

DECKERS OUTDOOR CORP
Form 10-K
February 29, 2008

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark one)

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

For the fiscal year ended December 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 No. 0-22446

DECKERS OUTDOOR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

95-3015862

*(I.R.S. Employer
Identification No.)*

495-A South Fairview Avenue, Goleta, California

(Address of principal executive offices)

93117

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: None

Title of each class

Name of each exchange on which registered

Common Stock, Par value \$0.01 per share

NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Exchange Act. Yes No

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

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past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the common stock held by non-affiliates of the registrant was \$1,244,870,298 based on the June 29, 2007 closing price of \$100.90 on the NASDAQ Global Select Market on such date.

The number of shares of the registrant's Common Stock outstanding at February 15, 2008 was 13,006,358.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to the registrant's 2008 annual meeting of stockholders, which will be filed pursuant to Regulation 14A within 120 days after the end of the registrant's fiscal year ended December 31, 2007, are incorporated by reference in Part III of this Annual Report on Form 10-K.

DECKERS OUTDOOR CORPORATION
For the Fiscal Year Ended December 31, 2007

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PART I

References in this Annual Report on Form 10-K to "Deckers", "we", "our", "us", or the "Company" refer to Deckers Outdoor Corporation. This Annual Report on Form 10-K contains forward-looking statements based on expectations, estimates and projections as of the date of this filing. Actual results may differ materially from those expressed in forward-looking statements. See Item 7 of Part II "Management's Discussion and Analysis of Financial Condition and Results of Operations - Forward-Looking Statements." Deckers®, ecoSNEAKS®, GO.DO.BE®, Green Piggies®, Mush®, Planet Walkers®, Pretty Rugged®, Simple®, Spider Rubber®, Terra-Fi®, Teva®, UGG®, and Wraaptor® are some of our trademarks. Some of our graphic trademarks are shown below:

Other trademarks or trade names appearing elsewhere in this report are the property of their respective owners.

Item 1. Business.

Unless otherwise specifically indicated, all dollar amounts herein are expressed in thousands, except for weighted-average wholesale prices per pair and suggested retail prices for our footwear and accessories.

General

We are a leading designer, producer and brand manager of innovative, high-quality footwear and the category creator in the sport sandal, luxury sheepskin, and sustainable footwear segments. Our footwear is distinctive and appeals broadly to men, women and children. We sell our products, including accessories such as handbags, headwear, packs and outerwear, through quality domestic retailers and international distributors and directly to end-user consumers through our websites, catalogs, retail concept stores and retail outlet stores. Our primary objective is to build our footwear lines into global lifestyle brands with market leadership positions.

We market our products under three proprietary brands:

Teva®. Teva is our outdoor performance and lifestyle brand and pioneer of the sport sandal market. The Teva brand was founded in the 1980s to serve the demanding footwear needs of the professional river guide. This authentic heritage and commitment to function and performance remain core elements of the Teva brand. The Teva product line has expanded to include casual open-toe and closed-toe footwear, including adventure travel shoes, outdoor cross training shoes, trail running shoes, amphibious footwear, light hikers and other rugged outdoor footwear styles and accessories.

From 1985 until November 2002, we sold our Teva products under a license agreement with the brand's founder, Mark Thatcher. In November 2002, we acquired all of the Teva worldwide assets, including the Teva eCommerce business and all patents, trade names, trademarks and other

intellectual property associated with the acquired Teva assets, which we refer to collectively as the Teva Rights. We acquired the Teva Rights from Mr. Thatcher and his wholly-owned corporation, Teva Sport Sandals, Inc.

In recent seasons, we have focused on strengthening Teva's leadership position in the performance sandal market, and broadening that performance platform to include other outdoor activities such as trail running and light hiking. In 2008, we are introducing Teva's first complete line of fall and winter footwear. In the future, we intend to selectively expand our activity in the outdoor performance and lifestyle arenas.

UGG® UGG Australia is our luxury comfort brand and the category creator for luxury sheepskin footwear. The UGG brand has enjoyed several years of strong growth and positive consumer reception, driven by consistent introductions of new styles, introductions of UGG brand products in the fall and spring seasons and geographic distribution expansion. We carefully manage the distribution of our UGG brand products within high-end specialty and department store retailers in order to best reach our target consumers, preserve the UGG brand's retail channel positioning and maintain the UGG brand's position as a mid- to upper-price luxury brand.

The UGG brand gained brand recognition in the U.S. beginning in 1979 and was adopted as a favored brand by the California surf community. We acquired the UGG brand in 1995 and have carefully repositioned the brand as a luxury comfort collection sold through high-end retailers. In recent years, sales of UGG brand products have benefited from significant national media attention and celebrity endorsement through our marketing programs and product placement activities, raising the profile of UGG as a luxury comfort brand. We intend to further support the UGG brand's market positioning by expanding the selection of styles available in order to build consumer interest in our UGG brand collection. We also remain committed to limiting distribution of UGG brand products to high-end retail channels.

Simple®. Simple Shoes began in 1991 as an alternative to all the over-built, over-priced, and over-hyped products in the marketplace. The brand's legacy was built on its original sneaker design, the Old School Sneaker, and grew to include successful sandal and casual products. In 2005, as a response to the massive amount of waste produced by the footwear industry, the Simple brand launched a new collection of sustainable footwear called Green Toe®. Green Toe represents a revolutionary shift in thinking about footwear by building a shoe from the inside out using sustainable materials and processes. The Simple brand's mission is to be the world leader in sustainable footwear and accessories. We feel that how we make Simple products is just as important as why we make them. That means our goal is to find more sustainable and innovative ways of doing business as well as making products. We are committed to making Simple products 100% sustainable; thus, minimizing the ecological footprint left on the planet.

Through continued innovation, expansion of product offerings, premium distribution and strategic marketing initiatives, we have successfully developed three premier lifestyle brands. Our total net sales increased by 47.5% from \$304,423 in 2006 to \$448,929 in 2007, and our income from operations increased by 105.2% from \$51,442 in 2006, which included a \$15,300 impairment loss on our Teva trademarks, to \$105,553 in 2007. For 2007, wholesale shipments of Teva, UGG and Simple products aggregated \$82,003, \$291,908 and \$11,163, respectively, and represented 18.3%, 65.0% and 2.5% of our total net sales, respectively. Sales of our brands through our eCommerce division and our retail store division, which are in addition to our wholesale shipments, were \$45,473 and \$18,382, respectively, representing 10.1% and 4.1%, respectively, of total net sales in 2007.

History

Deckers was founded by Doug Otto in 1973 as a domestic manufacturer of sandals. We originally manufactured a single line of sandals under the Deckers brand name in a small factory in Carpinteria,

California. Since then, we have grown through the development and licensing of proprietary technology, targeted marketing and selective acquisitions. In 1985, we entered into our first license agreement for Teva sport sandals with Teva's founder, Mark Thatcher. In 1986, we developed the Universal Strapping System, establishing Teva as the sport sandal category-creator and generating significant national attention for the Teva brand.

Deckers experienced a period of rapid growth during the late 1980s and completed our initial public offering in 1993. As our sales grew, we terminated our manufacturing operations in the U.S., Mexico and Costa Rica, and today independent manufacturers in China and New Zealand manufacture all of our footwear products for us. We maintain our own offices in China and Macau to monitor the operations of our manufacturers in China.

In order to diversify our sales, and leverage our product development and sourcing capabilities, we completed the acquisition of the Simple brand from its founder in a series of transactions between 1993 and 1996. In 1995, we acquired the UGG brand from its founders, after which we initiated a repositioning of the line, focusing on comfort, luxury and premium distribution channels and developing products that appeal to consumers in a variety of climates.

Business Strategies

We seek to differentiate our brands by offering diverse lines that emphasize authenticity, functionality, quality and comfort and products tailored to a variety of activities, seasons and demographic groups. Key elements of our business strategies are:

Building Leading Global Brands. Our mission is to build niche footwear lines into global brands with market leadership positions. Our Teva, UGG and Simple brands began as footwear lines appealing to a narrow core enthusiast market. We have since built these lines into substantial global lifestyle brands with potential for further growth and line extensions. Across our brands, our styles remain true to the brands' heritage but have been selectively extended over time to broaden their appeal to men, women and children seeking high quality, comfortable styles for everyday use. Furthermore, we actively manage our brands to ensure that we reach brand appropriate retail distribution channels. We believe that building our brand image is best accomplished through a decentralized management structure that empowers a single brand manager for each brand to coordinate all aspects of brand image, from product development to marketing and retail channel management.

Sustaining Brand Authenticity. We believe our ability to increase sales, sustain strong gross margins, and maintain market share results, in part, from the appeal of our brand heritage. We believe that Teva footwear consumers are passionate and serious about the outdoors. Our Teva brand marketing programs focus on performance of our products, and feature national advertising in outdoor-oriented media as well as sponsorship of outdoor events and professional athletes. These efforts reinforce the Teva brand's heritage and positioning as a highly technical, performance-oriented outdoor footwear brand. Our UGG brand marketing strategy positions our products as a premium, luxury collection but also as functional footwear; UGG brand products are primarily marketed through national print advertising in major magazines and through our retailers and their catalogs and advertising. Historically, our marketing for UGG brand products has been focused on women, but with the recent introduction of innovative men's styles, we are increasing our marketing appeal to men through advertisements in national men's magazines with a continued focus on lifestyle and comfort. We promote our Simple brand by emphasizing that we make fun, casual, comfortable and sustainable footwear. Our goal for the Simple brand is to create a dialogue with the consumer through all communication vehicles and to show people that sustainability is an emerging lifestyle for everyone, not just environmentally conscious individuals. Our print advertising campaigns for our Simple brand include national publications and alternative weekly publications in select cities around the world. We also have an online advertising campaign that reaches consumers through websites that focus on

sustainability as well as pop culture. In 2007, we also sponsored environmental-themed concerts, film festivals, and green expos to showcase and tell the sustainable lifestyle brand story.

Driving Demand Through Innovation and Technical Leadership. We believe our reputation for innovation and technical leadership distinguishes our products from those of our competitors and provides us with significant competitive advantages. Just as our proprietary Universal Strapping System set the performance standard for sport sandals in the mid-1980s, more recent technical advances like our Spider Rubber® and our Teva Wraaptor®, Wraaptor-Lite®, and Drain Frame which we introduced in 2007, all provide uncompromised performance for the new outdoor athlete. We also continue to develop innovative styles, products and product categories for our UGG collection in order to support the UGG brand's positioning as a functional lifestyle brand, which can be worn in a variety of climates and weather conditions. The UGG brand has benefited from our continuing expansion into non-boot casuals, sheepskin-trimmed footwear and styles combining sheepskin with fine-grade suede and leathers, all designed to expand our market share in new categories and increase our sales in both the fall and spring selling seasons. The goal of the Simple brand is to revolutionize the footwear industry by producing 100% sustainable products. We believe that consumers are increasingly interested in living an environmentally friendly lifestyle and seeking out sustainable products. We are at the forefront of the industry in using new sustainable materials, such as bamboo, organic cotton, natural latex and cork combinations, recycled car tires, and recycled PET (from plastic water bottles) throughout our product line. The Simple brand will continue to innovate with the goal of achieving 100% sustainability in design, development, and material applications.

Maintaining Efficient Development and Production Processes. We believe our product development processes enable us to produce leading edge products on a timely and a cost effective basis. We design our products domestically. We maintain on-site supervisory offices in Pan Yu City, China and Macau that serve as local links to our independent manufacturers in China. This enables us to carefully monitor the production process, from receipt of the design brief to production of interim and final samples to shipment of finished product. We believe this local presence provides greater predictability of material availability, product flow and adherence to final design specifications than we could otherwise achieve through an agency arrangement.

Growth Strategies

Our growth will depend upon our broadening of the products offered under each brand, expanding domestic and international distribution, licensing our brand names and developing or acquiring new brands. Specifically, we intend to:

Introduce New Categories and Styles under Existing Brands. We intend to increase our sales by developing and introducing additional footwear products under our existing brands that meet our high standards of performance, practicality, authenticity, comfort and quality. We have expanded the open-toe footwear category under our Teva brand by launching new casual and performance styles, as well as several new sandal styles that provide increased foot coverage and protection. We have also introduced several closed-toe performance styles and collections, including amphibious footwear, light hikers, trail runners and outdoor cross trainers. We plan to further expand into the casual outdoor footwear market, which, in the aggregate, is considerably larger than the market for the Teva brand's core sport sandals. We have expanded our UGG product collection to incorporate additional styles and fabrications in order to further penetrate the fall, spring and winter seasons. We have expanded our men's and kids' product line and have introduced a cold-weather series featuring sheepskin, waterproof eVent uppers and Vibram outsoles. Our UGG brand has enhanced its Spring 2008 collection by introducing new fashion comfort categories for men, women and children. In response to the positive market reaction to espadrilles that our UGG brand introduced in 2007, we expanded that category as well with new styles and new heel heights.

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As the sustainability lifestyle movement is reaching the mainstream market, our goal for the Simple brand is to lead the industry through new product innovations and pursue new solutions to make our business practices more sustainable. The influence of our Green Toe collection, products made primarily from sustainable materials, is seen throughout the entire Simple product line, especially in our sneaker segment with the introduction of ecoSNEAKS in 2007. We also expanded our kids' and infants' collection with Green Piggies. This collection of products follows the same guidelines as Green Toe. We round out the entire lifestyle of the Simple brand with our bag collection, which we launched in the 2006 holiday season and expanded in 2007. By introducing new categories under our brands, in particular, the closed-toe footwear under our Teva brand and the spring product offerings under our UGG brand, we believe we will expand the selling seasons for our brands with the goal of increasing sales and creating a more balanced year round business for each of these brands.

Expand Domestic Distribution. We believe that we have significant opportunities to increase our sales by expanding domestic distribution of our products. Our Teva brand has historically been distributed through the outdoor specialty, sporting goods and department store retail channels. In addition, we see the potential for expansion into the athletic specialty and running specialty sales channels, with strategic and focused product and marketing programs. The UGG brand originally realized a substantial portion of its sales in California. Today, we have a more balanced business, increasing our business significantly in the Midwest and North East. For our Simple line, we are focusing distribution on specialty independent retailers, department stores, outdoor retailers, and surf shops for our broad product offering, as well as the introduction into the health and wellness retail channel through our Green Toe offering of ecologically friendly footwear. We also plan to expand through internet sales, as consumers have continued to increase their reliance on the internet for footwear and other purchases. Further, we currently plan to open one additional retail outlet store and two additional UGG brand concept stores in major metropolitan areas by the end of 2008.

Expand International Distribution. In 2007, our international net sales totaled \$62,336, representing approximately 13.9% of total net sales, an increase of 62.6% compared to 2006. The majority of our international sales occurred in Europe, with the remainder primarily in Asia, Canada and Latin America. In addition to our existing European regional office in London, during 2007 we opened a regional office in Hong Kong. To ensure we continue to drive growth and effectively implement our international strategies, we also strengthened our international team with a primary focus on sales and marketing, as well as sales operations and customer service.

We intend to further strengthen our international infrastructure to ensure optimum results with both short and long-term goals in mind. We will continue to work closely with our distributors on the effective management of our business objectives and brand strategies. In addition to our existing retail distribution, we plan to explore additional avenues to make our products available to international consumers, including the expansion of our business through internet sales and the potential opening of stand-alone brand stores as appropriate opportunities arise, particularly in the case of UGG Australia.

Pursue Licensing of Brands in Complementary Product Lines. We are actively pursuing selective licensing of our brand names in product categories beyond footwear. Previously, we introduced UGG brand licensed handbags, outerwear, and cold weather accessories for the domestic market and expanded into select international markets, beginning with handbags. In 2006, we launched our cold weather accessories and outerwear licenses internationally. We also restructured our domestic Teva product licensing program, which currently consists of headwear, bags and packs. In December 2007, we entered into our first licensing agreement for our Simple brand as a licensee for the Collegiate Licensing Company. Our Simple brand will be licensing the Collegiate Licensing Company trademarks on its Toe Foo and Retire footwear styles to select U.S. universities. We intend to introduce these licensed products to the market in Fall 2008. We are developing additional licensing programs carefully to ensure that licensed goods remain consistent with our brands' heritage and image. Because this

licensing strategy is in its early stages, and due to the lead times required to bring the products to market, we have only recently begun to recognize license revenues, and we do not expect significant incremental net sales and profits from licensing in the near future.

Build New Brands. We continue to explore ways to expand the number of brands that we manage. We have been successful previously in identifying entrepreneurial concepts for innovative, fashionable footwear targeted at niche markets and building these concepts into viable brands utilizing our expertise in product development, production and marketing. We intend to continue to identify and build or acquire new brands that demonstrate potential for significant future growth.

Products

Our primary product lines are:

Teva Performance Outdoor Footwear. We believe there has been a general shift in consumer preferences and lifestyles to include more outdoor recreational activities, including light hiking, trail running, outdoor cross training, bouldering, kayaking, kite boarding and whitewater river rafting. These consumers typically seek footwear specifically designed with the same quality and high performance attributes they have come to expect from traditional athletic footwear. The first Teva sport sandal was developed in the 1980s to meet the demanding needs of professional river rafting guides navigating the Colorado River and the rugged Grand Canyon terrain. As our core consumers' pursuits have evolved, we have retained our outdoor heritage while adding new products to our line, including slides, thongs, amphibious footwear, trail running shoes, light hiking boots and other rugged closed-toe footwear. Our brand remains popular among professional and amateur outdoor athletes seeking authentic, performance-oriented footwear, as well as among general footwear consumers seeking high quality, durable and comfortable styles for everyday use.

We market Teva products as the brand of GO.DO.BE®. This captures the lifestyle of the new outdoor athlete. The Go, the Do, and the Be each have their own unique properties and perspectives. Individually, they are elements of the outdoor experience. Together, they form the fabric of the outdoor lifestyle.

Go. The Go product collection represents versatile, rugged, and comfortable footwear for travel, leisure, and light activities. Styles range from classic Teva sandal architecture to more compelling, contemporary designs.

Do. The Do product collection is technical, lightweight footwear, engineered for the performance needs of the new outdoor athlete. Many styles include one or more of our proprietary performance technologies, such as the Wraptor Fit System, Spider Rubber traction technology, or Drain Frame technology.

Be. The Be product collection is inspired by the laid-back attitude of life on the beach. Designs are simple, yet distinctive, with a premium on comfort. The styles are young, fresh and colorful for any casual lifestyle.

We introduced several new Teva products in 2007, and we plan to introduce new styles for men, women and children in the future. Our kids' product collection is a fun, colorful assortment of sandals, closed-toe, and amphibious styles for a variety of outdoor and water-based activities. The manufacturer's suggested domestic retail prices for adult sizes of the Spring 2008 Teva product collections range from \$22.00 to \$110.00.

UGG Footwear. Beginning in 1979, the UGG brand gained recognition in the U.S. for sheepskin boots and slippers and was later widely used by the California surf community. We acquired the brand in 1995 and expanded the collection, offering consumers a luxurious and distinctive look in sheepskin fabrications.

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Our UGG product line comprises seven footwear collections, each of which includes styles for men, women and children:

Classic Collection. We offer a complete line of sheepskin boots built on the heritage and distinctive look of our first product, the Classic sheepskin boot. Our Classic Collection products are distinctive in styling, featuring an array of neutral and fashion colors.

Ultra Collection. The Ultra Collection builds upon the heritage of the original Ultra boot. These boots are designed with our comfort system, featuring a multi-surfaced rugged bottom with a heel-cushioning insert that offers enhanced traction, support and comfort. Our Ultra Collection also features a three-part insole designed to provide all-day comfort and support and a reflective barrier that captures body heat to create a natural foot warming mechanism. Our sheepskin products are naturally thermostatic, keeping feet comfortable across a wide range of temperatures.

Fashion Collection. Our Fashion Collection offers fashion forward styles for women, men, and children without compromising comfort. Luxurious materials and trend-influenced styles make this collection stand out. Within this collection is a fashion wedge group, a stacked high heel group for women, a European influenced collection for men, and fashionable styles for children.

Casual Collection. This collection features refined, sophisticated styles for men, women, and children. These footwear styles include suede and glove leather uppers, lined in a thinner insole of sheepskin for added comfort. Styles from the men's collection feature an interchangeable leather insole that allows them to be worn either with or without socks.

Surf Collection. This collection is taken from the laid-back surf lifestyle that was the original heritage of the brand. The Surf Collection features true comfort style including sandals, clogs, and boots that incorporate a thin layer of sheepskin for luxury and comfort.

Cold Weather Collection. This collection is designed with more rugged styling and features Vibram outsoles and waterproof eVent uppers designed to withstand colder, wetter climates.

Slipper Collection. Our Slipper Collection builds upon the UGG brand's reputation for comfort, warmth and luxury and is offered in a wide selection of styles and colors.

We have expanded our UGG brand collection from the Classic and Ultra sheepskin boot and slippers to a broader footwear line for men, women and children in a variety of styles, colors and materials designed for wear in a variety of climates and occasions. Over the last few years, our line expansion, distribution and high end marketing strategies, among other factors, have resulted in significantly increased exposure for our UGG brand products and have contributed to the growth of the UGG brand's year round business. The manufacturer's suggested domestic retail prices for adult sizes for the Fall 2008 UGG brand product collections range from \$60.00 to \$350.00.

Simple Sustainable Footwear. Finding the materials and processes that make our products sustainable is a method we call "the Green Toe process" and we measure our progress with a scale called "Good, Better, Best". The Best category represents our most sustainable shoes and bags and sets the bar for the rest of the line. Only the Best products may bear the Green Toe label. In the future, we plan to incorporate these same innovative materials and constructions in the Good and Better categories, raising the bar for the Best products.

Men's and Women's Green Toe. Part of the Best category, Green Toe products represent our efforts to reduce the ecological footprint left by shoes. Green Toe products are primarily made of sustainable materials like bamboo, jute, organic cotton, linen, coconut buttons, cork, crepe, latex, recycled car tires, and water based adhesives. This line includes sandals, loafers, mary janes, oxfords and boots.

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Men's and Women's ecoSNEAKS. ecoSNEAKS are vulcanized sneakers that use old car tire outsoles, recycled PET for footbeds and shoelaces and organic cotton, thus leaving a better ecological footprint than ordinary sneakers.

Kids' Product. Our Kids' product line is made up of ecoSNEAKS and Green Piggies. Green Piggies is a kids' and infants' product collection that represents the brand's best ecological efforts through material and construction innovation. It uses materials such as organic cotton, hemp, and wool felt.

Bags. Our sustainable bag collection includes messenger bags, backpacks, totes and laptop sleeves. These are made from materials such as organic cotton, jute, hemp, coconuts and PET.

The manufacturer's suggested retail prices for our Simple brand product collections range from \$24.00 to \$90.00 and our Simple brand bags are priced from \$20.00 to \$100.00.

Sales and Distribution

We distribute our products in the U.S. through a dedicated network of approximately 47 independent sales representatives. Our sales representatives are organized geographically and by brand and visit retail stores to communicate the features, styling and technology of our products. In addition, we have 10 employee sales representatives who serve as territory representatives or key account executives for several of our largest customers. Products made under license agreements are sold primarily through the same retail channels as our footwear product offerings. Our licensing agreements generally give us the right to terminate the license if specified sales targets are not achieved.

Until mid-2005, our sales force was divided into two teams, one for Teva products and one for UGG and Simple products, as the UGG and Simple brands are generally sold through non-outdoor specialty and non-sporting goods distribution channels and are targeted toward a different consumer than our Teva brand. Beginning in mid-2005, however, we began to split the Simple and UGG brands' sales forces into two distinct groups to provide the Simple brand with its own dedicated sales function to improve its sales efforts and resources. While there is still some overlap between the sales teams, we have now established separate dedicated sales forces for each of our three brands. Each brand's respective sales manager recruits and manages his or her network of sales representatives and coordinates sales to national accounts. We believe this approach for the U.S. market maximizes the selling efforts to our national retail accounts on a cost-effective basis.

Internationally, we distribute our products through over 30 independent distributors in over 20 countries. During 2007, we commenced new distributor relationships for one or more of our brands in Scandinavia, France, China, Korea and Canada. In 2008, we plan to further develop our brands and increase our business in the key markets of the UK, Germany, Scandinavia, France, China, Japan, Korea and Canada. We will continue to analyze opportunities in the developing market economies of India, Russia and Latin America.

Our principal customers include specialty retailers, selected department stores, outdoor retailers, sporting goods retailers and shoe stores. Our five largest customers accounted for approximately 27.6% of our net sales for 2006, compared to 30.4% for 2007. One customer, Nordstrom, accounted for greater than 10% of our consolidated net sales in 2006 and 2007.

Teva. We sell our Teva products primarily through specialty outdoor sporting goods and department store retailers such as REI, Eastern Mountain Sports, L.L. Bean, Dick's Sporting Goods, The Sports Authority, Nordstrom, and Dillard's. We believe these retail channels are the first choice for athletes, outdoor enthusiasts and adventurers seeking technical and performance-oriented outdoor footwear. Furthermore, we believe that retailers who appreciate and can fully market the technical attributes of our products to the consumer best sell our Teva products.

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UGG. We sell our UGG brand products primarily through high-end department stores such as Nordstrom, Neiman Marcus and Bloomingdale's, as well as independent specialty retailers such as Journey's, David Z. and Sport Chalet. We believe these retailers support the luxury positioning of our brand and are the destination shopping choice for the consumer who seeks out the fashion and functional elements of our UGG brand products.

Simple. Our Simple products are targeted primarily towards select department stores, outdoor specialty accounts, independent specialty retailers, surf shops, and health and wellness retailers that target consumers seeking comfortable, high quality, and sustainable footwear. These include key accounts such as Nordstrom, Dillard's, REI, Whole Earth Provision, Hobie Sports and Whole Foods Market.

We distribute products sold in the U.S. through our distribution centers in Ventura, California and in Camarillo, California. Our distribution centers feature an inventory management system that enables us to efficiently pick and pack products for direct shipment to retailers and distributors across the world. For certain customers requiring special handling, each shipment is pre-labeled and packed to the retailer's specifications, enabling the retailer to easily unpack our product and immediately display it on the sales floor. All incoming and outgoing shipments must meet our quality inspection process.

eCommerce. We acquired our eCommerce business as part of the acquisition of the Teva Rights in November 2002. The eCommerce business enables us to reach consumers through internet sales under the Teva.com, UGGAustralia.com and SimpleShoes.com internet addresses as well as through direct mailings for our UGG brand products under our catalog business. Our mailing list includes approximately 670,000 consumers who have purchased at least once in the past 36 months. Our eCommerce business is headquartered in Flagstaff, Arizona and order fulfillment is performed by our wholesale distribution centers in Ventura and Camarillo, California in order to reduce the cost of order cancellation, minimize out of stock positions and further leverage our distribution center occupancy costs. Products sold through our eCommerce business are sold at prices which approximate retail prices, enabling us to capture the full retail margin on each direct to consumer transaction.

Retail Stores. Our retail store business allows us to directly reach our customers and meet the growing demand for our products through our two UGG brand concept stores and our five retail outlet stores. In 2007, we opened one new retail outlet store in Woodbury, New York as well as an UGG brand concept store in Chicago, Illinois. Products sold through our concept stores are sold at prices which approximate department store prices, enabling us to capture the full retail margin on each direct to consumer transaction.

Marketing and Advertising

Our brands are generally advertised and promoted through a variety of consumer print advertising campaigns. We benefit from editorial coverage in both consumer and trade publications. Each brand's dedicated marketing team works closely with targeted accounts to maximize advertising and promotional effectiveness. We incurred approximately \$10,536, \$17,315 and \$17,035 in advertising, marketing and promotional expenses in 2005, 2006 and 2007, respectively.

Teva. We use the following marketing methods to promote the Teva brand:

targeted print advertising;

sponsorship of a variety of events and competitions, such as the annual Teva Mountain Games in Vail, Colorado;

sponsorship of athletes and teams, such as the Teva Whitewater Team and the Teva U.S. Mountain Running Team;

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preferred buyer programs to professional river guides, kayakers, mountain bikers, rock climbers, and other outdoor athletes;

product seeding with various athletes and trendsetters; and

in-store promotions with key accounts.

We market the Teva brand through the placement of print advertisements in leading outdoor magazines such as *Outside*, *National Geographic Adventurer*, *Backpacker* and *Canoe and Kayak*. As we have introduced new sub-categories and collections, we have broadened our advertising presence to reach new consumers. For example, we advertise our performance trail running shoes in *Runner's World*, *Trail Runner* and *Running Times*, among other publications. To support our casual lines, we advertise in more mainstream publications such as *Women's Health*, *Men's Journal* and *Yoga Journal*.

The Teva brand is rooted in outdoor lifestyle pursuits such as river rafting, kayaking, bouldering, mountain biking, kite boarding, hiking and trail running. We sponsor outdoor events in the U.S. including the Teva Mountain Games at Vail, Colorado, the Teva Vail Trail Running Series and the Santa Cruz Surf Kayak Festival in Santa Cruz, California, among others. Internationally, our distributors sponsor outdoor events in France, Switzerland and Italy in order to increase our brand visibility to the European outdoor consumer. We are also the presenting sponsor of MacGillivray Freeman's new three dimensional documentary IMAX film, "*Grand Canyon Adventure, River at Risk*" scheduled to be released in IMAX theaters in March 2008. We believe our sponsorship activity in these areas links the Teva brand with its outdoor heritage and generates increased product exposure and brand awareness.

We also sponsor some of the world's best male and female professional and amateur athletes across several outdoor sports. Our Teva promotional team attends events across the U.S. The promotions team showcases Teva products at events and provides consumers with the opportunity to see and sample our latest styles. We believe by outfitting and sponsoring these highly visible athletes and teams, we create brand and product awareness among our targeted consumers.

UGG. We seek to build upon the success of our UGG brand's national print advertising campaign. We currently advertise in upscale national magazines such as *Vogue*, *Teen Vogue*, *Glamour*, *Vanity Fair*, and *O Magazine*. UGG Australia also began men's focused advertising with its 2005 campaign, including print advertising in *Outside*, *Men's Vogue*, *GQ*, and *Surfer*. We believe such advertising is an effective means to target our intended consumers and to convey the comfort and luxury of UGG brand products. We also benefit from editorial coverage of the UGG brand collection through numerous articles that have appeared in such magazines as *Glamour*, *InStyle*, *Cosmopolitan*, *Marie Claire*, *People*, *US Weekly*, *Maxim*, *Shape*, *Self*, *O Magazine* and *Real Simple*. In 2003, Footwear News, a leading industry trade publication, awarded UGG Australia "Brand of the Year." In 2004, UGG was awarded "Brand of the Year" by *Footwear Plus*, another leading trade publication, and was recognized with the ACE Award for the "it" accessory of the year by the Accessories Council. International exposure has also expanded with features in leading fashion publications like *Vogue Japan*, *Elle Japan*, *Marie Claire UK*, and *Vogue UK*.

We also actively seek to place UGG brand products at selected events. In collaboration with our distributor in Switzerland, we produced a special edition UGG brand cold weather boot featuring a matching red-outsole for the entire 2006 Swiss Olympic Team. We believe this product placement further strengthened the consumer's image of UGG brand products as high quality, luxurious sheepskin goods well-suited for use in cold weather.

We also have improved visibility of the UGG brand through placement of the product in selected television shows and feature films. UGG brand products have appeared on numerous television shows, including *Entourage*, *The Sopranos*, *Gilmore Girls*, *The Oprah Winfrey Show*, *The King of Queens*, *Still Standing*, *Will and Grace*, *Men in Trees*, *The OC*, *The George Lopez Show*, *Jeopardy* and *Saturday Night*

Live. Our marketing efforts have also resulted in UGG brand product appearances in several recent feature films. In addition, the UGG brand has been embraced by Hollywood celebrities, who are often seen and photographed wearing UGG brand boots. We believe our target consumer identifies with celebrities and that greater exposure further heightens awareness of the brand and stimulates sales.

Simple. We believe that our consumers are looking for brands that do more than their part to ensure that the world we all share is respected and cared for. Our commitment to produce and market our products in a sustainable manner reflects our consumers' commitment to purchase products made in the same fashion. We will continue to establish the brand as a leader in sustainable footwear through our marketing initiatives. This year was the first year the Simple brand introduced a national print advertising campaign targeted at various demographic groups, which included print ads targeted at the ecologically-minded consumer through magazines like *RollingStone*, *Vanity Fair*, *Outside*, *Surfer*, and *Surfing*. We also benefit from print and television editorial coverage of the Simple brand collection. In addition, we target online consumers through sustainability websites like Treehugger.com. We will continue to advertise on TheOnion.com, which complements our Onion print campaign in key markets. In addition, we are active on Pitchforkmedia.com, a popular independent-focused online music publication.

In 2007, we sponsored environmental-themed concerts, film festivals, and green expos to show our leadership in sustainable footwear. Our most successful events in 2007 were Jack Johnson's Kokua Festival in Hawaii and the Green Festivals in Washington, DC and Chicago. Earth Day 2007 was also a major focus for the brand. We were present at several local Earth Day celebrations in key markets such as San Francisco, New York, Boulder, Austin and Santa Barbara. Our Earth Day promotions are supported with local advertising, community outreach and extensive press coverage.

We also marketed the Simple brand through our dedicated website, SimpleShoes.com. We will continue to ensure that the consumer can visit our website and have the ultimate brand experience. We experienced a substantial increase in traffic on our website in 2007, demonstrating that our marketing is resonating positively with the consumer.

Product Design and Development

The design and product development staff for each of our brands creates new innovative footwear products that combine our standards of high quality, comfort and functionality. The design function for all of our brands is performed by a combination of our internal design and development staff plus outside design firms. By introducing outside firms to the design process, we believe we are able to review a variety of different design perspectives on a cost-efficient basis and anticipate color and style trends more quickly.

To ensure that high performance technical products continue to satisfy the requirements of the Teva brand's historical consumer base of performance-oriented "core enthusiasts," our design staff solicits input from our Teva Whitewater Team athletes, our Teva U.S. Mountain Running Team and other professional outdoor athletes, as well as several of our key retailers. We regularly add new innovations, components and styles to our product line in response to their input. For example, for 2007, our proprietary Wraaptor technology was incorporated into performance watersport and trail running shoes, and light hikers. In addition, for specific traction and durability requirements, we have added variations of our proprietary Spider Rubber compound which now includes Original Spider Rubber, a sticky, non-slip rubber outsole material for use across wet and dry terrain; SSR, a super sticky rubber compound for use specifically in extreme water conditions to provide superior grip on smooth wet surfaces, like rocks, fiberglass, and raft rubber; and Spider XC, an off-road hybrid rubber compound that combines the non-slip traction of Spider Rubber with durability for use in both wet and dry conditions.

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Our UGG and Simple products are designed to appeal to consumers seeking our distinctive and innovative styling. We strive to be a leader in product uniqueness and appearance by regularly updating our UGG and Simple lines, which also generates further awareness and interest in the UGG and Simple collections. In our UGG line, we have successfully evolved the product offering over the last few years from its original sheepskin heritage to a diverse collection of luxury and comfort styles suited for a variety of climates and seasons. The evolution of our Simple line has resulted in new categories for the brand, including the recent introduction of the first successful sustainable footwear in our Green Toe collection. We believe that our commitment to become 100% sustainable makes Simple a leader in sustainable footwear and accessories. We believe our ability to incorporate up-to-date styles while remaining true to our heritage, combined with the performance-oriented features that consumers have come to expect, results in continued enthusiasm for our brands in the marketplace.

In order to ensure quality, consistency and efficiency in our design and product development process, we continually evaluate the availability and cost of raw materials, the capabilities and capacity of our independent contract manufacturers and the target retail price of new models and lines. The design and development staff works closely with brand management to develop new styles of footwear for their various product lines. We develop detailed drawings and prototypes of our new products to aid in conceptualization and to ensure our contemplated new products meet the standards for innovation and performance our consumers demand. Throughout the development process, members of the design staff coordinate with our domestic and overseas product development, manufacturing and sourcing personnel toward a common goal of developing and producing a high quality product to be delivered on a timely basis.

Manufacturing

We do not manufacture our products; we outsource the manufacturing of our Teva, Simple and UGG brand footwear to independent manufacturers in China. We also outsource the manufacturing of a portion of our UGG brand footwear to independent manufacturers in New Zealand. We require our independent contract manufacturers and designated suppliers to adopt our Factory Charter, which specifies that they comply with all local laws and regulations governing human rights, working conditions and environmental compliance before we are willing to conduct business with them. We require our licensees to demand the same from their contract factories and suppliers. We have no long-term contracts with our manufacturers. As we grow, we expect to continue to rely exclusively on independent manufacturers for our sourcing needs.

The production of footwear by our independent manufacturers is performed in accordance with our detailed specifications and is subject to our quality control standards. We maintain on-site supervisory offices in Pan Yu City, China and Macau that serve as local links to our independent manufacturers, enabling us to carefully monitor the production process from receipt of the design brief to production of interim and final samples and shipment of finished product. We believe this local presence provides greater predictability of material availability, product flow and adherence to final design specifications than we could otherwise achieve through an agency arrangement. To ensure the production of high quality products, many of the materials and components used in production of our products by these independent manufacturers are purchased from independent suppliers designated by us. Excluding sheepskin, we believe that substantially all the various raw materials and components used in the manufacture of our footwear, including rubber, leather and nylon webbing are generally available from multiple sources at competitive prices. We outsource our manufacturing requirements on the basis of individual purchase orders rather than maintaining long-term purchase commitments with our independent manufacturers.

At our direction, our manufacturers currently purchase the majority of the sheepskin used in our products from two tanneries in China, which source their skins from Australia and the U.S. We maintain constant communication with the tanneries to monitor the supply of sufficient high quality

sheepskin available for our projected UGG brand footwear production. To ensure adequate supplies for our manufacturers, we forecast our usage of top grade sheepskin one year in advance at a forward price. We believe current supplies are sufficient to meet our needs in the near future, but we continue to search for alternate suppliers in order to accommodate any unexpected future growth.

Our Simple brand continues to innovate the design, development and production of sustainable footwear through the sourcing of environmentally friendly materials. With the global trend of companies embracing the sustainable green movement in materials, the sourcing and availability of these materials may be impacted in the near future. Strong relationships are being established with suppliers, and we are developing strategies to keep supply chain needs fulfilled for the future.

We have instituted pre-production and post-production inspections to meet or exceed the high quality demanded by consumers of our products. Our quality assurance program includes our own employee on-site inspectors at our independent manufacturers who oversee the production process and perform quality assurance inspections. We also inspect our products upon arrival at our U.S. distribution centers.

Patents and Trademarks

We now hold more than 50 utility and design patents and registrations in the U.S. and abroad and have filed for approximately 20 new patents which are currently pending. We also currently hold trademark registrations for Teva, UGG, Simple and other marks in the U.S. and in many other countries, including the countries of the European Union, Canada, Japan and Korea. We regard our proprietary rights as valuable assets and vigorously protect such rights against infringement by third parties.

Seasonality

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 of each year. To date, the Simple brand has not had a seasonal impact on the Company. With the dramatic growth in UGG brand product sales in recent years, net sales in the last half of the year have exceeded that for the first half of the year. Given our expectations for each of our brands in 2008, we currently expect this trend to continue. Nonetheless, actual results could differ materially depending upon consumer preferences, availability of product, competition and our customers continuing to carry and promote our various product lines, among other risks and uncertainties. See Part I, Item 1A, "Risk Factors."

Backlog

Historically, we have encouraged our customers to place, and we have received, a significant portion of orders as preseason orders, generally four to eight months prior to shipment date. We provide customers with price incentives to participate in such preseason programs to enable us to better plan our production schedule, inventory and shipping needs. Unfilled customer orders as of any date, which we refer to as backlog, represent orders scheduled to be shipped at a future date and which can be cancelled prior to shipment. The backlog as of a particular date is affected by a number of factors, including seasonality, manufacturing schedule and the timing of product shipments as well as variations in the quarter-to-quarter and year-to-year preseason incentive programs. The mix of future and immediate delivery orders can vary significantly from quarter-to-quarter and year-to-year. As a result, comparisons of the backlog from period-to-period may be misleading.

Competition

The casual, outdoor, athletic and fashion footwear markets are highly competitive. We compete with numerous domestic and foreign footwear designers, manufacturers and marketers. Our Teva brand primarily competes with Nike, Adidas-Salomon, Timberland, Merrell, Chaco, Reef, Columbia Sportswear, Crocs and Keen. Our UGG brand footwear line primarily competes with Emu, Merrell, Acorn, Aussie Dogs, LB Evans and Timberland, as well as retailers' own private label footwear. In addition, due to the popularity of our UGG brand products, we face increasing competition from a significant number of competitors selling "knock-off" products. Our Simple line primarily competes with Vans, Converse, Sanuk, Merrell, Keen, Patagonia, and Earth.

Our three footwear lines compete primarily on the basis of brand recognition and authenticity, product quality and design, functionality, performance, fashion appeal and price. Our ability to successfully compete depends on our ability to:

shape and stimulate consumer tastes and preferences by offering innovative, attractive and exciting products;

anticipate and respond to changing consumer demands in a timely manner;

maintain brand authenticity;

develop high quality products that appeal to consumers;

appropriately price our products;

provide strong and effective marketing support; and

ensure product availability.

We believe we are particularly well positioned to compete in the footwear industry. Our diversified portfolio of footwear brands and products allows us to operate a business that does not depend on any one demographic group, merchandise preference or product trend. We have developed a portfolio of brands that appeals to a broad spectrum of consumers. We continually look to acquire or develop more footwear brands to complement our existing portfolio and grow our existing consumer base.

Employees

At December 31, 2007, we employed approximately 370 employees in our U.S. facilities including retail stores and approximately 50 employees located in the Far East and the U.K., none of whom were represented by a union. We believe our relationships with our employees are good.

Financial Information about Segments and Geographic Areas

Our five reportable business segments include the strategic business units responsible for the worldwide wholesale operations of each of our brands Teva, Simple and UGG wholesale divisions, as well as our eCommerce and retail store businesses. In prior periods, the Company had determined it had four reportable segments, with the eCommerce and retail store businesses being combined into one segment, Consumer Direct. The following table shows our domestic and international revenues for each of the years ended December 31, 2005, 2006 and 2007.

	Years Ended December 31,		
	2005	2006	2007
Net sales by location:			
U.S.	\$ 229,487	\$ 266,092	\$ 386,593
International	35,273	38,331	62,336
Total	\$ 264,760	\$ 304,423	\$ 448,929

Refer to note 9 to our accompanying consolidated financial statements for further discussion of our business segment data and our long-lived assets that are attributable to our domestic versus international operations.

Available Information

Our internet address is www.deckers.com. We post links to our website to the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission (the "SEC"): annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendment to those reports filed or furnished pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended. All such filings are available through our website free of charge. Our filings may also be read and copied at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-732-0330. The SEC also maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that site is www.sec.gov.

Item 1A. Risk Factors.

Our short- and long-term success is subject to many factors beyond our control. Stockholders and potential stockholders should carefully consider the following risk factors in addition to the other information contained in this report and the information incorporated by reference in this report. If any of the following risks occur, our business, financial condition or results of operations could be adversely affected. In that case, the value of our common stock could decline and stockholders and potential stockholders may lose all or part of their investment.

Risks Relating To Our Business

Our success depends on our ability to anticipate fashion trends.

Our success depends largely on the continued strength of our Teva, UGG and Simple brands, on our ability to anticipate, understand and react to the rapidly changing fashion tastes of footwear consumers and to provide appealing merchandise in a timely and cost effective manner. Our products must appeal to a broad range of consumers whose preferences cannot be predicted with certainty and are subject to rapid change. We are also dependent on customer receptivity to our products and marketing strategy. There can be no assurance that consumers will continue to prefer our brands, that we will respond quickly enough to changes in consumer preferences or that we will successfully introduce acceptable new models and styles of footwear to our target consumer. Achieving market acceptance for new products also will likely require us to exert substantial product development and marketing efforts and expend significant funds to create consumer demand. A failure to introduce new products that gain market acceptance would erode our competitive position, which would reduce our profits and could adversely affect the image of our brands, resulting in long-term harm to our business.

Our UGG brand may not continue to grow at the same rate it has experienced in the recent past.

Our UGG brand has experienced strong growth over the past few years, with net wholesale sales of UGG brand products having increased from \$23,491 in 2002 to \$291,908 in 2007, representing a compound annual growth rate of 65.5%. We do not expect to sustain this growth rate in the future. UGG brand products may include fashion items that could go out of style at any time. UGG brand products represent a significant portion of our business, and if UGG brand product sales were to decline or to fail to increase in the future, our overall financial performance could be adversely affected.

Our Teva brand may decline.

During 2007, our Teva brand experienced an increase in net wholesale sales of 8.9% compared to 2006. However, during 2006 and 2005, Teva experienced declines in revenue of 6.4% and 3.6% compared to 2005 and 2004, respectively. We conducted our annual impairment tests of goodwill and other intangible assets as of December 31, 2007 and 2006 and concluded that the fair value of our Teva trademarks was above the carrying value as of December 31, 2007 but was below the carrying value as of December 31, 2006. Accordingly, in the fourth quarter of 2006, we recorded an impairment loss of \$15,300, included in income from operations. If Teva product sales decline again to a point that the fair value of our Teva trademarks or reporting unit do not exceed carrying values, we may be required to further write down the related intangible assets, the goodwill or both, causing us to incur additional impairment losses, which could materially affect our consolidated financial position and results of operations.

We may experience shortages of top grade sheepskin, which could interrupt product manufacturing and increase product costs.

We depend on a limited number of key resources for sheepskin, the principal raw material for most of our UGG brand products. In 2007, two suppliers provided all of the sheepskin purchased by

our independent manufacturers. The top grade sheepskin used in UGG brand footwear is in high demand and limited supply. In addition, sheep are susceptible to hoof and mouth disease, which can result in the extermination of an infected herd and could have a material adverse effect on the availability of top grade sheepskin for our products. Additionally, the supply of sheepskin can be adversely impacted by weather conditions and harvesting decisions that are completely outside our control. Our potential inability to obtain top grade sheepskin for UGG brand products could impair our ability to meet our production requirements for UGG brand products in a timely manner and could lead to inventory shortages, which can result in lost sales, delays in shipments to customers, strain on our relationships with customers and diminished brand loyalty. Additionally, there have been significant increases in the prices of top grade sheepskin as the demand for this material has increased. Any further price increases will likely raise our costs, increase our costs of sales and decrease our profitability unless we are able to pass the higher prices on to our customers.

If we do not accurately forecast consumer demand, we may have excess inventory to liquidate or have difficulty filling our customers' orders.

Because the footwear industry has relatively long lead times for design and production, we must plan our production tooling and production volumes many months before consumer tastes become apparent. The footwear industry is subject to fashion risks and rapid changes in consumer preferences, as well as the effects of weather, general market conditions and other factors affecting demand. A large number of models, colors and styles in our three product lines increase these risks. As a result, we may fail to accurately forecast styles, colors and features that will be in demand. If we overestimate demand for any products or styles, we may be forced to liquidate excess inventories at a discount to customers, resulting in higher markdowns and lower, or negative, gross margins. Further, the excess inventories may prolong our cash flow cycle, resulting in reduced cash flow and increased liquidity risks. Conversely, if we underestimate consumer demand for any products or styles, we could have inventory shortages, which could result in lost potential sales, delays in shipments to customers, strains on our relationships with customers and diminished brand loyalty. This may be particularly true with regard to our UGG brand product line, which has experienced strong consumer demand and rapid sales growth.

We may not succeed in implementing our growth strategy.

As part of our growth strategy, we seek to enhance the positioning of our brands, extend our brands into complementary product categories and markets through licensing, expand geographically and improve our operational performance. We may not be able to successfully implement any or all of our strategies. If we fail to do so, our rate of growth may slow or our results of operations may decline, which in turn could have a negative effect on the value of our common stock.

Our financial success is limited to the success of our customers.

Our financial success is directly related to the success of our customers and the willingness of our customers to continue to buy our products. We do not have long-term contracts with any of our customers. Sales to our customers are generally on an order-by-order basis and are subject to rights of cancellation and rescheduling by our customers. If any of our major customers experiences a significant downturn in its business, or fails to remain committed to our products or brands, then these customers may reduce or discontinue purchases from us, which could have a material adverse effect on our business, results of operations and financial condition.

Certain of our customers account for a significant portion of our sales, and the loss of one or more of these key customers would significantly reduce our sales.

Our five largest customers accounted for approximately 27.6% of net sales in 2006 and 30.4% of net sales in 2007. Nordstrom, our largest customer, accounted for greater than 10% of net sales in 2006 and 2007. Any potential loss of a key customer, or a significant reduction in purchases from a key

customer, could have a material adverse effect on our business, results of operations and financial condition.

Establishing and protecting our trademarks, patents and other intellectual property is costly and difficult. If our efforts to do so are unsuccessful, the value of our brands could suffer.

We believe that our trademarks and other intellectual property rights are of value and are integral to our success and our competitive position. Some countries' laws do not protect intellectual property rights to the same extent as do U.S. laws. From time to time, we discover products in the marketplace that infringe upon our trademark, patent, copyright and other intellectual property rights. If we are unsuccessful in challenging a third party's products on the basis of patent and trade dress rights, continued sales of such competing products by third parties could adversely impact our business, financial condition and results of operations. If our brands are associated with competitors' inferior products, this could also adversely affect the integrity of our brands. Furthermore, our efforts to enforce our trademark and other intellectual property rights are typically met with defenses and counterclaims attacking the validity and enforceability of our trademark and other intellectual property rights. Similarly, from time to time we may be the subject of litigation challenging our ownership of intellectual property. Any decision or settlement in any of these matters that allowed a third party to continue to use our Teva, UGG or Simple trademarks or a domain name with our UGG trademark in connection with the sale of products similar to our products or to continue to manufacture or distribute counterfeit products could have an adverse effect on our sales and on our intellectual property, which could have a material adverse effect on our results of operations and financial condition.

We may lose pending litigation and the rights to certain of our intellectual property.

We are currently involved in several disputes, including cases pending in U.S. federal and foreign courts and in foreign trademark offices, regarding infringement by third parties of our trademarks, trade dress, copyrights, patents and other intellectual property and the validity of our intellectual property. Any decision or settlement in any of these disputes that renders our intellectual property invalid or unenforceable, or that allows a third party to continue to use our intellectual property in connection with products that are similar to ours, could have an adverse effect on our sales and on our intellectual property, which could have a material adverse effect on our results of operations and financial condition.

Counterfeiting of our brands can divert sales and damage our brand image.

Our brands and designs are constantly at risk for counterfeiting and infringement of our intellectual property rights, and we frequently find counterfeit products and products that infringe on our intellectual property rights in our markets and online as well as internet domain names that use our trade names or trademarks without our consent. We have not always been successful, particularly in some foreign countries, in combating counterfeit products and stopping infringement of our intellectual property rights. Counterfeit and infringing products not only cause us to lose significant sales, but also can harm the integrity of our brands by associating our trademarks or designs with lesser quality or defective goods.

In particular, we are experiencing more infringers of our UGG trademark and more counterfeit products seeking to benefit from the consumer demand for our UGG brand products. Enforcement of our rights to the UGG trademark faces many challenges due in part to the proliferation of the term "UGG" in third party domain names that promote counterfeit products or otherwise use the UGG trademark without our permission. In spite of our enforcement efforts, we expect such unauthorized use to continue, which could result in a loss of sales for authorized UGG brand products and a reduction in the goodwill and other intangible assets associated with the UGG trademark.

As our patents expire, our competitors will be able to copy our technology or incorporate it in their products without paying royalties.

Patents generally have a life of twenty years from filing, and some of our patents have recently expired or will expire in the next few years. For example, the patent for our Universal Strapping System used in many of our Teva sandals expired in September 2007. Our Universal Strapping System is currently used in many of our Teva sandals. Once patent protection has expired, our competitors can copy our products or incorporate our innovations in their products without obtaining our permission or paying royalties, which could also cause us to lose significant sales. To combat this, we must continually create new designs and technology, obtain patent protection and incorporate the new technology or design in our footwear; however, we cannot provide assurance that we will be able to do so.

If our customers cancel existing orders, we may have excess inventory. If customers postpone delivery of existing orders to future periods, we may not achieve sales and earnings targets for the period, which could have a negative impact on our stock price.

We receive customer orders and indications of future orders, which we use to determine which inventory items in what quantities to purchase. We also use the timing of delivery dates in our customer orders to forecast our sales and earnings for future periods. If our customers cancel existing orders, it may result in lower sales as well as excess inventories that could lead to increased inventory write-downs and closeout sales, resulting in lower gross margins. The excess inventories could also have a negative impact on our cash flow. If customers postpone delivery of their orders, we may not achieve our expected sales and earnings forecasts for the period, which could have a negative impact on our results from operations as well as our stock price.

Because we depend on independent manufacturers, we face challenges in maintaining a continuous supply of goods that meet our quality standards.

We use independent manufacturers to produce all of our products, with the majority of the production occurring among six manufacturers in China. We depend on these manufacturers' ability to finance the production of goods ordered and to maintain manufacturing capacity. The manufacturers in turn depend upon their suppliers of raw materials. We do not exert direct control over either the independent manufacturers or their raw materials suppliers, so we may be unable to obtain timely delivery of acceptable products.

In addition, we do not have long-term contracts with these independent manufacturers, and any of them may unilaterally terminate their relationship with us at any time or seek to increase the prices they charge us. As a result, we are not assured of an uninterrupted supply of products of an acceptable quality from our independent manufacturers. If there is an interruption, we may not be able to substitute suitable alternative manufacturers because substitutes may not be available or they may not be able to provide us with products or services of a comparable quality at an acceptable price or on a timely basis. If a change in our independent manufacturers becomes necessary, we would likely experience increased costs as well as substantial disruption of our business, which could result in a loss of sales and earnings.

Similarly, if we experience a significant increase in demand and a manufacturer is unable to ship orders of our products in accordance with our timing demands and our quality standards, we could miss customer delivery date requirements. This in turn could result in cancellation of orders, customer refusals of shipments or a reduction in selling prices, any of which could have a material adverse effect on our sales and financial condition. We compete with other companies for the production capacity and the import quota capacity of our manufacturers. Accordingly, our independent manufacturers may not produce and ship some or all of any orders placed by us.