DECKERS OUTDOOR CORP
Form 10-Q
November 10, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark one)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2014
or
o 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: 000-22446
DECKERS OUTDOOR CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	95-3015862
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
250 Coromar Drive, Goleta, California	93117
(Address of principal executive offices)	(zip code)

(805) 967-7611
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)
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 ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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 October 24, 2014
Common Stock, $0.01 par value	34,635,916

Table of Contents

DECKERS OUTDOOR CORPORATION
AND SUBSIDIARIES
Table of Contents

Table of Contents

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

	September 30, 2014	March 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 114,651	$ 245,088
Trade accounts receivable, net of allowances of $19,613 and $15,569 as of September 30, 2014 and March 31, 2014, respectively	264,920	106,199
Inventories	481,651	211,519
Prepaid expenses	16,663	12,067
Other current assets	35,453	27,118
Income taxes receivable	4,302	—
Deferred tax assets	20,742	21,871
Total current assets	938,382	623,862
Property and equipment, net of accumulated depreciation of $116,648 and $103,090 as of September 30, 2014 and March 31, 2014, respectively	202,777	184,570
Goodwill	127,934	127,934
Other intangible assets, net of accumulated amortization of $32,457 and $26,026 as of September 30, 2014 and March 31, 2014, respectively	96,018	91,411
Deferred tax assets	16,556	17,062
Other assets	20,336	19,365
Total assets	$ 1,402,003	$ 1,064,204
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	$ 154,606	$ 6,702
Trade accounts payable	215,055	76,139
Accrued payroll	25,389	22,927
Other accrued expenses	16,136	11,624
Income taxes payable	2,763	2,908
Value added tax (VAT) payable	7,085	1,915
Total current liabilities	421,034	122,215
Mortgage payable	33,408	—
Other long-term liabilities	51,554	53,140
Commitments and contingencies (note 5)		
Stockholders' equity:		
Common stock, $0.01 par value; authorized 125,000 shares; issued and outstanding 34,636 and 34,624 shares as of September 30, 2014 and March 31, 2014, respectively	346	346
Additional paid-in capital	153,280	146,731
Retained earnings	747,483	743,815
Accumulated other comprehensive loss	(5,102)	(2,043)
Total stockholders' equity	896,007	888,849

Total liabilities and equity	$ 1,402,003	$ 1,064,204

See accompanying notes to condensed consolidated financial statements.

1

Table of Contents

DECKERS OUTDOOR CORPORATION
AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)
(amounts in thousands, except per share data)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2014	2013	2014	2013
Net sales	$480,273	$386,725	$691,742	$556,810
Cost of sales	256,400	219,833	381,097	320,086
Gross profit	223,873	166,892	310,645	236,724
Selling, general and administrative expenses	164,290	120,395	301,544	232,978
Income from operations	59,583	46,497	9,101	3,746
Other expense (income), net:				
Interest income	(30)	(7)	(84)	(16)
Interest expense	2,000	1,067	2,438	1,447
Other, net	(29)	(265)	(125)	(335)
Total other expense (income), net	1,941	795	2,229	1,096
Income before income taxes	57,642	45,702	6,872	2,650
Income tax expense (benefit)	16,912	12,642	3,204	(1,135)
Net income	40,730	33,060	3,668	3,785
Other comprehensive (loss) income, net of tax:				
Unrealized gain (loss) on foreign currency hedging	1,701	(1,772)	1,441	(1,982)
Foreign currency translation adjustment	(4,976)	2,898	(4,500)	1,809
Total other comprehensive (loss) income	(3,275)	1,126	(3,059)	(173)
Comprehensive income	$37,455	$34,186	$609	$3,612
Net income per share:				
Basic	$1.18	$0.96	$0.11	$0.11
Diluted	$1.17	$0.95	$0.10	$0.11
Weighted-average common shares outstanding:				
Basic	34,632	34,496	34,629	34,474
Diluted	34,954	34,794	34,941	34,796

See accompanying notes to condensed consolidated financial statements.

Table of Contents

DECKERS OUTDOOR CORPORATION
AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(amounts in thousands)

	Six Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	$ 3,668	$ 3,785
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation, amortization and accretion	24,773	18,439
Change in fair value of contingent consideration	(1,987)	(148)
Provision for doubtful accounts, net	1,069	68
Deferred tax provision	1,152	(449)
Stock compensation	6,933	7,417
Other	2,695	1,119
Changes in operating assets and liabilities:		
Trade accounts receivable	(158,662)	(101,730)
Inventories	(269,488)	(186,300)
Prepaid expenses and other current assets	(11,235)	(10,572)
Income tax receivable	(4,305)	(3,997)
Other assets	(607)	(4,358)
Trade accounts payable	138,252	86,816
Contingent consideration	(177)	—
Accrued expenses	7,401	16,635
Income taxes payable	787	(570)
Long-term liabilities	361	2,614
Net cash used in operating activities	(259,370)	(171,231)
Cash flows from investing activities:		
Purchases of property and equipment	(38,490)	(43,656)
Purchases of intangibles and other assets, net	(9,489)	(701)
Net cash used in investing activities	(47,979)	(44,357)
Cash flows from financing activities:		
Cash paid for shares withheld for taxes	(643)	(3,041)
Excess tax benefits from stock compensation	261	763
Contingent consideration and deferred payments paid	(115)	—
Proceeds from issuance of short-term borrowing	150,784	276,458
Cash paid for repayment of short-term borrowings	(3,458)	(41,000)
Proceeds from mortgage loan	33,931	—
Mortgage loan origination costs	(338)	—
Repayment of mortgage principal	(37)	—
Net cash provided by financing activities	180,385	233,180
Effect of exchange rates on cash	(3,473)	1,924
Net change in cash and cash equivalents	(130,437)	19,516
Cash and cash equivalents at beginning of period	245,088	64,591
Cash and cash equivalents at end of period	$ 114,651	$ 84,107

Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	$5,095	$2,340
Interest	$641	$1,261
Non-cash investing and financing activities:		
Accruals for purchases of property and equipment	$6,905	$6,381
Accruals for asset retirement obligations	$286	$26
Accruals for shares withheld for taxes	$—	$1,658

See accompanying notes to condensed consolidated financial statements.

Table of Contents
DECKERS OUTDOOR CORPORATION
AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
Three and Six Months Ended September 30, 2014 and 2013
(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 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 or other interim periods. Deckers Outdoor Corporation (also referred to as Deckers or the Company) is a global leader in designing, marketing and distributing innovative footwear, apparel, and accessories developed for both everyday casual lifestyle use and high performance activities. The Company’s business is seasonal, with the highest percentage of UGG® brand net sales occurring in the quarters ending September 30 and December 31 and the highest percentage of Teva® and Sanuk® brand net sales occurring in the quarters ending March 31 and June 30 of each year. The other brands do not have a significant seasonal impact on the Company.

In February 2014, our Board of Directors approved a change in the Company's fiscal year (FY) end from December 31 to March 31. The change is intended to better align our planning, financial and reporting functions with the seasonality of our business.

In July 2014, the Company acquired its UGG brand distributor that sold to retailers in Germany and now operates a wholesale business in Germany through the newly acquired subsidiary. The acquisition included certain intangible and tangible assets and the assumption of liabilities. The purchase price of the acquisition was not material to the Company’s condensed consolidated financial statements.

We sell our brands through our quality domestic retailers and international distributors and retailers, as well as directly to our end-user consumers through our E-Commerce business and our retail stores. Independent third parties manufacture all of our products.

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 included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on March 3, 2014 (Annual Report).

(b) Use of Estimates

The preparation of the Company’s condensed consolidated financial statements in accordance with United States generally accepted accounting principles (US GAAP) requires management to make estimates and assumptions that affect the amounts reported in these condensed consolidated financial statements and accompanying notes. Management bases these estimates and assumptions upon historical experience, existing and known circumstances, authoritative accounting pronouncements and other factors that management believes to be reasonable. Significant areas requiring the use of management estimates relate to inventory write-downs, accounts receivable reserves, returns liabilities, stock compensation, performance based compensation, impairment assessments, depreciation and amortization, income tax liabilities and uncertain tax positions, fair value of financial instruments, and fair values of acquired intangibles, assets and liabilities, including estimated contingent consideration payments. Actual results could differ materially from these estimates.

(c) Recent Accounting Pronouncement

On May 28, 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in US GAAP when it becomes effective. The new standard is effective for the Company on April 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

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

(2) Goodwill and Other Intangible Assets

The Company's goodwill and other intangible assets are summarized as follows:

	Goodwill, Net	Other Intangible Assets, Net
Balance at March 31, 2014	$ 127,934	$ 91,411
Purchase of intangible assets	—	12,472
Amortization expense	—	(6,194)
Changes in foreign currency exchange rates	—	(1,671)
Balance at September 30, 2014	$ 127,934	$ 96,018

The Company's goodwill by segment is as follows:

	September 30, 2014	March 31, 2014
UGG brand	$ 6,101	$ 6,101
Sanuk brand	113,944	113,944
Other brands	7,889	7,889
Total	$ 127,934	$ 127,934

(3) Fair Value Measurements

The fair values of the Company's cash and cash equivalents, trade accounts receivable, prepaid expenses, other current assets, short-term borrowings, trade accounts payable, accrued payroll, other accrued expenses, income taxes payable and VAT payable approximate the carrying values due to the relatively short maturities of these instruments. The fair values of the Company's long-term liabilities, other than contingent consideration, recalculated using current interest rates, would not significantly differ from the recorded amounts. The fair value of the contingent consideration related to acquisitions and of the Company's derivatives are measured and recorded at fair value on a recurring basis. Changes in fair value resulting from either accretion or changes in discount rates or in the expectations of achieving the performance targets are recorded in selling, general and administrative expenses (SG&A). The Company records the fair value of assets or liabilities associated with derivative instruments and hedging activities in other current assets or other accrued expenses, respectively, in the condensed consolidated balance sheets.

In 2010, the Company established a nonqualified deferred compensation program that permits a select group of management employees to defer earnings to a future date on a nonqualified basis. For each plan year, on behalf of the Company, the Company's Board of Directors (the Board) may, but is not required to, contribute any amount it desires to any participant under this program. The Company's contribution will be determined by the Board annually, most likely in the quarter ending March 31. The value of the deferred compensation is recognized based on the fair value of the participants' accounts. The Company has established a rabbi trust for the purpose of supporting the benefits payable under this program. The assets of the trust are reported in other assets on the Company's condensed consolidated balance sheets. All amounts deferred are presented in long-term liabilities in the condensed consolidated balance sheets.

The inputs used in measuring fair value are prioritized into the following hierarchy:

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

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable.
- Level 3: Unobservable inputs in which little or no market activity exists, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

The table below summarizes the Company's financial assets and liabilities that are measured on a recurring basis at fair value:

	Fair value at September 30, 2014	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Assets (liabilities) at fair value				
Nonqualified deferred compensation asset	$ 5,051	$ 5,051	$ —	$ —
Nonqualified deferred compensation liability	$ (5,051)	$ (5,051)	$ —	$ —
Designated derivatives assets	$ 1,038	$ —	$ 1,038	$ —
Non-designated derivatives assets	$ 3,433	$ —	$ 3,433	$ —
Contingent consideration for acquisition of business	$ (27,500)	$ —	$ —	$ (27,500)

	Fair value at March 31, 2014	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Assets (liabilities) at fair value				
Nonqualified deferred compensation asset	$ 4,534	$ 4,534	$ —	$ —
Nonqualified deferred compensation liability	$ (4,534)	$ (4,534)	$ —	$ —
Designated derivatives liability	$ (832)	$ —	$ (832)	$ —
Contingent consideration for acquisition of business	$ (30,000)	$ —	$ —	$ (30,000)

The Level 2 inputs consist of forward spot rates at the end of the reporting period (see note 7).

The fair value of the contingent consideration is based on subjective assumptions. It is reasonably possible the estimated fair value of the contingent consideration could change in the near-term and the effect of the change could be material.

Sanuk®

The estimated fair value of the contingent consideration attributable to our Sanuk® (Sanuk) brand acquisition is based on the Sanuk brand's estimated future gross profit in calendar year 2015, using a probability weighted average sales forecast to determine a best estimate of gross profit. The estimated sales forecast includes a compound annual growth rate (CAGR) of 15.0% from calendar year 2013 through calendar year 2015. The gross profit forecast for calendar year 2015 is approximately $71,000, which is then used to apply the contingent consideration percentage in accordance with the applicable agreement. The total estimated contingent consideration is then discounted to the present value with a discount rate of 7.0%. The Company's use of different estimates and assumptions could produce different estimates of the value of the contingent consideration. For example, a 5.0% change in the estimated CAGR would change the total liability balance at September 30, 2014 by approximately $2,000.

Hoka One One®

In connection with the Company's acquisition of the Hoka One One® (Hoka) brand, the purchase price includes contingent consideration with maximum payments of $2,000, which is based on the Hoka brand's net sales for calendar years 2013 through 2017. The Company estimates future net sales using a probability weighted average sales forecast to determine a best estimate. The Company's use of different estimates and assumptions is not expected to have a material impact to the value of the contingent consideration.

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

Refer to note 5 for further information on the contingent consideration arrangements.

The following table presents a reconciliation of the Level 3 measurement:

Balance at March 31, 2014	$ 30,000
Payments	(300)
Change in fair value	(2,200)
Balance at September 30, 2014	$ 27,500

(4) Notes Payable and Long Term Debt

At September 30, 2014, the Company had outstanding borrowings of $146,000 under the Amended and Restated Credit Agreement and outstanding letters of credit of approximately $100. As a result, the unused balance under the Amended and Restated Credit Agreement was approximately $253,900 at September 30, 2014. After applying the asset coverage ratio and adjusted leverage ratio, the amount available to borrow at September 30, 2014 was approximately $231,200. Subsequent to September 30, 2014, the Company borrowed $49,000 and repaid $13,000 resulting in a total outstanding balance of $182,000 under the Amended and Restated Credit Agreement through November 10, 2014.

At September 30, 2014, the Company had approximately $8,100 of outstanding borrowings under the China Credit Facility. Interest is based on the People's Bank of China rate, which was 6.0% at September 30, 2014. Subsequent to September 30, 2014, the Company repaid approximately $3,200, resulting in a total outstanding balance of approximately $4,900 under the China Credit Agreement through November 10, 2014.

In July 2014, the Company obtained a mortgage secured by its corporate headquarters property for approximately $33,900. At September 30, 2014 the outstanding balance under the mortgage was approximately $33,900. The mortgage has a fixed interest rate of 4.928%. Payments include interest and principal in an amount that will amortize the principal balance over a 30 year period. Minimum principal payments over the next 5 years are approximately $2,700. The loan will mature and have a balloon payment due in 15 years of approximately $23,400. The mortgage contains financial covenants which include: the asset coverage ratio must be greater than 1.10 to 1.00; the sum of the consolidated annual earnings before interest, taxes, depreciation, and amortization (EBITDA) and annual rental expense, divided by the sum of the annual interest expense and the annual rental expense must be greater than 2.25 to 1.00; and other customary limitations.

(5) Commitments and Contingencies

The Company is currently involved in various legal claims arising in the ordinary course of business. Management does not believe that the disposition of these matters, whether individually or in the aggregate, will have a material effect on the Company's financial position or results of operations.

Contingent Consideration. In July 2011, the Company acquired the Sanuk brand, and the total purchase price included contingent consideration payments. As of September 30, 2014, the remaining contingent consideration payment, which has no maximum, is 40.0% of the Sanuk brand gross profit in calendar year 2015.

As of September 30, 2014 and March 31, 2014, contingent consideration for the acquisition of the Sanuk brand of approximately $25,800 and $28,000, respectively, is included within long-term liabilities in the condensed consolidated balance sheets. Refer to note 3 for further information on the contingent consideration amounts.

In September 2012, the Company acquired Hoka, and the total purchase price included contingent consideration payments with a maximum of $2,000. As of September 30, 2014 and March 31, 2014, contingent consideration for the acquisition of the Hoka brand of approximately $1,700 and $1,800, respectively, is included within other accrued expenses and long-term liabilities in the condensed consolidated balance sheets. Refer to note 3 for further information on the contingent consideration amounts.

Future Capital Commitments. As of September 30, 2014, the Company had approximately $12,000 of material commitments for future capital expenditures primarily related to equipment costs of its new distribution center and tenant improvements for new office space in Japan.

Income Taxes. The Company files income tax returns in the US federal jurisdiction and various state, local, and foreign jurisdictions. When tax returns are filed, some positions taken are subject to uncertainty about the merits of the position taken or the amount that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which the Company believes it is more likely than not that the position will be sustained upon examination. Tax positions that meet the more likely than not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement. The portion of the benefits that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying condensed consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. With few exceptions, the Company is no longer subject to US federal, state, local, or non-US income tax examinations by tax authorities for years before 2008.

Although the Company believes its tax estimates are reasonable and prepares its tax filings in accordance with all applicable tax laws, the final determination with respect to any tax audits, and any related litigation, could be materially different from the Company's estimates or from its historical income tax provisions and accruals. The results of an audit or litigation could have a material effect on operating results or cash flows in the periods for which that determination is made. In addition, future period earnings may be adversely impacted by litigation costs, settlements, penalties, or interest assessments.

The Company has ongoing income tax examinations in various state and foreign tax jurisdictions. During the three months ended September 30, 2014, the Company recorded an accrual for uncertain tax positions of approximately $2,000. In addition, an accrual for interest and potential penalties of approximately $1,100 was recorded. The accrual relates to tax positions taken in prior years that are subject to examination. The Company records accruals relating to interest and potential penalties related to income tax matters within interest expense. It is reasonably possible that approximately $300 of uncertain tax positions will be settled within the next 12 months.

Indemnification. The Company has agreed to indemnify certain of its licensees, distributors, and promotional partners in connection with claims related to the use of the Company's intellectual property. The terms of such agreements range up to five years initially and generally do not provide for a limitation on the maximum potential future payments. From time to time, the Company also agrees to indemnify its licensees, distributors and promotional partners in connection with claims that the Company's products infringe the intellectual property rights of third parties. These agreements may or may not be made pursuant to a written contract.

Management believes the likelihood of any payments under any of these arrangements is remote and would be immaterial. This determination was made based on a prior history of insignificant claims and related payments.

There are no currently pending claims relating to indemnification matters involving the Company's intellectual property.

(6) Stockholders' Equity

In May 2006, the Company adopted the 2006 Equity Incentive Plan (2006 Plan), which was amended by Amendment No. 1 dated May 9, 2007. 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 success. The 2006 Plan reserves 6,000,000 shares of the Company's common stock 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 (Options) is 4,500,000. Pursuant to the Deferred Stock Unit Compensation Plan, a sub plan under the 2006 Plan, a participant may elect to defer settlement of their outstanding unvested awards until such time as elected by the participant.

The Company has elected to grant nonvested stock units (NSUs) annually to key personnel. The NSUs granted entitle the employee recipients to receive shares of common stock in the Company upon vesting of the NSUs. The vesting of most NSUs is subject to achievement of certain performance targets. During the three months ended September 30, 2014, the Company granted approximately 108,000 NSUs at a weighted-average grant date fair value of $83.34 per share, as well as approximately 4,000 time-based equity award units at a weighted-average grant date fair value of $82.85 per share under the 2006 Plan. During the six months ended September 30, 2014, the Company granted approximately 143,000 NSUs at a weighted-average grant date fair value of $83.99 per share, as well as approximately 22,000 time-based equity award units at a weighted-average grant date fair value of $79.47 per share under the 2006 Plan. The NSUs will vest in equal one-third installments at the end of each of the three years after the performance goal has been achieved, and the time-based equity award units have no Company performance targets and will vest in equal annual installments over a three year period. The vesting schedule for these awards was established to encourage officers and key employees to remain with the Company for the long-term. As of September 30, 2014, future unrecognized compensation cost for these NSUs and time-based equity award units, excluding estimated forfeitures, was approximately $12,400. As of September 30, 2014, the Company believed that the achievement of at least the threshold performance objective of the NSU awards was probable, and therefore recognized compensation expense accordingly for these awards.

On a quarterly basis, the Company grants 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.

In September 2014, the Board of Directors of the Company approved a long-term incentive award (2015 LTIP Awards) under its 2006 Equity Incentive Plan. The shares under these awards will be available for issuance to current and future members of the Company's leadership team, including the Company's named executive officers. Each recipient will receive a specified maximum number of restricted stock units (RSUs), each of which will represent the right to receive one share of the Company's common stock. These awards vest subject to certain long-term performance objectives and certain long-term service conditions. The awards will vest on March 31, 2017 only if the Company meets certain revenue targets ranging between approximately $2,155,000 and approximately $2,447,000 and certain EBITDA targets ranging between approximately $336,000 and approximately $394,000 for the fiscal year ending March 31, 2017. No vesting of any 2015 LTIP Awards will occur if either of the threshold performance criteria is not met for the year ending March 31, 2017. To the extent financial performance is achieved above the threshold levels, the number of RSUs that will vest will increase up to the maximum number of units granted under the award. Under this new program, the Company granted awards that contain a maximum amount of approximately 160,000 RSUs during the quarter ended September 30, 2014. The average grant date fair value of these RSUs was $98.29 per share. As of September 30, 2014, based on the Company's current long-range forecast, the Company believed that the achievement of at least the threshold performance objectives of these awards was probable, and therefore the Company recognized compensation expense accordingly. The amount recognized during the three and six months ended September 30, 2014 was not material to the Company's condensed consolidated financial statements.

In June 2012, the Company approved a stock repurchase program to repurchase up to $200,000 of the Company’s common stock in the open market or in privately negotiated transactions, subject to market conditions, applicable legal requirements, and other factors. The program does not obligate the Company to acquire any particular amount of common stock and the program may be suspended at any time at the Company’s discretion. There was no stock repurchased during the three months ended September 30, 2014. As of September 30, 2014, the Company had repurchased approximately 2,765,000 shares under this program, for approximately $120,700, or an average price of $43.66 per share, leaving the remaining approved amount at approximately $79,300.

Subsequent to September 30, 2014, the Company granted approximately 7,500 time-based equity award units at a weighted-average grant date fair value of $87.89 per share. Future unrecognized compensation cost for these awards, excluding estimated forfeitures, is approximately $650.

Subsequent to September 30, 2014, the Company repurchased approximately 157,000 shares under the stock repurchase program approved in June 2012 for approximately $13,300, or an average price of $84.69 per share, leaving the remaining approved amount at approximately $66,000.

Table of Contents
DECKERS OUTDOOR CORPORATION
AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
Three and Six Months Ended September 30, 2014 and 2013
(Unaudited)
(amounts in thousands, except share quantity and per share data)

(7) Foreign Currency Exchange Contracts and Hedging

As of September 30, 2014, the Company had foreign currency forward contracts designated as cash-flow hedges with notional amounts totaling approximately $39,000, held by three counterparties and had non-designated derivative contracts with notional amounts totaling approximately $45,000, held by three counterparties. At March 31, 2014, the Company had foreign currency forward contracts designated as cash-flow hedges with notional amounts totaling approximately $64,000, held by four counterparties. At September 30, 2014, the outstanding contracts were expected to mature over the next 3 months.

The nonperformance risk of the Company and the counterparties did not have a material impact on the fair value of the derivatives. During the three and six months ended September 30, 2014, the ineffective portion relating to these hedges was not material and the hedges remained effective as of September 30, 2014. The effective portion of the gain or loss on the derivative is reported in other comprehensive income (loss) (OCI/L) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. As of September 30, 2014, the total amount in accumulated other comprehensive income (loss) (AOCI/L) (see note 8) was expected to be reclassified into income within the next 6 months.

The following table summarizes the effect of foreign exchange contracts designated as cash flow hedging relationships on the condensed consolidated financial statements:

For the Six Months Ended September 30,	Amount of Gain (Loss) Recognized in OCI/L on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI/L into Income (Effective Portion)	Reclassified from AOCI/L into Income (Effective Portion)	Location of Amount Excluded from Effectiveness Testing	Gain (Loss) from Amount Excluded from Effectiveness Testing
2014	$ 1,625	Net sales	$ (299)	SG&A	$ (70)
2013	$ (2,583)	Net sales	$ 597	SG&A	$ 21

The following table summarizes the effect of foreign exchange contracts not designated as hedging instruments on the condensed consolidated financial statements:

For the Six Months Ended September 30,	Location of Gain (Loss) Recognized in Income (Loss) on Derivatives	Amount of Gain (Loss) Recognized in Income (Loss) on Derivatives
2014	SG&A	$ 3,433
2013	SG&A	$ (32)

(8) Accumulated Other Comprehensive Loss

Accumulated balances of the components within accumulated other comprehensive loss were as follows:

	September 30, 2014	March 31, 2014
Unrealized gain (loss) on foreign currency hedging, net of tax	$682	$(759)
Cumulative foreign currency translation adjustment, net of tax	(5,784)	(1,284)
Accumulated other comprehensive loss	$(5,102)	$(2,043)

(9) Net Income per Share

10

Table of Contents
DECKERS OUTDOOR CORPORATION
AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
Three and Six Months Ended September 30, 2014 and 2013
(Unaudited)
(amounts in thousands, except share quantity and per share data)

Basic net income per share represents net income divided by the weighted-average number of common shares outstanding for the period. Diluted net income per share represents net income divided by the weighted-average number of common shares outstanding, including the dilutive impact of potential issuances of common stock. The reconciliations of basic to diluted weighted-average common shares outstanding were as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2014	2013	2014	2013
Weighted-average shares used in basic computation	34,632,000	34,496,000	34,629,000	34,474,000
Dilutive effect of stock-based awards*	322,000	298,000	312,000	322,000
Weighted-average shares used for diluted computation	34,954,000	34,794,000	34,941,000	34,796,000
*Excluded NSUs	143,000	274,000	143,000	274,000
*Excluded RSUs	888,000	639,000	888,000	639,000
*Excluded stock appreciation rights (SARs)	525,000	525,000	525,000	525,000

* The share-based awards that were excluded from the dilutive effect were excluded because necessary conditions had not been satisfied for the shares to be issuable based on the Company’s performance through the three and six months ended September 30, 2014 and 2013, respectively. The excluded awards include the maximum amounts achievable for these awards.

(10) Business Segments, Concentration of Business, and Credit Risk and Significant Customers

The Company’s accounting policies of the segments below are the same as those described in the summary of significant accounting policies in the Annual Report, except that the Company does not allocate corporate overhead costs or non-operating income and expenses to segments. The Company evaluates segment performance primarily based on net sales and income (loss) from operations. The Company’s reportable segments include the strategic business units for the worldwide wholesale operations of the UGG brand, Teva brand, Sanuk brand, and other brands, its E-Commerce business and its retail store business. The wholesale operations of each brand are managed separately because each requires different marketing, research and development, design, sourcing, and sales strategies. The E-Commerce and retail store segments are managed separately because they are Direct-to-Consumer sales, while the brand segments are wholesale sales. The income (loss) from operations for each of the segments includes only those costs that are specifically related to each segment, which consist primarily of cost of sales, costs for research and development, design, selling and marketing, depreciation, amortization, and the costs of employees and their respective expenses that are directly related to each segment. The unallocated corporate overhead costs include: costs of the distribution centers, certain executive and stock compensation, accounting and finance, legal, information technology, human resources, and facilities costs, among others. During the three months ended September 30, 2014, the Company converted seven of its retail stores in China to partner retail stores, whereby, upon conversion, the stores became wholly-owned and operated by local, third party companies within China. These conversions included the assignment of the lease and the sale of both the Company's on-hand inventory and store leasehold improvements to the operator. As of the date of conversion, partner retail stores sales are included in the UGG brand wholesale segment and not included in the retail stores segment.

The Company's other brands include Ahnu®, Hoka One One® (Hoka), MOZO® and TSUBO®. The wholesale operations of the Company's other brands are included as one reportable segment, other wholesale, presented in the figures below. Business segment information is summarized as follows:

Table of Contents

DECKERS OUTDOOR CORPORATION
AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
Three and Six Months Ended September 30, 2014 and 2013
(Unaudited)
(amounts in thousands, except share quantity and per share data)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2014	2013	2014	2013
Net sales to external customers:				
UGG wholesale	$339,799	$273,677	$413,992	$336,043
Teva wholesale	17,603	15,893	53,268	44,641
Sanuk wholesale	15,955	16,649	48,284	44,435
Other wholesale	22,117	12,993	33,942	20,971
E-Commerce	21,604	14,884	37,031	25,620
Retail stores	63,195	52,629	105,225	85,100
	$480,273	$386,725	$691,742	$556,810
Income (loss) from operations:				
UGG wholesale	$123,670	$82,256	$126,363	$81,746
Teva wholesale	(310)	(1,366)	4,472	783
Sanuk wholesale	2,684	3,657	9,589	10,146
Other wholesale	(571)	(189)	(4,582)	(2,678)
E-Commerce	7,441	2,678	8,250	4,347
Retail stores	(7,114)	(2,260)	(22,965)	(12,078)
Unallocated overhead costs	(66,217)	(38,279)	(112,026)	(78,520)
	$59,583	$46,497	$9,101	$3,746

Inter-segment sales from the Company's wholesale segments to the Company's E-Commerce and retail stores segments are at the Company's cost, and there is no inter-segment profit on these inter-segment sales. Income (loss) from operations of the wholesale segments does not include any inter-segment gross profit from sales to the E-Commerce and retail stores segments.

Business segment asset information is summarized as follows:

	September 30, 2014	March 31, 2014
Total assets for reportable segments:		
UGG wholesale	$617,013	$153,341
Teva wholesale	41,445	81,766
Sanuk wholesale	202,451	214,627
Other wholesale	48,974	41,281
E-Commerce	5,530	3,129
Retail stores	158,058	160,535
	$1,073,471	$654,679

The assets allocable to each segment include accounts receivable, inventory, fixed assets, intangible assets, and certain other assets that are specifically identifiable with one of the Company's segments. Unallocated assets are the assets not specifically related to the segments and include cash and cash equivalents, deferred tax assets, and various other assets shared by the Company's segments. Reconciliations of total assets from reportable segments to the condensed consolidated balance sheets are as follows:

DECKERS OUTDOOR CORPORATION
AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
Three and Six Months Ended September 30, 2014 and 2013
(Unaudited)
(amounts in thousands, except share quantity and per share data)

	September 30, 2014	March 31, 2014
Total assets for reportable segments	$ 1,073,471	