by Order No. 20 on August 24, 2006. The utility and design patents asserted in the complaint were issued to us on February 7, 2006 and March 28, 2006, respectively, by the United States Patent and Trademark Office. The ITC has issued final determinations terminating Shaka Holdings, Inc., Inter-Pacific Trading Corporation, Acme Ex-Im, Inc., D. Myers & Sons, Inc. and Australia Unlimited, Inc. from the ITC investigation No. 337-TA-567 on the basis of settlement and Cheng's Enterprises, Inc. on the suspension of accused activities. The ITC Administrative Law Judge ("ALJ") issued an Initial Determination of non-infringement related to one of the patents at issue. We filed a petition with the Commission to review this determination. The Commission granted our petition and on February 15, 2007, after briefing by the parties, the Commission vacated the ALJ's determination of non-infringement with respect to the remaining respondents and remanded it to the ALJ for further proceedings consistent with the Commission's order. In light of the Commission's Order, the procedural schedule and hearing date were reset pursuant to Order No. 38. A trial was held before the ALJ from September 7-14, 2007. The ALJ issued an Initial Determination on April 11, 2008 with a finding of no violation, finding infringement of the utility patent by certain accused products, but also finding that the utility patent was invalid as obvious. The ALJ also found that the design patent was valid, but not infringed by the accused products. We have filed a petition to have the initial determination reviewed by the Commission, at which time we would seek to have the initial determination overturned.

As of March 31, 2008, we have not accrued any amounts related to estimated losses for legal contingencies. While there is a reasonable possibility that certain legal matters may result in an unfavorable outcome and loss, our estimated potential losses, or range of losses, when aggregated, would be immaterial to the financial statements.

ITEM 1A. Risk Factors

The risk factors listed below update and should be read in conjunction with the risk factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2007, which could materially affect our business, financial condition or future results. The risks described herein and in our Annual Report on Form 10-K are not exhaustive. Additional risks and uncertainties not currently known to us, or that we currently deem to be immaterial, may materially adversely affect our business, financial condition and/or operating results. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Our level of indebtedness could limit cash flow available for our operations.

As of March 31, 2008, we had a $60.0 million credit facility which expires on May 1, 2009. As of March 31, 2008, we had $42.7 million outstanding under the facility.

Our debt could have important consequences on our business, including the following:

- requiring that we use a large portion of our cash flow to pay principal and interest, which will reduce the availability of cash to fund working capital, capital expenditures and other business activities;
- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- restricting us from making strategic acquisitions or exploiting business opportunities;
- placing us at a competitive disadvantage relative to competitors that have less debt; and
- limiting our ability to borrow additional monies in the future to fund working capital and capital expenditures, sell assets, acquire other businesses, or repurchase capital stock.

We also may incur additional debt in the future. Although the terms of our credit facility contain restrictions on the incurrence of additional debt, these restrictions are subject to a number of qualifications and exceptions, and debt incurred in compliance with these restrictions could be significant. In addition, we may refinance all or a portion of our debt, including borrowings under our credit facilities, and incur more debt as a result. If we incur new debt, the risks described above would intensify.

Our ability to meet our cash requirements and service our debt depends on many factors, some of which are outside our control. Our future operating performance is dependent on many factors, some of which are beyond our control, including prevailing economic, financial and industry conditions. Our operating performance is also dependent on our ability to continue to realize cost savings and synergies and drive profitable growth. If these initiatives are not met within the time frame we expect, our cash flow could be impacted, which could cause us to fail to meet certain financial covenants contained in our credit facility. A default under our credit facility could restrict or terminate our access to our borrowing capacity under our credit facility and materially impair our ability to meet our obligations as they come due. If we do not meet our financial covenants and we do not obtain a waiver or amendment, our lenders may accelerate payment of all amounts outstanding which would immediately become due and payable, together with accrued interest. Any default, or the failure to generate sufficient cash from operations, may require us to seek additional capital or modifications to our credit facility which may not be available. Additionally, our suppliers may require us to pay cash in advance or obtain letters of credit as a condition to selling us their products and services. Any of these risks and uncertainties could have a material adverse effect on our financial position, results of operations or cash flow.

Our indebtedness imposes restrictive covenants on us, which limits our operating flexibility.

Our credit facility requires us, among other obligations, to maintain specified financial ratios and satisfy certain financial tests, including minimum quarterly EBITDA (earnings before interest, taxes, depreciation, amortization, and non-cash stock based compensation), cash to debt ratios and minimum net worth. In addition, in certain circumstances, the credit facility restricts our ability to incur additional indebtedness, repay indebtedness, pay dividends, create liens on assets, sell assets or make certain investments. There can be no assurances that we would be able to obtain a waiver to these restrictive covenants if necessary. If we fail to comply with the restrictions contained in the credit facility, the resulting event of default could result in the lender accelerating the repayment of all outstanding amounts due under the credit facility. There can be no assurances that we would be successful in obtaining alternative sources of funding to repay these obligations should this event occur. For the three months ended March 31, 2008, we were not in compliance with the financial covenant relating to our quarterly EBITDA. We obtained a waiver of such covenant from the lender effective as of March 31, 2008.

We will incur significant time and expense in documenting, testing and certifying our internal control over financial reporting, and any deficiencies in our financial reporting or internal controls could adversely affect our business and the price of our common stock.

Beginning with our Annual Report on Form 10-K for our fiscal year ended on December 31, 2007, the Securities and Exchange Commission ("SEC") rules require that our chief executive officer and chief financial officer periodically certify the existence and effectiveness of our internal control over financial reporting. This process generally requires significant documentation of policies, procedures, and systems, review of that documentation by our internal accounting staff and our outside auditors, and testing of our internal control over financial reporting by our internal accounting staff and the independent auditors. Continued documentation and testing of our internal controls will involve considerable time and expense, and may strain our internal resources and have an adverse impact on our costs.

During the ongoing course of our testing, we may identify deficiencies which we may not be able to remediate in time to meet the annual deadlines imposed by SEC rules for certification of our internal control over financial reporting. As a consequence, we may have to disclose in periodic reports we file with the SEC any material weaknesses in our system of internal controls. The existence of such material weaknesses would preclude management from concluding that our internal control over financial reporting is effective and would preclude our independent auditors from issuing an unqualified opinion that our internal controls are effective. In addition, disclosures of this type in our SEC reports could cause investors to lose confidence in our financial reporting and may negatively affect the price of our common stock. Moreover, effective internal controls are necessary to produce reliable financial reports and to prevent fraud. If we have deficiencies in our internal control over financial reporting, such deficiencies may negatively impact our business, results of operations and reputation.

As of March 31, 2008, we identified control deficiencies that were determined to be material weaknesses in our system of internal controls. The material weaknesses identified relate to controls over the preparation and calculation of the consolidated income tax provision and related reserves and the condensed consolidated statement of cash flows. Although we have developed a remediation plan to correct the operation of our internal controls over tax reserves and preparation of our cash flow statements, we may not completely remediate the operating effectiveness in a timely basis and management may be precluded from concluding that our internal control over financial reporting is effective. As a result, we cannot give you any assurance that these material weaknesses will be remediated.

ITEM 6. Exhibits

Exhibit List

Exhibit Number	Description
3.1**	Restated Certificate of Incorporation of Crocs, Inc.
3.2**	Amended and Restated Bylaws of Crocs, Inc.
4.1*	Specimen common stock certificate.
10.1	Employment Agreement dated as of January 16, 2008 by and between Crocs, Inc. and Russell Hammer.
10.2	Loan Agreement, dated as of May 8, 2007, by and between Crocs, Inc. and Union Bank of California, N.A.
10.3	Amendment No. 1 to Loan Agreement, dated as of November 21, 2007, by and between Crocs, Inc. and Union Bank of California, N.A.
10.4	Amendment No. 2 to Loan Agreement dated as of January 4, 2008, by and between Crocs, Inc. and Union Bank of California, N.A.
10.5	Amendment No. 3 to Loan Agreement dated as of March 4, 2008, by and between Crocs, Inc. and Union Bank of California, N.A.
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act.
32	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act.

* Incorporated herein by reference to Crocs, Inc.'s Registration Statement on Form S-1, filed on August 15, 2005 (File No. 333-127526).

** Incorporated by reference to Crocs, Inc.'s Registration Statement on Form S-8, filed on March 9, 2006 (File No. 333-132312).

Previously filed.

Filed 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: June 6, 2008	By:	/s/ RUSSELL C. HAMMER
		Name: Russell C. Hammer
		Title: *Chief Financial Officer, Senior Vice President Finance and Treasurer*