

DECKERS OUTDOOR CORP  
Form 10-Q  
May 10, 2007

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark one)

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

For the quarterly period ended March 31, 2007

OR

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

For the transition period from            to

Commission File Number: 0-22446

**DECKERS OUTDOOR CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)  
**495-A South Fairview Avenue, Goleta, California**  
(Address of principal executive offices)

**95-3015862**  
(I.R.S. Employer  
Identification No.)  
**93117**  
(zip code)

**(805) 967-7611**  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer             Accelerated filer             Non-accelerated filer

Edgar Filing: DECKERS OUTDOOR CORP - Form 10-Q

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at May 4, 2007
Common Stock, \$0.01 par value	12,786,348

---

**DECKERS OUTDOOR CORPORATION  
AND SUBSIDIARIES**

**Table of Contents**

		<b>Page</b>
Part I.	Financial Information	
Item 1.	Financial Statements (Unaudited): <u>Condensed Consolidated Balance Sheets as of March 31, 2007 and December 31, 2006</u>	1
	<u>Condensed Consolidated Statements of Income for the Three Months Ended March 31, 2007 and 2006</u>	2
	<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2007 and 2006</u>	3
	<u>Notes to Condensed Consolidated Financial Statements</u>	4
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	28
Item 4.	<u>Controls and Procedures</u>	28
Part II.	<u>Other Information</u>	
Item 1.	<u>Legal Proceedings</u>	29
Item 1A.	<u>Risk Factors</u>	29
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	29
Item 3.	<u>Defaults Upon Senior Securities</u>	29
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	29
Item 5.	<u>Other Information</u>	29
Item 6.	<u>Exhibits</u>	29
<u>Signatures</u>		30
<u>Exhibit Index</u>		31
Exhibit 31.1		
Exhibit 31.2		
Exhibit 32		

**DECKERS OUTDOOR CORPORATION  
AND SUBSIDIARIES**
**Condensed Consolidated Balance Sheets**
**(Unaudited)**
**(amounts in thousands, except par value)**

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 25,303	\$ 34,255
Restricted cash	250	
Short-term investments	84,234	64,637
Trade accounts receivable, net of allowances of \$2,932 and \$6,100 as of March 31, 2007 and December 31, 2006, respectively	36,400	49,571
Inventories	34,157	32,375
Prepaid expenses and other current assets	2,447	2,199
Deferred tax assets	4,386	4,386
Total current assets	187,177	187,423
Restricted cash	1,000	
Property and equipment, at cost, net	8,224	7,770
Intangible assets, net	54,322	54,399
Deferred tax assets	327	327
Other assets, net	53	54
Total assets	\$ 251,103	\$ 249,973
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Trade accounts payable	\$ 15,279	\$ 21,053
Accrued expenses	5,064	7,204
Income taxes payable	5,492	7,478
Total current liabilities	25,835	35,735
Commitments and contingencies		
Stockholders equity:		
Common stock, \$0.01 par value. Authorized 20,000 shares; 12,606 shares issued and outstanding at March 31, 2007; 12,588 shares issued and outstanding at December 31, 2006	126	126
Additional paid-in capital	82,967	81,761
Retained earnings	141,656	131,958
Accumulated other comprehensive income	519	393
Total stockholders equity	225,268	214,238
Total liabilities and stockholders equity	\$ 251,103	\$ 249,973

See accompanying notes to condensed consolidated financial statements.

**DECKERS OUTDOOR CORPORATION  
AND SUBSIDIARIES**

**Condensed Consolidated Statements of Income**

**(Unaudited)**

**(amounts in thousands, except per share data)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2007</b>	<b>2006</b>
Net sales	\$ 72,575	\$ 56,004
Cost of sales	39,054	31,304
Gross profit	33,521	24,700
Selling, general and administrative expenses	18,345	15,786
Income from operations	15,176	8,914
Other (income) expense, net:		
Interest income	(1,166 )	(595 )
Interest and other expense, net	178	15
	(988 )	(580 )
Income before income taxes	16,164	9,494
Income taxes	6,466	3,845
Net income	\$ 9,698	\$ 5,649
Net income per share:		
Basic	\$ 0.77	\$ 0.45
Diluted	\$ 0.75	\$ 0.44
Weighted-average common shares outstanding:		
Basic	12,595	12,468
Diluted	12,932	12,763

See accompanying notes to condensed consolidated financial statements.

**DECKERS OUTDOOR CORPORATION  
AND SUBSIDIARIES**
**Condensed Consolidated Statements of Cash Flows**

(Unaudited)

(amounts in thousands)

	<b>Three months ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 9,698	\$ 5,649
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization of property and equipment	901	727
Recovery of doubtful accounts	(200 )	(427 )
Write-down of inventory	450	1,331
Gain on sale of property and equipment	(15 )	(5 )
Stock-based compensation	636	331
<b>Changes in operating assets and liabilities:</b>		
Trade accounts receivable	13,371	13,152
Inventories	(2,232 )	762
Prepaid expenses and other current assets	(248 )	(384 )
Restricted cash	(1,250 )	
Trade accounts payable	(5,774 )	(5,584 )
Accrued expenses	(1,728 )	(1,133 )
Income taxes payable	(1,918 )	(2,859 )
Net cash provided by operating activities	11,691	11,560
<b>Cash flows from investing activities:</b>		
Purchases of short-term investments	(72,729 )	(63,766 )
Proceeds from sales of short-term investments	53,132	11,478
Purchases of property and equipment	(1,560 )	(297 )
Proceeds from sale of property and equipment	18	19
Net cash used in investing activities	(21,139 )	(52,566 )
<b>Cash flows from financing activities:</b>		
Excess tax benefits from stock-based compensation	221	317
Cash received from issuances of common stock	281	507
Net cash provided by financing activities	502	824
Effect of exchange rates on cash	(6 )	(15 )
Net change in cash and cash equivalents	(8,952 )	(40,197 )
Cash and cash equivalents at beginning of period	34,255	50,749
Cash and cash equivalents at end of period	\$ 25,303	\$ 10,552
<b>Supplemental disclosure of cash flow information:</b>		
<b>Cash paid during the period for:</b>		
Income taxes	\$ 8,163	\$ 6,789
<b>Non-cash investing activity:</b>		
Accruals for property and equipment	\$ 280	\$

See accompanying notes to condensed consolidated financial statements.

**DECKERS OUTDOOR CORPORATION  
AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

**(Unaudited)**

**(amounts in thousands, except share quantity and per share data)**

**(1) General**

**(a) Basis of Presentation**

The unaudited condensed consolidated financial statements have been prepared on the same basis as the annual audited consolidated financial statements and, in the opinion of management, reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation for each of the periods presented. The results of operations for interim periods are not necessarily indicative of results to be achieved for full fiscal years. Our business is seasonal, with the highest percentage of Teva® brand net sales occurring in the first and second quarters of each year and the highest percentage of UGG® brand net sales occurring in the third and fourth quarters, while the quarter with the highest percentage of annual net sales for the Simple® brand has varied from year to year.

As contemplated by the Securities and Exchange Commission (SEC) under Rule 10-01 of Regulation S-X, the accompanying condensed consolidated financial statements and related footnotes have been condensed and do not contain certain information that will be included in the Company's annual consolidated financial statements and footnotes thereto. For further information, refer to the consolidated financial statements and related footnotes for the year ended December 31, 2006 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

**(b) Use of Estimates**

The preparation of the Company's condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Significant areas requiring the use of management estimates relate to inventory reserves, allowances for bad debts, returns, markdowns and discounts, impairment assessments and charges, deferred taxes, depreciation and amortization, litigation reserves, fair value of share-based payments, fair value of financial instruments, fair value of acquired intangibles, assets and liabilities. Actual results could differ from these estimates.

**(c) Reclassifications**

Certain items in the prior year's consolidated financial statements have been reclassified to conform to the current year presentation.

**(2) Stock Compensation**

On January 1, 2006, the Company adopted the fair value recognition provisions of Financial Accounting Standards Board (the "FASB") Statement of Financial Accounting Standards No. 123R ("SFAS 123R"), "Share-Based Payment" to account for stock-based compensation.

The Company's 1993 Stock Incentive Plan (the "1993 Plan"), as amended, provided for 3,000,000 shares of common stock that were reserved for issuance to officers, directors, employees, and consultants of the Company. Awards to 1993 Plan participants were not restricted to any specified form and may have included stock options, securities convertible into or redeemable for stock, stock appreciation rights, stock purchase warrants, or other rights to acquire stock. Stock option awards were

**DECKERS OUTDOOR CORPORATION  
AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(Unaudited)**

**(amounts in thousands, except share quantity and per share data)**

granted with an exercise price equal to the market price of the Company's stock at the date of grant; those option awards generally vested on a graded basis over four years of continuous service and had ten-year contractual terms. The fair value of stock options is calculated using the Black-Scholes pricing model. No stock options were granted during the three months ended March 31, 2007 and 2006. The 1993 Plan was terminated in May 2006, and no new awards will be issued under this plan.

In May 2006, the Company adopted the 2006 Equity Incentive Plan (the 2006 Plan). The primary purpose of the 2006 Plan is to encourage ownership in the Company by key personnel, whose long-term service is considered essential to the Company's continued progress. The 2006 Plan provides for 2,000,000 new shares of common stock that are reserved for issuance to employees, directors, or consultants. The maximum aggregate number of shares that may be issued under the 2006 Plan through the exercise of incentive stock options is 1,500,000. The 2006 Plan supersedes the 1993 Plan, which was subsequently terminated for new grants.

The Company grants nonvested stock units ( NSUs ) annually to key personnel. The NSUs granted pursuant to the 1993 Plan and the 2006 Plan entitle the employee recipients to receive shares of common stock in the Company, which generally vest in quarterly increments between the third and fourth anniversary of the grant. Many of these awards include vesting that is also subject to achievement of certain performance targets.

In August 1995, the Company adopted the 1995 Employee Stock Purchase Plan (the ESPP). The ESPP was intended to qualify as an Employee Stock Purchase Plan under Section 423 of the Internal Revenue Code. Under the terms of the ESPP, as amended, 300,000 shares of common stock were reserved for issuance to employees who had been employed by the Company for at least six months. The ESPP provided for employees to purchase the Company's common stock at a discount below market value, as defined by the ESPP. The ESPP was terminated in September 2006, and no new shares will be issued under the ESPP.

Prior to January 1, 2006, in accordance with APB 25, the intrinsic value of the NSUs was recorded to compensation expense over the vesting period. Awards with performance conditions were accounted as variable with the intrinsic value remeasured at each reporting date. Beginning January 1, 2006, all NSUs are recorded as equity-based awards under SFAS 123R, whereby the fair value of the NSU is calculated based on the closing stock price on the grant date.

Additionally, on a quarterly basis, the Company grants 400 fully-vested shares of its common stock to each of its outside directors. The fair value of such shares is expensed on the date of issuance.



**DECKERS OUTDOOR CORPORATION  
AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(Unaudited)**

**(amounts in thousands, except share quantity and per share data)**

The table below summarizes stock compensation amounts recognized:

	<b>Three months ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
Compensation expense recorded for:		
NSUs	\$ 416	\$ 313
Stock options	70	111
ESPP		32
Directors' shares	150	64
Total compensation expense	636	520
Income tax benefit recognized in income statement	(260 )	(212 )
Net compensation expense	\$ 376	\$ 308

A summary of the activity under the 1993 Plan and 2006 Plan as of March 31, 2007, and changes during the period are presented below.

**Summary Details for 1993 Plan Share Options**

	<b>Number of Shares</b>	<b>Weighted- Average Exercise Price</b>	<b>Weighted- Average Remaining Contractual Term (Years)</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at January 1, 2007	466,000			